

Compliance Code for Wholesale/Retail Interfaces

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Compliance Code for Wholesale/Retail Interfaces

1. Purpose of the document

To ensure compliance with the Competition Act 1998, we take all necessary steps to fully comply with the law and ensure appropriate behaviour which is not anti-competitive. We believe it is important to demonstrate compliance with legislation and to ensure that there is a culture of compliance in our company. Therefore it is critical that guidance is in place for all of our employees in the form of a Compliance Code, which is a requirement of Condition R.

Hafren Dyfrdwy is in a dominant position in the water and waste water market. This magnifies our responsibilities under competition law. Competition in the water industry is developing; and the Competition Act 1998 prohibits the following anti-competitive behaviour:

- any agreement or practice which has the object or effect of preventing, restricting or distorting competition; and
- any conduct which amounts to an abuse of a dominant market position.

The document sets out Hafren Dyfrdwy's arrangements to:

- demonstrate we are able to comply with the confidentiality obligations under Condition R;
- protect commercially sensitive information received from, or in relation to licensees;
- demonstrate that transactions between Hafren Dyfrdwy and associated licensees are conducted at arm's length;
- provide clear information to Hafren Dyfrdwy personnel on their individual obligations; and
- ensure we are carrying out our functions without discriminating against customers or licensees.

This document forms a part of Severn Trent Plc's 'Doing the Right Thing' principles, which can be found on our website:

[https://www.severntrent.com/content/dam/stw/ST_Corporate/About_us/Docs/Doing%20the%20right%20thing%202020%20\(VISUAL\)%208.pdf](https://www.severntrent.com/content/dam/stw/ST_Corporate/About_us/Docs/Doing%20the%20right%20thing%202020%20(VISUAL)%208.pdf)

2a. Background to the Water Supply Market

Retail competition for non-household premises in Wales is limited to those properties with a supply > 50 million litres per annum of water of which there are a small number in the Hafren Dyfrdwy supply area. Retailers and new entrants are able to purchase wholesale water services from Hafren Dyfrdwy and sell these to eligible customers, Hafren Dyfrdwy also operates as a retailer in the market.

In April 2017 the rules governing the retail market changed, replacing retail licences under the WSL regime with a new water supply and sewerage licensing (WSSL) regime. In addition a non-household customer may choose to self-supply its own retail services. Existing retailers, new entrants and self-supply customers have to obtain a new WSSL to provide services to customers as "the licensee". A third party with a combined licence can also continue to use the existing Network Access Code to supply water from its own source through Hafren Dyfrdwy's network, for onward sale to a downstream retail customer.

2b. Background to Condition R and Condition S

Licence Conditions R and S of our Instrument of Appointment supports the duties placed on water undertakers under sections 66A-66C of the Water Industry Act 1991 and requires that Hafren Dyfrdwy as a water undertaker:

- does not unfairly or unduly discriminate between customers connected to the water undertaker's network, regardless of which licensee they are served by;
- does not obtain an unfair commercial advantage because of its activities under this Condition;
- produces, publishes and updates as necessary a Compliance Code which follows Ofwat's compliance code guidance; and
- produces, publishes and updates as necessary a code for access (Network Access Code) which follows Ofwat's access codes guidance.

Hafren Dyfrdwy publishes (and annually updates) a Network Access Code alongside this Compliance Code, both documents can be found in our regulatory library on our website

<https://www.hdcymru.co.uk/regulatory-library/regulatory-library/>

3. Scope of the Compliance Code

This section details measures introduced to address concerns in the following areas:

Area	Description
Compliance with Licence Conditions R and S	This document provides a clear statement of Hafren Dyfrdwy's approach to compliance with Licence Conditions R and S in relation to the retail market.
Obligations about information	Provisions on how information received from or in relation to a licensee will be handled; procedures for sending information to licensees; provisions to ensure that Hafren Dyfrdwy does not gain an unfair commercial advantage from exchanges of information required for the operation of the retail market.
Arm's length trading	This section details how transactions between Water Plus and Hafren Dyfrdwy, and other associated licensees and Hafren Dyfrdwy are carried out at arm's length.
Monitoring or audit process	Details of procedures to evaluate the Compliance Code and identify areas of risk to be addressed.
Personnel training	Details of the approach for training provided to Hafren Dyfrdwy employees in relation to compliance and the Compliance Code.
Disciplinary Process	Procedures in place to investigate and manage any potential breach of Condition R and action to be taken in the event that breaches are found.
Customer facing personnel - Policy and Procedures	Hafren Dyfrdwy has included a section to detail policy and key messages for personnel dealing with eligible customers.

4. Information handling obligations and provisions

Hafren Dyfrdwy has the following information handling obligations when dealing with data, forwarded by a licensee, to progress contractual terms for access to our water network.

Hafren Dyfrdwy must:

- ensure that neither it, nor any related company, obtains any unfair commercial advantage from any exchange of information between itself and a licensee. For example, Hafren Dyfrdwy may have access to confidential information about a licensee's activities which it **must not** share with personnel in the retail arm of Hafren Dyfrdwy or with any associated licensee;
- only use the information a licensee provides for the purpose for which it is supplied;
- take steps to protect the information that it receives from misuse within the company and prevent inappropriate disclosures to third parties;
- set out how such information received from, or in relation to, licensees will be handled and provide details of the person or team responsible for this information;
- set out procedures for sending information to licensees. For example a licensed supplier should be provided with information reasonably required to:
 - apply for, negotiate and conclude an access agreement;
 - comply with any condition of its water supply licence, or any statutory requirement imposed in consequence of its water supply licence;
 - comply with any reasonable request for information made by the Environment Agency;
 - comply with any reasonable request for information made by another Licensee.

Hafren Dyfrdwy must not:

- request from a licensee, or from a person supplied or seeking to be supplied by a licensee, more information than it reasonably requires;
- charge the licensee for providing copies of documentation used to transfer a customer or for clarifying its policy and information requirements.

Hafren Dyfrdwy has taken the following actions to demonstrate that it is able to meet these obligations:

1. **Created a separate retail arm of Hafren Dyfrdwy to handle retail transactions.**

Staff have been issued with guidance on what can and cannot be shared between parties, creating an information barrier.

2. **Created the Wholesale Market Unit Team, to be the key point of contact and responsible for all information exchanges between Hafren Dyfrdwy and Licensees.**

This role ensures an organisational separation between enquiries and applications from licensees, and those parts of Hafren Dyfrdwy responsible for direct relationships with customers eligible to switch supplier.

3. **Established a secure and dedicated e-mail address for the transfer of information between licensees and Hafren Dyfrdwy.**

All Hafren Dyfrdwy correspondence with Licensees comes through a dedicated email address: WMU@severntrent.co.uk. The Wholesale Market Unit Team controls access to this account.

4. Hafren Dyfrdwy has set out the rationale for the provision of that data to justify our need for it.

Hafren Dyfrdwy will not ask for further information to support an application without a clear rationale for its need. Where an applicant cannot provide more information Hafren Dyfrdwy will continue to process the application within the timeframe agreed using the best information available.

5. Detailed accountability and responsibility for handling applications from Licensees, in order to control the movement and handling of data necessary to assess any application (see Appendix 1).

Employees in these roles assess various areas of the licensee's application, and their documented responsibilities set out the role they must play in protecting and controlling the data provided to them.

6. Established a secure database, with access controlled by the Wholesale Market Unit Team to manage data transfer.

Access to this database is limited to those employees who need to see the data and is only with prior approval of the designated role holder within the Wholesale Market Unit.

7. Tailored policy and training for managers and personnel in day-to-day contact and communication with eligible customers in the contestable market.

Our approach sets out how Hafren Dyfrdwy personnel should behave if a customer contacts them with information on its dealings with licensees and how approaches to eligible customers should be undertaken. A summary is found in Section 9.

5. Arm's Length Trading Provisions

A water undertaker that is related to a licensee must ensure that transactions between the two are carried out at arm's length; that is, as though the parties are unrelated (paragraph 5(1) (b) of Condition R).

The following restrictions apply to dealings between Hafren Dyfrdwy and an associate licensee:

- the Associate Licensee cannot make wholesale supplies or undertake common carriage arrangements within Hafren Dyfrdwy's water supply areas;
- the Associate Licensee cannot develop a new source of water for the purpose of any common carriage arrangements within Hafren Dyfrdwy's water supply areas;
- the Associate Licensee cannot, without Ofwat's consent, sell water (or otherwise make it available) to Hafren Dyfrdwy;
- Hafren Dyfrdwy cannot, without Ofwat's consent, sell (or otherwise make available) to the Associate Licensee any water, or any of its other assets;
- all dealings between Hafren Dyfrdwy and the Associate Licensee must be at arm's length; and
- all services provided by Hafren Dyfrdwy to the Associate Licensee, or vice versa, must be recorded, costed and billed to the Associate Licensee or Hafren Dyfrdwy, as the case may be.

Hafren Dyfrdwy must comply with competition law, our regulatory licence conditions (including Condition F and Condition R) and the Regulatory Accounting Guidelines, which ensure compliance in our financial dealings with Severn Trent Plc group companies and non-appointed functions. The purpose of these instruments is to prevent the customers of Hafren Dyfrdwy's appointed business from being disadvantaged by any financial transactions for services provided to and from Hafren Dyfrdwy and other Severn Trent Plc companies. Any services provided to licensees by Hafren Dyfrdwy will be in line with the requirements of Licence Condition F.

6. Compliance monitoring and audit procedures

Hafren Dyfrdwy has put in place a monitoring programme that:

- tests whether the processes and procedures are fit for purpose to handle applications from licensees; and
- tests whether relevant employees are aware of their responsibilities and trained to process these applications in line with the Compliance Code and Network Access Code and any internal market operation documentation.
- quarterly updates are provided within our internal governance framework where appropriate

The Head of Group Compliance and Assurance is responsible for setting a framework to ensure compliance, and a culture of compliance.

This Compliance Code is reviewed on a regular basis to ensure the code remains fit for purpose and employees are aware of their responsibilities. Any changes or amendments made are approved through Severn Trent Water's established governance process prior to publication.

The Wholesale Market Unit are responsible for on going compliance monitoring that ensures identification of risks recommending changes where appropriate including, but not limited to, the following:

- whether the various steps in handling applications from licensees have been allocated to the correct employees;
- the levels of training and awareness for personnel responsible for processing applications;
- resource requirements;
- improvements to existing processes; and
- conflicts of interest.

7. Personnel training

Hafren Dyfrdwy's Network Access Code details the approach we will take when processing a licensee's application.

To support the effective processing of applications, key roles have been identified from around the business to take responsibility for particular technical aspects of each application.

The responsibilities of each of these roles have been documented and agreed with each of the individual employees. Where practical, these responsibilities have been incorporated into role descriptions and performance and development objectives for these employees.

The Wholesale Market Unit team will identify specific training needs arising as a result of the following circumstances:

- changes to occupants of the roles detailed in Appendix 1;
- training needs identified from routine audits of application handling procedures;
- training needs identified from routine handling of licensee applications;
- training needs arising from changes to Ofwat guidance and Hafren Dyfrdwy processes; and
- training needs identified following investigation of complaints and/or disciplinary action.

The Wholesale Market Unit lead is responsible for ensuring access to available training materials for relevant personnel.

8. Disciplinary procedures

All employees have a duty and responsibility to comply with this Compliance Code. It is the responsibility of each of our managers/supervisors to ensure personnel are adequately informed of this Compliance Code and administer its operation within their teams. Failure to comply with this Compliance Code, whether highlighted by audit, application handling or complaints from licensees, will be investigated by Hafren Dyfrdwy. We take non-compliance or any action preventing or discouraging others from complying with this Compliance Code very seriously and this may result in disciplinary action up to and including dismissal.

Details and the procedure for making representations can be found in the Disciplinary Policy Investigating Manager Guidelines.

9. Policy and Procedures - Specific compliance guidelines for managers and personnel in day-to-day contact with eligible non-household customers

Hafren Dyfrdwy must operate a 'level playing field' to other licensees and not show preferential treatment to any licensee. There is a risk that information received by a licensee could be used to gain an unfair competitive advantage against another competing licensee.

To manage this risk:

- the WMU team acts as the key point of contact for all enquiries from a Licensee. They, and any other personnel involved in a licensee's application, **must not** forward any confidential information gained in the operation of the market;
- if the customer requests information on the WSSL regime from a member of the WMU, or otherwise discusses the WSSL regime or a licensee, the relevant meeting or discussion **must** be documented and any information kept on file is factual and the source is identified and recorded;
- for all personnel, a pre-agreed set of messages must be used to communicate factual messages about the competition regime; and
- the WMU has a set of standard policy documents, which explains how each activity should be undertaken and the standards relating to that policy. These are held in a central location and help ensure that all customers are treated in a fair and consistent manner.

Non-household customers may approach Hafren Dyfrdwy personnel with questions or concerns about how the retail market will affect their bill and supply. Hafren Dyfrdwy personnel have been issued guidance on what information can be shared, i.e. factual only. Our personnel **must not**:

- suggest to customers that moving to a new licensee will any way result in restricted access to our network or water resources in the future;
- suggest to customers that there will be any change in water quality; and
- discuss the financial or technical competence of licensees.

If personnel are in any doubt about how to proceed in a particular circumstance they must contact the WMU or legal team for advice.

Appendix 1: Roles and Responsibilities

Decisions or Activities	Wholesale Market Unit	Economic Regulation	Group Compliance and Assurance	Finance	Legal	Comms	Internal Audit	Company Secretariat
Approving Confidentiality Agreement	A/R				C			
Approving Wholesale Retail Contract	A/R				C			
Maintaining Network Access Codes	A/R	C	C			C		
Calculating Annual Access Prices		A/R						
Updating Policy Documents and Processes	A/R	C	C		C	C		
Implementing the Customer Transfer Protocol (CTP)	A/R							
Producing Case Specific Access Prices		A/R						
Revenue Collection and Reconciliation				A/R				
Compliance Monitoring	A/R		C				C	
Ensure that processes and controls are in place to prevent conflicts of interest					C			A/R
Audit programme and records	A/R						C	
Implementing Disciplinary Processes	A/R		C		C			
Training of Key Personnel	A/R		C		C			
Maintaining the Website	C					A/R		

Key

Letter	Meaning
A	Accountable
R	Responsible
C	Consult