

Information notice

IN 19/08 April 2019



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.

Licence fees for water companies and WSSL licensees

This information notice sets out how, when determining the level of licence fees, we will where necessary allocate costs between companies holding appointments as water and/or sewerage undertakers (appointed water companies) and water supply and/or sewerage licensees (WSSL licensees). It replaces our June 2018 Information notice 18/13 – Licence fees for water companies and WSSL licensees (which has now been removed from our website).

Background

Both appointed water companies and WSSL licensees are required to pay licence fees in relation to the costs of the:

- Water Services Regulation Authority (**Ofwat**);
- Consumer Council for Water (**CCWater**); and
- Competition and Markets Authority (**CMA**).

These requirements are set out in Condition N (Fees) of appointed water companies' appointments and in Condition 9 (Licence fees) of Part A of the standard conditions of water supply and sewerage licences.

Some costs can only be recovered from one appointed water company or WSSL licensee. In other cases Ofwat needs to allocate costs between appointed water companies and WSSL licensees. We will, until further notice, allocate costs in accordance with the method or general principles set out in this notice.

We expect invoices for regular licence fees to be issued in or around April each year.

Part A sets out how costs will be allocated between appointed water companies. Part B sets out how costs will be allocated between WSSL licensees.

The changes we are making to our approach reflect the conclusions in our [consultation response document](#) to our March 2019 consultation – [Water Supply and Sewerage Licensing Regime – consultation on proposed changes to how licence fees are set](#).

These changes are to:

- introduce licence fees for WSSL licensees limited to self-supply[†]; and
- enable annual adjustments to CCWater's allocation of costs in relation to the business retail market between WSSL licensees and appointed water companies.

Part A: General principles for determining a fair proportion of costs for appointed water companies

Ofwat will determine the fair proportion of costs for each appointed water company in accordance with the following method:

1. General approach

Subject to the following paragraphs, each appointed water company's fair proportion will be based on the percentage that the turnover of its Appointed Business* (taken from the latest available regulatory accounts) represents of the turnover of the Appointed Businesses of all appointed water companies for the same period.

2. Price review costs

Only appointed water companies for whom Ofwat will be setting price controls will contribute towards Ofwat's costs of preparing for or carrying out a Periodic Review*. The fair proportion for each of those companies will be based on the percentage that the turnover of its Appointed Business (taken from the latest available regulatory accounts) represents of

the turnover of the Appointed Businesses of all of those companies for the same period.

3. Business retail market costs

Costs in relation to the business retail market will be shared between WSSL licensees and appointed water companies.

50% of Ofwat's business retail market costs will be allocated to those water companies (the rest being allocated to WSSL licensees). Only those appointed water companies whose areas are wholly or mainly in England will contribute towards Ofwat's relevant costs.

The percentage split of CCWater's business retail market costs between appointed water companies and WSSL licensees will differ year-on-year from 2019-20 onwards as follows:

- the costs of handling complaints and enquiries and market monitoring that are allocated to appointed water companies will reflect the percentage of complaints that are about wholesale (as opposed to retail) issues over the previous three-year period;
- policy support costs that are allocated to appointed water companies will reflect CCWater's estimate of the proportion of staff time spent on policy support that relates to wholesale (as opposed to retail) activities; and
- research costs that are allocated to appointed water companies will reflect CCWater's estimate of the proportion of

[†] A WSSL licensee limited to self-supply is one that can only supply water or provide sewerage services to its own premises or to the premises of associated persons.

* These terms are defined in Condition A (Interpretation and Construction) of each water company's appointment.

costs that relate to wholesale (as opposed to retail) activities.

Each year the percentage split of CCWater's fees will be communicated by CCWater to WSSL licensees and appointed water companies.

The fair proportion for each of the relevant appointed water companies will be based on the percentage that the turnover of its Appointed Business (taken from the latest available regulatory accounts) represents of the turnover of the Appointed Businesses of all of the relevant companies for the same period.

4. Costs incurred by the CMA in relation to licence modification references for more than one company

These costs apply where a reference mentioning more than one appointed water company has been made to the CMA under section 14 of the Water Industry 1991. The fair proportion of the CMA's costs for each of those companies will be based on the percentage that the turnover of its Appointed Business (taken from the latest available regulatory accounts) represents of the turnover of the Appointed Businesses of all of those companies for the same period.

5. Casework / Enforcement

This principle applies where Ofwat has to carry out work, such as special investigations or enforcement action, specific to certain appointed water companies. The costs of such

‡ Water supply licences and sewerage licences will therefore be counted separately because a WSSL licensee may not hold both licences. The licences of WSSL licensees limited to self-supply will not be counted for the allocation of CCWater's relevant

work will normally be recovered from all appointed water companies in accordance with the general approach set out at paragraph 1 above. However, in accordance with established practice, and subject to the relevant fee cap, Ofwat may decide to recover directly-attributable costs from the company or companies concerned if those costs are material and Ofwat considers that it would be unreasonable for other water companies to contribute towards some or all of those costs.

Part B: General principles for determining a WSSL licensee's share of costs

Ofwat will determine a WSSL licensee's share of costs and any under-estimate or over-estimate in accordance with the following general principles:

1. Licence fees will be based on (i) a flat fee element per licence and (ii) a variable element based on market share that will reflect the bulk of costs

In summary the costs will be split the following way:

- 10% of the relevant costs of Ofwat and CCWater will be allocated as a fixed fee, divided equally by the number of relevant licences[‡]; and
- 90% of the relevant costs of Ofwat and CCWater will be allocated as a variable fee, based on market share.

costs. Please see section 6 for further information on fees for WSSL licensees limited to self-supply.

The variable fee element will be calculated[§] using:

- the wholesale charges to the relevant WSSL licensees 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 a relevant WSSL licensee.

2. Costs in relation to the business retail market will be shared between WSSL licensees and appointed water companies

50% of Ofwat's business retail market costs will be allocated to WSSL licensees. The rest will be allocated to appointed water companies.

The percentage split of CCWater's business retail market costs between WSSL licensees and appointed water companies will differ year-on-year from 2019-20 onwards as follows:

- the costs of handling complaints and enquiries and market monitoring that are allocated to WSSL licensees will reflect the percentage of complaints that are about retail (as opposed to wholesale) issues over the previous three-year period;
- policy support costs that are allocated to WSSL licensees will reflect CCWater's

estimate of the proportion of staff time spent on policy support that relates to retail (as opposed to wholesale) activities; and

- research costs that are allocated to WSSL licensees will reflect CCWater's estimate of the proportion of costs that relate to retail (as opposed to wholesale) activities.

Each year the percentage split of CCWater's fees will be communicated by CCWater to WSSL licensees and appointed water companies.

3. WSSL licensees supplying eligible Welsh customers will be charged on the same basis as WSSL licensees operating in England

4. Where a licence is granted during a financial year, no licence fee will be charged to that licensee until the next financial year. The first licence fee then payable by such licensees will reflect a share of any under-estimate of the costs for the previous year but will not be reduced to reflect any over-estimate.

5. There will be no refund of licence fees paid where a licence is revoked mid-year

6. WSSL licensees limited to self-supply will be charged a licence fee but will not contribute towards the costs of CCWater

Licence fees for WSSL licensees limited to self-supply will be calculated on the same basis as for other WSSL licensees, except that they will not include:

- any of CCWater's costs; or

[§] An illustrative example of the variable fee calculation can be found in section 3 of our [March 2019 consultation response document](#).

- any under-estimate or over-estimate of Ofwat's costs for years prior to 2019-20.

7. The CMA's costs in relation to any licence modification reference involving more than one WSSL licensee will be allocated on the basis of relative market share

Any such costs are payable under Condition 9(4)(c)(ii) of Part A of the standard conditions of water supply licences and sewerage licences. The relative market share of the WSSL licensees involved in the reference (including any WSSL licensees limited to self-supply) will be calculated by reference to wholesale charges in the preceding financial year on the same basis as the normal variable element of fees.

More information

[WSSL licence fee consultation - Summary of responses and conclusions \(March 2019\)](#)

[Consolidated working copies of appointed water companies' appointments](#)

[Standard conditions of water supply and sewerage licences](#)

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
Email: mailbox@ofwat.gov.uk

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