

Information notice

IN 18/06 March 2018

ofwat

Permitted Adjustment

This note provides supporting information to help explain the definition of Permitted Adjustment in the Retail Exit Code (REC).¹

Definition

The REC protects transferred and other eligible customers² who have not switched provider or renegotiated their tariff after their initial supplier has exited the non-household retail market.

In particular, the Acquiring Licensee³ cannot charge transferred customers and other small and medium eligible customers:

- initially, more than the maximum charges the exiting company could have set; and
- thereafter, more than the same charges as adjusted on 1 April in each subsequent year by the Permitted Adjustment.

The definition of Permitted Adjustment is the following:

for each Transferred Customer who has not freely chosen to pay different charges to those that they would otherwise be liable for, the Permitted Adjustment is the sum of:

(1) the change in the Wholesale Charges payable by the Acquiring Licensee; plus

(2) any change in charges that the relevant undertaker for the Exit Area in which the Transferred Customer's Eligible Premises are located would have been entitled or required to make pursuant to the Authority's determination of Price Controls for Business Retail Activities (made under the relevant undertaker's Appointment) that

¹ The REC was last updated in January 2018. It is available at <https://www.ofwat.gov.uk/wp-content/uploads/2017/11/Retail-Exit-Code-v2.0.pdf>

² These are defined in the REC as Eligible Exit Area Customers.

³ That is, the company supplying the transferred and other eligible customers.

was notified to the relevant undertaker on 15 December 2016 (save that, for the purposes of calculating the Permitted Adjustment, references to “wholesale revenue” in that determination shall be read as references to the Wholesale Charges payable by the Acquiring Licensee).

Interpretation

The Permitted Adjustment in each year consists of two parts:

1. an adjustment to reflect changes in the relevant wholesale charges; and
2. all the adjustments that the exiting company would have been entitled or required to make under the PR16 final determinations.

The former adjustment: (i) requires the Acquiring Licensee to reduce its charges to reflect any reduction in the relevant appointed companies’ wholesale charges; and (ii) allows the Acquiring Licensee to increase its charges in line with any increase in the relevant appointed companies’ wholesale charges.

The latter adjustments instead include:

- for customers using less than 5MI of water or wastewater per year, year on year changes in the retail cost per customer and margin as already set for the appointed companies in the final determinations; and
- for customers using at least 5MI of water or wastewater per year, increases up to 1% per year in the average retail revenue per customer for each relevant customer type, provided that the relevant gross margin caps are not exceeded.

All these adjustments are cumulative. In other words, in year 3 after the exit of a company from the non-household retail market, the maximum charge should be the initial maximum charge plus the Permitted Adjustment on first subsequent 1 April plus the Permitted Adjustment on the second subsequent 1 April.

The Appendix below contains: (i) links to the full details of the PR16 determinations for all the appointed companies; and (ii) a link to the Supplementary Cap worksheet, relevant for the customers using at least 5MI of water or wastewater per year.

Appendix

Appointed company	Link to the PR16 final determinations
Affinity Water	Final determination of business retail price controls
Anglian Water Services	Final determination of business retail price controls
Bristol Water	Final determination of business retail price controls
Dee Valley Water	Final determination of business retail price controls
Northumbrian Water	Final determination of business retail price controls
Portsmouth Water	Final determination of business retail price controls
Severn Trent Water	Final determination of business retail price controls
South East Water	Final determination of business retail price controls
Southern Water Services	Final determination of business retail price controls
South Staffordshire Water	Final determination of business retail price controls
South West Water	Final determination of business retail price controls
Sutton & East Surrey Water	Final determination of business retail price controls
Thames Water Utilities	Final determination of business retail price controls
United Utilities Water	Final determination of business retail price controls
Dŵr Cymru	Final determination of business retail price controls
Wessex Water Services	Final determination of business retail price controls
Yorkshire Water Services	Final determination of business retail price controls
Supplementary cap worksheet	Final determinations of business retail price controls - Supplementary cap worksheet

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