

June 2018

Trust in water

**Water Supply and Sewerage Licensing regime:  
proposed changes to how licence fees are set –  
summary of consultation responses and conclusions**

## About this document

This document summarises the responses we received to our consultation '[Water Supply and Sewerage Licensing Regime: Consultation on proposed changes to how licence fees are set](#)' which we published on 1 March 2018. It also sets out our consideration of those responses, our conclusions and our next steps.

## Contents

1. Introduction and executive summary of conclusions	3
2. Summary of responses to our consultation questions	5
3. Other comments and issues	11
4. Estimated costs	16
5. Illustrative example of proposed approach to setting licence fees for WSSL licensees	19
6. Next steps	21

## 1. Introduction and executive summary of conclusions

We published ‘[Water Supply and Sewerage Licensing Regime: consultation on proposed changes to how licence fees are set](#)’ on 1 March 2018.

The consultation set out our proposed changes to the current approach to determining licence fees for water supply and/or sewerage licensees (**WSSL licensees**). We did not propose to make any changes to how we set licence fees for water and/or sewerage undertakers (**appointed water companies**).

We proposed to make the following two changes on how we set fees in relation to costs of the Water Services Regulation Authority (**Ofwat**) and the Consumer Council for Water (**CCWater**) for 2018-19 and subsequent years.

Our first proposed change was to calculate the flat fee element of licence fees by licence (rather than licence holder) for both Ofwat’s costs and CCWater’s costs for 2018-19 and subsequent financial years.

Our second proposed change was that when calculating market share for a WSSL licensee for 2018-19 and subsequent financial years we would use:

- the wholesale charges to the WSSL licensee in the preceding financial year (unless those charges will be used in the calculation of another WSSL licensee’s market share); and
- the wholesale charges to an appointed water company’s retail business or another WSSL licensee in the preceding financial year that relate to a retail business that has been transferred to the WSSL licensee.

We also consulted on whether to start charging self-supply WSSL licensees a licence fee that relates to Ofwat’s costs for 2019-20 and subsequent financial years. We asked for views on how, if introduced, such a fee should be calculated. We said that if we decided that it is appropriate to start charging a fee, we would carry out a further consultation on our chosen option for the calculation of such fees in time for us to change the principles and set licence fees for 2019-20.

Our consultation also included Ofwat and CCWater estimated costs for 2018-19.

Our consultation closed on 1 March 2018 and we received 10 consultation responses, including:

- 8 responses from WSSL licensees
- 1 response from a non-exited appointed water company who continues to provide retail services to their non-household customers
- 1 response from an appointed water company who previously withdrew from the non-household retail market.

We have decided to proceed on the basis of the proposals set out in our consultation. We have therefore published an updated [Information Notice](#) setting out the general principles in accordance with which Ofwat will determine each WSSL licensees' licence fee. This updated notice replaced Information Notice 17/07 published in October 2017.

This document is structured as follows.

In section 2, we summarise the key themes raised in the responses to our consultation questions and set out our conclusions. The consultation responses have also been published in full on our website.

In section 3, we set out other comments and issues that were raised in response to our consultation and our views on these.

In section 4, we provide our final estimates of our total costs in relation to the water supply and sewerage licensing regime in 2018-19, as well as the estimated costs of the Consumer Council for Water.

In section 5, we include an illustrative example for how licence fees are set. This is an updated version of the example we set out in our consultation.

Finally, in section 6, we set out next steps.

## 2. Summary of responses to our consultation questions

In our consultation, we asked the questions set out in the table below.

**Table 1 – Consultation questions**

Number	Question
1	Do you agree with our proposal to simplify the calculation of licence fees by calculating the flat fee element of licence fees by licence for the costs of both Ofwat and CCWater for 2018-19 and subsequent financial years?
2	Do you agree with our proposal to include wholesale charges associated with transferred businesses in the previous year when calculating market shares for 2018-19 and subsequent financial years?
3	a. What are your views on the principle of Ofwat setting licence fees for self-supply WSSL licensees for 2019-20 and subsequent financial years? b. Do you have any views on how licence fees for self-supply WSSL licensees in relation to Ofwat's costs should be calculated?

In the following sections we summarise the key points raised in the consultation responses we received and we set out our and CCWater's conclusions on the approach to setting WSSL licence fees.

We summarise the responses to our consultation questions in this section. In the next section, we summarise the comments on other issues we received.

## **2.1 Proposed change 1 – calculating the flat fee element of licence fees by licence for the costs of both Ofwat and CCWater**

### **a. What did we say in our consultation?**

Water supply licences and sewerage licences are legally separate instruments (someone can hold just one of the licences) and a licence fee is payable under each. Where someone holds both a water supply licence and a sewerage licence we therefore need to determine the appropriate licence fee for each licence.

The flat fee element of licence fees is calculated by dividing 10% of the relevant costs of Ofwat and CCWater equally between the licensees paying a fee. In 2017-18, we allocated Ofwat's costs by counting water supply licensees and sewerage licensees separately and allocated CCWater's costs per licence holder.

We set out our proposal to calculate the flat fee element of licence fees by licence (rather than licence holder) for both Ofwat's costs and CCWater's costs for 2018-19 and subsequent financial years.

### **b. What did the responses say?**

One respondent did not comment on this proposed change and all other respondents agreed with the proposal to calculate the flat fee element of licence fees by licence and that this would help to make the charges simpler and more transparent.

One respondent asked for clarification on whether the costs incurred by CCWater for retailers are proportionate in relation to the number of licences and therefore the number of services a retailer provides.

### **c. What is our position?**

We will make the change we proposed and calculate the flat fee element of licence fees by licence (rather than licence holder) for both Ofwat's costs and CCWater's costs for 2018-19 and subsequent financial years.

For clarification, CCWater's costs are not dependent on the number of licences a WSSL licensee holds. The proposed change is to ensure the consistent allocation to licence fees of the costs of both Ofwat and CCWater for simplicity. The proposed

change only applies to the allocation of 10% of CCWater's costs – 90% of CCWater's costs will still be allocated on the basis of market share. CCWater will continue to monitor the development of the retail market and will keep its method of charging under review if changes in the market show that an alternative method would be more appropriate.

## **2.2 Proposed change 2 - including the wholesale charges associated with transferred businesses when calculating market shares**

### **a. What did we say in our consultation?**

We explained that the variable element of licence fees is calculated by allocating 90% of the relevant costs of Ofwat and CCWater based on market share. Previously, we said that the variable element of the fees for 2018-19 and subsequent years would be set using the wholesale charges to a WSSL licensee during the preceding financial year.

Our consultation said that this approach would not take account of any significant change in the size of a WSSL licensee's business because of the acquisition of a non-household retail business that occurs during the preceding financial year or in the financial year in question before we determine the appropriate licence fee for that year. The acquisition could arise because of the transfer of a non-household retail business from an appointed water company (a retail exit) or from another WSSL licensee.

We noted that not changing our approach would mean that the licence fee for a WSSL licensee that we knew had acquired such a retail business would not fully reflect the size of its business at the start of the financial year. We wanted the variable element of licence fees from 2018-19 onwards to be based, as closely as reasonable, on the size of a WSSL licensee's market share at the time we set licence fees.

We set out our proposal that when calculating market share for a WSSL licensee for 2018-19 and subsequent financial years we would use:

- the wholesale charges to the WSSL licensee in the preceding financial year (unless those charges will be used in the calculation of another WSSL licensee's market share); and

- the wholesale charges to an appointed water company's retail business or another WSSL licensee in the preceding financial year that relate to a retail business that has been transferred to the WSSL licensee.

We clarified that our proposal was that the variable element of licence fees for 2018-19 and subsequent financial years would be based on a WSSL licensee's share of the relevant wholesale charges in the preceding year, except where a retailer<sup>1</sup> has exited the market. In those cases, the wholesale charges to the exited retailer would be allocated to the WSSL licensee who had taken on those customers by the time we set licence fees.

We said that where parties are mid-transaction and the transfer has not yet taken place, we did not think it appropriate to apply this approach as the transaction is not certain to occur. We would expect a divesting WSSL licensee to retain a sufficient sum to pay any required licence fee and for this to be addressed in any contract with the acquiring WSSL licensee where appropriate.

### **b. What did the responses say?**

One respondent offered no comment on this proposed change and all other respondents agreed with our proposed change.

One respondent said that while the proposed change provides a solution for calculating market shares in the case of transferred business for retail exit, they would welcome a clarification in other cases of transferred business (interim supply). They asked whether wholesale charges to the defaulting retailer would also be allocated to the WSSL licensee.

### **c. What is our position?**

We will make the change we proposed in our consultation.

We can clarify that this change to our method for setting fees will not take into account interim supply. This would not in any case change the level of licence fees for 2018-19 and therefore is currently only a theoretical issue.

---

<sup>1</sup> A "retailer" in this context means a WSSL licensee or an appointed water company providing retail services direct to businesses, charities and public sector organisations.



The inclusion of interim supply would only be possible if we could calculate and/or correctly allocate the relevant wholesale charges from the data that would be available. This scenario is potentially complex, as customers could be transferred to multiple licensees at different points in time. We would need to be sure that it was realistic for us to include these transfers in our fees calculation before we could propose such a change.

We will consider this issue and may consult on future changes to our principles for setting fees in the future.

## **2.3 Proposed change 3 – issuing fees to self-supply licensees**

### **a. What did we say in our consultation?**

Our current approach is that self-supply WSSL licensees should not be charged a licence fee.

In our consultation, we briefly set out the case for and against issuing fees to self-supply licensees in relation to Ofwat costs. We highlighted that self-supply WSSL licensees have benefitted, and will benefit, from Ofwat's regulatory work in relation to the business retail market. However, we also noted that we do not want to introduce an unnecessary barrier to entry or burden on this group.

We consulted on whether to start charging self-supply WSSL licensees a licence fee that relates to Ofwat's costs for 2019-20 and subsequent financial years. We also asked for views on how, if introduced, such a fee should be calculated.

We said that if we were to decide that it is appropriate to start charging a fee, we would carry out a further consultation on our chosen option for the calculation of such fees in time for us to change the principles and set licence fees for 2019-20.

We noted that given that a self-supply WSSL licensee is one that can only supply water or provide sewerage services to its own premises or to the premises of associated persons, CCWater does not currently incur costs. As such, CCWater does not consider it appropriate to charge self-supply WSSL licensees a fee. However, it will continue to keep this under review. We agree with that position.

### **b. What did the responses say?**

The majority of respondents to the consultation agreed with our proposal to issue fees to self-supply in relation to Ofwat's costs. These respondents recognised that

self-supply licensees benefit and will continue to benefit from Ofwat's regulatory work in relation to the business retail market.

However, one respondent disagreed. They said this may be detrimental to the success of this innovation in the market. They argued that additional fees would prohibit growth of this market particularly in certain sectors and therefore self-supply licence holders should continue to be exempt from fees.

The respondent said that if applied, self-supply licence fees should relate to the specific costs incurred by Ofwat in relation to these licence holders. Furthermore, that if Ofwat believe there is considerable works being undertaken for self-supply licence holders this should be clearly identifiable and transparent to self-supply licensees.

We received a number of suggestions for how licence fees, in relation to Ofwat's costs, could be calculated for self-supply licensees. In summary, the responses we received included the views that the fee should be set in a way that is:

- consistent with the approach used to set fees for other WSSL licensees, incorporating both a fixed and variable fee;
- consistent with the approach used to set fees for other WSSL licensees, but should only incorporate a fixed fee (and no variable fee);
- weighted to reflect any significant difference between Ofwat's activities for self-supply licensees and other WSSL holders; or
- reflective of the level of expenditure that is incurred by Ofwat in relation to regulating self-supply licensees, with adjustments to fees to take into account any regulatory costs that are less or not relevant to this group of licensees.

### **c. What is our position?**

We are still minded to introduce fees for this group. We want to consider further the form that these fees should take. We will take all of the responses to this consultation we received into account and will use them to help inform any potential changes to our current position. We will carry out a further consultation before making any changes to our principles in relation to licence fees for self-supply licensees.

### 3. Other comments and issues

#### 3.1 Suggestions for other changes to how we calculate licence fees.

Two respondents suggested other changes to how we calculate licence fees. We do not intend to make any further changes in relation to the calculation of licence fees for 2018-19 at this late stage. We did not consult on any changes other than those set out in section 2 and we do not consider that it is appropriate to make any further changes now. We and CCWater will keep our approach under review and, if appropriate, consult on changes for future financial years.

##### **a. Principle that where a licence is granted during a financial year, no licence fee would be charged to that licensee until the next financial year.**

One respondent suggested a change to this principle (which was adopted following our 2016 consultation) on the basis that Condition 9 of Part A of the WSSL standard conditions requires WSSL licensees to pay an annual fee for the “regulatory cost for that year”. They felt that the exclusion of new entrants contradicted this and puts an additional and unfair financial burden on existing retailers and goes against the principle of a level playing field.

Paragraph (3) of Condition 9 of Part A of the WSSL standard conditions says that “the fee for any year shall be the amount determined by [Ofwat] to be the regulatory cost for that year of the Licence”. We determine licence fees by allocating a share of the estimated costs of Ofwat and CCWater<sup>2</sup> for that year in relation to the water supply and sewerage licensing regime in accordance with published principles (adopted following consultation).

We do not think that recovering more than the estimated costs of Ofwat and CCWater for that year (by charging additional licence fees to new WSSL licensees after the estimated costs had been recovered from pre-existing WSSL licensees) would be consistent with Condition 9 of Part A. In addition, the financial impact is unlikely to be material because new licensees would not have any market share in

---

<sup>2</sup> In the future, we may also need to allocate actual costs incurred by the Competition and Markets Authority in a previous financial year.

the previous financial year. We have, however, made clear that the first licence fee then payable by new WSSL licensees will reflect a share of any under-estimate of the regulatory costs for the previous year that is reflected in licence fees in a subsequent year but will not be reduced to reflect any over-estimate.

#### **b. Appointed water companies that have not exited the non-household retail market**

One respondent suggested that appointed water companies that have not exited the non-household retail market should pay a contribution towards the WSSL licence fees of Ofwat and CCWater and that WSSL licensees should pay less. They noted that, originally, almost all appointed water companies had indicated their intention to exit either at market opening or shortly afterwards, meaning that over 98% of the market would be served by WSSL licensees. Subsequently, however, two of the largest appointed water companies postponed their date of exit and currently still serve non-household customers.

Our current approach sets out that appointed water companies whose areas are wholly or mainly in England will contribute towards the costs of Ofwat and CCWater in relation to the business retail market. 50% of Ofwat's relevant costs and 36% of CCWater's relevant costs will be allocated to those appointed water companies (the rest being allocated to WSSL licensees). We appreciate that such appointed water companies do not contribute towards the costs of both Ofwat and CCWater in the same way as WSSL licensees, but changing this would introduce additional complexity in relation to the calculation of licence fees and require careful consideration.

We also note that this issue is declining in relevance over time as it is likely that only one appointed water company will not have exited by 2019-20. Two of the three largest appointed water companies that could exit the non-household retail market but had not done so by 1 April 2018 (Severn Trent Water Limited and South East Water Limited) have been given permission to exit in 2018-19<sup>3</sup>.

Our consultation was clear that we did not propose to make any changes to how we set licence fees for appointed water companies at this stage. However, we will keep

---

<sup>3</sup> See Defra's [list of relevant undertakers with permission to exit the non-household retail market](#). South East Water Limited exited the non-household retail market on 1 May 2018 and Seven Trent Water Limited has a planned exit date of 1 July 2018.

our position under review and consider this issue before we set licence fees for 2019-20.

## **3.2 Increase in estimated costs**

### **a. What did we say in our consultation?**

In our consultation, we set out our estimate that Ofwat's total costs of regulating the market will be £1.47m in 2018-19. In line with our current approach to setting licence fees, 50% of these costs would be allocated to the WSSL licensees and 50% to appointed water companies, giving a total estimated cost to the WSSL licensees for 2018-19 of £0.735m.

We said that the estimated costs of £0.735m to the WSSL licensees for 2018-19 are higher than the estimated costs for WSSL licensees of £0.49m in 2017-18. The increase reflects the expansion in market activity, coming both from new and expanding market entrants, and from customers engaging in the market. They also reflect the fact that as the market starts to mature, our monitoring and liaison with industry is giving us clearer sight of areas where changes may be needed to ensure that the market operates as effectively as possible. This brings with it the need for increased activity as we investigate and make those changes.

We also said that CCWater's estimated costs will be around £0.56m in 2018-19.

We said that in line with our current approach to setting licence fees, 64% of these costs would be allocated to the WSSL licensees and 36% to appointed water companies, giving a total estimated cost to the WSSL licensees for 2018-19 of around £0.36m.

We noted that CCWater's estimated costs for 2018-19 of £0.36m are higher than those of £0.28m in 2017-18 due to the increase in complaints received by CCWater about WSSL licensees in 2017-18, the increase in retail market research, and to account for its increased budget in 2018-19. As the costs are estimated, we noted that the costs might change before licence fees are set.

### **b. What did the responses say?**

Three respondents noted that there had been an increase in Ofwat's estimated costs and CCWater's estimated costs from the previous year.

One respondent noted that this is particularly significant when Ofwat's and CCWater's licence fees are added to MOSL's fees and the costs of participating in a customer Redress Scheme. They asked for evidence that the overall level of costs associated with WSSLs are being monitored closely and are providing value for money.

### **c. What is our position?**

Since our consultation, our estimate of Ofwat's total costs of regulating the market in 2018-19 has decreased from £1.47m to £1.15m. In line with our current approach to setting licence fees, 50% of these costs are allocated to the WSSL licensees and 50% to appointed water companies, giving a total estimated cost to the WSSL licensees for 2018-19 that has decreased from £0.735m to £0.575m. This is only a slight increase from the estimated costs for WSSL licensees of £0.49m in 2017-18.

As we explained in the consultation document, the increase in Ofwat's estimated costs reflects the expansion in market activity, coming both from new and expanding market entrants, and from customers engaging in the market. They also reflect the fact that as the market starts to mature, our monitoring and liaison with industry is giving us clearer sight of areas where changes may be needed to ensure that the market operates as effectively as possible. This brings with it the need for increased activity as we investigate and make those changes.

We and CCWater monitor costs and value for money (**VFM**) carefully through robust internal financial controls and through our internal and external audits. Business cases are required to justify spending decisions, which include VFM assessments and the consideration of alternative options. These are assessed, challenged and approved by people who are independent to those submitting the business cases. Any external spending uses a competitive procurement process to secure value for money.

Monitoring of our spending is achieved by regular financial reporting to various levels of management and the Ofwat Board, as well as internal scrutiny and challenge by our Finance Officers and the Audit and Risk Assurance Committee (ARAC). Our internal auditors audit the adequacy, reliability and effectiveness of our management, risk management, and financial control systems and each year and our financial statements are externally audited by the Comptroller and Auditor General (C&AG). CCWater mirror this approach.

CCWater's final estimated costs are £0.55m in 2018-19. In line with their current approach, 64% of these costs are allocated to WSSL licensees and 36% to appointed water companies. The costs allocated to WSSL licensees of £0.35m for

2018-19 and are higher than those of £0.28m in 2017-18. This is due to the increase in complaints received by CCWater about WSSL licensees in 2017-18, the increase in retail market research, and to account for its increased budget in 2018-19. Overall, CCWater continues to cost each bill payer 21p a year. CCWater's costs relating to the WSSL regime are closely monitored to ensure the work it does to handle complaints and enquiries, monitor the regime, carry out research into business customers' views in the retail market, and provide policy support offers value for money in order for it to represent business customers in England.

## 4. Estimated costs

Following on from our consultation, this chapter sets out the final estimated costs of Ofwat and CCWater in relation to the water supply and sewerage licensing regime for the 2018-19 financial year. We expect to use these estimates to set licence fees.

If we either underestimate or overestimate the costs of Ofwat and/or CCWater then we will adjust the annual licence fee in a subsequent financial year to take account of any such variances in the previous financial year(s), as required by Condition 9(5) of Part A of the WSSL standard conditions. This will ensure that the regulatory costs continue to be appropriately allocated between WSSL licensees and appointed water companies in the appropriate proportions.

### 4.1 Ofwat costs

As set out in our consultation, the costs of Ofwat in relation to the water supply and sewerage licensing regime comprise:

- review of the Retail Exit Code (REC) to decide on appropriate protection for customers of exited firms after PR16 expires in March 2019;
- managing changes to the codes governing the retail market, and managing interim supply codes in the case of a WSSL licensee failing;
- core regulatory work relating to disputes between WSSL licensees and undertakers;
- enforcement work relating to WSSL licensees, including work relating to the Guaranteed Standards Scheme;
- some costs associated with casework relating to WSSL licensees (some of these costs are likely to relate to the behaviour of wholesalers or non-exited retailers);
- managing relationships with the market operator and other stakeholders involved in the water supply and sewerage licensing market;
- ongoing monitoring of the market to identify potential problems and help determine the appropriate responses, including the customer insight research we commission;
- reviews and studies into the market and targeted interventions where the evidence supports it; and
- legal costs associated with the above work packages.

We have developed a set of planning assumptions to enable us to estimate the likely costs of our people working on the regulation of the market for business customers,



and any external expenditure associated with our regulation of the market, for example specialist consultancy advice.

Our final estimate is that Ofwat's total costs of regulating the market will be £1.15m in 2018-19. 50% of these costs would be allocated to the WSSL licensees and 50% to appointed water companies, giving a total estimated cost to the WSSL licensees for 2018-19 of £0.575m.

These are our final cost estimates which we will use to issue fees for 2018-19. We set out the breakdown below.

**Table 2 – Ofwat estimated costs**

<b>Activity</b>	<b>Cost</b>
1. Codes, licensing, customer complaints and enquiries	£375,000
2. Policy, including the Retail Exit Code	£354,000
3. Monitoring, programme management, and engagement including Open Water	£547,000
<b>Sub total</b>	<b>£1,276,000</b>
Minus expected licence fee income	£126,000
<b>Total</b>	<b>£1,150,000</b>

## **4.2 CCWater's costs**

The costs of CCWater in relation to the water supply and sewerage licensing regime comprise:

- work associated with handling complaints and enquiries from business customers about the retail market and WSSL licensees;
- monitoring the WSSL regime, including receiving, analysing and publishing complaints data;
- policy support; and
- researching the views of business customers, and tracking their levels of awareness on the retail market.

CCWater estimates the total cost will be £0.55m in 2018-19. 64% of these costs would be allocated to the WSSL licensees and 36% to appointed water companies, giving a total estimated cost to the WSSL licensees for 2018-19 of £0.35m.

**Table 3 – CCWater estimated costs**

<b>Cost</b>	<b>Cost estimate</b>	<b>Retail (%)</b>	<b>WSSL licensee</b>
Handling complaints and enquiries	£223,000	56%	£125,000
Monitoring the WSSL regime	£153,000	56%	£86,000
Policy support	£80,000	60%	£48,000
Research	£95,000	100%	£95,000
<b>Total</b>	<b>£551,000</b>	<b>64%</b>	<b>£354,000</b>

## 5. Illustrative example of approach to setting licence fees for WSSL licensees

We thought it would be helpful to set out an illustrative example of how we will set licence fees for 2018/19 based on the estimated costs set out in section 4 and the current number of licences. This is an updated version to the example we set out in our consultation.

We will calculate each WSSL licensee's market share using the wholesale charges for the previous financial year recorded and supplied to us by the market operator as at 31 March 2018 and the end of each subsequent financial year<sup>4</sup>. We will not be able to take into account any subsequent alterations that the market operator might make to its records after it has supplied wholesale charge information to us.

For each licence, the market share will be calculated as a proportion of the total wholesale charges to the WSSL licensees for whom we are setting licence fees. For example, the market share of a water supply licensee would be calculated as a proportion of the total market size in terms of wholesale charges to all water supply licensees and sewerage licensees other than self-supply WSSL licensees. The same method would apply for a sewerage licence.

As set out above, we will not be charging self-supply WSSL licensees a licence fee in 2018-19.

In accordance with our current approach of calculating a fee using a flat fee element and a variable element, the fixed element will be set at a level that recovers 10% of the relevant estimated costs, based on the current number of licences<sup>5</sup>. Based on the total relevant estimated costs of £0.93m for Ofwat and CCWater, and using a total of 52 licences (both water supply licences and sewerage licences), this would mean a fixed element per licence of £1,787 and total variable costs of £836,100.

The following table sets out how the proposed fee, based on Ofwat's and CCWater costs, would work for five companies, with 15%, 5%, 2% and 1% market share and one with no customers (based on wholesale charges).

---

<sup>4</sup> The wholesale charges provided by the market operator will be based on the R1 settlement report.

<sup>5</sup> The current list of WSSL licences is available on our website: <https://www.ofwat.gov.uk/regulated-companies/ofwat-industry-overview/licences/#wssl>

**Table 4 - Illustrative example of proposed approach to setting licence fees for WSSL licensees**

<b>Component of estimate</b>	<b>Ofwat</b>	<b>CCWater</b>
Number of licences	52	52
Estimated costs payable by WSSL licensees	£575,000	£354,000
Total fixed element (set at 10%)	£57,500	£35,400
Fixed element per WSSL	£1,106	£681
Variable element (set at 90%)	£517,500	£318,600
Variable cost per % wholesale charges paid	£5,175	£3,186

<b>Indicative fee for each licence (combined total for Ofwat and CCWater)</b>	<b>Fixed element</b>	<b>Variable element</b>	<b>Total element</b>
15% market share	£1,787	£125,415	£127,202
5% market share	£1,787	£41,805	£43,592
2% market share	£1,787	£16,722	£18,509
1% market share	£1,787	£8,361	£10,148
Licence but no customers	£1,787	£0	£1,787

We recognise for a transparent process the importance of licensees being able to verify that the calculation of their licence fees is correct. We aim to share the information necessary for licensees to do this as far as is possible within the legal framework and subject to respecting commercial confidentiality.

## 6. Next steps

We have set out in this document our views on the principles to be applied to the structure of the WSSL licence fee. We have decided to proceed on the basis of the proposals set out in our consultation. We have therefore published an updated [Information Notice](#) setting out the general principles in accordance with which Ofwat will determine each WSSL licensee's share of costs and any under-estimate or over-estimate.

For 2018/19, we expect to issue invoices for licence fees to WSSL shortly after the publication of this document and the updated Information Notice.

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.

Ofwat  
Centre City Tower  
7 Hill Street  
Birmingham B5 4UA

Phone: 0121 644 7500  
Fax: 0121 644 7533  
Website: [www.ofwat.gov.uk](http://www.ofwat.gov.uk)  
Email: [mailbox@ofwat.gsi.gov.uk](mailto:mailbox@ofwat.gsi.gov.uk)

June 2018

ISBN 978-1-911588-50-4

© Crown copyright 2018

This publication is licensed under the terms of the Open Government Licence v3.0 except where otherwise stated. To view this licence, visit [nationalarchives.gov.uk/doc/open-government-licence/version/3](http://nationalarchives.gov.uk/doc/open-government-licence/version/3).

Where we have identified any third party copyright information, you will need to obtain permission from the copyright holders concerned.

This document is also available from our website at [www.ofwat.gov.uk](http://www.ofwat.gov.uk).

Any enquiries regarding this publication should be sent to us at [mailbox@ofwat.gsi.gov.uk](mailto:mailbox@ofwat.gsi.gov.uk).

**OGI**