

6 November 2018

Trust in water

# Draft Charges Scheme Rules for consultation

## Change History

<b>Date of issue</b>	<b>Modification relative to previous issue</b>
October 2018 for consultation	Proposed amendment to make the previous temporary amendment permanent.
June 2018	Temporary amendment focused on when infrastructure charges can be levied
December 2016	See New connections charging – consultation July 2016 for details. This affects: Paragraphs 26 to 33 on infrastructure charges and associated definitions.
November 2015	First issue

# WATER SERVICES REGULATION AUTHORITY

## WATER INDUSTRY ACT 1991, SECTIONS 143(6A) and 143B

### Charges Scheme Rules

#### Introduction

1. These rules are issued by the Water Services Regulation Authority under sections 143(6A) and 143B of the Water Industry Act 1991.
2. The rules come into effect on **xxx 2018** ~~15 December 2016~~, replacing the rules that came into effect on **15 December 2016** ~~17 November 2015~~.
3. The rules apply to water undertakers and sewerage undertakers when they are making a charges scheme.
4. The rules are supplementary to statutory provisions that apply to relevant undertakers under any enactment, or instrument made thereunder (including the conditions of their appointments), and in the event of any conflict between the rules and any statutory provision, the latter shall prevail.

#### Interpretation

5. Unless the context otherwise requires, in these rules:
  - “**charges scheme**” means a charges scheme under section 143 of the Water Industry Act 1991;
  - “**Charging Year**” means a calendar year running from 1 April in a given year to 31 March in the following year;
  - “**domestic premises**” means any premises used wholly or partly as a dwelling or intended for such use;
  - “**Infrastructure Charges**” means the charges described in section 146(2) of the Water Industry Act 1991.
  - “**metered charge**” means a charge for services that are based wholly or partly on measured quantities of volume;
  - “**the Minister**” means –
    - (a) in the case of an undertaker whose area is wholly or mainly in England, the Secretary of State, and
    - (b) in the case of an undertaker whose area is wholly or mainly in Wales, the Welsh Ministers;
  - “**Mogden formula**” means the following formula:

$$\text{Charge per unit of effluent} = R + [(V + Bv) \text{ or } M] + B(Ot/Os) + S(St/Ss)7^7$$

where:

**R** = reception and conveyance charge [p/m<sup>3</sup>]  
**V** = primary treatment (volumetric) charge [p/m<sup>3</sup>]  
**Bv** = additional volume charge if there is biological treatment [p/m<sup>3</sup>]  
**M** = treatment and disposal charge where effluent goes to sea outfall [p/m<sup>3</sup>]  
**B** = biological oxidation of settled sewage charge [p/kg]  
**Ot** = Chemical oxygen demand (COD) of effluent after one hour quiescent settlement at pH 7  
**Os** = Chemical oxygen demand (COD) of crude sewage one hour quiescent settlement  
**S** = treatment and disposal of primary sewage sludge charge [p/kg]  
**St** = total suspended solids of effluent at pH 7 [mg/litre]  
**Ss** = total suspended solids of crude sewage [mg/litre]

- “**Network Reinforcement**” has the same meaning as in the charging rules for new connection services issued by the Water Services Regulation Authority under sections 51CD, 105ZF and 144ZA of the Water Industry Act 1991;
- “**new appointee**” means a company holding an appointment as a relevant undertaker where the conditions of that appointment limit the charges that can be fixed under a charges scheme by reference to the charges fixed by one or more other relevant undertakers;
- “**rateable value charge**” means a charge fixed wholly or partly by reference to a rating valuation list or otherwise determined, whether directly or indirectly, by reference to any value or other amount specified at any time in such a list or which purports to be so fixed or determined;
- “**rating valuation list**” means a list which is or has at any time been maintained, for the purposes of rating, under section 41 of the Local Government Finance Act 1988, section 67 of the General Rate Act 1967 or any other enactment;
- “**service**” includes the supply of water; and
- “**unmetered charge**” means a charge for services that are not based on measured quantities of volume to any extent.

6. Unless the contrary intention appears, words and expressions used in these rules have the same meaning as in any provision of the Water Industry Act 1991.

### **Consumer Council for Water**

7. Before making a charges scheme a relevant undertaker must consult the Consumer Council for Water about its proposed scheme in a timely and effective manner.

### **Bill stability**

8. Undertakers should carry out a proportionate impact assessment whenever the nominal value of bills for a given customer type (assuming a constant level of consumption) is expected to increase by more than 5% from the previous year.

### **Publication**

9. Charges schemes must be published no later than the first working day of the February immediately preceding the Charging Year in relation to which they have effect.
10. Charges schemes must be published on a relevant undertaker's website and in such other manner as the undertaker considers appropriate for the purpose of bringing it to the attention of persons likely to be affected by it.
11. Where a relevant undertaker has published or fixed standard charges otherwise than under a charges scheme for any services provided by that undertaker, charges schemes must state how customers may obtain a copy of such charges and, if applicable, where on a relevant undertaker's website those charges may be found.

### **Principles for determining the amounts of charges**

12. Consistent principles and approaches must be applied to the calculation of charges for different classes of customers.
13. Charging structures must reflect the long run costs associated with providing the relevant service.
14. Charges for services provided to domestic premises must be fixed so that the average difference between metered charges and unmetered charges only reflects any differences in the costs of, and the additional benefits of, the provision of one service relative to the other;
15. Differences between charges for services provided to larger users of water and charges for services provided to smaller 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.
16. Where cost differences associated with differential peaking characteristics are used as a basis for differences between charges for services provided to larger users of water and charges for services provided to smaller users of water, the charges fixed on that basis must be structured on an appropriate peak demand basis.
17. Charges for sewerage services must take into account the different pollutant loads associated with household foul sewage, non-household foul sewage, trade effluent, surface water draining from premises and surface water draining from highways.

### **Assessed charges**

18. Charges schemes must allow a customer to choose to pay an assessed charge determined in accordance with this rule in the specified circumstances:

- (a) The type and amount(s) of an assessed charge must be determined in accordance with the following principles:
  - (i) assessed charges should, as closely as practicable, reflect the metered charges that would apply in relation to the volume of water that is likely to be supplied; and
  - (ii) the amount of an assessed charge payable by an individual who is the sole occupier of domestic premises (a single occupier assessed charge) should reflect the volume of water that is likely to be supplied to domestic premises occupied by one individual in the relevant area.
  
- (b) The specified circumstances for the purposes of this rule are where a water undertaker has received a measured charges notice in accordance with section 144A of the Water Industry Act 1991 but was not obliged to give effect to it because:
  - (i) it is not reasonably practicable to fix charges in respect of the premises by reference to the volume of water supplied; or
  - (ii) to do so would involve the incurring by the undertaker of unreasonable expense.

### **Unmetered charges**

19. Charges schemes that include any unmetered charges must clearly state the basis on which those charges are fixed or determined and, in the case of rateable value charges, state:
- (a) which rating valuation list charges are fixed or determined by reference to; and
  - (b) if the undertaker uses a different value or other amount to that specified in such a list, the methodology or other basis on which that different value or other amount is calculated.

### **Wastewater charges**

20. Sewerage undertakers' charges schemes must provide for a cost reflective reduction in the charges payable for the provision of sewerage services to any premises where the sewerage undertaker knows, or should reasonably have known, that surface water does not drain to a public sewer from those premises.
21. Sewerage undertakers must set out in their charges schemes how any reduction in the charges payable for the provision of sewerage services to any premises will be calculated if customers can 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.

### **Trade effluent**

22. Charges to be paid in connection with the carrying out of a sewerage undertaker's trade effluent functions must be based on the Mogden formula, a reasonable variant of the Mogden formula or on a demonstrably more cost-reflective basis.

### **Social tariffs / Concessionary drainage charges**

23. Charges schemes must state:

- (a) whether or not undertakers have decided to include in the charges scheme:
  - (i) provision designed to reduce charges to community groups in respect of surface water drainage from their property (having had regard to any guidance issued by the Minister under section 43 of the Flood and Water Management Act 2010);
  - (ii) provision designed to reduce charges for individuals who would have difficulty paying in full (having had regard to any guidance issued by the Minister under section 44 of the Flood and Water Management Act 2010); and
- (b) if any such provision is included, how eligible customers can apply for such reduced charges.

### **Times and methods of payment**

24. Charges schemes must include provisions giving customers a reasonable choice as to the times and methods of payment of the charges fixed by the scheme.

### **New appointees**

25. Rule 9 does not apply to new appointees. Instead new appointees must publish charges schemes no later than the 22 February immediately preceding the Charging Year in relation to which they have effect.

### **Infrastructure charges (English undertakers)**

26. Each relevant undertaker whose area is wholly or mainly in England must fix Infrastructure Charges in a charges scheme.

27. Infrastructure Charges must be determined in accordance with the principle that the charges should reflect:

- (a) fairness and affordability;
- (b) environmental protection;
- (c) stability and predictability; and
- (d) transparency and customer-focused service.

28. Infrastructure Charges must be determined in accordance with the principle that the amount of such charges will over each period of five consecutive Charging Years ending on 31 March 2023 and, thereafter, on 31 March in each subsequent year

cover the costs of Network Reinforcement that the relevant undertaker reasonably incurs, less any other amounts that the relevant undertaker receives for Network Reinforcement.

29. Charges schemes must include a clear methodology explaining how Infrastructure Charges have been calculated.
30. For the avoidance of doubt, Infrastructure Charges must not relate to the costs of reinforcing, upgrading or otherwise modifying existing network infrastructure in order to address pre-existing deficiencies in capacity or in capability unrelated:
  - a) to the provision of a new water main or public sewer pursuant to an agreement with, or a duty owed under the Water Industry Act 1991 to, a person other than a relevant undertaker (including, but not limited to, the provision of a new water main or public sewer pursuant to a requisition under sections 41(1) or 98(1), a section 66D agreement or a section 117E agreement);
  - b) to the adoption of infrastructure under a section 51A or 104 agreement; or
  - c) to connections described in section 146(2) of the Water Industry Act 1991.
31. Infrastructure Charges may be set as a fixed charge per connection or calculated in accordance with a formula. As long as the difference between amounts is cost-reflective, the amounts of Infrastructure Charges may vary to reflect different circumstances and, in particular, may be different for different geographical areas.
32. In making charges schemes, each relevant undertaker must ensure that:
  - a) Charges schemes clearly set out how Infrastructure Charges have been calculated;
  - b) The amount of Infrastructure Charges applied in respect of the modification or redevelopment of existing buildings or premises is determined in accordance with the principle that the amount must take due account of any previous usage in the 5 years before the modification or redevelopment began (including supplies of water that were not for domestic purposes and drainage that was not for domestic sewerage purposes) associated with the buildings and/or premises to which the charges are to be applied and be discounted accordingly; and
  - c) Charges schemes clearly explain the methodology to be applied for determining a discount to reflect previous usage.
33. Rules 26 to 32 above do not apply to:
  - a) new appointees; or

- b) any charges scheme that has effect in relation to a period ending before 1 April 2018.

## Annex: Information requirements

- A1 Each undertaker should provide to the Water Services Regulation Authority an assurance statement from its Board of Directors and publish its statement no later than the time of publication of the charges schemes confirming that:
- (a) the company complies with its legal obligations relating to the charges set out in its charges schemes;
  - (b) the Board has assessed the effects of the new charges on customers' bills for a range of different customer types, and approves the impact assessments and handling strategies developed in instances where bill increases for particular customer types exceed 5%;
  - (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; and
  - (d) the company has consulted the Consumer Council for Water (CCWater) in a timely and effective manner on its charges schemes.
- A2 With the exception of ~~Cholderton and District Water~~ and new appointees, 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. The statement should include the following:-
- (a) Confirmation of whether the undertaker is expecting there to be any bill increases of more than 5% from the previous year (for a given customer type assuming a constant level of consumption) and, if such increases are expected:
    - (i) what size increase is expected;
    - (ii) which customer types are likely to be affected; and
    - (iii) the handling strategies adopted by the company or why the company considered that no handling strategies are required.
  - (b) Details of any significant changes in charging policy by the company from the previous year.
- A3 In addition to the assurances set out in A1 above, new appointees' assurance statements must include assurance that their charges schemes offer:
- (a) levels of service at least comparable to the previous appointee's charges scheme;
  - (b) prices that do not exceed those in the previous appointee's charges scheme for similar services; and

- (c) prices equivalent to those specified in the new appointee's application for each individual appointment or variation area.

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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