

# Compliance Code for Wholesale/Retail Interfaces

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WONDERFUL ON TAP



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# 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.

Severn Trent Water is in a dominant position in the water and waste water wholesale 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 of competition; and
- any conduct which amounts to an abuse of a dominant market position.

The document sets out Severn Trent Water'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 Severn Trent Water and related companies (such as Water Plus) are conducted at arm's length;
- provide clear information to Severn Trent Water 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 our website (<https://www.severntrent.com/about-us/corporate-governance/code-of-conduct/>).

## 2a. Background to the Water Supply Market

From 1 April 2017 retail competition was extended to all non-household premises in England, so other retailers and new entrants are able to purchase wholesale water and sewerage services from Severn Trent Water and sell these to eligible customers. More information on the new market can be found on Open Water's website (<https://www.open-water.org.uk/>).

The new retail market replaced 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 from Severn Trent Water's network, for onward sale to a downstream retail customer.

Ahead of market opening, Severn Trent Water migrated its existing non-household retail customer base to Water Plus, a joint venture company with United Utilities. Severn Trent Water formally exited the retail market in July 2018 following completion of licence modifications to align the boundaries of Severn Trent Water and Hafren Dyfrdwy to the political boundaries of England and Wales respectively.

Severn Trent Water 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 Conditions R and S of our Instrument of Appointment support the duties placed on water undertakers (sections 66A-66C of the Water Industry Act 1991) and requires that Severn Trent Water 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;

Severn Trent Water 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.stwater.co.uk/regulatory-library/regulatory-library-documents/>).

### 3. Scope of the Compliance Code

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

Area	Description
<b>Compliance with Licence Condition R and S</b>	This document provides a clear statement of Severn Trent Water's approach to compliance with Licence Conditions R and S in relation to the retail market.
<b>Obligations about information</b>	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 Severn Trent Water 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, Severn Trent Water legally separated its non-household wholesale and retail activities. This section details how transactions between Water Plus and Severn Trent Water, and other associated licensees and Severn Trent Water 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 Severn Trent Water 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>	Severn Trent Water has included a section to detail policy and key messages for personnel dealing with eligible customers.

## 4. Information handling obligations and provisions

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

Severn Trent Water 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, Severn Trent Water 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 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.

Severn Trent Water 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; or
- charge the licensee for providing copies of documentation used to transfer a customer or clarifying its policy and information requirements.

Severn Trent Water 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 Severn Trent Water's 'in area' business.**

Severn Trent Water opted for a complete legal separation of people, systems and geographical location for non-household retail activities. Both Severn Trent Water and Water Plus have been issued with guidance on what can and cannot be shared between parties, creating an information barrier. Severn Trent Water formally exited the retail market in July 2018 following completion of licence modifications to align the boundaries of Severn Trent Water and Hafren Dyfrdwy to the political boundaries of England and Wales respectively.

- 2. Created the Wholesale Market Unit Team, to be the key point of contact and responsible for all information exchanges between Severn Trent Water 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 Severn Trent Water.**

All Severn Trent Water correspondence with licensees comes through a dedicated email 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. Severn Trent Water 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. Severn Trent Water will not ask for further information to support an application without a clear rationale for its need. Where an applicant cannot provide more information Severn Trent Water 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 Severn Trent Water 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) of Condition R).

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

To further ensure arm's length trading, Severn Trent Water 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, Severn Trent Water'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. Severn Trent Water formally 'exited' from the retail market on 1 July 2018.



## 6. Compliance monitoring and audit procedures

Severn Trent Water 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 Group Compliance and Assurance is responsible for setting a framework to ensure compliance, and a culture of compliance.

The Head of the Wholesale Market Unit and 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

Severn Trent Water'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 (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 Severn Trent Water processes; and
- training needs identified following investigation of complaints and/or disciplinary action.

The Head of the Wholesale Market Unit 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/person 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 Severn Trent Water. 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 document.

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

Severn Trent Water 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 Severn Trent Water personnel with questions or concerns about how the retail market will affect their bill and supply. Severn Trent Water 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	Communications	Internal Audit
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
Audit programme and records	R						A/R
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