

## 1. INTRODUCTION

This document sets out United Utilities Water Limited’s (U UW) compliance with the Wholesale charging rules published by Ofwat, on 16 October 2018. The rules are “issued by the Water Services Regulation Authority under sections 66E and 117I of the Water Industry Act 1991”.

Against each requirement U UW’s assessment of compliance is set out.

## 2. WHOLESALE CHARGING RULES FOR 2019/20

Wholesale charging rules reference	Wholesale charging rules issued by the Water Services Regulation Authority , published October 2018
	<b>Introduction</b>
<ol style="list-style-type: none"> <li>1.</li> <li>2.</li> <li>3.</li> <li>4.</li> </ol>	<p>These rules are issued by the Water Services Regulation Authority under sections 66E and 117I of the Water Industry Act 1991.</p> <p>The rules comprise two parts:</p> <p>Part 1 contains the rules in relation to all Wholesale Charges other than Wholesale Connection Charges; these rules came into effect on 24 November 2016 and apply to charges payable in relation to any period beginning on or after 1 April 2017; and</p> <p>Part 2 contains the rules in relation to Wholesale Connection Charges imposed by relevant undertakers whose areas are wholly or mainly in England; these rules come in effect on 1 April 2018 and apply to charges payable in relation to any period from that date onwards.</p> <p>The rules apply to the charges that may be imposed by:</p> <ul style="list-style-type: none"> <li>(a) a water undertaker under a section 66D agreement where a water supply licensee with a retail authorisation or a restricted retail authorisation is a party to that agreement; and</li> <li>(b) a sewerage undertaker under a section 117E agreement where a sewerage licensee with a retail authorisation is a party to that agreement.</li> </ul> <p>The rules are supplementary to statutory provisions that apply to relevant undertakers under any enactment, or instrument made thereunder (including the conditions of their appointments), and in the event of any conflict between the rules and any statutory provision, the latter shall prevail.</p>
	The appropriate set of rules have been considered.

	<b>Interpretation</b>
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<p>5.</p>	<p>Unless the context otherwise requires, in these rules:</p> <ul style="list-style-type: none"><li>• <b>“Charging Arrangements”</b> has the meaning given in the Charging Rules for New Connection Services (English Undertakers);</li><li>• <b>“Charging Rules for New Connection Services (English Undertakers)”</b> means the rules issued by the Water Services Regulation Authority under sections 51CD, 105ZF and 144ZA of the Water Industry Act 1991 in December 2016, as amended from time to time;</li><li>• <b>“Eligible Premises”</b> means premises that could be:<ul style="list-style-type: none"><li>(a) supplied with water by a water supply licensee with a retail or restricted retail authorisation; or</li><li>(b) provided with sewerage services by a sewerage licensee with a retail authorisation.</li></ul></li><li>• <b>“Mogden Formula”</b> means the following formula: <b>Charge per unit of effluent = R + [(V + Bv) or M] + B(Ot/Os) + S(St/Ss)</b> where:<ul style="list-style-type: none"><li><b>R</b> = reception and conveyance charge [p/m<sup>3</sup>]</li><li><b>V</b> = primary treatment (volumetric) charge [p/m<sup>3</sup>]</li><li><b>Bv</b> = additional volume charge if there is biological treatment [p/m<sup>3</sup>]</li><li><b>M</b> = treatment and disposal charge where effluent goes to sea outfall [p/m<sup>3</sup>]</li><li><b>B</b> = biological oxidation of settled sewage charge [p/kg]</li><li><b>Ot</b> = Chemical oxygen demand (COD) of effluent after one hour quiescent settlement at pH 7</li><li><b>Os</b> = Chemical oxygen demand (COD) of crude sewage one hour quiescent settlement</li><li><b>S</b> = treatment and disposal of primary sewage sludge charge [p/kg]</li><li><b>St</b> = total suspended solids of effluent at pH 7 [mg/litre]</li><li><b>Ss</b> = total suspended solids of crude sewage [mg/litre];</li></ul></li><li>• <b>“Rateable Value Charge”</b> means a charge fixed wholly or partly by reference to a rating valuation list or otherwise determined, whether directly or indirectly, by reference to any value or other amount specified at any time in such a list or which purports to be so fixed or determined;</li><li>• <b>“Rating Valuation List”</b> means a list which is or has at any time been maintained, for the purposes of rating, under section 41 of the Local Government Finance Act 1988, section 67 of the General Rate Act 1967 or any other enactment;</li><li>• <b>“service”</b> includes, but is not limited to, the supply of water;</li><li>• <b>“Small Companies”</b> means any company holding an appointment as a relevant undertaker where the conditions of that appointment limit changes that can be fixed under a charges scheme under section 143 of the Water Industry Act 1991 by reference to the charges fixed by one or more other relevant undertakers.</li></ul>
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	<ul style="list-style-type: none"> <li>• <b>“Special Agreement”</b> means an agreement to which section 142(2)(b) of the Water Industry Act 1991 applies;</li> <li>• <b>“Unmetered Wholesale Charges”</b> means a charge for services that is not based on measured quantities of volume to any extent;</li> <li>• <b>“Wholesale Charges”</b> means the charges that may be imposed by: <ul style="list-style-type: none"> <li>(a) a water undertaker under a section 66D agreement where a water supply licensee with a retail authorisation or a restricted retail authorisation is a party to that agreement; and</li> <li>(b) a sewerage undertaker under a section 117E agreement where a sewerage licensee with a retail authorisation is a party to that agreement; and</li> </ul> </li> <li>• <b>“Wholesale Connection Charges”</b> means the Wholesale Charges that may be imposed by a relevant undertaker: <ul style="list-style-type: none"> <li>(a) the provision of a water main;</li> <li>(b) the connection of a service pipe to one of the undertaker’s water mains (including, where relevant, the laying of part of the service pipe and the installation of a stopcock);</li> <li>(c) the provision of a lateral drain; or</li> <li>(d) making a drain or sewer communicate with a public sewer of that undertaker.</li> </ul> </li> </ul>
6.	Unless the contrary intention appears, words and expressions used in these rules have the same meaning as in any provision of the Water Industry Act 1991.
	The interpretation is understood and applied consistently.
	<b>Part 1: Rules for Wholesale Charges other than Wholesale Connection Charges</b>
	<b>Publication</b>
7.	Each water undertaker must publish the wholesale charges payable by a water supply licensee for the supply of water to Eligible Premises that are connected to the undertaker’s supply system. This includes the Eligible Premises to which a special agreement would otherwise apply (although nothing in these rules requires the publication of a customer’s name or address).
	<p>Both water and sewerage wholesale charges will be published, including those subject to a special agreement, on the United Utilities website. The following documents will be published in accordance with Ofwat’s Information Notice of 6 November 2018 (IN 18/18):</p> <ul style="list-style-type: none"> <li>• Wholesale water and sewerage charges schemes for 2019/20, which also include non-primary wholesale charges, in accordance with Ofwat’s wholesale charging rules</li> </ul>

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	<ul style="list-style-type: none"> <li>Wholesale charging template developed by Ofwat to aid comparability of wholesale charges across the industry, which also include wholesale charges to a special agreement</li> <li>Assurance statement for the wholesale charges 2019/20.</li> <li>Statement of significant changes to charges 2019/20.</li> </ul>
8.	Each sewerage undertaker whose area is wholly or mainly in England must publish the wholesale charges payable by a sewerage licensee in respect of the provision of sewerage services to Eligible Premises that are connected to the undertaker's sewerage system. This includes the Eligible Premises to which a special agreement would otherwise apply (although nothing in these rules requires the publication of a customer's name or address).
	As rule 7.
9.	Each relevant undertaker must also, as a minimum, publish the wholesale charges (or the methodology for calculating such charges where the charges cannot be determined in advance) that would, where relevant, be payable by a water supply or sewerage licensee for: <ol style="list-style-type: none"> <li>the replacement of lead service pipes;</li> <li>the provision and maintenance of fire hydrants;</li> <li>damage to apparatus;</li> <li>the carrying out of inspections to ascertain whether any provision contained in or made or having effect under the Water Industry Act 1991 with respect to any water fittings or with respect to the waste or misuse of water is being or has been contravened;</li> <li>site inspections;</li> <li>the provision and use of standpipes;</li> <li>the testing of meters; and</li> <li>the disconnection of a service pipe (or for otherwise cutting off a supply of water) to any premises and the reconnection of such premises to a water main.</li> </ol>
	The listed charges have been included within the appropriate wholesale charges schemes.
10.	Wholesale charges must be published at least eleven weeks before the start of the period for which the charges will be imposed.
	Charges will be published by the required publication date.
11.	Wholesale charges must be published on a relevant undertaker's website and in such other manner as the undertaker considers appropriate for the purpose of bringing it to the attention of persons likely to be affected by it.
	Charges will be published on the United Utilities website.
12.	Wholesale charges must be published with such additional information or explanation as is necessary to make clear what services are covered by each charge.
	<p>The final wholesale charges will be published within the wholesale charging template and within the appropriate charges schemes. Charges are presented in the charges schemes in a manner considered relevant and easy to understand.</p> <p>CCWater has been consulted during the development of 2019/20 charges and charges scheme. More information on this engagement is included in the summary of Engagement with Stakeholders document.</p>

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	<p><b>General charging principle</b></p>
13.	<p>Relevant undertakers whose areas are wholly or mainly in England must determine what types of charges may or may not be imposed and the amount of any charges that may be imposed in accordance with the principle that wholesale access charges should reflect:</p> <ul style="list-style-type: none"> <li>(a) fairness and affordability;</li> <li>(b) environmental protection;</li> <li>(c) stability and predictability; and</li> <li>(d) transparency and customer-focused service.</li> </ul>
	<p><b>Fairness and affordability:</b></p> <p>Wholesale charges have been calculated based on an assessment of the costs associated with providing each service. Concessionary schemes for surface water drainage are in place for certain community groups and for Schools.</p> <p><b>Environmental protection:</b></p> <p>There are opportunities for customers to claim a reduction in surface water drainage charges. For measured non-households a reduction can be claimed in the surface water drainage charge, through a deduction from the chargeable area that constitutes 10% or more of the total chargeable area and from which no surface water enters the public sewer network. Households and unmeasured non-households can fully avoid the surface water charge if none of the surface water from the premises enters the public sewer network. For premises with a green roof, a 50% discount may be allowed in the chargeable area of the green roof for surface water drainage.</p> <p>Measured water charges are made up of a meter charge (for measured customers only) and a volumetric charge recovering the costs of providing water. This structure will encourage customers to consider their own water usage. A free meter option is available for household customers who do not have a metered supply but would like one.</p> <p><b>Stability and predictability</b></p> <p>Wholesale charges for 2019/20 have been compared with 2018/19 published charges to assess changes and where necessary strategies are applied to reduce, where possible, volatile movements in tariffs recognising the need for stability and predictability.</p> <p><b>Transparency and customer-focused service</b></p> <p>Charges are presented in the charges schemes in a manner considered relevant and easy to understand. CCWater has been consulted during the development of 2019/20 charges and charges scheme. More information on this engagement is included in the summary of Engagement with Stakeholders document.</p>
	<p><b>Principles for determining the amount of charges</b></p>
14.	<p>Consistent principles and methodologies must be applied to the calculation of charges for different classes of Eligible Premises, regardless of the services provided.</p>

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	Consistent principles and methodologies have been applied in the calculation of wholesale charges for different classes of Eligible Premises.
15.	Charging structures must reflect the long run costs associated with providing the relevant service.
	Wholesale charges have been set based on average historical costs, which is considered to best reflect the long run costs. The majority of water supply revenue, and wastewater revenue (foul and trade effluent) is recovered by variable charges, based on volumes of water used or rateable value. The costs of providing surface water drainage and highway drainage are proportionate to the site area of the premises.
16.	Differences between charges for services provided to Eligible Premises that are larger users of water and sewerage services and charges for services provided to Eligible Premises that are smaller users of water and sewerage services must only be based on cost differences associated with differential use of network assets, differential peaking characteristics, different service levels and/or different service measurement accuracy.
	Differences in charges between customers who take/discharge large volumes of water/foul and smaller users are based on cost differences in the services provided to customers, and assume differential use of network assets.
17.	Where cost differences associated with differential peaking characteristics are used as a basis for differences between charges for services provided to Eligible premises that are larger users of water and charges for services provided to Eligible premises that are smaller users of water, the charges fixed on that basis must be structured on an appropriate peak demand basis.
	No peaking characteristics are used as a basis for differences between charges for services in setting wholesale charges.
18.	Charges for sewerage services must take into account the different pollutant loads associated with foul water, trade effluent, surface water draining from premises and surface water draining from highways.
	There are separate charges for foul water, trade effluent, surface water drainage and highway drainage, recognising different average pollutant loads for different services when setting these charges.
	<b>Unmetered charges</b>
19.	No unmetered wholesale charges may be imposed unless the basis on which those charges are fixed or determined is clear and, in the case of rateable value charges, it is clear: (a) which rating valuation list charges are fixed or determined by reference to; and (b) if the undertaker uses a different value or other amount to that specified in such a list, the methodology or other basis on which that different value or other amount is calculated.
	Unmetered wholesale charges are levied based on charging value or using an assessed charge. The charges scheme includes details of which rating valuation list is used in calculating a customer's charge, or the charges that will apply if a charging value cannot be determined. The assessed charge is a fixed annual charge and for households it depends on occupancy and the nature of the premises. For non-households, the assessed charge is based on the customer meter size.

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	<b>Wastewater charges</b>
<b>20.</b>	<p>Sewerage undertakers whose area is wholly or mainly in England must, in relation to each Charging Year beginning on or after 1 April 2020, separate wholesale charges for sewerage services into separate charges for the reception, treatment and disposal of:</p> <p>(a) foul water;</p> <p>(b) trade effluent;</p> <p>(c) surface water draining from Eligible Premises; and</p> <p>(d) surface water draining from highways.</p>
	Wholesale sewerage charges for 2019/20 are separated between foul water, trade effluent, surface water draining from premises and surface water draining from highways.
<b>21.</b>	<p>Sewerage undertakers must provide for an appropriate reduction in the wholesale charges payable for the provision of sewerage services to any Eligible premises where the sewerage undertaker knows, or should reasonably have known, that surface water does not drain to a public sewer from those premises.</p> <p>A reduction in surface water drainage charges for partial drainage is only applied to those customers who pay for this service based on site area charging bands. In determining the surface water drainage charge for customers who are not charged based on chargeable area, an assumption has already been made to recognise that, for an average customer, the full site area of the premises does not drain to a sewer. Therefore, the charge already includes an allowance for partial surface water drainage. It is not considered appropriate to measure the site area of individual household premises due to the high volume of administrative activities this would entail.</p> <p>Where customers are able to demonstrate that surface water from their property does not drain to a public sewer they will not incur the surface water charge.</p>
	<b>Trade effluent</b>
<b>22.</b>	<p>Charges to be paid in connection with the carrying out of a sewerage undertaker's trade effluent functions must be based on the Mogden formula, a reasonable variant of the Mogden formula or on a demonstrably more cost-reflective basis.</p> <p>Charges for trade effluent are calculated using the Mogden formula.</p>
	<b>Concessionary drainage charges</b>
<b>23.</b>	<p>The wholesale charges published by each sewerage undertaker must set out:</p> <p>(a) the classes of community group (if any) in relation to which the undertaker allows reductions in the wholesale charges payable by a sewerage licensee in respect of surface water drainage from Eligible Premises; and</p> <p>(b) the reductions allowed.</p> <p>Two concessionary scheme are operated; the wholesale sewerage charges scheme details the classes of community group, and the definition of a School, for which reductions are applied to surface water and highway drainage charges.</p>



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	Eligible community groups are charged based on the wholesale site area charging band 1. Schools will receive a 50% discount to the wholesale site area charges for surface water and highway drainage, with the exception of those already charged band 1, which will be equal to the non-concession band 1 surface water drainage and highway drainage charge.
24.	Where a sewerage undertaker's charges scheme under section 143 of the Water Industry Act 1991 includes a provision designed to reduce charges to community groups in respect of surface water drainage from their Eligible Premises, the amount of wholesale charges payable by a sewerage licensee in respect of the provision of sewerage services to Eligible Premises occupied by community groups must be determined in accordance with the principles that:  (a) wholesale charges must be reduced in relation to the same classes of community group; and (b) the reductions in wholesale charges must be the same and apply for the same period.
	Eligible community groups are charged based on the wholesale site area charging band 1. Schools will receive a 50% discount to the wholesale site area charges for surface water and highway drainage, with the exception of those already charged band 1, which will be equal to the non-concession band 1 surface water drainage and highway drainage charge.
	<b>Special agreements</b>
25.	Where a special agreement would apply to the provision of services to Eligible Premises if the undertaker continued to provide the services, a relevant undertaker must impose on a water supply licensee or, as the case may be, a sewerage licensee only such charges as would enable the licensee to charge for those services at the same rate or rates as would have applied if the special agreement had applied.
	Wholesale charges for special agreements will be published in the Wholesale Charging Template for 2019/20. Wholesale charges for special agreements have been set based on the special agreement contract price, adjusted to exclude the retail costs based on the PR16 determination average retail costs for UU Business Retail.
	<b>Small companies</b>
26.	Paragraph 10 of these rules does not apply to Small Companies. Instead Small Companies that must publish their wholesale charges (or methodology for calculating such charges) at least nine weeks before the start of the period for which the charges will be imposed.
	Not applicable.
	<b>Part 2: Rules for Wholesale Connection Charges (English Undertakers)</b>
27.	Subject to paragraphs 28, 29 and 30, relevant undertakers whose areas are wholly or mainly in England must set and publish their Wholesale Connection Charges as if:  (a) those charges related to services in respect of household premises rather than non-household premises, and



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	(b) the Charging Rules for New Connection Services (English Undertakers) applied to them.
	Wholesale Connection Charges have been set and published in accordance with this rule. Charges in relation to Wholesale Connections are published in the New Connections and Developer Services Charges Scheme.
28.	The obligation in paragraph 27 excludes the rules in paragraphs 44 to 46 of the Charging Rules for New Connection Services (English Undertakers).
	It is noted that the section on Security/Deposits does not apply to Wholesale Connection Charges.
29.	Relevant undertakers must publish their initial Wholesale Connection Charges in their Charging Arrangements by 1 June 2018.
	The charging arrangements were published in line with the required timescale.
30.	Thereafter, relevant undertakers must consult on their Wholesale Connection Charges at the same time as their charges under the Charging Rules for New Connection Services (English Undertakers), and must publish them in their Charging Arrangements.
	As charges in relation to Wholesale Connections are published in the New Connections and Developer Services Charges Scheme, consultation on Wholesale Connection Charges takes place at the same time.
31.	The provisions for Small Companies in paragraph 17 of the Charging Rules for New Connections Services (English Undertakers) apply in relation to Wholesale Connection Charges as they apply in relation to the charges covered by those rules.
	N/A as not a small company.
	<b>Annex: Information requirements</b>
	<b>Assurance statements</b>
A1.	<p>Each undertaker should provide to the Water Services Regulation Authority an assurance statement from its Board of Directors and publish its statement no later than the time of publication of its final wholesale charges confirming that:</p> <p>(a) the company complies with its legal obligations relating to the wholesale charges it has published;</p> <p>(b) the Board has assessed the effects of the new charges on water supply and sewerage licensees (as a whole or in groups) who are retailing wholesale services and on customers occupying Eligible Premises (as a whole or in groups) and approves the impact assessments and handling strategies developed in instances where bill increases for licensees (as a whole or in groups) who are retailing wholesale services and on customers occupying Eligible Premises (as a whole or in groups) exceed 5%;</p> <p>(c) the company has appropriate systems and processes in place (including up-to-date models and data) to make sure that the information published about its wholesale charges is accurate;</p> <p>(d) the company has consulted with relevant stakeholders in a timely and effective manner on its wholesale charges; and</p>

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	(e) where final wholesale charges are significantly different from the indicative wholesale charges published for the same period, the Board has considered the reasons why those changes occurred and has issued a statement explaining why those changes were not anticipated and/or mitigated. For these purposes, “indicative wholesale charges” means the information referred to in A3 below and charges are “significantly different” if a reasonable person would consider the changes to be material.
	U UW’s assurance statement, confirming the requirements, will be published and provided to the Water Services Regulation Authority by the required date.
	<b>Indicative charging information</b>
<b>A2.</b>	No later than six months before publishing its final wholesale charges, each undertaker (other than a small company), should if considering making any significant changes to its primary wholesale charges publish information that, at a minimum, informs stakeholders of these changes. For these purposes, changes will be “significant” if a reasonable person would consider them to be material. The information provided does need not be as detailed as that referred to in A3 and A4 below.
	The charges bulletin was published on the United Utilities website within the set timescale. This bulletin included a statement in respect of any significant changes to primary wholesale charges for 2019/20.
<b>A3.</b>	No later than three months before publishing its final wholesale charges, each undertaker (other than a small company) should provide to the Water Services Regulation Authority and publish indicative wholesale charges. For these purposes, “indicative wholesale charges” are the primary wholesale charges that the undertaker reasonably expects to fix for the following period (based on the information available to it at that time).
	U UW published indicative wholesale charges on United Utilities website within the set timescale, and also notified the Water Services Regulation Authority.
<b>A4.</b>	No later than three months before publishing its final wholesale charges, each undertaker (other than a small company) should, if it intends to make any significant changes to its primary wholesale charges, provide to the Water Services Regulation Authority and publish a statement of significant changes. For these purposes:  (a) changes to the level of primary wholesale charges, or to the methodology for calculating them, will be significant if a reasonable person would consider them to be material; and  (b) a statement of significant changes should include:  (i) what changes are expected;  (ii) how water supply and sewerage licensees (as a whole or in groups) and customers occupying Eligible Premises (as a whole or in groups) are likely to be affected; and  (iii) the handling strategies that may be adopted by the undertaker or why the undertaker considers that no handling strategies are required.
	U UW published a statement of significant changes alongside the indicative wholesale charges for 2019/20 within the set timescale, and also notified the Water Services Regulation Authority.
<b>A5.</b>	Each undertaker (other than a small company) should provide to the Water Services Regulation Authority an assurance statement from its Board of Directors and publish its

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	<p>statement no later than the time of publication of its indicative wholesale charges confirming, using the best available information available at that time, that:</p> <p>(a) the company complies with its legal obligations relating to the indicative wholesale charges it has published;</p> <p>(b) the Board has assessed the effects of the new charges on water supply and sewerage licensees (as a whole or in groups) who are retailing wholesale services and on customers occupying Eligible Premises (as a whole or in groups) and approves the impact assessments and handling strategies developed in instances where bill increases for licensees (as a whole or in groups) who are retailing wholesale services to eligible customers and on customers occupying Eligible Premises (as a whole or in groups) exceed 5%;</p> <p>(c) the company has appropriate systems and processes in place (including up-to-date models and data) to make sure that the information published about its indicative wholesale charges is accurate; and</p> <p>(d) The company has consulted with relevant stakeholders in a timely and effective manner on its wholesale charges.</p>
	<p>UUW published an assurance statement alongside the indicative wholesale charges for 2019/20 within the set timescale, and also notified the Water Services Regulation Authority.</p>