

**Severn Trent Water**

## **Compliance Code for Wholesale / Retail Interfaces**

*Version 1.6*

*Process Owner: Head of Wholesale Market Unit*

*October 2017*

## Contents

|   |    |
|---|----|
| 1. Purpose of the document and compliance statement.....      | 3  |
| 2. Background to the Water Supply Market and Condition R..... | 4  |
| 3. Scope of the Compliance Code.....                          | 5  |
| 4. Information handling obligations and provisions.....       | 6  |
| 5. Arm's length trading provisions.....                       | 9  |
| 6. Compliance Monitoring and Audit Procedures.....            | 10 |
| 7. Personnel training .....                                   | 11 |
| 8. Disciplinary procedures.....                               | 12 |
| 9. Customer facing personnel - Policy and Procedures.....     | 13 |
| Appendix 1: Roles and Responsibilities.....                   | 15 |

# Compliance Code for Wholesale / Retail Interfaces

## 1. Purpose of the document

Since the introduction of the Competition Act 1998, we have taken 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 that there is a culture of compliance. 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 and Condition S of our Instrument of Appointment.

Severn Trent Water (STW) 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 which has as its object or effect the prevention, restriction or distortion of competition; and
- any conduct which amounts to an abuse of a dominant position.

The document sets out Severn Trent Water's arrangements to:

- demonstrate we are able to comply with the confidentiality obligations under Condition R and Condition S;
- protect commercially sensitive information received from, or in relation to licensees;
- demonstrate that transactions between STW and Water Plus are conducted at arm's length;
- provide clear information to STW 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 Group's 'Doing the Right Thing' principles, which can be found on our website [here](#).

## 2a. Background to the Water Supply Market

From 1 April 2017 retail competition was extended to all non-household premises, so other retailers and new entrants are able to purchase wholesale water and sewerage services from Severn Trent and

sell these to eligible customers. The new retail market replaced retail licences under the WSL regime with a new water supply and sewerage licensing (WSSL) regime. Existing retailers and new entrants have to obtain a new WSSL to provide services to customers as “the licensee”. More information on the new market can be found on Open Water’s website (<http://www.open-water.org.uk/>).

A third party with a combined licence can continue to use the existing network access code to supply water from its own source from Severn Trent’s network, for onward sale to a downstream retail customer.

Ahead of market opening, STW migrated its existing non-household retail customer base to Water Plus, a joint venture company with United Utilities, with the intention of ‘retail exiting’ in the near future.

STW is required to comply with Condition R and ensure that our dealings with licensees are conducted in a compliant manner that does not discriminate against other market participants.

## 2b. Background to Condition R and Condition S

Licence condition R of our Instrument of Appointment supports the duties placed on water undertakers (sections 66A-66C of the Water Industry Act 1991). Condition R was amended by OFWAT to move some of the obligations into Condition S in particular, our obligations to maintain a Network Access Code<sup>1</sup>.

Licence condition R and S requires that STW as a water undertaker:

- produces, publishes and updates as necessary a code for access (Network Access Code) which follows Ofwat’s access codes guidance;
- 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; and
- produces, publishes and updates as necessary a Compliance Code which follows Ofwat’s compliance code guidance<sup>2</sup>.

STW publishes (and annually updates) a Network Access Code on its website. This Compliance Code is published alongside this and both documents can be found at:

<https://www.stwater.co.uk/businesses/business-accounts/network-access-code/>

## 3. Scope of the Compliance Code

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

| Area | Description |
|------|-------------|
|------|-------------|

<sup>1</sup> <http://www.ofwat.gov.uk/wp-content/uploads/2017/04/Notice-of-Reasons-Condition-S-mods.pdf>

<sup>2</sup> Ofwat Guidance on Compliance Codes, August 2008

|  |  |
|--|--|
| <b>Compliance Statement</b>                              | A clear statement of STW's approach to compliance.   |
| <b>Obligations about information</b>                     | Provisions to ensure that STW does not gain an unfair commercial advantage from exchanges of information required for the operation of the retail market.  |
| <b>Arm's length trading</b>                              | With the creation of our joint venture company Water Plus with United Utilities, STW legally separated its non-household wholesale and retail activities.<br>This section details how transactions between Water Plus and STW are carried out at arm's length. |
| <b>Monitoring or audit process</b>                       | Details of procedures to evaluate the Compliance Code and identify areas of risk to be addressed.  |
| <b>Personnel training</b>                                | Details of the approach for training provided to STW employees in relation to compliance and the Compliance Code.  |
| <b>Disciplinary Process</b>                              | 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.   |
| <b>Customer facing personnel - Policy and Procedures</b> | STW has included a section to detail policy and key messages for personnel dealing with eligible customers.  |

## 4. Information handling obligations and provisions

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

### STW **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, STW may have access to confidential information about a licensee's activities which it **must not** share with personnel in Water Plus or any other 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 disclosure 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 the Licensee.

### STW **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 clarifying its policy and information requirements.

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

**1. Created Water Plus, a joint venture company with United Utilities, which will be responsible for all non-household retail activity in STW's 'in area' business**

STW opted for a complete legal separation of people, systems and geographical location for non-household retail activities. Both STW and Water Plus have been issued with guidance on what can and cannot be shared between parties, creating an information barrier. Our intention is to retail exit to Water Plus.

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

This role ensures an organisational separation between enquiries and applications from licensees, and those parts of Severn Trent Water 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 STW.**

All STW correspondence with Licensees comes through a dedicated e-mail address: [WMU@severntrent.co.uk](mailto:WMU@severntrent.co.uk). The Wholesale Market Unit Team controls access to this account.

**4. Detailed the information required from licensees to enable a full assessment of an application. STW has also set out the rationale for the provision of that data to justify our need for it.**

The data requirements for licensees applying for network access are available on our website in our Network Access Code. STW will not ask for further information to support an application without a clear rationale for its need. Where an applicant cannot provide more information STW 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 Head of 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 STW 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).

STW legally separated non household retail activity to 'Water Plus', a Joint Venture company with United Utilities, which is headquartered in Stoke on Trent. As part of the transaction, STW's respective 'in-area' business was acquired by Water Plus to fulfil the respective non household retail obligations. The transaction was unconditionally approved by the CMA.

With the creation of Water Plus, STW has completely separated people, systems and geographical location for non-household retail activities, which ensures a level playing field and arm's length trading. STW non household customers were migrated to the Water Plus billing system prior to market opening and now have the ability to switch to any retailer following market opening. Water Plus is completely standalone in terms of typical shared and corporate services. We put in place a number of measures during the transition to full separation to ensure that we maintain an arm's length relationship with Water Plus while recognising that some business teams are required to interact with Water Plus to fully complete the non-household retail separation. These measures are:

|                                 |  |
|---------------------------------|--|
| Transitional service agreements | Setting out service terms and arms length charging arrangements  |
| Information protocols           | Including system access restrictions, and tailored training for key employees  |
| Employee training and guidance  | Provided to employees in customer facing and relevant support service roles including specific guidance for employees who involved in TSA processes. |

STW must comply with competition law, our regulatory conditions (including condition F and condition R) and the Regulatory Accounting Guidelines, which ensures 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 STW's appointed business from being disadvantaged by any financial transactions for services provided to and from STW and other Severn Trent Plc companies. Any services provided to licensees by STW will be in line with the requirements of Licence Condition F.

## 6. Compliance monitoring and audit procedures

STW 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.

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

The Head of Wholesale Market Unit / Head of Internal Audit are responsible for maintaining an audit programme and keeping a record of audits.

The audit programme can identify risks and recommend changes including, but not limited to, the following areas:

- 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

STW'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 those employees.

The Wholesale Market Unit (WMU) 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 STW processes; and
- training needs identified following investigation of complaints and/or disciplinary action.

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

## 8. Disciplinary process

All employees have a duty and responsibility to comply with this Compliance Code. It is the responsibility of each of our managers / person in a supervisory capacity to ensure personnel are adequately informed of this Compliance Code and administer its operation within their teams. 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.

Failure to comply with this Compliance Code, whether highlighted by audit, application handling or complaints from licensees, will be investigated by STW.

Details and the procedure for making representations can be found in the [Disciplinary Policy Investigating Manager Guidelines](#) document.

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

STW 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 policies relating to that standard. 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 STW personnel with questions or concerns about how retail market opening will affect their bill and supply. STW 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;
- 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                                   | Director of Strategy and Regulation | Head of Wholesale Market Unit | Economic Regulation Manager | Head of Compliance | Finance Business Partner | Legal | Head of Communications |
|---|-------------------------------------|-------------------------------|-----------------------------|--------------------|--------------------------|-------|------------------------|
| Approving Confidentiality Agreement                       |                                     | A / R                         |                             |                    |                          |       | C                      |
| Approving Wholesale-Retail Contract                       |                                     | A / R                         |                             |                    |                          |       |                        |
| Maintaining Network Access Code                           | 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) process |                                     | A / R                         |                             |                    |                          |       |                        |
| Producing Case Specific Access Prices                     | A                                   |                               | R                           |                    |                          |       |                        |
| Revenue Collection and Reconciliation                     |                                     |                               |                             |                    | A / R                    |       |                        |
| Compliance Monitoring and Audit                           | A                                   | C                             |                             | R                  |                          |       | C                      |
| Implementing Disciplinary Processes                       |                                     | A / R                         |                             | C                  |                          | C     |                        |
| Training of Key Personnel                                 |                                     | A / R                         |                             | C                  |                          | C     |                        |
| Maintaining the Website                                   | A                                   |                               |                             |                    |                          |       | R                      |