

## Charges for 2009-10

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From April 2008, all 130,000 non-household water and sewerage customers in Scotland have been able to purchase water and wastewater services from retailers (**licensed providers**). The introduction of the competitive market has led to keener, more innovative pricing as well as better customer service. The Water Industry Commission for Scotland (the **Commission**) is the economic regulator of the Scottish water industry and we are therefore responsible for the framework that supports the new competitive market.

We have today published two key documents that will impact on charges within the competitive market in 2009-10. We set out in this note a brief explanation of the two documents, together with the main changes from the charges for 2008-9.

**N.B. Readers should be aware that all of the charges mentioned within this note will not take effect until 1 April 2009.**

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## 1. Wholesale charges scheme for 2009-10

The Commission has a statutory duty to approve the terms of Scottish Water's wholesale charges scheme for 2009-10<sup>1</sup>. The wholesale charges scheme sets out the charges for 2009-10 that licensed providers will be liable to pay Scottish Water for wholesale water and sewerage services.

The main changes to the wholesale charges scheme for 2009-10 from the 2008-09 charges scheme are as follows:

### *Prices*

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 charges Scottish Water may recover from licensed providers<sup>2</sup>.

### *Phasing for metered charges*

Scottish Water has been carrying out a nationwide meter installation programme which is due to end by April 2009. As a result of the meter installation programme, many customers will move from charges based on the rateable value of their premises to charges based on actual water usage. Following wide consultation by Scottish Ministers in 2006, it was decided that customers whose meters were installed under the installation programme should move to metered charges on a phased basis<sup>3</sup>.

The wholesale charges scheme for 2009-10 sets out the phasing structure and the percentages of rateable value based and meter based charges that Scottish Water will charge licensed providers for the applicable premises:

	2009-10
Percentage derived from Rateable Value	66.7%
Percentage derived from actual meter reads	33.3%

### *Charges at unmeasurable premises*

As well as the charging for premises where meters have been installed, the wholesale charges scheme 2009-10 includes arrangements for premises that cannot economically have a meter

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<sup>1</sup> Under section 29A(7) of the Water Industry (Scotland) Act 2002.

<sup>2</sup> Wholesale charges have increased by 1.2% below inflation for 2009-10 with inflation measured for these purposes at 4.21%.

<sup>3</sup> To find out more about how Ministers reached the decision to introduce phased metered charges, please visit: [www.scotland.gov.uk/Topics/Business-Industry/waterindustryscot/developments](http://www.scotland.gov.uk/Topics/Business-Industry/waterindustryscot/developments)

installed under Scottish Water's meter installation programme. Currently, unmeterable premises are assigned a consumption level on the basis of their rateable value. A mechanism has been introduced whereby licensed providers can request Scottish Water review whether a meter can be installed at these premises<sup>4</sup>. As part of this reassessment process, Scottish Water will offer to make a contribution to the cost of the installation of a meter at the premises.

Should a premises remain unmetered following Scottish Water's contribution offer, then the premises will move to a more accurate assessment of charges based on actual water use (customers will be required to provide this information as part of the reassessment process). Wholesale charges for premises that have been reassessed will be banded and the seven charging bands for 2009-10 are set out in the wholesale charges scheme.

### *Rebalancing of property drainage and roads drainage charges*

Scottish Water has reassessed the area it currently drains and has established that there is presently an imbalance between the property drainage element and the roads drainage element of its surface drainage charges. This imbalance has been rectified in the 2009-10 charges scheme in a manner that does not adversely impact any customer group.

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<sup>4</sup> See the Commission's 24<sup>th</sup> Licensing consultation "Unmetered Supply Points – Reassessment Process" published in December 2008 and the Commission's Response published in February 2009.

## 2. Default maximum tariffs and standards for 2009-10

On 17 May 2007 the Water Industry Commission for Scotland determined a set of standard conditions for the purposes of granting water services and sewerage services licences under the Water Services etc. (Scotland) Act 2005.

Under the standard conditions issued by the Commission, all licensed providers<sup>5</sup> are bound by the Commission's default directions. The default directions require licensed providers to offer their customers a set of default retail services to a particular standard (the **default standards**) and at a price not exceeding a maximum amount (the **default maximum tariffs**). The default directions therefore act as a safety net for all customers as they define the minimum level of retail services which a customer can require a licensed provider to provide, and the maximum price that licensed provider may charge for those services.

The default maximum tariffs have been set at the prices which customers would have been charged if Scottish Water was still providing services directly. By doing this the Commission has ensured that there is no adverse financial effect for customers from the introduction of the competitive market. However, with customers having a number of licensed providers to choose from, they should benefit from competition through lower prices.

Now that we have approved the terms of Scottish Water's wholesale charges scheme for 2009-10 (see above), we have calculated the default maximum tariffs that will apply for the financial year beginning 1 April 2009. The main changes in the default maximum tariffs from 2008-09 are as follows:

### *Customer prices and margins*

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 2009-10 which are on average 1.5% below inflation<sup>6</sup>.

We have determined that a retail margin in excess of 4% should continue to exist between the wholesale and retail tariffs for specific customer groups, with some margins up to 60%. This should ensure that it continues to be profitable for retailers to devise efficient strategies to target any market segment during 2009-10.

### *Phasing for metered charges*

As set out above in our explanation of the changes to the wholesale charges scheme for 2009-10, Scottish Water's meter installation programme will involve many customers moving from charges based on the rateable value of their premises to charges based on actual water usage.

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<sup>5</sup> Except those with a specialist or self-supply licence.

<sup>6</sup> For the purposes of the wholesale charges scheme for 2009-10 inflation was taken as 4.21%.

The default maximum tariffs for 2009-10 require licensed providers to phase customers receiving the default services from unmeasured to measured charges where their premises were metered under the compulsory metering programme<sup>7</sup>. This phasing mirrors the percentage changes contained within the wholesale charges scheme for 2009-10.

### *New connections charges*

We have reduced the complexity of the new connections charges. We have allowed for a slightly larger initial cost but simplified the remainder of the charges by allowing licensed providers to recover reasonable cost, with a fixed cap linked to the applicable charges levied by Scottish Water.

## **Further information**

The default charges and services and the wholesale charges scheme form part of the framework for competition in the Scottish water industry. All of the remaining documentation relating to the framework is available on our website ([www.watercommission.co.uk](http://www.watercommission.co.uk)) – or contact [enquiries@watercommission.co.uk](mailto:enquiries@watercommission.co.uk).

**Water Industry Commission for Scotland**  
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<sup>7</sup> See Annex B: Unmeasured to measured customer phasing.