

Information notice

24 November 2016

ofwat

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.

Wholesale charging rules and information requirements

This information notice summarises our new rules for the 2017-18 wholesale charges set by water and wastewater wholesalers in England and Wales. Wholesale services include:

- maintaining the water and wastewater pipe networks;
- managing the physical supply of water to customers' properties; and
- collecting and treating wastewater and returning it to the environment.

Background

From April 2017, 1.2 million businesses, charities and public sector organisations ('business customers') in England will be able to choose their supplier of water and wastewater retail services ('retailer'). Retail services include:

- billing;
- meter reading; and
- customer services.

Business customers in Wales will be able to choose their retailer for water (but not wastewater services) if their premises are supplied with at least 50 million litres of water a year.

Ahead of April 2017, we need to set wholesale charging rules for wholesale charges for

wholesalers wholly or mainly in England and Wales respectively.

Wholesale charges are the charges that new retailers holding [water supply and/or wastewater licences](#) – including new entrants and sister companies of existing water companies – will have to pay wholesalers for the provision of bundled wholesale water and wastewater services to support retail service provision.

Wholesale charges typically represent around 90% of the costs ultimately borne by a business customer and are key to ensuring an effective business retail market develops.

The Water Industry Act 1991 (WIA91) as amended by the Water Act 2014 allows us to set charging rules for charges made by wholesalers to retailers.

In September 2015 we issued our [‘Consultation on charges scheme rules for 2016-17 and future developments’](#), where we outlined our early thinking on wholesale charging rules.

In November 2015 we issued our [‘Final charges scheme rules and summary of responses to our draft charges scheme rules’](#) where we outlined our intention to consult on and issue wholesale charging rules in 2016, ahead of retail market opening. We also highlighted our intention to request indicative wholesale charging information via an information notice.

In November 2015, we issued [IN 16/02 ‘Information requirement on publication of indicative wholesale access charges for 2017-18’](#). In that notice we asked for indicative wholesale charges to be published by October 2016. This would allow retailers sufficient time to develop their pricing proposals and engage their stakeholders prior to the start of the new charging year.

In August 2016 we published our [‘Consultation on wholesale charging rules’](#) where we outlined our approach to wholesale charging and sought stakeholders’ views on our proposed rules. In developing those rules we had regard to the relevant charging guidance issued by the UK Government and the Welsh Government.

In our draft wholesale charging rules we aimed to ensure that:

- wholesalers wholly or mainly in England and Wales respectively, better understood their costs and cost drivers; and

- new retailers are clear what they are paying for.

We also aimed to ensure that the benefits associated with the effective use of markets can be realised by new retailers and all eligible business customers in England and Wales.

Wholesale charging rules and information requirements

On 24 November 2016 we issued our wholesale charging rules – rules that wholesalers must comply with when setting their wholesale charges for 2017-18 and beyond.

Among other things, our wholesale charging rules require wholesalers to:

- publish the wholesale charges payable by a retailer for the services provided to all eligible business customers;
- publish the wholesale charges (or the methodology for calculating such charges where this cannot be done in advance) for a minimum list of services that we have set;
- publish their charges at least 11 weeks before the start of the period for which the charges will be imposed (or at least 9 weeks before the start of the period for which the charges will be imposed where the wholesaler is a ‘small company’ (a small new entrant wholesaler (‘NAV’) or Cholderton and District Water Company Limited));

- publish their charges clearly on their website with such additional information as is necessary to make it clear what services are being covered by each charge.

We can update these rules when appropriate, including to reflect market developments and as information becomes available to us and to market participants.

In addition to setting these wholesale charging rules we have set out the information that companies must provide as assurance on their wholesale charges. This includes the following.

- Each company should publish a statement of Board assurance no later than the time of publication of its final charges confirming that:
 - the company complies with all its legal obligations relating to the wholesale charges it has set;
 - the company's Board approves of the impact assessment and handling strategies in instances where bill increases for retailers and business customers exceed 5%;
 - the information is accurate and that relevant stakeholders have been consulted in a timely and effective manner; and
 - where a company has issued indicative wholesale charges and there are significant changes between indicative and final wholesale charges, it has provided an explanatory statement that outlines the reason for those changes

and why this was not anticipated and/or mitigated.

- Each company (other than a small company) should publish a statement of Board assurance – similar to the level required for final charges – for indicative wholesale charges, no later than the time it publishes its indicative charges.
- Each company (other than a 'small company') must publish a statement of significant change if it intends to make significant changes to its primary charges three months before the publication of its final wholesale charges. This statement should confirm:
 - what changes are expected; and
 - which retailers and business customers are likely to be affected and the handling strategies it has adopted.

Publication of wholesale charges for residential customers

Our wholesale charging rules only apply to the charges that wholesalers make to retailers for the provision of services to business customers. However, for the purposes of demonstrating compliance with the price controls determined in respect of wholesale activities, we require wholesalers (under Condition B (Charges) of their appointments) to publish all wholesale charges in one document.

This means that wholesalers wholly or mainly in England and Wales respectively will (other than where it is a 'small company') be required to:

- publish the wholesale charges for all business and residential customers;
- publish these charges at least 11 weeks before the start of the period for which the charges will be imposed; and
- publish their charges clearly on their website with such additional information as is necessary to make it clear what services are being covered by each charge.

Next steps

Wholesalers wholly or mainly in England and Wales respectively must now ensure that their wholesale charges comply with all their legal obligations.

Wholesalers will need to publish their final wholesale charges 11 weeks before the start

of the period for which the charges must be imposed (or at least 9 weeks before the start of the period for which the charges will be imposed where the wholesaler is a 'small company').

A statement from a company Board will also be required no later than the time of publication of its wholesale charges (as per the approach outlined earlier).

Enquiries

If you have any questions on our wholesale charging rules please email: charging@ofwat.gsi.gov.uk.

More information

[Final wholesale charging rules and summary of responses to our draft wholesale charging rules](#), Ofwat, 24 November 2016

[Rheolau codi tâl cyfanwerthu newydd: dogfen penderfyniad](#), Ofwat, 24 November 2016

[Wholesale charging rules issued by the Water Services Regulation Authority under sections 66E and 117E of the Water Industry Act 1991](#), Ofwat, 24 November 2016

[Rheolau codi tâl cyfanwerthu a gyhoeddir gan yr Awdurdod Rheoleiddio Gwasanaethau Dŵr o dan adrannau 66E a 1171 Deddf y Diwydiant Dŵr 1991](#), Ofwat, 24 November 2016

[Consultation on the Charging Guidance to Ofwat \(the economic regulator of the water sector\)](#), Welsh Government, 24 August 2015

[Consultation on wholesale charging rules](#), Ofwat, 12 August 2016

[Charging guidance to Ofwat](#), Defra, January 2016

[IN 16/02 Information requirements on publication of indicative wholesale access charges for 2017-18](#), Ofwat, March 2016

[IN 15/15 Charges schemes from 2016-17 – moving from an approval process to a rules-based approach to regulating charges schemes](#), Ofwat, November 2015

[Final charges scheme rules and summary of responses to our draft charges scheme rules](#), Ofwat, November 2015

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

[Licences](#) webpage, Ofwat

[Charging](#) webpage, Ofwat

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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