

# Information notice

IN 20/07 November 2020

## Expectations, assurance and information requirements for water company charges for 2021-22

### 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 19/05](#).

### 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 most recently in March 2020) 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 most recently in [March 2020](#)) 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.

- [Charging Rules for New Connection Services \(English Undertakers\)](#) (first issued in August 2017 and re-issued most recently in March 2020)<sup>3</sup> which apply only to English undertakers' charges for new connection services<sup>3</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>4</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 CCW<sup>5</sup> representing water consumers, on changes to charges schemes for which it is a statutory consultee.

The information we expect water companies to publish under the charging rules is 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 other stakeholders. Water company Boards are responsible for water company charges and the processes and policies that underpin the charges.

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<sup>3</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>4</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.

<sup>5</sup> <https://www.ccwater.org.uk/>

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. It also 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.

## 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.

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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).

<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.

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

Last year (in information notice 19/05) we introduced an information requirement to support bill stability and predictability for new connection services. It required large companies 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. We set out several scenarios of typical developments for companies to prepare worked examples, though we gave companies flexibility to use additional or alternative scenarios. Companies used the scenarios to test for year-on-year changes in bills for new connection services.

After reviewing companies' examples in the 2020-21 charging arrangements, it became clear that many companies used the scenarios we set out for the statement of significant changes to present their worked examples as well. We welcome this. However, a number of companies did not provide sufficient detail or cost itemisation for those scenarios on bill stability to provide sufficiently clear worked examples at the same time. This was echoed by feedback from stakeholders who found that the worked examples by many companies were not sufficiently transparent and were difficult to link with the underlying charges.

Therefore, we proposed to make more explicit expectations on how companies present the scenarios for the statement of significant changes in the [May 2020 charges comparison report and consultation](#). We have reflected on the consultation responses and we are making further clarifications in this year's requirement, while keeping the same scenarios.

While we have made some further clarifications in Appendix 1, we highlight that the underlying principle for presenting the worked examples is that **customers are able to follow through from tables of charges to the worked examples, and then to their own bills**. In our report for our [Review of incumbent company support for effective markets](#), we noted instances where worked examples were not helpful to customers, for example where only total figures were presented or applicable fees were omitted.

For 2021-22, 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. 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 types of new developments 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:
  - 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.

## Specific information requirements for 2021-22 charges

We have set out in table 1 the charges information for 2021-22 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 2021-22.

## Price review

We are due to complete the blind year adjustments related to 2019-20 performance by 13 November this year. This reconciliation process may lead to changes (either increases or decreases) to a company's revenue cap, and therefore customer charges, in 2021-22 and future years. Companies should therefore consider the potential impacts that this process could have as they develop their charges for 2021-22 and engage with customers and other stakeholders in the development of these charges. Companies should use as the starting point the draft proposals published on 28 September 2020. Final proposals are due to be published by 13 November 2020.

Four companies have appealed our Final Determinations and asked Ofwat to refer their PR19 price controls to the Competition and Markets Authority (CMA)<sup>11</sup> for redetermination. Where a company expects a determination from the CMA ahead of the 2021-22 charging year, we expect it to consider how such a decision could impact its charges when it develops and engages with its customers on its charges for 2021-22.

## Material changes to forecasts

Companies may decide that their forecasts of demand for 2021-22 have changed materially, for example as a consequence of COVID-19, and that this necessitates a rebalancing of some charges.

While the changes to forecasts may differ between companies, there may be benefits to collaborative working between companies on such forecasts, and we understand that Water UK is coordinating some information sharing on this.

As always, companies must comply with all relevant charging rules as they fix their charges. For example:

- Rule 8 of our [Charging scheme rules](#), Rule 13 of our [Wholesale charging rules](#), and Rule 18 of our New connection charging rules. These relate to the principle of bill stability.
- Rule 13 of our Charging scheme rules and Rule 15 of our Wholesale charging rules. They state that charging structures must reflect the long-run costs associated with providing the relevant service.
- Rule 14 of our Charges scheme rules. This requires that the average difference between metered charges and unmetered charges provided to domestic premises only reflects any differences in the costs of, and the additional benefits of, the provision of one service relative to the other.

As well as engaging early with customers and CCW, where a company expects charges for 2021-22 to see a significant change, it should share this information, in a timely manner, with any small companies who base their own charges on its charges.

## 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 also [published a template](#) alongside this

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<sup>11</sup> See our website for further details. <https://www.ofwat.gov.uk/regulated-companies/price-review/2019-price-review/regulated-companies-price-review-2019-price-review-competition-and-markets-authority-referrals/>

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 2021-22.

We have consulted on possible amendments to our Regulatory Accounting Guidance (RAGs) to ask for additional information relating to average bills. Any additional information regarding average bills that is requested through the RAGs should be reported as part of a company's regulatory accounts submissions and will be separate from the information requested in this average bills template.

## Early information about significant bill increases

This year, we are asking all companies that expect any groups of their household customers to experience significant increases in their bills in 2021-22 (as defined by Rule A2 of our Charges Scheme rules) to contact Ofwat by 22 December 2020 to inform us about those significant increases at [charging@ofwat.gov.uk](mailto:charging@ofwat.gov.uk). We appreciate that at this point, the final decisions around the charges for 2021-22 may not have been made and that any information about charges will be subject to change. We are asking for this information in order to understand the likely changes in household customer charges ahead of the publication of the companies' statements of significant changes to Charges Scheme charges on 11 January 2021. This request for additional information is due to the additional uncertainty over company charges for 2021-22 and we do not intend for this to become a regular part of the annual information requirements on charging.

## 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 at [Charging@ofwat.gov.uk](mailto:Charging@ofwat.gov.uk), and to other relevant stakeholders as far as practicable.

## Information requirements and deadlines

In the tables 1 and 2, we set out the information we expect water companies to publish in connection with their 2021-22 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	Deadline	Charging Rule / Appointee Licence Condition
1	Indicative scope for wholesale charges	Publish on website and email a copy of the charges and	Large water companies	No later than six months before publishing the final Wholesale Charges	14/07/20	Wholesale charging rules Annex A2

		webpage link to Ofwat				
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	13/10/20	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	13/10/20	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	13/10/20	Wholesale charging rules Annex A5
5	Statement of significant changes to Charges Scheme charges	Publish on website and email a copy of the charges and webpage link to Ofwat	Large water companies	At least three weeks before the publication of Charges Schemes	11/01/21	Charges scheme rules Annex A2
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	13/01/21	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	13/01/21	Wholesale charging rules Annex A1
8	Average bills information for residential customers	Provide information in attached template and email to Ofwat	Large water companies		21/01/21	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	1/02/21	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	1/02/21	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	31/01/21	<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.	31/01/21	Charging Rules for New Connection Services (English Undertakers) Rule 10
13	Assurance statement for 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	Should be published on website and webpage link sent to Ofwat together with webpage link for item 11.	31/01/21	Charging Rules for New Connection Services (English Undertakers) 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 28/02/21	Should be submitted by 28/02/21	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>
<b>1</b>	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.	28/01/21	Wholesale charging rules Rule 26
<b>2</b>	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	28/01/21	Wholesale charging rules Annex A1
<b>3</b>	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	22/02/21	Charges scheme rules Rule 9 and rule 25
<b>4</b>	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	22/02/21	Charges scheme rules Annex A1 and Annex A3
<b>5</b>	Charging Arrangements for new	Publish on website and email a copy of the	Small English water companies	No later than five weeks before the period in	25/02/21	Charging Rules for New Connection Services (English Undertakers)

	connection services	charges and webpage link to Ofwat		relation to which they have effect		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	25/02/2021	Charging Rules for New Connection Services (English Undertakers) Annex A1
7	Bulk supply transaction between water companies	Provide information in attached spreadsheet and email to Ofwat	Small water companies	Should be submitted by 28/02/2021		Licence condition M

## Appendix 1 – Guidance on worked examples for new connections

The underlying principle for worked examples is that **customers are able to follow through from tables of charges to the worked examples, and then to their own bills.** This guidance is intended to satisfy that principle.

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 1 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.

All relevant **ancillary** charges should also be included.

All scenarios set out below need to:

- Include clearly **itemised** unit costs for all relevant services;
- Provide adequate commentary to the examples to avoid inappropriate inter-company comparisons; and
- Provide commentary where the specifications below are not followed in order to take account of specific company policies/area specific terminology and practices.

We encourage companies to use diagrams alongside the worked examples to make them more accessible to developer customers.

**Table 1: Typical scenarios for worked examples**

Type	Service package description
	<p>All charges for activities and materials expected in an average job in the surface type being used should be included.</p> <p>All relevant ancillary charges need to be included under the scenarios below, such as (but not limited to):</p> <ul style="list-style-type: none"> <li>• Application and design fees, and any other administrative fees charged to developer customers for delivering the service; and</li> <li>• Meter costs and installation – where not included in the Connection Charges.</li> </ul>
<p><b>Single connections</b></p>	<p>Water:</p> <ul style="list-style-type: none"> <li>• Connection to an existing main. This includes service pipe and boundary box fitting, excavation and reinstatement;</li> <li>• 25-32mm PE<sup>12</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> <li>• Typical traffic management – including any council charges.</li> </ul> <p>Wastewater – include all relevant non-contestable charges related to new sewers, including wastewater infrastructure charges and income offsets. Sewer construction costs should be provided where applicable.<sup>13</sup></p>
<p><b>New block of flats – 10 flats</b></p>	<p>Water:</p> <ul style="list-style-type: none"> <li>• Large diameter water connection to an existing main – no barrier pipe. This includes service pipe and boundary box fitting, excavation and reinstatement                             <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> <li>• Typical traffic management – including any council charges.</li> </ul>

<sup>12</sup> Poly-ethylene.

<sup>13</sup> Include construction costs for the sewer if the water company would expect to undertake most of the construction activities.

	<p>Wastewater – include all relevant non-contestable charges related to new sewers, including wastewater infrastructure charges and income offsets. Sewer construction costs should be provided where applicable.</p>
<p><b>Small housing development</b></p>	<p>Water:</p> <ul style="list-style-type: none"> <li>• 10 new service connections off new mains – 3m unmade ground. This includes service pipe and boundary box fitting, excavation and reinstatement;</li> <li>• New off-site connection to the existing main, including traffic management as described in scenario above;</li> <li>• New mains required – total length 50m, consisting of             <ul style="list-style-type: none"> <li>○ 90mm PE – 10m road surface (leading to the point of connection);</li> <li>○ 90mm PE – 20m unmade surface;</li> <li>○ 63mm PE – 20m unmade surface</li> </ul> </li> </ul> <p>Wastewater – include all relevant non-contestable charges related to new sewers, including wastewater infrastructure charges and income offsets. Sewer construction costs should be provided where applicable.</p>
<p><b>Medium housing development</b></p>	<p>Water:</p> <ul style="list-style-type: none"> <li>• 50 new connections off new mains - 3m unmade ground. This includes service pipe and boundary box fitting, excavation and reinstatement;</li> <li>• New off-site connection to the existing main, including traffic management charges;</li> <li>• New mains required – total length 300m, consisting of             <ul style="list-style-type: none"> <li>○ 180mm PE – 10m road surface (leading to point of connection);</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 all relevant non-contestable charges related to new sewers, including wastewater infrastructure charges and income offsets. Sewer construction costs should be provided where applicable.</p>

<p><b>Large housing development</b></p>	<p>Water:</p> <ul style="list-style-type: none"> <li>• 200 new connections off new mains – 3m unmade ground. This includes service pipe and boundary box fitting, excavation and reinstatement;</li> <li>• New off-site connection to the existing main, including traffic management charges;</li> <li>• New mains required – total length 1000m             <ul style="list-style-type: none"> <li>○ 180mm PE – 10m road surface (leading to point of connection);</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 all relevant non-contestable charges related to new sewers, including wastewater infrastructure charges and income offsets. Sewer construction costs should be provided where applicable.</p>
<p><b>Small, medium and large housing developments under self-laid scenarios for water</b></p>	<p>These scenarios assume that all contestable activities are undertaken by self-lay providers. The scenarios should include all non-contestable activities and the relevant charges (eg infrastructure charge, income offset, etc.) and all admin fees and other relevant fees (application, inspection, etc).</p>