

Default and wholesale non-household charges for 2008-09

This cover note briefly explains the non-household and wholesale and default retail charges for 2008-09 that the Commission has approved.

Introduction

The Scottish water and sewerage market is being opened up to competition. From April 2008, all 130,000 non-household water and sewerage customers in Scotland will be able to purchase services from licensed retailers. The competitive market should lead to keener, more innovative pricing as well as better customer service.

We are responsible for facilitating the introduction of the competition framework that will support the new market. We have today published two key documents that will impact on charges in 2008-09:

- *Default charges and services for 2008-09*

In order to safeguard customers, all retailers¹ will be required to offer default prices and services to all customers. This scheme sets out maximum charges for the level of service that the Scottish water industry provided prior to competition being introduced.

- *Wholesale charges scheme for 2008-09*

This sets out the charges for 2008-09 that new licensed retailers will be liable to pay Scottish Water for wholesale water and sewerage services. Publication of the scheme will increase certainty about a key building block of the new market arrangements.

The charges are the same as those published in August 2007, but have been adjusted for actual RPI inflation². We have also published short summaries of the charges contained in both documents.

What this means for business customers

In November 2005, we determined that charges to business customers would fall by an average of 1.5% (relative to inflation) each year until 2010. This average reduction is reflected in the default tariffs for 2008-09. However, some customers will see changes in their bills that are different from this average level. In particular:

- some small water users will see reductions of more than the 1.5% average; and
- customers that consume large volumes of water may face a price rise, which will not exceed 1.5% (above inflation) if they continue to receive the default service and charges.

¹ Except those with a specialist or self-supply licence.

² The August publication contained a 2.5% inflation assumption, actual inflation out-turned at 4.24%.

We have decided that, in 2008-09, individual customers should face a bill increase of no more than 1.5% (above inflation) if they continue to receive the default service and charges.

As the market develops all customers stand to benefit as retailers compete to offer better combinations of price and service than the default level. Customers should look out for offers from licensed retailers as we approach April 2008.

What this means for potential retailers

The wholesale charge scheme allows for an 11% retail margin across the whole retail market in 2008-09. Crucially, we have determined that a minimum retail margin of 4.5% should exist between the wholesale and retail tariffs for specific customer groups, with some margins up to 60%.

This should ensure that it is profitable for retailers to devise efficient strategies to target any market segment during 2008-09.

Further information

The default charges and services and the wholesale charges scheme form part of the framework for competition in the Scottish water industry. We have published a range of additional information about competition, including Information Notes (numbers 2, 6, 8, 9 and 10) and copies of the initial market documentation, including draft licences, a template wholesale services agreement and the market and operational codes. All of this information is available on our website (www.watercommission.co.uk) – or contact enquiries@watercommission.co.uk.

Water Industry Commission for Scotland
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