

Department for Environment, Food and Rural Affairs

Water Bill

Glossary: water terms

November 2013

This is one of a series of briefing notes on the Water Bill. This note is designed to define and explain in simple terms any terminology or jargon used in relation to water measures in the Water Bill. Further detail on the Water Bill can be found in other briefing notes.

Bulk supply – The transfer of raw or treated water from the area of one undertaker to that of another, i.e. a neighbouring incumbent water company or an inset appointee.

Catchment – An area that serves a river with rainwater. Every part of land where the rainfall drains to a single watercourse is in the same catchment.

Charges scheme – Tariffs setting out retail and wholesale charges that incumbent water companies charge their customers.

Charging guidance – The mechanism by which the Government will inform the content of Ofwat's charging rules (see below). The Government will publish overarching statutory guidance in April 2015 that will set out its approach to regulating charges. The Government may also issue more detailed guidance that relates to individual areas such as the water supply and sewerage licensing (WSSL) regime, which will sit below the high level guidance. Ofwat must have regard to the charging guidance when they set charging rules.

Charging principles – A statement of high level principles published by Defra alongside the Water Bill that will underpin the development of the future charging guidance and give a broad indication of Government policy on charging issues.

Charging rules – The mechanism by which Ofwat controls the charges that undertakers may impose on various parties. Ofwat must issue charging rules to cover undertakers' charges to their direct customers for water or sewerage services (through charges schemes) as well as charges to licensees for "use" of the water or sewerage networks. Ofwat may issue further rules to cover charges to developers and customers for connecting premises to the network. These rules can be issued separately or as part of the same document. Ofwat may also issue rules on charges in other areas, such as bulk supply agreements, main connection agreements, the self-lay regime and the sale of water to undertakers by persons other than water companies.

Codes – The mechanism by which Ofwat will regulate the various agreements that undertakers make with other parties. The contents will vary from code to code but, generally, they may contain standard terms and conditions, principles for agreeing terms, or principles for how negotiations shall be run. For example, codes on licensing will concern the terms of the agreements between undertakers and licensees for the use of the water supply or sewerage system. In addition to licensing, Ofwat may also issue codes to cover bulk supply and main connection agreements, infrastructure adoption agreements (self-lay regime) and the sale of water to undertakers by persons other than water companies. The term encompasses codes that are commonly known as market codes, operational codes and access codes.

Competition and Markets Authority (CMA) – This was created by the Enterprise and Regulatory Reform Act 2013 to merge the functions of the Competition Commission and the Office of Fair Trading. The Government aims to have the CMA operational by April 2014. The CMA will be responsible for hearing appeals against Ofwat's decisions to revise

codes and make changes to licences. The CMA will also be responsible for the reformed special merger regime.

Consumer Council for Water (CCWater) – A statutory body established by the Water Act 2003 to monitor and advise on consumer issues. CCWater handles some customer complaints about incumbent water companies, inset appointees and licensees.

Costs principle – The basis for setting wholesale charges and charges for use of the system under the existing Water Supply Licensing regime. These charges are based on the end retail price to the customer under the current arrangement minus any costs ‘avoided’ by the incumbent water company as a result of the customer switching suppliers, but the incumbent can add on any costs of serving the licensee. An example would be the costs avoided if the company no longer has to send bills. The costs principle has been widely criticised for creating only a small margin on which a licensee can compete when setting prices. The charging guidance, in combination with Ofwat’s charging rules, will replace the costs principle with a more flexible charging regime.

Culvert – A covered channel or pipe which prevents the obstruction of a watercourse or drainage path by an embankment or other artificial construction.

Dam – A barrier constructed across flowing water that obstructs, directs or slows down the flow, often creating a reservoir or impoundment.

Disposal authorisation – This will enable a licensee to provide sewerage wholesale services in an English undertaker’s area without a link to retail customers

English undertaker – An undertaker whose appointment area is wholly or mainly in England. Undertakers are generally appointed on river basin catchments rather than political boundaries. Severn Trent is the only English undertaker whose appointment area extends into Wales. This means they have some Welsh customers, e.g. in Powys.

Incumbent water company – The water and/or sewerage undertaker that holds the de facto monopoly to provide services to premises in its area of appointment. It is also responsible for maintaining and operating the public water supply and/or sewerage systems. Although “insets” are also undertakers, the term “incumbent” does not include inset appointees for the purpose of describing the competitive market for providing services to new developments. However, inset appointees may be considered as incumbents in the context of the water supply and sewerage licensing regime because non-household customers will be eligible to switch suppliers in the reformed retail market. *We will use the term “incumbent water company” rather than “undertaker” during the Bill’s passage through Parliament.*

Inset appointee/Inset – A company that replaces the undertaker for a specific geographic area within the area of an existing undertaker. This usually happens where the customers are “unserved” (such as on a new development) or qualify as large users (i.e. they expect to use more than 50Ml in England or 250Ml in Wales – for example a paper mill). The inset regime is sometimes known as new appointments and variations (NAVs). However, the

term “NAV” also refers to a variation of the appointment area of an incumbent water company, for example when incumbent water companies agree to change the boundaries between them.

Internal Drainage Board (IDB) – Independent statutory bodies responsible for land drainage in areas of special drainage need that extend to 1.2 million hectares of lowland England. They operate predominantly under the Land Drainage Act 1991 and have permissive powers to undertake work to secure drainage and water level management of their districts.

Licensee – The holder of a water supply licence or sewerage licence.

Main connection – The transfer of sewage from the area of one undertaker to that of another, i.e. a neighbouring incumbent water company or an inset appointee.

Main river – A watercourse shown as such on a main river map. All other watercourses are defined as “ordinary watercourses”. The Environment Agency has flood risk management responsibility for main rivers in England and Natural Resources Wales has flood risk management responsibility for main rivers in Wales. Ordinary watercourses are the responsibility of Internal Drainage Boards where they are located within internal drainage districts and the responsibility of the Lead Local Flood Authority where they are outside of a drainage district.

Market Operator – An administrator that will manage switching services and financial settlements on behalf of incumbent water companies and licensees. It will not possess any formal powers.

Megalitre/ML – One Megalitre is equal to 1000 cubic metres or one million litres. A standard Olympic-size swimming pool contains 2.5 ML of water.

Network infrastructure authorisation – Under the draft Water Bill, the network infrastructure authorisation would have enabled new entrants to own and operate their own infrastructure, which is connected to an incumbent water company’s network. This was removed from the Bill following pre-legislative scrutiny.

New entrant – A new business entering the water market, i.e. a licensee or inset appointee or an applicant to be a licensee/inset appointee. The term may also include self-lay operators in a wider context (see below). *For clarity, we will avoid using this term during the Bill’s passage through Parliament.*

Non-potable water – Water that has not been treated to the standard required for it to enter the public distribution network. It is often used in industrial processes.

Private water supply – Provision of a water supply other than by means of the public distribution network. Private water supply is regulated by local authorities.

Raw water – Water that has not yet passed through a water treatment facility.

Reservoir – A natural or artificial lake where water is collected and stored until needed. Reservoirs can be used for irrigation, recreation, providing water supply for municipal needs, hydroelectric power or controlling water flow.

Retail – Customer-facing services, for example billing, meter reading and call centre services. The full list of retail services for the purposes of the competitive market is outlined in the Ofwat price review methodology.

Restricted retail authorisation – This will enable a licensee to provide retail services to non-household customers using more than 50Ml of water in a Welsh water undertaker's area.

Retail authorisation – This will enable a licensee to provide retail services to all non-household customers in an English undertaker's area, including to its own premises (self-supply).

Retail infrastructure authorisation – Under the draft Water Bill, the retail infrastructure authorisation would have enabled a licensee to provide the 'last mile' infrastructure, i.e. infrastructure which connects premises to incumbent water companies' networks for the purpose of supplying water, or sewerage services, to those premises. This was removed from the Bill following pre-legislative scrutiny.

Self-lay regime – This permits a developer to install (or use a contractor to install) the pipework for a new water main or sewer which will be subsequently adopted by the relevant undertaker. Adoption of the pipework is subject to the developer meeting conditions, including build requirements, previously agreed between the developer and undertaker.

Self-supply licensee – A customer with a water supply or sewerage licence that provides retail services to its own premises and those of its associates (for example, subsidiaries or partners). This will only be available for customers in the area of English undertakers.

Service Provider – The person/s contracted by either the market operator or Ofwat to design, build and operate the market systems and processes.

Sewerage licence – A sewerage licence, introduced by the Water Bill, will allow entry into the market for wastewater and sludge services for the purpose of providing retail and/or upstream services. A licensee may hold one or more of three "authorisations" within a sewerage licence.

Sewerage licensee – The holder of a sewerage licence.

Special administration regime – The regime for protecting customer interests when an incumbent water company and some licensees become insolvent or are otherwise failing to such an extent that it is in customers' best interests to transfer the business to a new owner.

Special merger regime – A regime that ensures that Ofwat has a sufficient number of incumbent water companies to make meaningful comparisons between them for the purposes of the price review and for benchmarking performance.

Supplementary authorisation – This will enable a licensee to provide wholesale services to non-household customers using more than 50MI of water in a Welsh undertaker's area. It must be issued alongside a restricted retail authorisation.

Supplier of Last Resort – A licensee or incumbent who is assigned the customer(s) of a retailer that has left the market, where those customers have not chosen an alternative retailer themselves.

Sustainable Drainage Systems (SuDS) – Surface water drainage systems which seek to mimic the way that natural features of the landscape soak up rain or allow rain to soak away and reduce the impact of development on the sewerage system. Examples of man-made SuDS include permeable paving, retention basins, reed beds, ponds, wetlands and swales (i.e. shallow channels to carry water from one part of a SuDS management system to the next), green roofs and water butts.

Trade effluent – Untreated, non-domestic sewage from commercial premises.

Treated water – Water that has been processed by a treatment facility so that it is of a suitable standard to be put into the public distribution network.

Undertaker – A company who has statutory powers and duties to supply water and/or sewerage services to premises within an appointed geographical area under the Water Industry Act 1991. These are the incumbent water companies and inset appointees. The undertaker has complete control of the water supply and/or sewerage system in its appointment area. Licensees must therefore “use” their networks in order to serve or supply customers. “Undertaker” is a technical term that we will avoid using during the Bill’s passage through Parliament. See Incumbent water company.

Upstream – The elements of the water and sewerage value chain that do not directly involve the customer, i.e. those activities related to the abstraction or collection of water and sewerage, treatment and distribution. Upstream services are services that are not covered by the retail definition in Ofwat’s price review methodology. The Bill is only extending competition for the wholesale element of upstream activities. There will be no competition regime for distribution services. Therefore, wholesale is the technical term that is used in the Bill but we will use “upstream” during the Bill’s passage through Parliament.

Watercourse – Any river, stream, ditch, drain, cut culvert, dyke, sluice, sewer and passage through which water flows, except a public sewer.

Water Resources Management Plans – Plans that water companies are obliged to produce every five years that set out how they aim to balance demand and supply over the next twenty five years.

Water supply agreement – An agreement between an incumbent water company and another person that wants to sell water for use in the public water supply system.

Water supply licence – A water supply licence will allow entry into the competitive water supply market for the purpose of providing retail and/or upstream services. A licensee may hold one or more of four “authorisations” within a water supply licence.

Water supply licensee – The holder of a water supply licence

Welsh undertaker – An undertaker whose appointment area is wholly or mainly in Wales. Undertakers are generally appointed depending on river basins rather than political boundaries. Both Welsh Water and Dee Valley Water have areas that extend into England. This means that Welsh Water and Dee Valley Water also have English customers in Hereford and Chester.

Wholesale – The inputting of water to or the removal of sewage from the network either by an incumbent water company, a neighbouring incumbent or by a licensee with a wholesale or disposal authorisation. In the context of the Bill, wholesale services provided by a licensee do not include distribution services (i.e. the ownership and operation of pipes) but do include the ownership of mains and pipes by inset appointees.

Wholesale authorisation – This will enable a licensee to provide water and/or sewerage wholesale services to all non-household customers with the same or a different retail licensee in an English undertaker’s area. The Water Bill will remove the combined supply licence so that licensees can specialise in the services they want to provide to customers, i.e. a person that wants to input water will not have to provide retail services as well.

WIA – Water Industry Act 1991. This is the main piece of primary legislation that concerns the regulation of the water industry, including water and sewerage services.

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