

# Information notice

IN 18/14 July 2018

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.

## Changes to our Charges Scheme Rules and Charging Rules for New Connection Services (English Undertakers) concerning infrastructure charges made by English water companies

This information notice details changes we have made to our Charges Scheme Rules and our Charging Rules for New Connection Services (English Undertakers) (together, for the purposes of this Information Notice, **Charging Rules**) which came into effect on 29 June 2018. The changes clarify the existing rules concerning infrastructure charges and are not changes in our broader charging policy. The relevant rules, and the changes, only apply to **English water companies**<sup>1</sup>.

The aim of the changes is to make clear what network reinforcement costs English water companies can recover through infrastructure charges. In particular, the changes are intended to make clear that infrastructure charges can recover network reinforcement costs incurred regardless of the method by which developers or other customers procure water mains, public sewers or new connections. We do not anticipate that the changes to our Charging Rules will require English water companies to change the infrastructure charges that they are currently charging their customers.

When premises are connected to the public water or wastewater system for the first time, the relevant water company is able to levy an infrastructure charge for each new water or wastewater connection. This charge is additional to the costs of any physical connection work and allows English water companies to recover network reinforcement costs they reasonably incur as a result of the provision or adoption of new water mains or public sewers and the connection of new premises. This charge can be levied regardless of the method by which the new connection was procured or made.

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<sup>1</sup> By “English water companies” we mean water undertakers and sewerage undertakers whose areas are wholly or mainly in England.

Our charging policy, as set out in our July 2016 consultation document<sup>2</sup> on new connection charging and confirmed in our subsequent decision document<sup>3</sup>, is to allow English water companies to set infrastructure charges that cover all off-site network reinforcement works needed to support new development in their areas. This was intended to be the case regardless of the method by which developers or other customers procure water mains, public sewers or new connections.

However, we came to the view that the Charging Rules needed to be changed to make clear that infrastructure charges can recover network reinforcement costs incurred where new water mains, public sewers or connections are provided under an agreement (including an agreement with a retailer<sup>4</sup> in the business retail market) as well as where they are provided under a specific duty in the Water Industry Act 1991 (**the Act**). This reflects the fact that English water companies may not always provide new connection services under specific sections of the Act. We understand that this is the basis on which English water companies have currently calculated their infrastructure charges and that is why we do not expect the changes to our Charging Rules to require any changes to current infrastructure charges.

The only types of agreement that we exclude for these purposes are agreements with other water companies (**bulk supply agreements** and **bulk discharge agreements**). We would not expect the costs of any network reinforcement needed because of a bulk supply or bulk discharge agreement to be paid for by the customers of the water company that was providing a supply of water or wastewater services.

To ensure that the Charging Rules are consistent with our broader policy, we have amended paragraph 30 of our Charges Scheme Rules and the definition of “Network Reinforcement” in paragraph 5 of the Charging Rules for New Connection Services (English Undertakers). This is because the Charges Scheme Rules use the “Network Reinforcement” definition set out in the Charging Rules for New Connection Services (English Undertakers) for consistency.

The changes to our Charging Rules are being made to better reflect our broader charging policy and are not a change to it. However, there is a clear benefit in making this clarification without delay as it will ensure that English water companies and their customers are clear about the network reinforcement costs that infrastructure charges can be used to recover. As a result we have made revisions that in our view are necessary or desirable to make without delay to paragraph 30 of our Charges Scheme Rules and paragraph 5 of our Charging Rules for New Connection Services

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<sup>2</sup> <https://www.ofwat.gov.uk/wp-content/uploads/2016/03/New-connections-charging---consultation.pdf>

<sup>3</sup> <https://www.ofwat.gov.uk/consultation/new-connections-charging-consultation/#Outcome>

<sup>4</sup> By “retailer” we mean a water supply and/or sewerage licensee.

(English Undertakers), using our powers under, respectively, section 143D and sections 51CF, 105ZH and 144ZC of the Act.

As required by the Act, we have notified Defra of our intention to make these changes to our Charging Rules and it has notified us that no direction will be given in relation to the revised Charging Rules. As a result, these changes to the Charging Rules came into effect on 28 June 2018.

In our view the revisions to the Charges Scheme Rules fall within section 144ZC(1)(b) of the Act and the revisions to Charging Rules for New Connection Services (English Undertakers) fall within sections 51CF(1)(b), 105ZH(1)(b) and 144ZC(1)(b) of the Act. These revisions will therefore cease to have effect at the end of the period of 6 months beginning with the day after the day on which the revised rules were issued. As a result, we will be publicly consulting in the next few months on a proposal to make permanent changes. This will also provide us with an opportunity to gather stakeholder views on these changes.

Full details of the changes to our Charges Scheme Rules and our Charging Rules for New Connection Services (English Undertakers) can be found in the links below.

## More information

[Our revised Charges Scheme Rules](#)

[Our revised Charging Rules for New Connection Services \(English Undertakers\)](#)

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.

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