Final charges scheme rules and summary of responses to our draft charges scheme rules
About this document

New powers provided by the Water Act 2014 allow us to set charging rules that water companies¹ must comply with. In September 2015 we consulted on our draft rules for charges schemes². We also consulted on emerging thinking in relation to rules about wholesale charges and special agreements.³ (Wholesale charges are charges for retailers in respect of wholesale water and wastewater services).

This document is published alongside our final charges scheme rules. It provides a summary of responses to our September charging consultation, our consideration of these responses and any changes that we have made to our draft rules and information requirement.

¹ See appendix 1 on charges schemes and the new legal framework.
² A charges scheme is a legal statement of the company’s charges and associated terms, which applies to the vast majority of customers.
³ The term ‘wholesale charges’ refers to charges for retailers in respect of wholesale water and wastewater services.
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Publication of final charges scheme rules

On 1 November 2015, section 16 of the Water Act 2014 (WA14) amended the Water Industry Act 1991 (WIA91) to change the way we oversee charges schemes for end-users (retail customers). Section 16 replaced the requirement for charges schemes of water companies to be ‘approved’ by Ofwat with powers for Ofwat to set charging rules, which charges schemes must comply with.

In September we issued Consultation on charges scheme rules for 2016-17 and future developments (“our September charging consultation”). In this consultation we proposed a set of charging rules that would apply to charges schemes from 2016-17. We also presented emerging thinking in relation to rules about wholesale charges and special agreements which we intend to consult on more broadly next year in the spring.

In this document we publish a summary of responses to our September charging consultation as well as our consideration of these responses. We have made minor changes to our draft charges scheme rules – we have removed rule 25 about non-household default tariff and the related rule 27 (exempting small companies from rule 25). These changes are set out in a table in the following section.

In our September charging consultation we have also set out our information requirements to be published before or alongside the publication of charges schemes. The information requirement was set out in an annex to the charges scheme rules for convenience, but they are not formally part of the rules. Water companies have obligations under licence conditions to provide Ofwat with information that we need to carry out our functions.

We have made a change to our information requirement A2—a requirement to submit a statement of significant bill change. The information requirement will only apply to the largest 18 water companies. Cholderton and District Water and the new appointees will be exempt of this requirement due to proportionality.

4 We use the term “water companies” to mean companies holding appointments as water and/or sewerage undertakers under chapter 1 of Part 2 of the WIA91.
In appendix 1 we set out the changes we have made to our draft charges scheme rules and information requirement. In appendix 2 we set and discuss the responses to our September charging consultation.

We publish our final charges scheme rules alongside this document. The rules are made under section 143 of the WIA91, and as such, relate to charges for end users (retail customers). If we consider that a water company’s charges scheme does not comply with the rules or certain other requirements then we have the power to issue a direction to the water company.

Our charges scheme rules must have regard to any charging guidance issued by the UK Government (relating to water companies whose area is wholly or mainly in England) and the Welsh Government (relating to water companies whose area is wholly or mainly in Wales). Both governments have consulted on their respective guidance (see the UK Government’s Consultation on Charging Guidance to Ofwat and the Welsh Government’s charging guidance to Ofwat). The UK Government has not laid the charging guidance in Parliament.

The WA14 also introduces powers for us to set charging rules in relation to other types of charges. Next year, in the spring, we plan to consult on a set of charging rules related to wholesale charges. These are “access” charges made by water companies to providers of retail services to end-users. In the same consultation we will also consult on additional refinements to our charges scheme rules, largely based on proposed rules and amendments that were raised in response to our September consultation on charges scheme rules and are discussed below. In parallel, we have started work on developing rules related to new connection services, and we expect to consult on these next year.
## A1 Summary of changes to our draft charges scheme rules and information requirement

<table>
<thead>
<tr>
<th>Rule 25 (Non-household Default Tariff)</th>
<th>Original text</th>
<th>Amended text (amendment in bold)</th>
<th>Rationale for change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Each relevant undertaker’s charges scheme must include the types of charges for end-users (known as default tariffs) listed in the first column of Table 6 of the notice given by the Water Services Regulation Authority on 12 December 2014 of a determination of price controls under that undertaker’s appointment, unless the type of charge relates to an agreement with the person to be charged (known as a special agreement).</td>
<td>Text removed entirely</td>
<td>Given that “default tariffs” need not be offered as actual tariffs in the charges scheme we remove the rule for simplification</td>
<td></td>
</tr>
<tr>
<td>Rule 27 (New appointees)</td>
<td>Rule 0 (Non-household Default Tariffs) does not apply to new appointees or Cholderton and District Water Company Limited.</td>
<td>Text removed entirely</td>
<td>The rule is irrelevant now that rule 25 has been removed</td>
</tr>
<tr>
<td>Information requirement A1 part C</td>
<td>The company has appropriate systems and processes in place to make sure that the information contained in the charges scheme, and additional information is accurate;</td>
<td>(c) The company has appropriate systems and processes in place to make sure that the information contained in the charges scheme, and the additional information covered by this annex is accurate;</td>
<td>To clarify the meaning of ‘additional information’</td>
</tr>
<tr>
<td>Information requirement A2</td>
<td>Original text</td>
<td>Amended text (amendment in bold)</td>
<td>Rationale for change</td>
</tr>
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</tr>
<tr>
<td>A2 Each undertaker should provide to the Water Services Regulation Authority a statement setting out any significant changes anticipated by the undertaker, and publish the statement, at least three weeks before the publication of the charges schemes.</td>
<td><strong>With the exception of Cholderton and District Water and new appointees</strong>, each undertaker should provide to the Water Services Regulation Authority a statement setting out any significant changes anticipated by the undertaker, and publish the statement, at least three weeks before the publication of the charges schemes.</td>
<td>Removed smaller companies from the requirement to submit a proportionate impact assessment due to proportionality</td>
<td></td>
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<tr>
<td>A3 In addition to the assurances set out above, new appointees’ assurance statements must include assurance that their charges schemes offer</td>
<td>In addition to the assurances set out in <strong>A1</strong> above, new appointees’ assurance statements must include assurance that their charges schemes offer</td>
<td>Clarification required given changes made to requirement A2 above</td>
<td></td>
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A2 Responses to consultation on charges scheme rules for 2016-17 and future developments

In this appendix we summarise the responses we received to our September charging consultation and our consideration of these responses.

A2.1 Introduction

On 1 November 2015, section 16 of the WA14 amended the WIA91 to change the way we oversee charges schemes for end-users (retail customers). Section 16 replaced the requirement for charges schemes of water companies to be ‘approved’ by Ofwat with powers for Ofwat to set charging rules, which charges schemes must comply with.

The WA14 also specifies that before setting charges scheme rules Ofwat must consult on its draft rules.

In September 2015 we published Consultation on charges scheme rules for 2016-17 and future developments. In this consultation we presented our draft rules about charges scheme, as well as early stage consultation on some emerging thinking in relation to wholesale charging rules and special agreements.

We received 26 responses to the consultation, including responses from the 18 largest water companies, the Welsh Government, new appointees, the Consumer Council for Water (CCWater) and other stakeholders (see section A4).

The respondents to the consultation were generally supportive of the introduction of rules and did not raise material issues with the majority of proposed rules, except for two rules.

The first is ‘rule 8’, which requires water companies to carry out a proportionate impact assessment when bills increase by more than 5% nominal over the previous year. Respondents agreed that bill stability was important but questioned the rationale for specifying a uniform threshold and the fact that the threshold was set in nominal terms. We discuss responses related to this rule under our responses to question 1 and question 3 below.

Water companies also questioned the related requirement to publish a statement of significant charge changes three weeks in advance of the publication of charges scheme. We discuss this issue under our responses to question 6.
The second is ‘rule 21’, which requires charges scheme to set out how any discount to sewerage charges are calculated to customers that demonstrate that they have significantly reduced the volume of surface water draining to a public sewer from their premises or explain why there is no such provision. Water companies consider this rule to be a material change from existing charging principles which requires consultation, proper consideration of the intended benefits and more time for implementation. We discuss response related to this rule under our response to question 1 below.

As well as consulting on our draft charges scheme rules and information requirements, our September charging consultation presented some initial proposals related to charging rules for wholesale charges and special agreements. We said that we would consult on these proposals in more detail in spring 2016 in order to set rules in place for 2017-18. Therefore, we have not responded in detail to any specific comments on the proposed rules for wholesale charges and special agreements raised in response to our September charging consultation.

Section A2 presents a summary of responses for each of the ten questions posed in our September charging consultation. Section A3 contains the list of consultation questions. Section A4 contains a list of the respondents, and copies of the responses are available on our website.

A2.2 Summary of Responses

Q1 Do you have any specific views on the draft rules for 2016-17 included in appendix 2? Are there any other rules that you consider should be included?

A2.2.1 Interpretation (rule 5)

One respondent suggested that the term ‘household’, as opposed to ‘domestic’, should be used in rules, consistent with the terminology used in the licence. Another respondent argued that the Mogden formula, as defined in the rules, ‘has the potential to stifle innovation and companies may be reluctant to develop new elements of the (e.g. phosphate or ammonia) [M]ogden formula to better reflect the costs of treating effluent in its region.’ The same respondent also suggested that the definition of “service” as “includes the supply of water” be expanded to “includes the supply of water and the provision of sewerage services, including the provision of surface water and highways drainage”.


Our response: The term ‘domestic premises’ as defined in our charges scheme rules is, in fact, taken from water companies’ licences. We use the term in the context of assessed charges (rule 18), where it more closely reflects the eligibility criterion for assessed charges, as defined in the WIA91, than the term ‘household’. We consider that the use of the term ‘domestic premises’ is standard and will not create undue confusion.

We will leave the Mogden formula unchanged given that rule 22 on trade effluent charges explicitly says that ‘a reasonable variant’ of the formula can be used. We will, however, review the suitability of the formula as part of our consultation in the spring of 2016 and consider whether an amendment is appropriate.

We will also retain the definition of “services” per the draft rules but will further consider the suitability of the proposed amendment to the definition and whether an amendment will be required in the future.

A2.2.2 Bill stability (rule 8)

In general, there was support for this rule. A number of respondents raised concerns related to the 5% nominal threshold. We discuss this under question 3 below. The scope for new appointees to be exempt from the requirement to undertake a proportionate impact assessment was also raised.

In its response, the Welsh Government emphasised the importance of engagement with affected customers and the introduction of any significant bill increase in a sensitive way, for example, by using glide path transitional arrangements.

Our response: We consider that the requirement to have a proportionate impact assessment and specifying a minimum threshold for nominal bills increase of 5% remains broadly appropriate and in the interest of customers.

We re-iterate that the 5% nominal threshold is just a formal trigger point for a proportionate impact assessment and that we expect companies to engage with their customers and adopt appropriate handling and mitigation strategies (potentially

5 The term 'domestic premises' means premises used wholly or partly as a dwelling or intended for such use; the term household refers to premises whose principal use is as a home.
including glide path transitional arrangements) even where bills increase by less than 5%, where appropriate.

While we accept that new appointees may experience significant increases as a direct response to changes to an incumbent’s charges, we do not consider that exempting new appointees from undertaking a proportionate impact assessment when they are proposing to increase their charges by more than 5% would be in the best interest of their customers. We expect new appointees to consider the impact of incidence effects and engage with their customers as appropriate. We are therefore not convinced that such an exemption would be in customers’ best interests.

A2.2.3 Publication (rules 9-11)

The Welsh Government is keen to ensure that companies providing services in Wales publish their charges schemes in both English and Welsh to meet the Welsh Government’s Welsh language standards. It also said that charges schemes need to be written in plain English so that customers can understand them.

Our response: We agree that charges schemes should be clear and transparent, and we expect companies that operate in Wales to publish their charge schemes in Welsh as well as English. For the avoidance of doubt, we have not amended our draft rules to reflect that.

A2.2.4 Principles for determining the amounts of charges (rules 12 to 17)

A couple of respondents raised a concern with rule 15, which states that differences between charges for small user of water and larger users of water must only be based on cost differences associated with differential use of network assets, differential peaking characteristics, different service levels and/or different service measurement accuracy.

The respondents noted that there may other reasons to account for a charge differential between smaller and large users of water, such as differences in the level of retail costs associated with the market operator, level of churn etc. They considered that the rule should be changed to make clear that the list of reasons for differences is not exhaustive.

Three water and sewerage companies raised some issues with rule 17, which states that charges for sewerage services must reflect different pollutant loads between
households and non-households and between foul, surface water drainage, highway drainage and trade effluent.

United Utilities Water argued that charges for sewerage services need to take account of more than just pollutant load. It noted that peak load is particularly important when allocating costs between foul and surface water and highways drainage. Severn Trent Water argued that households and small non-households have very similar pollutant load and that, due to their position on the network, use of assets and load, charges to large sewerage customers could reflect lower pollutant load.

**Our response:** Rules 12 to 17 reflect pre-existing charging principles that companies should already be complying with.

Rule 15 specifically applies to differences in charges that are related to the volume of water supplied or discharged. For example, it applies to charge differences between small household and large household users. It also applies to charge differences between household and non-households, but only in relation to the volume of water supplied or discharged. The rule does not prevent the recovery of costs associated with the market operator from just non-household customers, nor does it prevent charges from reflecting the different retail costs of serving different customers.

Rule 17 says that companies must consider the different pollutant load when setting sewerage charges for the different elements or customer types specified in the rule. The rule does not prohibit consideration of other relevant factors, such as load.

We recognise that volume may be an important driver when allocating costs between services and we encourage companies to reflect this. It is possible that volume and pollutant loads play quite a different role in the determination of charges, with volume driving cost allocations between services and pollutant load driving unit rates.

**A2.2.5 Assessed charges (rule 18)**

Two water companies suggested that rule 18 could be clarified in that it applies to domestic premises only.

**Our response:** Rule 18 makes clear that it applies to anybody who is entitled to serve a measure charge notice under section 144A of the WIA91. Section 144A, in turn, applies to “premises in which, or in part of which, a person has his home”. We consider that the rule as drafted is accurate and clear.
Moreover, domestic premises, as defined in the licence, means “any premises used wholly or partly as a dwelling or intended for such use”. There could possibly be circumstances where Section 144A does not coincide with the definition on domestic premises, such as in the case of vacant premises, where a person does not have its home, but it is intended for such use. Therefore, we continue refer to section 144A in this rule.

**A2.2.6  Wastewater charges (rules 20-21)**

Respondents’ concerns were, in general, focussed on our proposal that sewerage undertakers provide partial rebates for significant reductions in surface water drainage or explain why there is no such provision (rule 21). Key concerns were:

- insufficient time to implement the rules for 2016-17, as this was perceived to be a material change from current arrangements;
- the need to review these proposals prior to implementation, to better understand the potential benefits, and, related to this, that rushing our proposals through could result in poor results;
- the need to clarify the meaning of “significantly reduced” with respect to the mitigation measures that customers could apply to reduce their surface water drainage; and
- the need for companies to justify in their charges scheme why they do not provide partial rebates.

CCWater was supportive of the draft rules. It noted that the inability to claim a partial rebate is a cause of complaint for some customers who have taken steps to reduce the amount of surface water they discharge to the sewer. It considers that companies should implement appropriate partial allowance schemes where this can be achieved without creating a significant additional administrative cost burden to customers as a whole.

It also considers that there could be benefit in the rules setting out a minimum requirement in terms of the period for backdating surface water drainage rebates where neither the customer nor company were previously aware that the property was not connected for this service.

**Our response:** Environmental considerations in general, and promoting a sustainable and innovative approach to drainage in particular, are important themes in both the UK and Welsh Governments’ charging guidance to Ofwat. The guidance support rebates for customers whose surface water does not drain into the network.
The Welsh Government’s charging guidance also says that “undertakers should seek to obtain better information on this matter”.

As outlined in the September charging consultation, we consider that the current practice of companies offering reduced charges to customers who demonstrate that they do not have any surface water draining to the public sewer is binary and inappropriate. Reducing surface water drainage has a number of potential benefits including reducing sewage flooding risk, deferring investments in public sewers infrastructure, reducing customer bills and putting more water back into the environment. Continuing with a binary approach also severely compromises any incentive to install soakaways to partially reduce surface water drainage.

We also do not consider that it is our place to prescribe the term “significantly reduced” in this rule or elsewhere. Rather, companies are best placed to define this in a defensible manner, and be accountable for their charges scheme.

### A2.2.7 Trade effluent (rule 22)

Southern Water said that it has recently introduced ‘a fixed banded charge structure to recover the costs of trade effluent compliance monitoring’. It recognises that the wording of the rule could permit this approach, but suggests that for clarity the rule could state that ‘some elements of trade effluent costs may be recovered via means other than the Mogden formula’.

**Our response:** We consider that as drafted, the rule is clear that the Mogden formula need not be used as long as the charge is fixed on the basis of ‘a reasonable variant of the Mogden formula or a demonstrably more cost-reflective basis’. Southern Water’s proposed amendment to the rule does not provide clear guidance as to the permissible deviations from the Mogden formula. For example, what is meant by ‘some elements’ is not well defined and ‘may be recovered via means other than the Mogden formula’ can ‘allow’ any charging method to be used. We consider that this would not be desirable as a charging rule. As we said above in our response to question 1, we will consider the suitability of the formula as part of our consultation next year and whether an amendment to the formula or the wording is appropriate.

### A2.2.8 Social tariffs / Concessionary drainage charges (rule 23)

Southern Water noted that the requirement to state whether or not the company has included a provision to reduce charges to community groups in respect of surface
water drainage should only apply to companies which use site-area based charging for surface water drainage.

CCWater noted that where concessionary schemes exist under this rule, the charges scheme should either set out eligibility criteria or point to where this information is provided.

**Our response:** All companies, regardless of whether or not they charge for surface water drainage on a site-area basis, are allowed to offer a reduced charge to community group while having regard to the guidance issued by the Minister under section 43 of the Flood and Water Management Act 2010. We therefore consider that this rule should apply to all companies, regardless of their charging approach.

We also consider the proposal by CCWater to include eligibility criteria for such concessionary schemes has merit and will consider it for consultation next year.

**A2.2.9 Times and methods of payment (rule 24)**

CCWater considered that rule 24 should be more prescriptive. Rather than requiring charges schemes to include provisions giving customers a 'reasonable choice as to the time and methods of payment', the rule should be prescriptive about what constitutes minimum requirements.

**Our response:** We expect companies to take ownership of their charges schemes in order to build trust and confidence in the sector without us being too prescriptive. Nonetheless, we will consider the provisions suggested by CCWater in light of the appropriate evidence and, if appropriate, will consult on a change to this rule next year. For the avoidance of doubt, we are not proposing to change the rule for the next charging year.

**A2.2.10 Non-household Default Tariffs (rule 25)**

Two water companies pointed out that rule 25 on non-household default tariffs could be interpreted as a requirement to set out the retail default tariffs in a separate table in our charges scheme. However, as companies are not obliged to offer default tariffs as tariffs in their charges scheme (rather, default tariffs were used to construct average revenue controls per tariff group), it was suggested that this may stifle tariff innovation and may be confusing to customers, who are interested in the tariffs that in practice apply to them.
Our response: We said in our September charging consultation that the purpose of this rule was to ensure that companies’ tariffs are consistent with their price control and that the rule need not prevent companies offering other charges to non-household customer as long as the default tariff is also offered.

Given that we do not expect companies to offer the actual “default tariffs” set out in the PR14 final determinations (as opposed to comply with the average revenue control for each “default tariff” customer type), we agree that the removal of this rule (25) and the related rule 27 (exempting small companies from rule 25) would be a sensible simplification.

Licence condition B will still require companies to levy charges in a way best calculated to comply with the price controls that Ofwat has determined. This includes the non-household price control in relation to retail activities. Where companies have adopted different tariff structures, it will be necessary for companies to reconcile those tariff structures to the customer types in the final determination letters to establish compliance.

A2.2.11  New appointees (drat rule 26, amended to 25)

A new appointee argued that the requirement for new appointees to publish their charges scheme on 22 February—three weeks after the incumbent company has published its own charges scheme—did not provide new appointees sufficient time as their charges were dependent on the incumbent’s charges. The new appointee argued that amending the rule to require publication of new appointees’ charges scheme by no later than 1 March would be helpful.

Our response: We consider that a three-week period between the publication of the incumbent’s charges scheme and the new appointee’s charges scheme remains appropriate. To the extent that new appointees could benefit from earlier clarity on the incumbent’s charges, they could engage with the incumbent to seek such clarity. Delaying the publication of new appointees’ charges scheme could be detrimental to non-household retail competition.

A2.2.12  Additional rules proposed by respondents

Several respondents suggested additional rules in various areas. These included, for example, requiring companies to include in the charges scheme details on customers’ right to opt for a meter or on their approach to vacant properties.
**Our response:** We welcome respondents’ suggestions of additional rules. However, we do not consider that the suggested new rules are essential for next year’s charges schemes. We said in our consultation that because our charges scheme rules for 2016-17 will be issued relatively late in 2015, we would not introduce fundamental changes to our existing charging principles and this remains the case.

As this is the first year we set charging rules, we expect the rules to evolve over time. We will therefore consider the additional rules suggested for inclusion in future years.

Q2 How best can site area-based surface water drainage charges be adopted? And what lessons can be learned from how companies have moved to this basis so far?

While some respondents agreed with the principle of site area-based charging for surface water drainage, all recognised that there would be implementation challenges. To help mitigate these challenges, respondents highlighted the need to:

- develop an effective communication strategy, particularly for those adversely affected, which includes information on how surface water drainage charges could be mitigated;
- allow a reasonable implementation window in order to phase in changes gradually, potentially over a number of years; and
- ensure application of Defra’s concessionary scheme immediately.

Increased transparency of charges and greater consistency in the charging methodology applied (across all companies) were also identified as areas where further scrutiny was appropriate.

Some of the water and sewerage companies that had not adopted site area-based charging for surface water drainage had concerns related to:

- premature implementation of a mandatory scheme, not least due to insufficient evidence that demonstrated the effectiveness of the proposal;
- potentially significant implementation costs (for questionable benefits); and
- the scope for targeted assistance to be more effective at mitigating surface water drainage.
CCW highlighted the need for appropriate consideration of incidence effects and for an appropriate period of implementation. Another respondent highlighted the need for consistency in charges across all companies.

**Our response:** We note the steps that have been suggested to ensure successful adoption of site area-based surface water drainage charges. As we have previously stated, we consider that cost reflective charges are important. Any development of policy related to surface water drainage charging will require careful consideration of the costs, benefits and incidence effects. We will consider how to best take forward the learning from the experience of the four companies that have moved to site-area based charging.

Q3 Do you agree with our proposed threshold for ‘significant’ bill increase? If not, is there evidence for a more suitable threshold? And how this can be assessed for different customer types?

The majority of respondents that commented on this issue considered that the proposed 5% nominal threshold was, at minimum, acceptable, given the low inflation environment. Where concerns were raised, they revolved around the need to have:

- a threshold that takes into account inflation; and/or
- a two-part threshold, one that includes a percentage and a minimum pound value (e.g. £10).

**Our response:** We consider that the 5% nominal threshold remains broadly appropriate as:

- evidence in companies’ business plans suggests that annual nominal bill increases higher than 3% - 6% could lead to a reduction in customer acceptability of their plans;
- most business plans that companies submitted in the last periodic review (PR14) proposed to limit average bill increases to RPI (or less) in the current control period; and
- analysis indicates that nominal annual bill increases of between 4% and 6% have been commonplace across the sector over the past 25 years.

We also remain unconvinced of the merit of setting a minimum pound increase, as part of a two-part threshold. Any fixed pound element within a threshold would require ongoing review to ensure continued relevance, which would impose undue administrate burden and, if changed, could generate confusion.
We are committed to keeping the 5% threshold under review for future years and will include provisions for companies to take a different approach they can demonstrate that a different approach would better serve their customers.

Q4 Do you agree with our current preference of companies publishing their Board’s assurance statements?

Q5 Do you consider that the Board’s assurance statement should cover anything else than what we propose above?

Where they expressed a view, all respondents agreed that companies should publish their Board’s assurance statements.

The majority of responses were content with the content of the statement as proposed. Northumbrian Water considered that the format of the statement should not be pre-defined—so long as the required points are addressed. It argues that he statement should allow companies to include additional information, such as an explanation where ‘there has not been time to implement a new requirement in the short timescale between publication of the charging rules and the new charging year’.

CCWater and Thames Water were keen for a requirement of explicit confirmation that the charging rules had been followed.

The London Fire Brigade and East Sussex Fire and Rescue both raised similar concerns to each other on the issue of fire hydrant repair costs.

**Our response:** we welcome the support for this requirement. We consider that a requirement for an explicit statement in the Board’s assurance statement that the charges scheme complies with the charging rules is not necessary. We already require a confirmation by the Board of Directors that the company complies with its legal obligations relating to charges schemes. This clearly implies that it complies with rules about charges schemes. While the companies can provide additional information in the assurance statement, companies must comply with their legal obligations at all times.

Related to the issue of fire hydrant repair costs, we note that similar concerns have been raised in response to our Towards Water2020 consultation. We are considering this issue, and will respond in detail as part of our response to that document.
Q6 Do you agree with our current preference for companies to submit a statement of significant changes?

Most respondents agreed in principle, but with significant caveats. Two respondents disagreed outright, concerned that it created an unnecessary regulatory burden and presents a return to ex-ante regulation. Several respondents felt the timings were unworkable, either too late for meaningful dialogue or too early to take account of all relevant information.

Northumbrian Water suggested that, to be effective, this statement should be submitted in the summer or autumn of the year before the new charges come into effect.

Some respondents argued that the requirement to publish the document was unhelpful, and could affect their handling strategies when dealing with customer groups facing large incidence effects.

New appointees questioned the need for such requirement to apply to them. Given that their retail charges are restricted by the relevant incumbent’s charges, by and large the relevant incumbent’s statement should also cover the new appointee’s charges (although SSE noted that they could be required to submit such statement where they plan to introduce significant changes to their own way of setting charges, independently of how their upstream incumbents are setting their charges).

The new appointees also highlighted an issue that arises for them related to the timescale for submission of such statement. Namely, that requiring them to produce such statement three weeks before their charges scheme would coincide with the publication of the relevant incumbent’s charge scheme, which has a large influence on their charges, and so will not leave them enough time to prepare and assure the statement.

Our response: We accept that publishing a statement of significant changes three weeks before the publication of the final charges scheme may not provide sufficient time for a proper dialogue. We expect companies to engage with us on their charges in a timely manner irrespective of the formal requirement. Companies also have a formal requirement to engage with CCWater on their charges in a timely manner. We note also that the requirement asks for the statement to be submitted ‘at least’ three weeks before the publication of the charges scheme. Companies can submit this statement to us as early as they see fit to allow for a meaningful dialogue.
We consider that the statement of significant change provides important assurance that companies and their Boards are engaged with their charges and in particular with large incident effects. Bill stability is important to customers and is a central principle in the UK and Welsh charging guidance. However, we will keep this requirement under review and will consider whether it would be better placed in our company assurance framework.

Our requirement that companies publish (rather than just submit to us) the statement of changes is in keeping with our shared vision for the sector to be open and transparent, where each company is accountable to and engages effectively with all its stakeholders.

Related to the issue with new appointees, we will amend the text so that the requirement to submit a statement of significant change excludes new appointees and Cholderton and District Water. We consider this to be proportionate.

Q7 Do you have any specific views on the proposals included in chapter 4? Are there any other rules or issues that you consider should be consulted on next year?

There was a general agreement that the issues we identified for further review are reasonable and that increased transparency will generate benefits. Some respondents raised concern about the timescale for implementing new rules on wholesale charges, and the impact on bill stability.

Most of the specific issues raised in response to this question were considered elsewhere in this document

**Our response:** We are committed to setting wholesale charging rules to improve the level and type of information that will be available to retailer licensees ahead of further market opening for non-household retail customers in England in April 2017. We will further consult on our proposals next year and in setting our rules we will consider potential incidence effect.

Q8 Would it be practicable and/or desirable to include all non-primary charges in the wholesale charges scheme?
There was widespread support for the principle of this rule. Respondents argued that non-standard charges and charges that are of the non-appointed business or not covered by the price control should not be published in the wholesale charges scheme.

Respondents also suggested that:

- there is a need to define a minimum list of non-primary charges that must be published;
- consideration has to be given to whether the same rule will be useful in the context of the retail charges scheme; and
- for non-standard charges which are not on the scheme, consideration of whether it would be appropriate to state that charges may be applicable and that quotes will be provided on request, based on recovery of costs.

**Our response:** We will look to develop a minimum list of non-primary charges that water companies will be required to publish in their wholesale charges scheme for 2017.

Q9 Do you have any specific views on the requirement to publish final wholesale charges for non-household customers no later than the first week of January?

There was general support for an early publication of wholesale charges. Some respondents suggested that the date for publication of wholesale charge and the date for publication of a statement of significant changes, which are proposed to be in close proximity, could be set to the same date for simplicity. A number of water companies argued that publication of non-household wholesale charges in the first week of January would be challenging given the November RPI is not published before mid-December and the need for assurance. They suggested that the second week of January would be more reasonable, and some suggested that it be published alongside the retail charges scheme in February. Northumbrian Water argued that if indicative wholesale charges are published in October, then it does not see the benefit in publishing wholesale charges in January rather than early February.

New appointees questioned the workability of the proposal given the interaction of their charges with the publication of charges by their relevant incumbent.

**Our response:** The availability of early information on wholesale charges could enhance the functioning of the non-household retail market, inform entry decisions.
Final charges scheme rules and summary of responses to our draft charges scheme rules

and is therefore in customers’ interest. We will examine further evidence on the benefit of early publication to prospective retailer licensees, and set our rule taking into account our policy with regard to the publication of indicative wholesale charges.

On 15 October we published an information notice requiring the 18 largest water companies to publish their wholesale charges scheme on their website by no later than 14 January 2016. We also said that we will consult on future arrangements in respect of small companies (Cholderton and District Water and the new appointees) in respect of publication of wholesale charges.

Q10 Do you agree with our outline proposal that indicative wholesale charges be published in July and October?

There was widespread resistance to the proposed timetable across the industry. The companies thought that there was added risks and regulatory burden in the process. One of the reasons for this was the need to get charges signed off by respective boards three times and in limited time periods. There were also issues with the potential accuracy of the data in July, which would cause variations to the October publication and confuse retailers and customers who have been informed of potential charges.

Respondents also noted that not being able to amend charges for new information other than RPI between October and February could have implications to their WRFIM.

Respondents recommended a range of alternatives including:

- removing the publication of indicative wholesale charges in July, except if significant changes to wholesalers charging structure are anticipated; and
- allowing the final wholesale charges in January to reflect all new factors apart from RPI to change charges between October and January

Our response: Publication of early information about charges is important to ensure a level playing field in the retail market. We recognise that there is a trade-off between early information on charges and the reliability of such information. We will need to strike the right balance and will continue to consider the responses that we have received on this issue. We will also further consult on this issue in our consultation on wholesale charging rules in the spring of 2016.
We also note, given the process we are required to follow for setting charging rules, we are unlikely to set wholesale charging rules early enough next year to allow early publication of wholesale charges before the retail market opening in 2017. We therefore intend to request this information via an information notice that we will issue in February or March 2016.
A3 Consultation questions

Q1 Do you have any specific views on the draft rules for 2016-17 included in appendix 2? Are there any other rules that you consider should be included?

Q2 How best can site area-based surface water drainage charges be adopted? And what lessons can be learned from how companies have moved to this basis so far?

Q3 Do you agree with our proposed threshold for ‘significant’ bill increase? If not, is there evidence for a more suitable threshold? And how this can be assessed for different customer types?

Q4 Do you agree with our current preference of companies publishing their Board’s assurance statements?

Q5 Do you consider that the Board’s assurance statement should cover anything else than what we propose above?

Q6 Do you agree with our current preference for companies to submit a statement of significant changes?

Q7 Do you have any specific views on the proposals included in chapter 4? Are there any other rules or issues that you consider should be consulted on next year?

Q8 Would it be practicable and/or desirable to include all non-primary charges in the wholesale charges scheme?

Q9 Do you have any specific views on the requirement to publish final wholesale charges for non-household customers no later than the first week of January?

Q10 Do you agree with our outline proposal that indicative wholesale charges be published in July and October?
A4  List of respondents

A4.1  Water companies

1. Anglian Water  
2. Dŵr Cymru  
3. Sutton and East Surrey Water  
4. Severn Trent Water  
5. South West Water  
6. Southern Water  
7. Thames Water  
8. Northumbrian Water  
9. United Utilities  
10. Wessex Water  
11. Yorkshire Water  
12. Affinity Water  
13. Bristol Water  
14. Dee Valley Water  
15. Portsmouth Water  
16. Sembcorp Bournemouth Water  
17. South East Water  
18. South Staffordshire Water  

A4.2  New appointees

1. Independent Water Networks Ltd  
2. SSE  

A4.3  Other

1. Welsh Government  
2. Consumer Council for Water  
3. Business Stream  
4. East Sussex Fire and Rescue Services  
5. London Fire Brigade  
6. Sefton Council
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.