



RWG Wholesale Tariff Simplification Subgroup

**Request for Information
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Trade Effluent charging structures, practices and processes

The purpose of this document is to seek input from trading and non-trading parties in the non-household market on the existing structures, practices and processes used when charging for Trade Effluent. The document also asks interested parties to share information on any challenges that they face in charging or being charged for Trade Effluent as well as any suggested best practice that they believe would be of benefit to the wider market.

Introduction

The RWG Wholesale Tariff Simplification Subgroup (the “Subgroup”) was established in 2021 to explore options for wholesale tariff structure harmonisation and simplification within the non-household market, with the aim of reducing complexity and improving the efficiency of operation across the market.

In summer 2022, the Strategic Panel also identified the simplification of the wholesale tariff landscape as one of the top priorities for improving the effectiveness of the non-household market.

The Subgroup issued a Request for Information (“RFI”) in November 2021 that sought views on a range of topics but no questions on Trade Effluent were included. This latest RFI specifically seeks views from the industry on existing structures, practices and processes used when charging for Trade Effluent with a view to informing a Good Practice Guide that sets out recommended best practice where this can be identified and agreed upon by market participants.

Background

Historically, each Wholesaler has developed its own tariff structure in response to regulatory principles and their own system dynamics, resulting in different approaches and little commonality between regional tariff structures. This has led to a high degree of tariff complexity within the non-household market, with circa 9,000 tariff elements in CMOS.

Alongside the aims of reducing complexity and improving the efficiency of operation across the market, there is still the requirement to provide a framework within which Wholesalers can set charges that align with Ofwat’s charging principles¹. Subject to managing any impacts on the cost reflectivity of charges, the overall benefits of simplifying tariff structures include:

- Creating a more consistent tariff landscape across the market which will help establish a single, national market, rather than regional hubs;
- Reducing the complexity and confusion felt by national and multi-site customers in the face of different tariff structures in different wholesale regions;
- Greater perceived fairness across the market for similar customers in different regions;
- Reducing systems and administration costs for retailers, in turn enhancing their ability to compete at a national level as well as reducing the potential for erroneous tariff application for customers;
- More consistent messages to customers about the need, and options, for managing their water consumption;
- Greater opportunities for retail tariff innovation; and
- Simplification of the CMOS tariff arrangements.

Trade Effluent charge parameters are applied through DPID fields in CMOS to generate variable and fixed charges.

¹ Ofwat’s charging principles are set out in their [Wholesale Charging Rules](#).

The trade effluent charged volume can be based on ingoing water consumption with allowances for water not returned to the sewer and deductions for domestic use; from discharge point flow meters or from a fixed volume agreed with the customers.

The unit rate component of Trade Effluent variable charges is based on the traditional Mogden formula, that establishes a relative treatment unit rate of the specific discharged Trade Effluent in relation to the Wholesaler's average standard sewerage strength.

Having such a perceived complex method of calculating charges requires all components to be accurate and representative for that customer at any time and clear charging policies to be issued by Wholesalers for the guidance of retailers and customers alike.

An initial review process by the Tariff Simplification Trade Effluent Subgroup has identified several key areas regarding Trade Effluent tariffs, their application and documentation that may suggest harmonisation or simplification of Trade Effluent charges, consistency of Trade Effluent charge derivation and clarity of Trade Effluent charges and policies is required for the benefit of the retail market.

This RFI is principally an initial gathering of qualitative information from Trading Parties and other parties with vested interests,

Responding to this consultation

The Subgroup would encourage interested market participants and stakeholders to respond to the questions contained in question 1 to 10 by submitting responses by **Friday 20 September 2024** using the appropriate [Microsoft Forms template](#), which is also provided on the Subgroup's page² on the MOSL website.

Additional views and comments on any related Trade Effluent topic can also be shared in answer to the final question of this RFI.

² <https://mosl.co.uk/groups-and-forums/industry-groups-forums/retailer-Wholesaler-group/tariff-sub-group>

1. Trade Effluent Volumetric Charging Bands

All Wholesalers providing sewerage services apply trade effluent charges in line with their published annual wholesale scheme of charges document, as required under the Water Industry Act.

The general principle of Trade Effluent volumetric charges is based on the Mogden formula to reflect the “treatability” of the trade effluent in comparison to settled sewage strength as received and treated at wastewater treatment centres. There can be variations to the Mogden formula according to the level of sewage treatment carried out at the receiving works, such as a marine discharge or the removal of Nitrogen.

Our analysis of published Trade Effluent charges for 11 Wholesale regions shows the following range of Trade Effluent volume bands and the basis of the Trade Effluent volume:

TE tariff	0-499	0-99999	One band	0-9999	0-9999	0-99999	0-49999	0-99999	0-49999	0-79999	0-4999
volume band (annual m3)	500-4999	100000+		10000-49999	10000-49999	100000+	50000+	100000+	50000+	80000+	5000-49999
	5000- 24999			50000+	50000+						50000-249999
	25000+										250000+
Basis of TE bands	Consumption?	TE discharged	TE discharged	Consumption?	Consumption?	TE discharged	TE discharged	Consumption?	Domestic + TE	TE discharged	TE discharged
Os	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Ss	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
std str	Y	Y	Y	Y	Y	Y	N	Y	Y	N	Y

You can [download an Excel version of the volume bands here](#).

The basis of the volumetric banding is not clear for many Wholesaler documents assessed to date. The basis could be related to the annual volume of water supplied, or to the annual volume of trade effluent discharged.

Some Wholesalers have now adopted a volumetric charging band for 0-500 m3, but it is unclear whether this relates to the supplied water or discharged trade effluent volume.

It could also be viewed that for some large consumption customers, where the Trade Effluent discharged volume is a small proportion of the supplied volume, the application of a large user Trade Effluent tariff based on annual consumption is unfair in terms of absolute charge value, when compared with other wholesale regions.

Question 1a (for Wholesalers)

Please confirm the basis of the volume-based Trade Effluent tariff bands published in the scheme of charges. Is the basis made on the metered potable water tariff code (i.e. the potable water consumption) or the volume of discharged trade effluent?

Question 1b (for retailers and all other parties)

Should Trade Effluent volumetric charge bands be based on the water supplied or Trade Effluent discharge volumes to best reflect the activities of the customers. What examples can be given where the volume band basis is perceived to unfairly impact on particular customer Trade Effluent activities.

Question 1c (for all respondents)

In light of the tariff simplification initiative for water consumption bands, do you consider that a similar approach should be considered to simplify/ reduce the number of Trade Effluent tariff bands? Is there good

reason why bands should remain, particularly as the Trade Effluent volume generated may not reflect the applied potable water tariff.

2. Confirmation of Mogden Formula Applied to a Customer

The derivation of accurate Trade Effluent charges can be complex. This complexity requires accurate translation into CMOS of the various DPID fields (particularly the Treatment Indicators RTI, BTI, MTI, BTI, STI and ATI) and could therefore lead to erroneous data entry.

The Trade Effluent tariff simplification sub-group has considered that the validation of the Mogden formula parameters is of primary concern and may lead to avoidable Trade Effluent charging errors.

These errors may include special agreement Reception, Volumetric Conveyance, Biological Treatment & Suspended Solids components (i.e. the R, V, B, S Mogden formula components), confirmation of marine discharges and the application of additional formula components such as ammonia treatment.

The Trade Effluent sub-group has considered that confirmation of the applicable Treatment Indicators (RTI, BTI, MTI, BTI, STI and ATI) should be included within issued Trade Effluent consent documentation.

Question 2a (for Wholesalers)

Can you confirm whether the inclusion of the applicable Treatment Indicators is stated in Trade Effluent consents that you issue? If not included, then would inclusion of the Treatment Indicators be a feasible process to be carried out on new and existing consents?

Question 2b (for all other parties but principally retailers)

Can you provide any qualitative or anecdotal information on the impact that incorrect DPID data (particularly Treatment Indicators) has had on NHH customers?

3. Review period needed for Trade Effluent charges tariffs and water balances

Applying accurate and representative Trade Effluent charges requires a reflective water balance for the operations relating to trade effluent generation from a NHH customer.

Other than the NHH customer advising the retailer/Wholesaler of material changes that will impact on Trade Effluent charges, there appears to seldom be clarity in published scheme of charges or other documentation on how often Wholesalers will review those related DPID parameters.

These parameters may include calculated discharge volumes and other allowances.

The Trade Effluent tariff simplification sub-group has considered whether a minimum review period should be set for the retail market, in order to ensure Trade Effluent charge accuracy

Question 3a (for Wholesalers)

How often do you review volume impacting parameters contributing to Trade Effluent charges, including allowances, calculated discharge volumes, meter discharge volumes (MDVol) and [sub] metering relationships?

Question 3b (for retailers)

How often do you review volume impacting parameters contributing to Trade Effluent charges and request amendments to be made by the Wholesaler?

Question 3c (for all other parties)

Can you provide qualitative or anecdotal information suggesting that a regular review of charging parameters would have a beneficial impact on the accuracy of Trade Effluent charges?

4. Use of metering/DA/PA/FA and need for review or applicability

The Trade Effluent sub-group has considered whether there needs to be a review of application of the volumetric charging parameters, such as domestic, percentage and fixed allowances needs to address any Trade Effluent account issues since the Trade Effluent Issues Committee (TEIC) was disbanded in 2021.

The TEIC was set up to confirm the correct methodology of initiating Trade Effluent charges in CMOS. Given that COVID may have resulted in unforeseen impacts on Trade Effluent charges, a review of the TEIC output may now be required.

Question 4 (all parties)

Is a review of volumetric Trade Effluent charging parameters and TEIC guidance documentation required?

Please give any pertinent supporting information for the requirement of these reviews.

5. Common Trade Effluent Discharges – A Consistent Approach to Standard Strengths

The assessment of the RWG Trade Effluent RFI sub-group has identified that the majority of Wholesalers recognise Standard Strength Trade Effluent discharges, such as car washes, swimming pools and evaporative cooling towers.

However, the number of recognised Standard Strengths varies from region to region. There are two Wholesalers who do not recognise Standard Strengths.

Standard Strengths attract fixed milligram per litre concentration values for Chemical Oxygen Demand and Suspended Solids, that are applied to the Modgden Formula so as to derive a fixed Trade Effluent unit rate.

This fixed unit rate approach benefits both NHH customers and Wholesalers. However, it is the inconsistent approach in having a non-definitive list of Standard Strengths, or no Standard Strength policy that may be viewed as an area to review.

Question 5a (for Wholesalers)

Can you confirm whether you currently apply or are considering to apply Standard Strengths to your Trade Effluent billing policy?

For those Wholesalers who utilise Standard Strengths, can you confirm your recognised list of effluent types?

How would the application of a common retail market list of Standard Strengths impact on your business?

Question 5b (for all other parties)

For the proposed initiatives listed above, can you provide qualitative or anecdotal evidence where related current Wholesaler practices are detrimental to the retail market and NHH customers?

6. Regional Sewage Strengths

Trade Effluent charge strength is based upon the chemical oxygen demand and the suspended solids content of the discharged Trade Effluent.

The Trade Effluent strength is compared to Regional Standard Strengths (i.e. the Os and Ss related components of the Mogden formula) so as to derive a relative unit rate compared to settled sewage.

The RWG Trade Effluent RFI sub-group has identified that some Wholesale regions have not adjusted the Os and Ss values for a number of years.

Wholesale policies on the review period for Os and Ss are not apparent in any market documentation.

As such, there is no overall market understanding of the impact on Trade Effluent charges when the Os and Ss values do not change for considerable period, whilst the cost of sewage treatment has varied in that time.

Question 6a (for Wholesalers)

Can you confirm how often the Os and Ot components are reviewed?

If a consistent review period was to be applied, what would the impact be to your business?

Question 6b (for all other parties)

Are there any comments that you would like to provide on this issue?

7. Charging and Administration of Minor and/or Low Risk Trade Effluent Discharges

Some Trade Effluent discharges may be of low strength, low volume or pose a low impact risk to Wholesaler sewerage and sewage treatment activities.

Related Trade effluent charges may be applied as a minimum annual value, a risk-based approach or not even charged for.

Recognition of the discharge by Wholesalers may be through a formal or informal (i.e. simple letter of acknowledgement).

These varying approaches from Wholesalers varies from region to region, for which multi-site NHH customers may view as an unharmonized approach.

Question 7a (for Wholesalers)

Can you comment on the impact that a market harmonised approach would potentially have on your business?

Question 7b (for all other parties)

For the issue listed above, can you provide qualitative or anecdotal evidence where related current Wholesaler practices are detrimental to the retail market and NHH customers?

8. Trade Effluent Sampling Regimes

The basis of Trade Effluent charges is based on effluent samples obtained by the Wholesaler.

The sampling regime applied has been defined in the market as follows:

- Annual Fixed Strength [1YR FIXED STRENGTH]
- 3 yearly Fixed Strength [3YR FIXED STRENGTH]
- Settlement Period Average [SETTLEMENT PERIOD STRENGTH]
- Rolling Period Average [12 MONTH ROLLING AVERAGE], [6 MONTH ROLLING AVERAGE] or [3 MONTH ROLLING AVERAGE]
- Rolling Sample Number Average [SAMPLE NUMBER ROLLING AVERAGE]
- Most Recent Actual Sample [MOST RECENT ACTUAL SAMPLE]
- Other [OTHER]

Since the last review of sampling methods was made by the TEIC several years ago, the retail market has developed and improved to a point that a new review may be beneficial.

The use of [OTHER] as a generic sampling regime may now need closer scrutiny to identify whether it is a fall back that is being relied on excessively and that either new sampling regimes should be defined and applied to the retail market, or that those discharges currently charged under this regime should be moved to one of the more readily identifiable regimes.

Question 8a (for Wholesalers)

Can you comment on the impact that any of a review would potentially have on your business?

Can you confirm what percentage of DPIDs are assigned the [OTHER] sampling regime?

Should any new sampling regimes be defined to benefit the retail market?

Question 8b (for all other parties)

For the proposed initiative listed above, can you provide qualitative or anecdotal evidence where current Wholesaler sampling regimes are detrimental to the retail market and NHH customers?

9. Trade Effluent Related Documentation

The Trade Effluent sub-group has identified that the most common query type to Wholesaler Trade Effluent teams is to clarify or request Trade Effluent charging information or policies on charging structures.

Equally, the retailer members of the sub-group have identified that Wholesaler charging documents should be more comprehensive and supporting policy documentation made available online.

Clear and consistent documentation definitions could form part of an RWG Trade Effluent Good Practice Guide if there was sufficient demand from interested stakeholders.

Question 9a (for Wholesalers)

Can you confirm what Trade Effluent related documentation you produce for retailers and other parties, how it is made accessible

Question 9b (for all other parties)

What issues do you experience with Trade Effluent charge documentation when assisting NHH customers with their Trade Effluent related queries, or customers/ 3rd parties investigating their charges?

What additional documentation would you like to see made available online?

10. General Feedback

Question 10 (to all parties)

Have you had difficulty in understanding any other areas of Trade Effluent charging structures, policies or charges made available by Wholesalers, difficulties experienced in order to calculate invoices for NHH customers and wish to raise in addition to the topics covered by this RFI?

Please provide details of the specific challenges faced, the impact on your business as well as on business customers and whether you have any suggestions for changes that can be made or best practice that could be implemented.