

# Information notice

IN 19/05 October 2019

The logo for Ofwat, consisting of the letters 'Ofwat' in a blue sans-serif font. The 'w' is stylized with a white circle inside it. To the right of the text is a solid blue vertical bar.

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.

## Expectations, assurance and information requirements for water company charges for 2020-21

### About this document

This document sets out, for stakeholders, how we expect water companies<sup>1</sup> to engage with customers and stakeholders when developing their charging policy and charges, as well as our expectations around charges assurance. It also summarises the charges information requirements on water companies and the timetable for publishing this information.

This document should be read in conjunction with our charging rules (see below).

This information notice is an update from [Information Notice 18/18](#).

### Overview of our charging rules

Water companies are allowed to charge for the services they provide. Following amendments made by the Water Act 2014 (WA14) to the Water Industry Act 1991 (WIA91), we have issued charging rules that water companies must comply with. These are:

- [Wholesale Charging Rules](#) (first issued in November 2016 and re-issued in October 2018) for the wholesale services<sup>2</sup> they provide to water supply and/or sewerage services licensees;
- [Charges Scheme Rules](#) (first issued in November 2015 and re-issued in [July 2019](#))<sup>3</sup> setting out end-user charges to their own residential and business customers; and

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<sup>1</sup> By “water companies” we mean companies holding appointments as water and/or sewerage undertakers under the Water Industry Act 1991, including both ‘large’ and ‘small’ water companies (see footnote 9).

<sup>2</sup> Wholesale services are the physical delivery of water via networks of pipes to and from customers’ property boundaries, including abstracting, treating and transporting water, as well as collecting, treating and disposing of wastewater.

<sup>3</sup> The Charges Scheme Rules and Charging Rules for New Connection Services (English Undertakers) were both re-issued in July 2019, but these revised versions of the charging rules do not

- [Charging Rules for New Connection Services \(English Undertakers\)](#) (first issued in August 2017 and re-issued [July 2019](#))<sup>3</sup> which apply only to English undertakers' charges for new connection services<sup>4</sup>.

If we consider a water company is not complying with charging rules, we can intervene by taking targeted and proportionate action to protect customers.

## Our expectations

Water companies need to be transparent about how they set charges. Customers and other stakeholders expect water company charges to comply with all relevant statutory obligations, including our charging rules. They also expect water companies to engage meaningfully on proposed charges and ensure that the information they publish is subject to high-quality assurance. Where water companies introduce new charging policies which lead to significant<sup>5</sup> increases in charges, we expect water companies to have met a high evidential bar including:

- appropriate third party support for why the changes are being proposed, for example, a change in drivers or activity;
- proven interactions with customers; and
- evidence of engagement with and support from customer representatives, where appropriate, especially with the Consumer Council for Water (CCWater) on changes to charges schemes for which it is a statutory consultee.

The information we expect water companies to publish under the charging rules are set out in tables 1 and 2 below.

## Engagement when setting charges

It is for water companies to take ownership of their charging policies and charges, and deliver these in an efficient and innovative way, supported by customers and

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come into effect until April 2020. However, as the charging publications referred to in this document will relate to the 2020-21 charging year, the July 2019 issues of these charging rules will be the relevant rules to consider for charging publications relating to the 2020-21 charging year.

<sup>4</sup> New connection services include gaining access to existing public water or sewerage system and or creating a new water main or public sewer or a monopoly company taking over responsibility for a self-laid infrastructure. These rules apply only to water companies whose areas are wholly or mainly in England

<sup>5</sup> In this context, 'significant' bill increases to a water company's Wholesale Charges Schedule or Charges Scheme charges are increases of more than 5% from the previous year (for a given customer type assuming a constant level of consumption). For New Connections services, a 'significant' bill increase is an increase of more than 10% for a typical development.

other stakeholders. Water company Boards are responsible for water company charges and the processes and policies that underpin the charges.

Our charging rules outline the need for timely, proportionate and effective engagement between water companies, their customers and wider stakeholders. The benefits of good engagement are two way. It allows water companies to better understand their customers' requirements in terms of services and the price that customers are willing to pay. And it allows customers and other stakeholders to be clear on the basis of the charges they will face and what is driving changes to those charges.

## **Board assurance of charges**

We expect water companies to publish all their charges set under our charging rules in either their Charges Schemes, Wholesale Charges Schedules<sup>6</sup> or new connection services Charging Arrangements<sup>7</sup>, as appropriate. For each set of charges, a water company should:

- provide an assurance statement from its Board of Directors that the charges comply with legal obligations and the relevant charging rules, and that the water company has systems and processes in place to ensure that the charging information published is accurate; and
- ensure that its Board assurance statement covers the list of specific issues for assurance set out in each set of charging rules.<sup>8</sup>

Water companies should not limit assurance to the issues listed in the charging rules if they believe it would be beneficial to provide additional assurance. Where appropriate, we may add to the list of specific issues requiring assurance.

High quality assurance is important in providing stakeholders with trust and confidence in the charges water companies' apply and the information they publish about their charges.

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<sup>6</sup> Water companies set their wholesale charges in their Wholesale Charges Schedule.

<sup>7</sup> Charges for new connection services are set out in new connection services Charging Arrangements

<sup>8</sup> The specific charging rules relating to Board assurance statements can be found in Annex A1 of the Wholesale Charging Rules, Charges Scheme Rules and the Charging Rules for New Connection Services (English Undertakers).

## Statement of significant changes in charges for Charges Scheme and Wholesale Charges Schedule

In addition to the Board assurance statement, we require each large<sup>9</sup> water company to publish on its website a statement setting out details of any significant increases (i.e. more than 5%) it anticipates in its Wholesale Charges Schedule and/or Charges Scheme.<sup>10</sup> We have set out in the annexes of these charging rules what we expect water companies to include in this statement.

Where a water company anticipates significant changes to its Wholesale Charges Schedule and Charges Scheme, its Board should address this in the Board assurance statement. The Board should provide assurance that they are aware of the changes and related incidence effects, and support the water company's engagement on this issue.

## Statement of significant changes in charges for new connections and new developments

Following our consultation on charging rules for new connections and new developments from April 2020, we decided to introduce a new information requirement to support bill stability and predictability for new connection services. We concluded in our [decision](#) that water companies will need to report whether bills for typical developments have increased by more than 10% and what handling strategies they have developed to manage the impact that such increases would have on customers where such price increases have taken place. This is similar to requirements that already exist in the Charges Scheme Rules. We are now implementing our decision through this Information Notice for water company charges for 2020-21.

We require each large water company to include a statement in the charging arrangements for new connection services setting out any significant changes to bills for typical developments when publishing those arrangements for 2020-21. The statement should include the following:

- Worked examples of typical development bills for new connection services – please see Appendix 1 for additional guidance;
- That its Board of Directors has assessed the effects of the new charges on customers' bills for a range of different types of development, and approves the impact assessments and handling strategies developed in instances where bill increases for particular developer types exceed 10%;
- Confirmation of whether the water company is expecting there to be any bill increases of more than 10% from the previous year (for a given type of development) and, if such increases are expected:

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<sup>9</sup> 'Large' water companies are water companies for whom we set full price controls at price reviews.

<sup>10</sup> Charges Scheme Rules Annex A2 and Wholesale Charging Rules Annex A4.

- what size increase is expected;
- what types of typical developments are likely to be affected; and
- the handling strategies adopted by the water company or why the water company considered that no handling strategies are required.

As with the Wholesale Charging Schedule and Charges Scheme, water companies should address any significant changes to their charges for new connection services in their Board assurance statement.

## **Disaggregation of wholesale wastewater charges**

From April 2020, rule 20 of our Wholesale Charging Rules will come into effect. This is not a new charging rule, but a rule that has a delayed implementation, which comes into effect for the 2020-21 charging year. This rule places a requirement on water companies to separate their charges for wholesale wastewater services into charges for:

- foul water;
- trade effluent;
- surface water draining from the customers property; and
- surface water drainage from highways.

As a result, we will expect that water companies will reflect this requirement in their Wholesale Charges Schedule.

## **Specific information requirements for 2020-21 charges**

We have set out in table 1 the charges information for 2020-21 that we require water companies to publish, and their respective deadlines. Water companies should note that the amount of information we need, and when we need it, varies between large and small companies (see tables 1 and 2 respectively for further details).

Water companies need to send us electronic copies of these documents as well as providing us with correct links to the relevant pages on their websites to the email shown below. We need this to monitor some specific aspects of charges.

Water companies should send all submissions and any questions about this document to [Charging@ofwat.gov.uk](mailto:Charging@ofwat.gov.uk). They should state the subject matter of their email as: Charges - information requirements for 2020-21.

## Price review

Ofwat will publish the final determinations of the 2019 Price review (PR19) for all companies on 11 December 2019. Large water companies should therefore publish their 2020-21 charging submissions listed in table 1 that are due in January 2020 so that they are consistent with the water companies' final determinations.

In recognition that PR19 means that large companies will have less time than usual to finalise their charges we have moved the date for companies to submit "average bills information for residential customers" to be ten days later than the previous year. As a result this information needs to be submitted by 21 January 2020.

We also recognise that this means the water companies' October 2019 statements of significant changes to primary wholesale charges will not be based on the final determinations of PR19, rather being based on the best available information at the time. If companies' statements of significant changes to primary wholesale charges are no longer correct when the results of PR19 are taken into account, they should resubmit this statement by 14 January 2020.

## Average bills for residential customers

We require each large water company to send us average bills data for residential customers. This comprises data on residential customer numbers and revenues resulting from the application of residential end-user charges. We have [attached a template](#) to this document for water companies to capture and send us this data (see table 1 for when this information should be submitted).

Since 2014-15, we have shared average bills information with Water UK for publication on its website. We will continue with this approach for 2020-21.

In previous years, we have required water companies to provide this information by 11 January. However, due to PR19, the water companies will not be able to calculate their average bills until after they have received their final determination in December 2019. In order to provide water companies with additional time between receiving their final determinations and providing this information, we are changing the deadline for providing this average bills information this year to 21 January 2020.

## Bulk supply register

We continue to require water companies (including new appointees) to provide us with information about their bulk supply transactions. We publish this information annually on our website in our bulk supply register.

For water, the register complements our market information requirements for water resources set out in '[Water resources market information guidance](#)'. Greater market information will support the effective optimisation of water resources, including demand management and leakage services, across England and Wales.

We expect water companies (including new appointees) to use [our template](#) to submit their bulk supply data. They should complete all three parts of each table, keeping in mind the field definitions stated in the template, and submit the information to [Charging@ofwat.gov.uk](mailto:Charging@ofwat.gov.uk), stating the subject matter of their email as: Bulk supply transactions (see table 1 and 2 for when this information should be submitted).

## **Special agreements notification**

Water companies are required under section 142(6A) of WIA91 to notify us of any new special agreements they enter into after 13 July 2014. (New special agreements include those that existed before this date which have subsequently been re-negotiated after 13 July 2014.) They should send such notifications to [Charging@ofwat.gov.uk](mailto:Charging@ofwat.gov.uk), and can do so anytime of the year. They should state the subject matter of their email as: New special agreements notifications.

## **Re-issue of documents**

If a water company needs to re-issue any of its charging documents (e.g. there is an error in the published version) it should make it clear in the new document that it is a revised version and clearly set out the differences between the original and revised versions. The re-issue should be pro-actively communicated to Ofwat via the email address below, and to other relevant stakeholders as far as practicable.

## **Indicative wholesale charges template**

Ahead of the opening of the non-household retail market in April 2017, we required all English water companies to use a template provided by Ofwat when publishing their indicative wholesale charges. We do not require water companies to continue to use this template when publishing their indicative wholesale charges document. While we expect water companies to ensure that they present their indicative wholesale charges in a clear and transparent way, the water companies are best placed to decide the most appropriate way to present this information.

## Information requirements and deadlines

In the tables below, we set out the information we expect water companies to publish in connection with their 2020-21 charges in order to comply with our charging rules, and for our own purposes. It sets out the items to be published, the deadlines and the specific sections of the charging rules or licence conditions under which this is being required.

Table 1 is specific to the requirements for large water companies. Table 2 is specific to the requirements for small water companies.

The first four items in table 1 set out the information requirements for the early notifications of wholesale charges, as set out in annexes A2 to A5 of the Wholesale Charging Rules.

**Table 1: Requirements for large water companies**

	Item	Format	Entity	Deadline		Charging Rule / Appointee Licence Condition
1	Indicative scope for wholesale charges	Publish on website and email a copy of the charges and webpage link to Ofwat	Large water companies	No later than six months before publishing the final Wholesale Charges	14/08/19	Wholesale charging rules Annex A2
2	Indicative Wholesale Charges	Publish on website and email a copy of the charges and webpage link to Ofwat	Large water companies	No later than three months before publishing the final Wholesale Charges	14/10/19	Wholesale charging rules Annex A3
3	Statement of significant changes to primary Wholesale Charges	Publish on website and email a copy of the charges and webpage link to Ofwat	Large water companies	No later than the time of publication of indicative Wholesale Charges	14/10/19	Wholesale charging rules Annex A4
4	Assurance statement for indicative Wholesale Charges	Publish on website and email a copy of the charges and webpage link to Ofwat	Large water companies	No later than the time of publication of indicative Wholesale Charges	14/10/19	Wholesale charging rules Annex A5
5	Statement of significant changes to Charges	Publish on website and email a copy of the charges	Large water companies	At least three weeks before the publication of	13/01/20	Charges scheme rules Annex A2

	Scheme charges	and webpage link to Ofwat		Charges Schemes		
6	Final Wholesale Charges Schedule	Publish on website and email a copy of the charges and webpage link to Ofwat	Large water companies	At least eleven weeks before the start of the period for which the charges will take effect	14/01/20	Wholesale charging rules Rule 10
7	Assurance statement for final Wholesale Charges Schedule	Publish on website and email a copy of the charges and webpage link to Ofwat	Large water companies	No later than time of publication of final Wholesale Charges Schedule	14/01/20	Wholesale charging rules Annex A1
8	Average bills information for residential customers	Provide information in attached template and email to Ofwat	Large water companies		21/01/20	Licence condition M
9	Charges Schemes	Publish on website and email a copy of the charges and webpage link to Ofwat	Large water companies	No later than the first working day of the February immediately preceding the Charging Year in relation to which they have effect	3/02/20	Charges scheme rules Rule 9 and rule 25
10	Assurance statements for Charges Scheme	Publish on website and email a copy of the charges and webpage link to Ofwat	Large water companies	No later than the time of publication of the charges schemes	3/02/20	Charges scheme rules Annex A1
11	Statement of significant changes in charges for new connections and new developments	Publish on website and email a copy of the charges and webpage link to Ofwat	Large English water companies	No later than publication of Charging Arrangements for new connection services	31/01/20	<a href="#">Charging rules decision document</a>
12	Charging Arrangements for new connection services	Publish on website and email a copy of the charges and webpage link to Ofwat	Large English water companies	No later than two months before the period in relation to which they have effect.	31/01/20	Charging Rules for New Connection Services (English Undertakers) Rule 10
13	Assurance statement for Charging	Publish on website and email a copy of the charges	Large English water companies	Should be published on website and webpage link sent	31/01/20	Charging Rules for New Connection Services (English Undertakers)

	Arrangements for new connection services	and webpage link to Ofwat		to Ofwat together with webpage link for item 11.		Annex A1
14	Bulk supply transaction between water companies	Provide information in attached spreadsheet and email to Ofwat	Large water companies	Should be submitted by 28/02/20		Licence condition M

**Table 2: Requirements for small water companies**

	<b>Item</b>	<b>Format</b>	<b>Entity</b>	<b>Deadline</b>		<b>Charging Rule / Appointee Licence Condition</b>
1	Final Wholesale Charges Schedule	Publish on website and email a copy of the charges and webpage link to Ofwat	Small water companies	At least nine weeks before the start of the period for which the charges will take effect.	28/01/20	Wholesale charging rules Rule 26
2	Assurance statement for final Wholesale Charges Schedule	Publish on website and email a copy of the charges and webpage link to Ofwat	Small water companies	No later than time of publication of final Wholesale Charges Schedule	28/01/20	Wholesale charging rules Annex A1
3	Charges Schemes	Publish on website and email a copy of the charges and webpage link to Ofwat	Small water companies	No later than the 22 February immediately preceding the Charging Year in relation to which they have effect	22/02/20	Charges scheme rules Rule 9 and rule 25
4	Assurance statements for Charges Scheme	Publish on website and email a copy of the charges and webpage link to Ofwat	Small water companies	No later than the time of publication of the Charges Scheme	22/02/20	Charges scheme rules Annex A1 and Annex A3
5	Charging Arrangements for new connection services	Publish on website and email a copy of the charges and webpage link to Ofwat	Small English water companies	No later than five weeks before the period in relation to which they have effect	25/02/20	Charging Rules for New Connection Services (English Undertakers) Rule 10 and rule 17
6	Assurance statement for Charging Arrangements for new connection services	Publish on website and email a copy of the charges and webpage link to Ofwat	Small English water companies	No later than the time of publication of the their Charging Arrangements:	25/02/2020	Charging Rules for New Connection Services (English Undertakers) Annex A1
7	Bulk supply transaction between water companies	Provide information in attached spreadsheet	Small water companies	Should be submitted by 28/02/2020		Licence condition M

		and email to Ofwat			
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## Appendix 1 - Guidance on worked examples

Table 1 sets out what are intended to be typical developments for which water companies should prepare worked examples. We expect water companies to provide additional or alternative scenarios where there are issues identified with the scenarios in table 3 or to highlight specific items that could be of particular interest to their customers.

The worked examples should include all relevant new connection and developer services charges for water and wastewater (as applicable) relevant to each example. Looking at our charging rules, we would expect these to include:

- Requisition Charges;
- Infrastructure Charges;
- Connection Charges; and
- Any Income Offset.

Other typical charges published in water companies' charging arrangements for new connection services include:

- Application and design fees, and any other administrative fees charged to developer customers for delivering the service
- Meter installation – where not included in the Connection Charges;
- Other charges to recover costs incurred in the process of providing a new connection, such as traffic management charges if required.

**Table 3: Typical scenarios for worked examples**

Type	Package description
Single connection	<p>Water:</p> <ul style="list-style-type: none"> <li>• Connection to existing mains - No new mains/sewer required;</li> <li>• 25-32mm PE<sup>11</sup> pipe               <ul style="list-style-type: none"> <li>○ Short connection – 4m road surface;</li> <li>○ Long connection – 8m (4m road surface and 4m unmade ground);</li> </ul> </li> </ul> <p>Wastewater – include relevant sewer connection costs, including sewer construction costs where applicable.<sup>12</sup></p>

<sup>11</sup> Poly-ethylene.

<sup>12</sup> Include construction costs for the sewer if the water company would expect to undertake most of the construction activities.

New block of flats	<p>Water:</p> <ul style="list-style-type: none"> <li>• 10 new units connected to an existing main - No new mains/sewer required;</li> <li>• Large diameter (63mm) water connection – barrier pipe <ul style="list-style-type: none"> <li>○ Short connection – 4m road surface;</li> <li>○ Long connection – 8m (4m road surface and 4m unmade ground);</li> </ul> </li> </ul> <p>Wastewater – include relevant sewer connection costs, including sewer construction costs where applicable.</p>
Small housing development	<p>Water:</p> <ul style="list-style-type: none"> <li>• 10 new connections off new mains;</li> <li>• New mains required – total length 50m, consisting of <ul style="list-style-type: none"> <li>○ 90mm PE – 10m road surface;</li> <li>○ 90mm PE – 20m unmade surface;</li> <li>○ 63mm PE – 20m unmade surface</li> </ul> </li> </ul> <p>Wastewater – include relevant sewer connection costs, including sewer construction costs where applicable.</p>
Medium housing development	<p>Water:</p> <ul style="list-style-type: none"> <li>• 50 new connections off new mains;</li> <li>• New mains required – total length 300m, consisting of <ul style="list-style-type: none"> <li>○ 180mm PE – 10m road surface;</li> <li>○ 180mm PE – 90m unmade surface;</li> <li>○ 125mm PE – 100m unmade surface;</li> <li>○ 90mm PE – 100m unmade surface</li> </ul> </li> </ul> <p>Wastewater – include relevant sewer connection costs, including sewer construction costs where applicable.</p>
Large housing development	<p>Water:</p> <ul style="list-style-type: none"> <li>• 200 new connections off new mains;</li> <li>• New mains required – total length 1000m <ul style="list-style-type: none"> <li>○ 180mm PE – 10m road surface;</li> <li>○ 180mm PE – 290m unmade surface;</li> <li>○ 125mm PE – 300m unmade surface;</li> <li>○ 90mm PE – 400m unmade surface</li> </ul> </li> </ul> <p>Wastewater – include relevant sewer connection costs, including sewer construction costs where applicable.</p>
Self-laid scenario	Total admin fees and any other relevant fees charged to SLPs (application, inspection, etc).