

# Severn Trent Services (Water and Sewerage)

Compliance code for wholesale/retail interfaces

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# 1.0 Purpose of the document

We have taken all the necessary steps to fully comply with the Competition Act 1998, and in doing so, we believe it's important to foster a culture of compliance. Therefore it is critical that guidance is in place for all our colleagues in the form of a Compliance Code, which is a requirement of Condition R as set out in our Licence of Appointment.

Severn Trent Services (Water and Sewerage) limited (ST Connect) isn't a dominant player in the water and sewerage wholesale markets, therefore the risks of abuse of market power are an order of magnitude less, when compared with our traditional incumbent counterparts.

This document sets out ST Connect'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 associated companies are conducted at arm's length;
- Provide clear information for ST Connect 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's 'Doing the Right Thing' principles, which can be found on the Severn Trent Plc website [here](#).

## 2.0 Background to water supply market and Licence Conditions R and S

Retail competition was opened up to all non-household premises in England in April 2017, allowing retailers and new entrants to purchase wholesale water and sewerage services from incumbent water companies for onward sale to eligible customers. The new retail market replaced the retail licence conditions under the WSL regime with a new water supply and sewerage licensing (WSSL) regime. In addition, non-household customers have the option to self-supply their own retail services. Existing retailers, new entrants and self-supply customers have to obtain a new WSSL to provide services to their customers as “the licensee”. Further information on the market can be found on Open Water’s website [here](#).

Ahead of market opening, ST Connect migrated its non-household customer base to Water Plus and retail exited the market for non-household sewerage services – at the time, ST Connect was a sewerage-only company. In January 2019, ST Connect applied to Defra to retail exit from non-household water retail services, having being granted a water supply licence in 2018. Our application has been approved by Defra; we expect to have exited from the non-household water retail market by March 2019.

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

Licence Conditions R and S within our Licence of Appointment support the duties placed upon water undertakers under the Water Industry Act 1991 (sections 66A-66C), and require that ST Connect 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;
- \*Produces, publishes and updates as necessary a code for access (Network Access Code) which follows Ofwat’s Guidance;
- Does not obtain an unfair commercial advantage because of its activities under these Conditions; and
- Produces, publishes and updates as necessary a Compliance Code which follows Ofwat’s Compliance code guidance

\*ST Connect has not published a network access code for the following reasons:

- There are no (nor will there be) eligible customers that could take a supply of water from a non-household retailer at our only water site, Aurum Green, Basingstoke.
- Our water supply system doesn’t meet the requirements as set out under Section 17A subsection 5 of the Water Industry Act 1991 to meet the definition of “Primary Water Undertaker” as set out in our Licence of Appointment. This is due to the requirement of a water treatment works – Aurum Green takes its supply of water from South East Water via a bulk supply.

## 3.0 Scope of the Compliance Code

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

Area	Description
Compliance with Licence Condition S	The document provides our statement of our approach to compliance with Licence Condition S.
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 ST Connect 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 ST Connect, and other associated licensees are carried out at arm's length. ST Connect have retained exited for non-household services.
Monitoring and/or audit processes	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 ST Connect 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	ST Connect has included a section to detail policy and key messages for personnel dealing with eligible customers.

## 4.0 Information handling obligations and provisions

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

ST Connect **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, ST Connect may have access to confidential information about a licensee's activities which it must not share with 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 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 the licensee.

ST Connect **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.

ST Connect has taken the following actions to demonstrate that it's able to meet these obligations:

1. Exited from the non-household retail market for sewerage services and has received approval from DEFRA to exit for non-household retail market for water services in March 2019.
2. Agreed a secure and dedicated e-mail address for the transfer of information between licensees and ST Connect.
3. Detailed the information required from licensees to enable a full assessment of an application. ST Connect has also set out the rationale for the provision of that data to justify our need for it.

## 5.0 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; as though the parties were unrelated.

Water Plus is a joint venture between Severn Trent Water and United Utilities. As part of the transaction ST Connect's non-household customers (sewerage-only at the time) were transferred to Water Plus. ST Connect's non-household water customers (zero at the time of writing) will also transfer to Water Plus. However, any non-household customers will be free to choose their retailer.

Unlike for Severn Trent Water, ST Connect's teams were not required to interact with Water Plus during the transfer – negating the requirement for additional measures to be put in place to ensure arm's length trading.

ST Connect must comply with competition law, regulatory conditions and the regulatory accounting guidelines, which ensure that dealings with Severn Trent group companies are conducted in a compliant way.

## **6.0 Compliance monitoring and audit procedures**

ST Connect has put in place a requirement that its employees complete various e-learning training programs to ensure compliance with the arm's length trading and non-discriminatory operating practices.

ST Connect's senior management team check to ensure that all employees have completed their e-learning and are compliant in their practices.

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

## **7.0 Disciplinary procedures**

All employees have a duty and responsibility to comply with this Compliance Code. It is the responsibility of each of our managers/persons in a supervisory capacity 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 ST Connect. 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.

## 8.0 Policy and procedures – guidelines for managers and personnel in day-to-day contact with eligible non-household customers

ST Connect must operate a “level playing field” to licensees and therefore not show preferential or discriminatory 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 these risks:

- The Customer Operations Manager acts as the key point of contacts for all enquiries from licensees. They must not forward any confidential information gained in the operation of the market;
- If the customer requests information of the WSSL regime from a member of the Customer Operations Manager, the relevant meeting or discussion must be documented.

Our employees **must not**:

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