

# Information notice

IN 16/12 29 November 2016

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This is a formal document that alerts our stakeholders to a change in the way that we regulate the water sector in England and Wales.

## Expectations and information requirements for company charges and special agreements for 2017-18

This information notice summarises our expectations and requirements for charges and special agreements from water companies in England and Wales for 2017-18.

In this notice:

- ‘water companies’ mean companies holding appointments as water and/or sewerage undertakers under the Water Industry Act 1991 (WIA91).
- ‘large water companies’ mean water companies excluding Cholderton and District Water Company Limited.

### Background

Water companies are allowed to charge for the wholesale services and retail services they provide.

Wholesale services are the physical delivery of water via networks of pipes to and from customers’ property boundaries, including, treating and transporting water and wastewater.

Retail 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.

In this notice, ‘customers’ mean recipients of the wholesale and retail services that a water company provides. They could be businesses, charities and public sector organisations (businesses) and residential customers.

Following amendments made by the Water Act 2014 (WA14) to WIA91, we can issue charging rules that apply to most of the charges of the water companies.

We issued our Charges scheme charging rules in November 2015. These charging rules apply to charges paid by businesses and residential customers to water companies for the combined wholesale and retail services they have received.

In November 2016, we issued our Wholesale charging rules. These apply to charges paid by retailers for the wholesale services that water companies provide.

The term 'retailer(s)' in this notice 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).

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

## **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.

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

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.

### **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.

Board assurance statements need to be published on water companies' websites at the same time as the corresponding final charges.

### **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 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.

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).

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.

## Assurance assessment

We will assess both the quality and the delivery of the assurances that water companies give and intervene if needed by using our [company monitoring framework](#). A key aspect of our assessment will involve assessing how effectively water companies have engaged with their stakeholders when setting or modifying their charges.

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 provide services through an agreement which, for example, involves

bespoke services and charges. We refer to these agreements as special agreements.

Bespoke charges reflect the unique cost characteristics that individual special agreement customers possess.

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 new special agreements they enter into after 13 July 2014.

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 (see below).

## Special agreements register

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

In advance of the opening of the business retail market next year for businesses of water companies whose areas are wholly or mainly in England, 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.

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

We set out the charges information that we require companies to publish, and their respective deadlines in '[Expectations, assurance and information requirements for water company charges \(including special agreements\) for 2017-18](#)'.

### **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 specified deadlines. Charges for businesses and residential

customers must be set out in a charges scheme.

### **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.

As in previous years, we will send this information to Water UK to publish on its website. We expect that Water UK will publish this information soon after all large companies have published their charges scheme.

### **Submissions and enquiries**

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

## More information

Expectations, assurance and information requirements for water company charges (including special agreements) for 2017-18, November 2016

Bulk supply information for 2017-18 – template for water companies, November 2016

Household average bill information for 2017-18 – template for company submission, November 2016

IN16/02 Information requirement on publication of indicative wholesale access charges for 2017-18 (revised 18 March 2016), March 2016

Charges scheme rules issued by the Water Services Regulation Authority under sections 143(6A) and 143B of the Water Industry Act 1991, November 2015

Wholesale charging rules issued by the Water Services Regulation Authority under sections 66E and 117I of the Water Industry Act 1991, November 2016

IN 16/11 Wholesale charging rules, information requirements and expectations for charging publications

Information and assurance webpages and monitoring and assuring delivery report

Consumer Council for Water website

Ofwat (The Water Services Regulation Authority) is a non-ministerial government department. We regulate the water sector in England and Wales. Our vision is to be a trusted and respected regulator, working at the leading edge, challenging ourselves and others to build trust and confidence in water.

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