

Information notice

IN 15/15 November 2015

ofwat

This is a formal document that alerts our stakeholders to a change in the way that we regulate the water sector in England and Wales.

Charges schemes from 2016-17 – moving from an approval process to a rules-based approach to regulating charges schemes

This information notice confirms changes to the way we regulate the charges of licensed monopoly water only and water and wastewater companies in England and Wales.

Background

Our main tool to regulate monopoly companies' charges is through the price, service and investment package ('price controls') that we set. In our price controls we set the overall revenues that these companies are allowed to recover from customers over a period of five years. The companies are then free to set their charges, within the constraint of legislation, to recover their allowed revenues.

Most water and sewerage customers do not have an individual agreement with their company. The relationship is statutory – companies have statutory obligations to provide customers with water and wastewater services and therefore have the statutory powers to charge them for these services.

In these circumstances, charges and associated terms (such as times and methods of payment) are fixed in 'charges schemes' made by water companies under section 143 of the Water Industry Act 1991 (WIA91).

In the absence of any individual agreement, a charges scheme is the legal basis for customer charges.

Until 1 November 2015, the WIA91 required charges schemes to be approved by us before they can come into effect.

Changes to the regulation of charges schemes

In 1 November, provisions in the Water Act 2014 (WA14) removed the requirement for charges schemes to be approved by us. Instead, we now have the power to set 'rules

about charges schemes' that charges schemes must comply with.

The WA14 also gave us new enforcement powers. If we consider that a company's charges scheme does not comply with the rules or certain other requirements then we will have the power to issue a direction to the water company to ensure compliance. We can also take further enforcement action, such as imposing a financial penalty, if a company fails to comply with a direction.

We welcome this change. It is consistent with our strategy to establish trust and confidence in water and wastewater services. It enables greater company ownership and innovation in tariff setting. It also allows us to set out the principles we consider to be important for customers in a more effective way.

Charges scheme rules and information requirements

On 17 November 2015 we issued our charges scheme rules—rules that water companies must comply with when setting customer charges for 2016-17 and future years (except for customers on special agreements).

These rules come into effect on 17 November 2015 and will apply to any new charges schemes, in particular those for the year 2016-17 and onwards.

Among other things, our rules require each company to:

- consult the Consumer Council for Water (CCWater) on their proposed charges scheme;
- consider handling strategies for significant bill increases;
- offer a rebate for customers where they know (or should reasonably know) that surface water does not drain to a public sewer;
- provide reasonable choice as to the times and methods of payment of charges; and
- publish the charges scheme clearly on their website by the first working day of February each year.

We can update the rules whenever appropriate to reflect changes in the way the sector operates. In reviewing the charging rules we will have regard to the relevant guidance issued by the UK and Welsh Governments. Both the UK and Welsh Governments have consulted on their respective charging guidance to Ofwat earlier this year.

In addition to setting charges scheme rules that companies must comply with, we have set out the information that we require companies to provide as assurance to their charges scheme. This includes the following.

- Each company should publish a statement of Board assurance no later than the publication of its charges scheme. This should confirm that:
 - the company complies with all its legal obligations relating to the charges set out in its charges scheme;

- the company’s Board approves of the impact assessment and handling strategies in instances where bill increases for particular customer types exceed 5%; and
 - the information is accurate and that it consulted with CCWater.
- Each of the 18 largest companies must publish a statement of significant bill increases at least three weeks before the publication of their charges scheme. The statement should confirm:
 - whether the company anticipated any bill increases of more than 5% from the previous year; and
 - (if yes), which customers are likely to be affected and the handling strategies it has adopted.
 - For small companies (‘new appointees’), the statement of Board assurance above should also confirm that their charges schemes:
 - offers levels of service to their customers at least comparable to the previous appointee’s charges scheme;
 - prices that do not exceed those in the previous appointee’s charges scheme for similar services; and
 - prices equivalent to those specified in their application of appointment.

Next steps

Companies no longer have to submit their charges scheme to us for approval. Instead they must make sure their charges scheme complies with all their legal obligations, including our charging rules.

The 18 largest companies will publish a statement of significant bill increase by no later than 11 January 2016.

All companies will publish their charges schemes and a statement of Board assurance by no later than 1 February 2016.

We will shortly publish a separate information notice setting out further expectations for companies’ charges schemes for 2016-17.

We will review our charging rules again in 2016-17 and change them where necessary to protect customers.

Enquiries

If you have any questions about this information notice please email: charging@ofwat.gsi.gov.uk.

More information

[Final charges scheme rules and summary of responses to our draft charges scheme rules](#), Ofwat, November 2015

[Charges scheme rules issued by the Water Services Regulation Authority under sections 143\(6A\) and 143B of the Water Industry Act 1991](#), Ofwat, November 2015

[Consultation on the government's charging guidance to Ofwat – Summary of responses](#), UK Government, November 2015

[Consultation on charges scheme rules for 2016-17 and future developments](#), Ofwat, September 2015

[Consultation: charging guidance to Ofwat \(the economic regulator of the water sector\)](#), Welsh Government, August 2015

[Consultation on Charging Guidance to Ofwat](#), UK Government, July 2015

[Consultation on wholesale and retail charges for 2015-16 and charges scheme rules](#), Ofwat, May 2014

Ofwat (The Water Services Regulation Authority) is a non-ministerial government department. We regulate the water sector in England and Wales. Our vision is to be a trusted and respected regulator, working at the leading edge, challenging ourselves and others to build trust and confidence in water.

Ofwat
Centre City Tower
7 Hill Street
Birmingham B5 4UA

Phone: 0121 644 7500
Fax: 0121 644 7533
Website: www.ofwat.gov.uk
Email: mailbox@ofwat.gsi.gov.uk

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