July 2019

Trust in water

Charging rules for new connections and new developments for English companies from April 2020 – decision document

Ofwat

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About this document

This document sets out our decisions on charges for new connections and new developments from April 2020. The changes are to support a vibrant and competitive market for developer services. They are designed to be financially neutral for developers overall, and are supported by complementary new requirements to support bill stability.

The Water Industry Act 1991 (**the Act**) as amended by the Water Act 2014 allows us to set rules about the charges of water companies for new connections and developer services. It also allows us to make amendments to these rules following a statutory consultation.

We undertook a statutory consultation to amend the Charges Scheme Rules and Charging Rules for New Connection Services (English Undertakers) (**New Connection Rules**) (together for the purpose of this document the '**Charging Rules**') from 30 April 2019 to 28 May 2019. These changes affect water companies whose areas are wholly or mainly in England and were to:

- implement a decision we made in November 2017 to change the way the income offset is applied, with effect from April 2020. The income offset will be applied to the infrastructure charge instead of the requisition charge, which will support choice in provision of developer services. The change is designed so that overall it is financially neutral for developer services customers; and

- clarify rule 19 of the New Connection Rules (**balance of charges rule**), which relates to water companies taking reasonable steps to broadly maintain the balance between contributions to costs by developers and other customers.

At the same time, we consulted on introducing an information requirement to support bill stability for new connection and new development services.

This document concludes on our consultation. We have made a decision to revise the Charging Rules we have previously issued in accordance with 143(6A) and 143B; and 51CD, 105ZF and 144ZA of the Water Industry Act 1991, to reflect the changes proposed in our statutory consultation, subject to addressing minor typographical errors. We have also decided to introduce the information requirement on bill stability for 2020-21 charges.

Within this legislative framework, the amended Charging Rules to come into effect from 1 April 2020 can be found here:

- Charging Rules for New Connection Services (English Undertakers) from April 2020; and

- Charges Schemes Rules from April 2020.

Contents

1. Our consultation on charges for new connections and developer services

This is a decision document on the proposals set out in consultation (our **consultation**), published on 30 April 2019. We also published the full set of proposed changes to the relevant Charging Rules alongside the main consultation document – see New Connection Rules for consultation and Charges Scheme Rules for consultation. The consultation related to water companies whose areas are wholly or mainly in England.

1.1 Legal framework

We issued the Charging Rules in accordance with sections 143(6A) and 143B; and 51CD, 105ZF and 144ZA of the Act. We are also permitted, under these sections, to revise the Charging Rules issued and issue revised rules. Sections 143C; and 51CE, 105ZG and 144ZB of the Act set out the procedure under which we are able to make and amend the Charging Rules.

1.2 Our proposed Charging Rules from 2020

We made a decision in November 2017 to change the way the income offset is applied, with effect from April 2020. The income offset will be applied to the infrastructure charge instead of the requisition charge, which will make it available to all types of new developments, regardless of who provides the on-site work. This will create a more level playing field for New Appointments and Variations (**NAVs**)[1] to compete more effectively with incumbent water companies.[2]

[1] In this document we use the term 'NAV' to refer to a water company that (either directly or indirectly) has replaced, or will replace, one or more incumbent water companies in relation to specific sites and for whom we do not currently set individual price controls.
[2] In this document we use the term 'incumbent water company' to refer to a water company for whom we directly set individual price controls. We also set price controls for NAVs, though these are set indirectly via the 'no-worse-off' principle. We use the term 'water company' to refer to a company holding an appointment as a water and/or sewerage undertaker under the Water Industry Act 1991

The impacts of the income offset reform will be overall financially neutral to developer customers. We have a more detailed discussion on impacts to different types of new developments in the next chapter of this document.

Our statutory consultation (published on 30 April 2019) proposed changes to the Charging Rules to implement that policy decision.

In addition, we proposed amendments to rule 19 of the New Connection Rules (**balance of charges rule**), which relates to water companies taking reasonable steps to broadly maintain the balance between contributions to costs by developers and other customers. We clarified that water companies need to consider the balance of all costs associated with new developments, when setting the income offset, to ensure the rule is implemented correctly.

1.3 Proposed information requirement on bill stability

Bill stability and predictability is one of our general charging principles in the New Connection Rules (Rule 18(c)). Our consultation included a proposal to support that principle. We proposed to introduce a new information requirement to the "Expectations, assurance and information requirements for water company charges for 2020-21."[3] It will require companies (excluding small companies / NAVs) to provide a statement on the impact of significant bill increases to demonstrate compliance with that rule. This would affect companies' submissions to us in January and February 2020.

1.4 The responses we received

We received 20 responses to our consultation. They were from:

- 14 water companies;
- 3 NAVs;
- Home Builders Federation (**HBF**);
- Fair Water Connections (**FWC**), an association that supports self-lay providers; and

[3] Our latest Information Notice (IN 18/18) setting requirements for 2019-20 can be found here

- Consumer Council for Water (**CCWater**), the statutory consumer body for the water industry in England and Wales.

A full list of respondents is given in Appendix 1. We have published responses to the consultation here.

We have redacted personal information from the consultation responses we have published.

The HBF response included material that concerned the affairs of particular businesses (namely water companies), as did some of the appendices it included in its response. The appendices include inter-company comparisons of requisition and service pipe connections charges, design and management fees, infrastructure charges and service connection total charges. There is also analysis of the level of income offsets per plot compared to infrastructure charges, which suggests income offsets exceeding infrastructure charges for some water companies under their charging arrangements for 2018-19. There is also information on companies' water asset capacity modelling and allowances for surface water misconnections. We have redacted such material from the response and not published the affected appendices because to publish this material would require us to obtain the consent of the businesses concerned,[4] which we did not consider proportionate for the purpose of this decision document. Instead, we have summarised the contents here and refer to the points made in this document where relevant to do so.

1.5 Document structure

The remaining document is structured as follows:

- Chapter 2 provides an overview of the responses to question 1 of our consultation, on our proposed changes to the Charging Rules, related policy issues and our respective views.

[4] Section 206 of the Act imposes a restriction on the disclosure of information by Ofwat. No information with respect to any particular business which (a) has been obtained by virtue of any of the provisions of this Act; and (b) relates to the affairs of any individual or to any particular business, shall, during the lifetime of that individual or so long as that business continues to be carried on, be disclosed without the consent of the individual or the person for the time being carrying on that business, unless one of the exemptions set out at s. 206(3) apply.

- Chapter 3 provides a summary to the responses to question 2 of our consultation, on our proposed new information requirement, and our respective views.
- Chapter 4 sets out our decision, and future priorities.
- Appendix 1 provides a list of respondents to our consultation.

2. Responses to our proposed Charging Rules

There were specific comments on our proposed changes, which we discuss in turn in this section, as follows:

- comments on our Charging Rules for consultation, and our views;
- comments on income offset policy, including concern regarding "negative net infrastructure charges", impacts on bills for different types of developments, and impact on cash flows;
- interpretation of the balance of charges rule; and
- implementation challenges for water companies.

2.1 Responses to question 1, on our Charging Rules

2.1.1 Responses to rules for consultation

Our statutory consultation was on making the necessary changes to our New Connection Rules to implement the policy decision made in November 2017 to reform how the income offset is treated from April 2020.

The question in our consultation regarding the proposed changes to the rules was as follows:

Question – statutory consultation

Q1 Do you have any comments on the proposed wording for the New Connection Rules and Charges Scheme Rules (see Appendix 1 tables, and the rules for consultation), which will come into effect from April 2020.

Eight respondents expressed broad support for the drafting of the changes to the Charging Rules from April 2020. Eight respondents provided specific comments to the drafting of the amendments to the Charging Rules which were set out in our consultation. Six respondents had no comments on the drafting of the rules. Two water companies only commented that the balance of charges rule remains open to interpretation, which we discuss in more detail in section 2.3. FWC said that their support for the policy was contingent on a number of factors, including water companies being subject to the requirement that the balance of charges is broadly

maintained (specifically that income offset would exceed revenue from infrastructure charges in some cases). HBF said that they objected to the policies, and did not comment on the proposed drafting of the Charging Rules.

2.1.2 Specific drafting comments and suggestions

One water company queried the inclusion of a reference to 'Charging Arrangements' within Rule 32 of the Charges Scheme Rules and instead suggested that it should state: "Any such justification must be clearly identified in any **Charges Schemes** prepared under these rules" instead of "**Charging Arrangements**" under our drafting.

Another drafting suggestion by a water company was to clarify in Rule 19 and Rule 32 of the New Connection Rules and Charges Scheme Rules respectively that Asset Payment made prior to April 2018 should also be included when considering the balance of charges.

One NAV commented that income offsets should not be a function of costs – such an approach would be more disruptive to competition than applying the income offset equally to all connections - and the rules should specify that.

Three respondents (two water companies and CCWater) questioned if the term "income offset" is still appropriate, if it is to be considered in the context of the balance of charges rule.

A water company questioned whether Rule 28 of the Charges Scheme Rules, which refers to the requirement that infrastructure charges must reflect the principle that the amount of charges covers the costs over "each period of five consecutive Charging Years ending 31 March 2023", should be amended to year ending 2025 instead – since the proposed changes to the rules come into effect from April 2020.

2.1.3 Our view

We accept the comment that Rule 32 of the Charges Scheme Rules should refer to the 'charges scheme', as defined in the Charges Scheme Rules, rather than the 'Charging Arrangements'. The inclusion of the reference to 'Charging Arrangements' was a typographical error.

We agree with the point that Asset Payments should be included in the balance of charges calculation. They are, however, already covered by the list of charges the relevant rule refers to, so we do not think that they need to be named in the rule.

Though water companies will no longer offer asset payments from April 2020, historical payments that have been made need to be taken into account when considering the balance of contributions from developers and other customers.

Prior to the consultation, we had considered drafting a more detailed balance of charges rule but had found it impractical to prepare such a rule without it appearing to become overly prescriptive, particularly in the context of SLPs increasing their market share. Instead, we have discussed the rule further in this decision document in section 2.4.

We have explained in our consultation that water companies are required to set cost reflective charges – the income offset is the only item not required to be cost reflective. There is flexibility on how to apply income offsets, subject to Rule 19 of the New Connection Rules (balance of charges rule) and we note one water company currently does not offer income offsets. In addition, we explained that we have tried to address some of the distortions to competition the income offset creates, but we may consider further reforms in this area. For all these reasons, we do not think it is appropriate to be prescriptive on companies' income offset policies.

We agree with the comment that setting the income offset with respect to cost may cause disruption to competition (because water companies' costs will be higher when they provide the services themselves). There are various ways to apply income offsets which avoid this and may be beneficial in other ways, for example to improve bill stability. We discussed above our views on not being prescriptive about the methodology of income offsets at this stage. However, we do expect water companies to consider the implications to competition when determining their approach. Rule 21 of the New Connection Rules states that charges must be set in accordance with the principles that they should promote effective competition for Contestable Work.

We do not propose to re-define the income offset terminology from April 2020 because that is a descriptor of the rationale for this payment.

We do not think it necessary to change the wording regarding the principle of what costs are covered by infrastructure charges. The new amendment that will take place from April 2020 simply clarifies that the income offset should be excluded for the determination of infrastructure charges under this principle – it does not materially alter the principle.

2.2 Comments on income offset policy

We made our decision regarding the income offset policy in November 2017. That followed two consultations, and we wrote up policy issues raised and our responses to them at that point.

In this most recent consultation, some respondents took the opportunity to comment on the policy as part of their response. One respondent made clear their objection to the policy. Another said that its support was contingent on, in effect, the change being financially neutral to developers, which is a point we confirm.

In this section we focus on matters that have arisen subsequent to our November 2017 decision, and on general comments around the distributional impacts of the change on different types of developments.

2.2.1 "Negative net infrastructure charges"

Seven respondents suggested there is a need for clarifying whether the income offset could exceed infrastructure charges. That would potentially result in credits to developers.

It was pointed out by four of those respondents (two water companies, FWC and HBF) that our draft determinations for fast-track companies made assumptions to calculate the revenue cap that included an industry standard recovery rate for grants and contributions and that the total amount of income offsets would not exceed the amount recovered from infrastructure charges. There was a concern that such an approach is at odds with the balance of charges rule.

The HBF provided their analysis of companies charging arrangements for 2018-19 (Appendix D of their consultation response) demonstrating the income offset amounts per plot exceeded infrastructure charges for several companies. The implication of this is that, in order to comply with the balance of charges rule, we might expect income offset to exceed infrastructure charges in some instances.

We confirm that income offsets should exceed infrastructure charges where that is necessary to comply with the balance of charges rule. Companies are required to comply with our Charging Rules when setting charges. We would like to highlight that, in any case, the PR19 assumptions on costs and revenue that are made to determine the water companies' revenue caps should not affect charges for new

connections and developer services directly – our Charging Rules require cost reflective charging and maintaining the broad balance of charges.[5]

We have been refining our PR19 approach, and are no longer proposing that there is a cap on the amount of income offsets in relation to the amount of contributions water companies can recover through infrastructure charges.[6]

2.2.2 Impact on bills for different types of developments

Two water companies and one NAV commented that the income offset reform will impact individual developments differently. One of those respondents suggested it is likely that there will be significant bill increases for large developers and reductions for small customers requiring a single connection.

In aggregate, the reform to the income offset treatment will be financially neutral. Developer customers as a whole will not be worse-off and may benefit in the longer term from increased competition, as well as the wider work that we and water companies have been doing.

Under the rules that we consulted on, all types of developments could be eligible for income offset as they will be applied to infrastructure charges, while under the present regime only developments where there is requisition receive that credit (or the equivalent asset payment if SLPs or developers carry out the on-site work). This may result in lower income offsets from April 2020 for developments with higher requisition charges, and higher income offsets for developments with lower requisition charges.

We considered the possible impacts on different groups of stakeholders relative to the status quo when we made the policy decision in 2017. We noted developers who did not receive an income offset previously will benefit, while those who would receive it under the status quo may lose out. We also explained in our July 2017 consultation and November 2017 decision that the income offset reform reflected the general charging principle of fairness - we did not see an inherent reason for applying an income offset only to developments requiring on-site works – as it

[5] Ofwat draft determinations for fast-track companies: United Utilities, South West Water and Severn Trent.
[6] Ofwat slow track and significant scrutiny draft determinations: Our proposed approach to regulating developer services – Chapter 4 and Chapter 4.4 – "Other allowed revenue" of the PR 19 draft determinations of each company.

reflects the additional revenue incumbent water companies get from connecting new end-customers.

In order to manage transitional effects on bill stability, in our April 2019 consultation, we consulted on an information requirement that would require water companies to assess impacts and prepare handling strategies when there are bill increases greater than 10%. We said that introducing this information requirement would give greater assurance to developers as it would deliver greater scrutiny on significant increases in bills. In addition, we suggested that companies could offer different income offsets for different types of developments. The information requirement is discussed in the next chapter.

2.2.3 Impact on cash flows

One issue raised in several consultation responses (three water companies, one NAV and HBF) was that the changes to the income offset treatment would affect the timing of payments to water companies. The respondents said that as requisition work is completed before infrastructure charges are levied, developers will receive the income offset discount at a later stage from April 2020. This would not affect the total amount of charges recovered from developers, but would alter the timing schedule and have an impact on developers' cash flows. One respondent suggested this could have a negative impact on investment decisions.

We have considered this issue and we do not think it will have a significant impact on developer customers overall, which is probably why the issue was not raised in the consultations leading up to the November 2017 policy decision. Any cash-flow implications from new water and sewerage infrastructure are likely to represent a very small proportion of total costs of building new developments. We also note that some developers currently choose to pay the infrastructure charge early – forgoing any cash flow benefits – because it helps with their budgeting.

We set out in our consultation that in the longer term we expect customers to benefit from the improvements to developer services associated with stronger competition. These reforms are aimed at facilitating competition in the market for developer services.

In addition, there is flexibility in how the rules are implemented and we expect water companies to consider whether they might mitigate against negative impacts on customers, as long as such approaches do not undermine competition.

2.3 Balance of charges interpretation

Some respondents (five water companies and one NAV) said that they remained uncertain about the correct interpretation of rule 19 of our New Connection Rules (requiring water companies to take reasonable steps when setting charges to ensure the balance between contributions to costs by developers and other customers is broadly maintained). One water company and one NAV made suggestions to further clarify the rule by being explicit that the balance refers to "aggregate contributions" or that the rule should include the word "proportionate".

We do not intend to prescribe specific methodology to this rule, as it represents a principle to ensure new charges do not alter the contributions to costs arising from new developments that is recovered from developers.

We clarified the 'balance of charges' rule in our consultation to ensure consideration is given to all relevant costs associated with a new development, rather than specific types of costs.

In our consultation we noted that some stakeholders expressed the view that 'the balance of charges' rule implied the actual amount of charges collected from developers (or 'aggregate contributions') would be broadly unchanged. We said that we think that this may be a helpful way of considering the rule for like for like work.

Changes to volumes or characteristics of developments, or changes to incumbents' market share for contestable work, or changes in input prices, should result in a change in aggregate contributions.

In many circumstances, we agree that it is useful to think of the balance of charges rule in terms of the concept of proportions. In particular, if the proportion of contribution to costs by developers and other customers is broadly maintained (even if volumes and prices change), then we would ordinarily consider the company to have complied with the rule. However, if the share of self-lay in an incumbent area increases significantly over time, we would expect the proportions to change. This would be because the companies' costs would fall (as the SLP was carrying out the work) but levels of income offset would be similar.

We also note that the balance of charges rule is not an absolute requirement. Water companies can depart from the rule if the circumstances render it necessary and there is clear justification for doing so.

2.4 Implementation challenge for water companies

A number of respondents said that the changes to take effect from April 2020 are significant and communication and engagement with stakeholders is essential. We agree.

2.4.1 Effective communication

Two respondents (one water company and CCWater) stressed the importance of water companies engaging effectively with stakeholders to communicate the changes to charging methodologies and the impacts of those changes. Two other respondents (one NAV and FWC) expressed their concern that water companies have not had sufficient engagement with developer customers, and one water company noted there did not seem to be widespread awareness of the change in the income offset treatment despite the efforts of the company to raise awareness in the last two years at events with SLPs and developer customers.

The effective implementation of the reforms from April 2020 depend on industry wide efforts to communicate the changes to developer customers. We are actively engaging with water companies and developer customers to raise awareness of the changes to the rules.

We expect water companies to hold effective consultations on their charging arrangements and engage extensively with developer customers, SLPs and NAVs.

2.4.2 Transitional arrangements

FWC suggested that Ofwat should prescribe transitional arrangements, as many developments are built over a number of years and the associated connections are not completed within a single year.

Companies have flexibility around the implementation of the rules from April 2020 and they are in a better position to provide effective transitional solutions, following engagement with their developer customers. As an example, we have made it clear in our consultation that we expect no provision of double discounts – eg providing an asset payment before April 2020 (on requisition) and an infrastructure charge credit after April 2020 (on connection) for the same development.

Acknowledging feedback from some developers, we accept that some customers will benefit from greater consistency in the way the changes to the rules are implemented by water companies and hence we are engaging in discussions with companies on such issues.

One water company noted that the requirements to demonstrate the magnitude of nominal bill increases year-on-year[7] have been useful for water companies' engagement with stakeholders and the thought process in their charging methodologies. We expect the proposed information requirement in our consultation to contribute to water companies developing strategies that could mitigate against significant swings in nominal bills when developing their new connection services charging arrangements for 2020-21.

[7] Information requirements in the Wholesale Charging Rules and Charges Scheme Rules

3. Responses to our proposed information requirement

3.1.1 Overview of responses

The proposed requirement on bill stability in our consultation was similar to requirements that already exist in the Charges Scheme Rules for household charges. Water companies would have to report whether bills for typical developments have increased by more than 10% (proposed threshold) and what handling strategies have been developed where such price increases have taken place.

We asked the following question in our consultation:

Question – non-statutory consultation

Q2 Do you have any comments on our proposal to introduce an information requirement on bill stability? More specifically:

- Do you find the proposed requirement helpful in supporting the charging principle of bill stability?
- Is the suggested 10% threshold for significant bill increases appropriate for striking the right balance between more scrutiny on bill increases and flexibility for companies to make changes as necessary?

In order to assist companies in implementing this requirement effectively, we welcome views on:

- what criteria would be most appropriate to define typical new developments; and
- what services should be included in a typical package.

The majority of respondents were largely in favour of the proposal to introduce an information requirement to support bill stability: 15 respondents agreed such a requirement would be beneficial.

One water company did not support the proposal. It said that the jobs it delivers are generally more complex and developer customers are unable or unwilling to carry them out. The costs for such jobs can vary considerably and “an arbitrary limit on bill increases would not be practical.” One other water company did not support the

proposal the way we outlined it in our consultation. It suggested the requirement to be applied only to changes in the income offset, as companies are required to set cost reflective charges and the only "discretionary decision" relates to the level of the income offset. It also stated that there is no typical development bill and stylised examples would not give confidence to developers that charges are stable.

Two respondents (FWC and one water company) suggested the requirement should be part of the rules, rather than be implemented through an Information Notice.

Most respondents agreed that the proposed 10% threshold for bill increases seemed reasonable. Three respondents (CCWater, Independent Water Network and Bristol Water) were uncertain if this is the right threshold; one of these suggested it should be 5% as it is for charges for households' water bills.

Some respondents wanted to challenge our thinking that the proposal would be complementary to the 2020 rules changes (as well as influencing charges thereafter). Two water companies suggested the requirement should take effect from 2021, as there might be more significant impacts on prices to certain types of customers, resulting from the proposed changes to the rules to take effect from 2020.

Some responses included explanations as to why bills might vary significantly from one year to the next. Several respondents pointed out that infrastructure charges can be more lumpy, as network reinforcement needs can vary depending on the specifics of new developments (even though they are averaged over time and may be averaged over a wide area). There were also suggestions that infrastructure charges should not be in the scope of the proposed information requirement.

Two water companies suggested the rule will be effective and easier to implement if the requirement is applied to individual charges rather than typical bill examples. This was countered by a number of respondents providing useful suggestions on key criteria that could be used to establish 'typical' worked examples to illustrate year-on-year price changes.

FWC said that the requirement needed to ensure contestable and non-contestable elements are clearly separated.

3.1.2 Our view

We think that implementing the proposal through an Information Notice provides greater flexibility in defining and refining the details of the requirement compared to

setting it out in our Charging Rules, and gives us additional opportunity for engagement. Having greater flexibility also means we can introduce the requirement in time for the charging arrangements in 2020-21.

We think that it is appropriate for the threshold to be higher than for households, for example because the expenditure is not ongoing and key services are contestable.

We accept that there are likely to be instances where bills for some categories of development for some water companies increase by more than 10% in April 2020. This proposal would not prevent that. If companies think it is likely that some of their customers may face higher bills in 2020, then it is even more important that they consider these impacts, consider any mitigation measures they might sensibly take, and that they have handling strategies in place.

The requirement is related to stability of end bills for developer customers. We acknowledge that some charges are likely to remain largely unchanged, while others could vary to a greater extent over time. The aim of the requirement is to provide more scrutiny and transparency on final bill increases. That would not be achieved by focusing on annual increases in individual charges. It is also important that all relevant charges are taken into consideration. Excluding some key charges from the requirement would reduce its relevance and effectiveness.

In the case of the April 2020 changes, while the competitive position of SLPs will be largely unchanged (because on-site bills for developers would increase by the same amount irrespective of whether infrastructure is laid by SLP or water company), the bill impact for all SLPs will be substantial because they will no longer receive an asset payment (and, unlike developers, will not receive income offset). The issue for SLPs and NAVs is not whether their bills change (NAVs are not subject to new connection charges in any case), but the impact of changes on their ability to compete.

4. Our decisions and future priorities

In this chapter we set out our decisions on new connections and new developments from April 2020. The changes are to support a vibrant and competitive market for developer services. They are designed to be financially neutral for developers overall (so that in many cases credits from income offset will exceed infrastructure charges), and are supported by complementary new requirements to support bill stability.

4.1 Statutory consultation – Charging Rules from 2020

We have decided to amend the Charges Scheme Rules and New Connection Rules as proposed in our consultation subject to the amendments set out in Table 1. The changes will come into effect from 1 April 2020.

The table below specifies the wording changes we have made relative to the April 2019 Charges Scheme Rules that we consulted on. The changes address minor typographical errors. We have not made any wording changes to the New Connection Rules relative to our April 2019 consultation.

Please see Charging Rules for New Connection Services (English Undertakers) from April 2020 and Charges Schemes Rules from April 2020 for the full set of our Charging Rules.

Table 1: Changes to wording in Charges Scheme Rules for consultation

Extant Rule Number	Change to Rule Wording	Rationale
5	~~**"Contestable Work"** has the meaning given in the New Connection Charging Rules;~~	Removed definition as it is not used in these rules - typographical error.
32	In setting charges in accordance with the present rules, undertakers should take reasonable steps to ensure that the balance between contributions to costs by ~~Developers~~ developers and other customers prior to 1 April 2018 is broadly maintained. Section 3 of Annex A to the Government's Charging Guidance to Ofwat published in January 2016 lists the charges	"Developers" is not a term defined under these rules. "Charging Arrangements"

	under which ~~Developers~~ developers contribute costs relevant to this rule. For the avoidance of doubt, Income Offset also needs to be included. An undertaker may only depart from this general requirement where (and to the extent that) this is rendered necessary by circumstances providing clear objective justification for doing so. Any such justification must be clearly identified in any ~~Charging Arrangements~~ charges scheme prepared pursuant to these rules.	was a typographical error.

We note that the income offset treatment reform was signalled and communicated well in advance. We decided not to amend the Charging Rules at the time we made the decision (November 2017), as the policy is to take effect from April 2020. It was not practical making changes to the Charging Rules so far ahead of their effective date.

The policy decision has been incorporated in water companies' business plans and companies are holding developer sessions preparing for the changes.

4.2 Information requirement to support bill stability

We have decided to introduce the proposed information requirement through an Information Notice - Expectations, assurance and information requirements for water company charges for 2020-21.[8] As discussed in the previous chapter, there was broad support from respondents to our consultation to introduce such a requirement. We intend to use a 10% threshold for significant bill increases and we will set out the details of the new requirement in the Information Notice.

In issuing this information requirement for 2020-21 charges, we are stressing the importance of water companies engaging early with customers in their implementation of the changes to income offset policy. We are giving a strong steer that they need to consider how to mitigate large bill increases, and that the changes should be complemented by effective communication. This will be an important focus for our monitoring of charges over the coming months.

[8] Our latest Information Notice (IN 18/18) setting requirements for 2019-20 can be found here

We will engage with water companies on our draft of the requirement in August and September before issuing the final notice in October 2019.

4.3 Other charging issues and future work

Respondents made some broader comments on charging issues more generally, some of which we may take into future consideration.

As part of our monitoring of new connection charges for this year, a particular focus is how companies are supporting markets through their charges. For example, that the individual charges are cost reflectivity and there is a clear accurate description of what each charge covers. This follows our letter to incumbent water companies regarding compliance with competition law and Charging Rules obligations with respect to the self-lay market for new connections, and our CEO writing to the chief executives of all incumbent water companies outlining our dissatisfaction with their level of support for markets, including for developer services.

In our April consultation we noted that we are considering a number of issues further, which we may seek to address separately through improved compliance or through changes to our rules on or after April 2021. We think there is further scope to improve cost reflectivity of infrastructure charges, as well as their transparency, including infrastructure charges that vary by geographical area (though, consistent with our Charges Scheme Rules, not typically for neighbouring developments, and retaining an averaging over time), to reflect different costs - for example, with new waste water infrastructure for remoter locations. We also said that we may consider whether further reforms are merited to support competition – for example for full service NAVs who even with the policy changes set out in this consultation will not have full access to the income offset discount - and to have regard to Defra's Charging Guidance on the allocation of costs between developers and the general customer base.

Appendix 1: List of respondents

1. Albion Water
2. Anglian Water
3. Bristol Water
4. Fair Water Connections
5. Home Builders Federation
6. Icosa Water
7. Independent Water Networks
8. Northumbrian Water
9. Portsmouth Water
10. Severn Trent Water
11. Southern Water
12. South East Water
13. South Staffordshire and Cambridge Water
14. South West Water
15. United Utilities
16. Thames Water
17. The Consumer Council for Water
18. Welsh Water
19. Wessex Water
20. Yorkshire Water

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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