

## **Customer Briefing Note 007**

### **Published Tariffs**

#### Edge Background

Edge is our flag-ship web-based software solution for retail water and waste services suppliers in the UK.

Edge has been designed and built from first principles to provide a complete “Business in a Box” for both established and new entrant Licensed Providers.

The Edge system allows seamless operations across the UK – in both the Scottish and English markets.

Edge runs on the Microsoft “Azure” cloud platform, and provides unrivalled flexibility, security and availability.

Deployment of Edge is quick and easy, whether you are a new start or the largest water company in the country.

#### Retail and Wholesale Tariff Concepts

In the Scottish and English competitive Water and Waste Water markets there are two sets of published Tariffs that define market pricing and billing. These two sets of tariffs are:

- Retail Tariffs
- Wholesale Tariffs

The Default Retail Tariffs are agreed by the regulators, namely Ofwat for England and WICS for Scotland. These tariffs are published by the relevant Wholesale Companies and define the maximum charges can be applied for Water and Waste Water services.

The Wholesale Tariffs are also agreed by the regulators under the periodic Price Reviews (PRnn). These Tariffs define the charges that are imposed by the Wholesale Companies for the provision of Water and waste Water services.

The arrangement is shown in Figure 1.

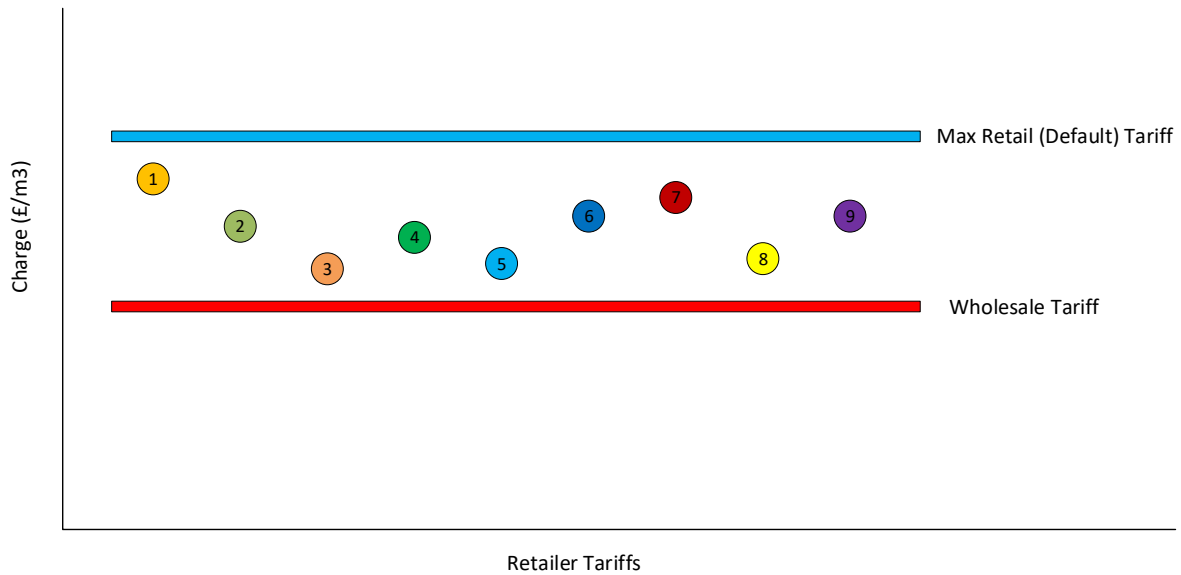


Figure 1 – Retailer Tariffs within Default Retail and Wholesale Tariff Bands

In Figure 1 we show the Default Retail (Max) Charge as the blue line and the Wholesale (Min) Charge as the red line.

Retailers are only allowed to set their prices between the blue and the red lines. These are the retailer tariffs shown as the nine coloured circles.

In the days prior to competition, the Retail Companies would generally (read always) charge the maximum permissible price, so all of the coloured circles would have been pressed against the upper blue line.

However, since the introduction of competition in Scotland in 2009 and in England in 2017, Water Retailers have been forced to reduce their prices in order to win or retain customers. This is the competitive market in operation.

The way that the Water Retailer sets charges to win and retain customers is to try to undercut their competitors whilst still making a profit. This can be a fine balancing act.

There are two main ways that the Water Retailers can do this, and these are:

- Retail Minus
- Wholesale Plus

### Retail Minus Tariff

In this approach the Retailer applies a Discount to the Default Retail Tariff.

Note that Edge uses this approach for Scottish Billing.

This is the traditional approach to Retail Tariff setting and is most commonplace in the Scottish market, where Business Stream set the precedent for using this approach.

As an example, let's consider Retailer 1 (the orange one)

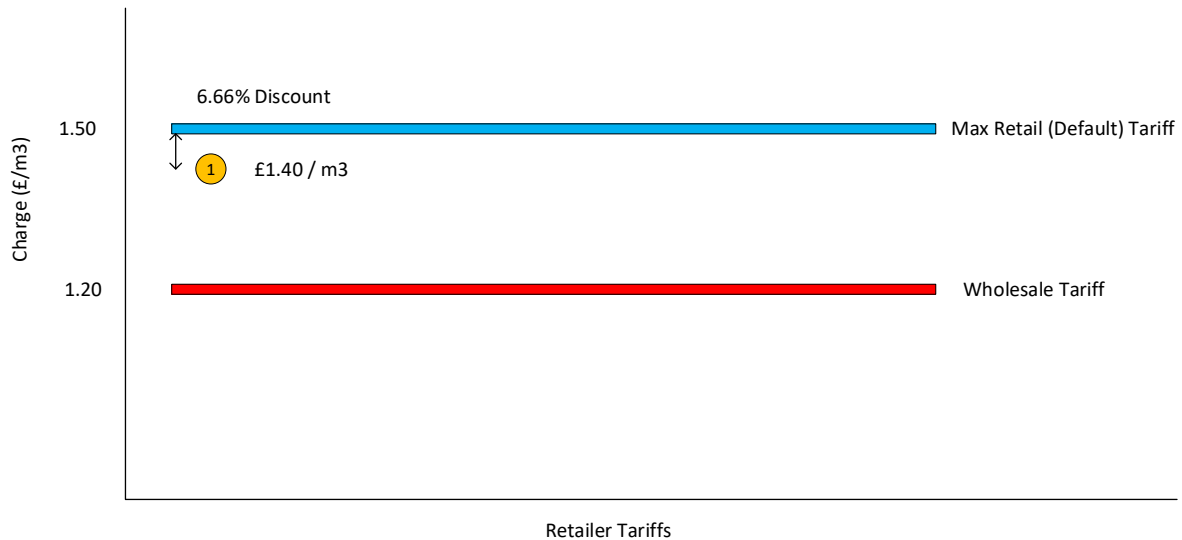


Figure 2 - Retailer 1 using Retail Minus Tariff

If we imagine that the Wholesale Charge for this service is £1.20 and the Max Retail (Default Charge) is £1.50.

Retailer 1 uses the “Retail Minus” approach for Tariff setting, and so has decided to offer a Discount of 6.66%. This results in a Retail Tariff of  $£1.50 \times (100 - 6.66) / 100 = £1.40 / m3$

### Wholesale Plus Tariff

The Wholesale Plus approach to Tariff setting is just a different way of approaching things.

Note that Edge uses this approach for English billing.

Instead of offering a Discount against the Default Retail Charge, the Retailers charges a Margins on the Wholesale Charge.

As another example, let's consider Retailer 2. This Retailer has decided to use the Wholesale Plus approach for setting Tariffs and has decided to charge a Margin of 12.5%.

This results in a Retail Tariff of  $£1.20 \times (100 + 12/5) / 100 = £1.35 / m3$



Figure 3 - Retailer 2 using Wholesale Plus Tariff

## Related Customer Briefing Notes (CBN's)

You may also be interested in these related CBN's

- CBN001: "Edge Overview"
- CBN002: "ADC Billing"
- CBN003: "Volumetric Adjustment"
- CBN004: "Metered Billing"
- CBN005: "Block Tariffs"
- CBN006: "Consolidated Billing"
- CBN007: "Published Tariffs"
- CBN008: "Manual and Automated Billing"
- CBN009: "Bill Output Formats"
- CBN010: "Market Transactions and Data Items"
- CBN011: "Integrated Transaction Management"
- CBN012: "Bitemporal Updates"
- CBN013: "Market Data Set"
- CBN014: "Market Pricing"
- CBN015: "SPID Transfers"
- CBN016: "CRM Module"
- CBN017: "Data Quality"
- CBN018: "Meter Reading Management"
- CBN019: "Sub Meters and Complex Metering"
- CBN020: "Meter Exchange Management"
- CBN021: "Trade Effluent"

Further Information

If you require further information on any aspect of the Edge solution, please contact us at:

Email: [enquiries@cloudwater.co.uk](mailto:enquiries@cloudwater.co.uk)

Phone: 01413438992