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## **Expectations, assurance and information requirements for water company charges (including special agreements) for 2017-18**

### **About this document**

This document sets out our expectations and requirements for charges and special agreements from water companies<sup>1</sup> in England and Wales for 2017-18.

In this document, we refer to:

- water companies originally appointed (licensed) in 1989 as ‘existing appointees’;
- other water companies as ‘new appointees’. New appointees must limit at least some of their charges by reference to charges fixed by one or more existing appointees;
- existing appointees excluding Cholderton and District Water Company Limited as ‘large water companies’; and
- new appointees and Cholderton and District Water Company Limited as ‘small water companies’.

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<sup>1</sup> By ‘water companies’ we mean, in this document, companies holding appointments as water and/or sewerage undertakers under the Water Industry Act 1991.

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## Background

Water companies are allowed to charge for the wholesale services<sup>2</sup> and retail services<sup>3</sup> they provide. Following amendments made by the Water Act 2014 (WA14) to the Water Industry Act 1991 (WIA91), we can issue charging rules that apply to most of these charges.

In November 2015, under sections 143(6A) and 143B of WIA91, we issued our [Charges scheme charging rules](#). These charging rules may be revised following the [consultation we published in July 2016](#) on new connections charging, but the only substantive changes we are proposing in that consultation are in relation to infrastructure charges and these will not apply until at least 2018. These charging rules apply to charges paid by businesses, charities and public sector organisations (businesses) and residential customers<sup>4</sup> to water companies for the combined wholesale and retail services they have received. Water companies normally set out these charges and associated terms (such as times and methods of payment) in their charges scheme(s)<sup>5</sup>. A charges scheme is the legal basis for charging customers unless an individual agreement (known as a Special Agreement – see later) is agreed.

In November 2016, under sections 66EB and 117K of WIA91, we issued our [Wholesale charging rules](#). These apply to the charges payable by retailers<sup>6</sup> for the

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<sup>2</sup> Wholesale services are the physical delivery of water via networks of pipes to and from customers' property boundaries, including abstracting, treating and transporting water, as well as collecting, treating and disposing of wastewater.

<sup>3</sup> Retailer services include all customer-facing activities such as: billing, account handling (payments, debt management, meter reading), customer queries, as well as water-efficiency advice and tackling leaks on customers' pipes.

<sup>4</sup> The term "customer" in this document is the recipient of the combined wholesale and retail services that the water company provides. It could be a residential customer or a business.

<sup>5</sup> A charges scheme is the legal statement of a water company's charges and associated terms which applies to the vast majority of its customers.

<sup>6</sup> The term 'retailer(s)' in this context refers to persons holding water supply and/or sewerage licences with retail and/or restricted retail authorisations (and not water companies that provide retail services directly to customers).

wholesale services that water companies provide. Each water company must publish its wholesale charges.

This document is not a substitute for our charging rules and must be read in conjunction with them.

## **Water retail market**

Currently, businesses and residential customers receive a single bill that captures both the wholesale and retail services they receive from their existing water companies.

However, from April 2017, when the business retail market will open, 1.2 million businesses of water companies whose areas are wholly or mainly in England will be able to choose their water and wastewater retailer.<sup>7</sup> Residential customers will continue to be served by their existing water companies. However, the UK Government is currently considering the costs and benefits and the distributional impacts of extending retail competition to residential customers in England. Residential customers may therefore also be able to choose a retailer in future.

## **Charges expectations and assurance**

Water companies must:

- set their wholesale charges in compliance with our Wholesale charging rules.
- set their customer charges (if fixed in charges schemes) in compliance with our Charges scheme rules.

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<sup>7</sup> From the date of business retail market opening, businesses wholly or mainly in Wales will be able to choose their water retailer provided they use not less than 50 MI of water at their premises.

Businesses, residential customers and retailers should expect that the charges that they face will comply with all relevant statutory obligations, including our charging rules. They should also expect that water companies will engage meaningfully with them, especially where new policies are to be introduced or where changes to their charges may impact negatively on them.

Our approach to charges provides space for companies to meet these expectations but also allow us to step in when things go wrong. Our approach is consistent with our [vision](#) which allows us to adopt a more risk-based approach by clearly setting out our expectations for companies but being ready to intervene if needed.

Our involvement in the processes companies go through when they set their charges schemes or their wholesale charges is limited to being clear on our expectations. This allows companies to deliver against those in an efficient and innovative way. Company Boards are responsible for preparing and setting company charges as well as for the processes and policies that underpin them.

## **Board assurance of charges**

In line with our vision, we expect water companies to provide assurance to their stakeholders that their charges schemes and wholesale charges comply with all relevant statutory obligations. With this in mind, we have in both charging rules asked for water companies to publish a statement, signed by their respective Boards, that provides this type of assurance.

While both charging rules outline a list of specific issues that water companies need to provide assurance on, we encourage water companies to add to this list if they believe it would be beneficial. We may add to this list - in any particular year or for any particular water company - if we think additional assurances are required. This could be where it appears, for example, that a water company's behaviour has impacted negatively on the trust and confidence that stakeholders have in water.

Board assurance statements need to be published on water companies' websites at the same time as the corresponding final charges. We expect water companies to send to us the links to the relevant webpages.

## Statement of significant changes in charges

In addition to the Board assurance statements, each large water company should publish on its website a statement setting out any significant<sup>8</sup> changes it anticipates in charges for both business and residential customers and provide us with a link to the relevant page on its website. We have set out in annex A2 of our Charges scheme rules what we expect this statement to include.

Large water companies have already provided a similar statement for their wholesale charges as we requested this in [IN 16/02](#). However, where there is significant change between indicative and final wholesale charges we expect the large companies, as part of their Board assurance, to explain why these changes have occurred and why these changes could not have been mitigated.

Where a water company expects significant changes in charges, we expect this to be highlighted in the Board assurance statement with details of the handling strategy that the water company has devised to manage this increase.

## The Consumer Council for Water (CCWater)

Before making a charges scheme a water company must consult CCWater about its proposed scheme in a timely and effective manner. We expect Board assurance statements to confirm that they have done so.

Where water companies are expecting significant changes in charges, they should provide details in their statement of significant changes about their discussions with CCWater and the extent to which they took CCWater's views into account.

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<sup>8</sup> In this context, 'significant' bill increases are increases of more than 5% from the previous year (for a given customer type assuming a constant level of consumption).

## Assurance assessment

We will assess both the quality and the delivery of the assurances that water companies give by using our [company monitoring framework](#)<sup>9</sup> and intervene if needed. A key aspect of our assessment will involve assessing how effectively water companies have engaged with their stakeholders when setting or modifying their charges. We will use water companies' published information where possible to do our assessment. But we will also rely on other forms of intelligence, including those received from:

- CCWater;
- complaints and enquiries that come to us;
- water companies' own reports; and
- occasional studies that we might carry out.

Where our assessment shows the need for us to intervene, we will do so by taking targeted, proportionate and progressive action to protect customers.

## Special agreements

Water companies can not only provide services based on the charges published in their charges schemes, they can also provide services through an agreement<sup>10</sup> which, for example, involves bespoke<sup>11</sup> services and charges. We refer to these agreements as special agreements. We would only expect different prices where customers have cost characteristics which justify them – water companies have a

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<sup>9</sup> The company monitoring framework is a tool we use to challenge all companies to provide robust information for customers and stakeholders that they can have confidence in.

<sup>10</sup> Although water companies have not been able to enter into new agreements for the supply of water or the provision of wastewater services to residential premises since 1 April 2000.

<sup>11</sup> Bespoke charges reflect the unique cost characteristics that individual special agreement customers possess.

licence condition (Condition E) that prohibits undue preference or undue discrimination in the fixing of charges (see below).

Our Wholesale charging rules require each water company to publish its wholesale charges for customers on special agreements who are eligible to switch to a retailer with their other wholesale charges.

Water companies are also required under section 142 (6A) of WIA91 to notify us of the provisions of any special agreements they enter into after 13 July 2014 (new special agreement). They should send such notifications to: [special.agreements@ofwat.gsi.gov.uk](mailto:special.agreements@ofwat.gsi.gov.uk) .

Special agreement prices for businesses are not subject to our charges scheme rules, but they are subject to other relevant obligations, including the Competition Act 1998 which, among other things, prohibits the abuse of a dominant market position and licence condition E.

### **Condition E (Prohibition on Undue Discrimination and Undue Preference and Information on charges)**

This licence condition makes it the duty of a water company, in fixing or agreeing the charges listed in Condition E, to ensure that no undue preference is shown to, and that there is no undue discrimination against, customers or potential customers.

## **Special agreements register**

In previous years we have published details of charges for all special agreements in a special agreement register<sup>12</sup> on our website. The details we publish come from the special agreement information we request from companies each year.

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<sup>12</sup> We also publish information on bulk supply transactions in our special agreement register.



The special agreements register gives information to customers about the prices that water companies, as effective monopolies, charged their special agreement customers. In advance of the opening of the English business retail market next year, we have considered whether it is still necessary to publish the special agreements register. We have noted that:

- business customers of English water companies will be able to switch to a retailer;
- English water companies may choose to exit the business retail market; and
- our Wholesale charging rules require water companies to publish their wholesale charges for customers on special agreements.

In the circumstances, we think that our continued publication of the special agreement register will serve very little purpose. For this reason, we will not publish a special agreement register for 2017-18 or subsequent years and will no longer make an annual request for special agreements information. But we will continue asking water companies to provide information on their bulk supply transactions with other water companies and we will continue to publish this information on our website. We have attached a [template](#) to this document for water companies to capture and send us this information.

Our decision to stop asking for special agreement information does not remove the statutory obligation on water companies to notify us of the provisions of any new special agreements they enter into. This is because we have a duty under section 195(3B) of WIA91 to enter onto our statutory register any information about the provisions of special agreements that we consider fit to be entered onto that register.

## **Charges information requirements for 2017-18**

Set out below in table 1 is the charges information for 2017-18 that we require water companies to publish, and their respective deadlines. Note that some of the deadlines differ between large and small water companies.

There are some information requirements specified in our Wholesale charging rules which water companies have already met through meeting the requirements outlined

in IN 16/02. These wholesale charging rule requirements are not included in table 1; they will however be included in any similar table in subsequent years.

## **Final charges**

Water companies must publish their final wholesale charges and their charges for their own business and residential customers on their websites by the dates set out in table 1. Charges for businesses and residential customers must be set out in a charges scheme. Companies do not need to send copies of their wholesale charges and charges schemes to us. But it would be useful if they send us the link to the relevant pages on their website.

## **Average bills for residential customers**

We require each large water company to send us average bills data for residential customers. This comprises data on residential customer numbers and revenues resulting from the application of both wholesale and retail charges. We have attached a [template to this document](#) for water companies to capture and send us this information.

Since 2014-15, we have sent average bills information to Water UK for publication on its website. We will continue with this approach for 2017-18. We expect that Water UK will publish this information soon after all large water companies have published their charges schemes.

## **Submissions and Enquiries**

Companies should send all their submissions and any questions about this document to: [FinanceAndGovernance@ofwat.gsi.gov.uk](mailto:FinanceAndGovernance@ofwat.gsi.gov.uk)

**Table 1 – Information requirements and deadlines**

	<b>Item</b>	<b>Format</b>	<b>Entity</b>	<b>Deadline</b>		<b>Charging Rule/Appointee Licence Condition</b>
1	Statement of significant changes to charges	Publish on website and email webpage link to Ofwat	Large water companies	At least three weeks before the publication of the charges schemes	11/01/2017	Charges scheme rules Annex A2
2	Average bills information for residential customers	Provide information in attached spreadsheet and email to Ofwat	Large water companies	Together with Item 1	11/01/2017	Licence condition M
3	Final wholesale charges	Publish on website	Large water companies	At least eleven weeks before the start of the period for which the charges will be imposed	13/01/2017	Wholesale charging rules Rule 10
4	Assurance statement for final wholesale charges	Publish on website and email webpage link to Ofwat	Large water companies	No later than time of publication of final wholesale charges	13/01/2017	Wholesale charging rules Annex A1
5	Final wholesale charges	Publish on website	Small water companies	At least nine weeks before the start of the period for which the charges will be imposed	27/01/2017	Wholesale charging rules Rule 26
6	Assurance statement for final wholesale charges	Publish on website and email webpage link to Ofwat	Small water companies	No later than time of publication of final wholesale charges	27/01/2017	Wholesale charging rules Annex A1

7	Charges schemes	Publish on website	Existing appointees	no later than the first working day of the February immediately preceding the Charging Year in relation to which they have effect	01/02/2017	Charges scheme charging rules Rule 9
8	Assurance statements for charges scheme	Publish on website and provide webpage link to Ofwat	Existing appointees	no later than the time of publication of the charges schemes	01/02/2017	Charges scheme charging rules Annex A1
9	Charges schemes	Publish on website	New appointees	no later than the 22 February immediately preceding the Charging Year in relation to which they have effect	22/02/2017	Charges scheme charging rules Rule 25
10	Assurance statement for charges scheme	Publish on website and email webpage link to Ofwat	New appointees	no later than the time of publication of the charges scheme	22/02/2017	Charges scheme charging rules Annex A1 and Annex A3
11	Bulk supply transaction between water companies	Provide information in attached spreadsheet and email to Ofwat	Large and small water companies		28/04/2017	Licence condition M