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Consultation on new connections charging rules for Welsh companies

Ofwat

About this document

This document is a consultation on options for setting rules for charges for new connection services for **water companies whose areas are wholly or mainly in Wales**. We are looking for stakeholder views on the general approach we take to setting these charging rules as well as views on specific charging rules.

The Water Act 2014 contains provisions to amend the Water Industry Act 1991, allowing us to set rules about the charges that developers and other customers pay water companies for new connections and other infrastructure services.

After considering the responses to this consultation, if appropriate, we plan to undertake a statutory consultation in spring 2021 on the final charging rules, to come into effect in April 2022 in order to provide the Welsh companies with time to prepare new charging arrangements that comply with the new charging rules.

Responding to this consultation

We would welcome any comments on this document. Please email them to charging@ofwat.gov.uk. The closing date for this consultation is **2 March 2021**. If you wish to discuss any aspect of this consultation, please contact charging@ofwat.gov.uk.

We will publish responses to this consultation on our website at www.ofwat.gov.uk, unless you indicate that you would like your response to remain unpublished. Information provided in response to this consultation, including personal information, may be published or disclosed in accordance with access to information legislation – primarily the Freedom of Information Act 2000 (FoIA), the General Data Protection Regulation 2016, the Data Protection Act 2018, and the Environmental Information Regulations 2004. For further information on how we process personal data please see our [privacy policy](#).

If you would like the information that you provide to be treated as confidential, please be aware that under the FoIA there is a statutory [Code of practice](#) which deals, among other things, with obligations of confidence. In view of this, it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information, we will take full account of your explanation, but we cannot give an assurance that we can maintain confidentiality in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on Ofwat.

Consultation questions

Q1 Do you agree with our proposal to redefine what costs are recovered by infrastructure and requisition charges?

Q2 Do you agree with our proposal that infrastructure charges should be calculated to recover costs incurred over a rolling period of years?

Q3 Do you prefer option 2 or option 3 (or another approach) as the basis for setting the relevant time period over which costs are calculated for the purpose of setting infrastructure charges?

Q4 Do you agree with our proposal to simplify the calculation of income offset and apply it to the infrastructure charge, instead of the requisition charge (thereby removing the need for asset payments)?

Q5 Do you think option 2 or option 3 is the better approach to setting upfront charges for site-specific developer services? Or would you prefer another approach?

Q6 Do you think option 2 or option 3 is the better approach to setting charges for requisitions and new connections? Or would you prefer another approach?

Q7 Are there any charging rules that have been included under options 2 or 3 that are not required due to the general requirements of the charging principles?

Q8 Are there any additional charging rules that should be included under options 2 or 3?

Q9 What are your views on the three proposed options? Which of the options do you prefer? Would you prefer another approach?

Q10 Are there any other issues we should consider as part of our assessment of the impacts of introducing the proposed charging rules?

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1. Summary

This consultation concerns water companies¹ whose areas are wholly or mainly in Wales (“Welsh companies”²). Welsh companies have both a duty to allow and the right to charge for new connections to be made to their existing networks, for water and wastewater services.

The framework for setting these charges is currently set out in the Water Industry Act 1991 (WIA91). However, this framework is inflexible and time-consuming because it requires amendments to primary legislation to implement any changes to the way charges are set.

The Water Act 2014 (WA14) recognised this inflexibility and introduced a new framework for the regulation of charging in the water industry, which enables Ofwat to set charging rules instead, subject to guidance from the Welsh Government. This allows us to monitor developments and respond to them more easily and to resolve potential breaches of our rules by issuing enforcement directions to bring Welsh companies into compliance with the rules.

By changing the current charging framework, we can address stakeholders’ concerns about the lack of predictability and transparency in charges and the perception of double-charging for the same work, which can reduce confidence in charging.

We are consulting on how we might set rules for new connection services for Welsh companies, focused on three options:

- option 1 – keep the **status quo**, setting charging rules that maintain the current charging framework for new connection services;
- option 2 – set specific, **targeted rules** that companies must comply with when setting charges for new connections services; or
- option 3 – set general, **light-touch rules** that give companies more freedom in designing and implementing their charges for new connection services.

Our proposed charging rules under options 2 and 3 incorporate the following principles, which we have taken from the Welsh Government’s guidance³ to Ofwat:

- simplicity and transparency;
- stability, predictability and timeliness;
- fairness and cost reflectivity; and
- environmental sustainability.

¹ In this document, references to such companies means companies holding appointments as water undertakers and/or sewerage undertakers under the Water Industry Act 1991.

² Currently these companies are Dŵr Cymru, Hafren Dyfrdwy and Albion Eco Limited.

³ Welsh Government’s ‘Charging Guidance to Ofwat Relating to Developer charges, Bulk supply Charges and Access Charges’, 2017. <https://gov.wales/sites/default/files/publications/2019-06/water-charging-guidance.pdf>.

We have included option 1 for completeness, as some stakeholders may wish to continue operating under the current charging framework and we wish to understand any reasons for that view. However, we do not consider this option would adequately address concerns raised by stakeholders or the charging guidance issued by Welsh Government. We consider option 2 or option 3 would be better than option 1.

Under options 2 and 3, there are a number of possible choices on the details of how these proposed rules operate. We have therefore set out a number of specific questions for stakeholders to respond to on these choices as well as providing overall views on the proposed options.

The rest of this document is structured as follows:

- section 2 sets out the background to this consultation and the rationale for making the proposed changes;
- in section 3 we summarise the options on which we are consulting;
- section 4 contains more detail about specific aspects of charging on which we would like stakeholder comments;
- in section 5 we compare options 2 and 3;
- in section 6 we assess the likely impacts of our proposed changes; and
- section 7 provides details of proposed variations to licence conditions.

2. Context

2.1 Background and approach to date

Most new developments in Wales require a connection to the public water and/or wastewater network. Ensuring that the charges for new connection services are transparent, predictable and fair can help to facilitate home building in Wales by reducing uncertainty for developers and reducing the number of disputes over the charges.

We refer to the provision of new connections and the different services needed to connect properties under the general term ‘developer services’. Many new connection services are contestable, meaning they can be installed by the developer (for sewerage) or an accredited third-party provider (known as a [‘self-lay’](#) provider or SLP, for water) instead of by the local water company. The water company will take over responsibility for (or ‘adopt’) all self-laid infrastructure that meets the terms of its agreement with the owner, developer or SLP that carried out the work. Some new connections are not contestable, for example where the new connection service involves a larger water main. Many developer services can also be provided by a different licensed water and/or wastewater company to the incumbent water and/or wastewater company (a new appointee or NAV). The new appointee would then continue to serve the customers on the site by replacing the existing water and/or wastewater company in that area.

The framework for setting these charges is currently set out in the Water Industry Act 1991 (WIA91). However, this framework is inflexible because it requires amendments to primary legislation to implement any desired changes to the way charges are set, which can be time-consuming. WA14 recognised this inflexibility and introduced a new framework for the regulation of charging in the water industry. This enables:

- Ofwat to develop charging rules for Welsh companies to replace the charging provisions in the WIA91 (and update these periodically subject to appropriate consultation);
- Welsh Ministers to issue Ofwat with charging guidance for new connections, the purpose of which is to guide our charging rules to reflect Welsh Government policy priorities for the water sector; and
- Welsh companies to publish charging arrangements for new connections and associated infrastructure that adhere to these charging rules.

The majority of the rules relating to new connections and associated charges will be included in a new charging document. This document will set out the rules issued under sections 51CD, 105ZF and 144ZA of the WIA91. However, any new charging rules that relate to infrastructure charges, which are charges described in section 146(2) of the WIA91, are

required to be included in the Charges Scheme Rules⁴, amended as appropriate to include provision for Welsh companies.

The Welsh Government issued [guidance to Ofwat on charging rules for new connections](#) in 2017. The Welsh Government said that charging arrangements should be set in accordance with the following principles:

- simplicity and transparency;
- stability, predictability and timeliness;
- fairness and cost reflectivity; and
- environmental sustainability.

The relevant parts of the WA14 will need to be commenced to remove the current charging rules and provide us with the power to set new charging rules in their place. We are working with the Welsh Government and the Department for Environment, Food and Rural Affairs (Defra) on the timing for this commencement.

We have engaged with Welsh stakeholders through a series of meetings in early 2018. We also requested information from two large Welsh companies, a developer representative body and a new appointee regarding any issues with the current framework and the likely costs of implementing new charging rules for the Welsh companies. In December 2018, we consulted on our draft proposal for new charging rules for developer services.⁵ In July 2020, we undertook further stakeholder consultation, issuing a request for stakeholders' views on the current state of charging for developer services and what features stakeholders would like to see in a future charging framework.

2.2 Developer services in Wales

As part of the process of developing new charging rules for developer services in Wales, it is important to consider the specific context of developer services in Wales. Housing and developer services are fully devolved issues for the Welsh Government. As a result, the approach we take to setting charging rules will need to consider the developer services market in Wales as well as the specific regulations in Wales and the guidance issued to Ofwat by the Welsh Government. This means that the charging rules that we introduced in England may not be applicable in Wales due to the differences between the two countries. Some of the differences between the regulatory regimes in Wales and England include:

- the requirement in Wales for new sewers to have an adoption agreement and be built to standards set out in the Welsh Ministers' standards for new gravity foul sewers and lateral drains;
- the requirement for sustainable drainage systems for larger developments in Wales; and

⁴ [Charges scheme rules - Ofwat](https://www.ofwat.gov.uk/publication/charges-scheme-rules/) <https://www.ofwat.gov.uk/publication/charges-scheme-rules/>.

⁵ www.ofwat.gov.uk/consultation/new-connections-charges-for-welsh-companies-consultation/.

- mandatory sprinkler systems in new and converted houses and flats in Wales.

2.3 Rationale for this consultation

Feedback received from our stakeholder engagement and consultations in 2018 and 2020 indicate general support for change, with stakeholders raising a number of concerns with the current charging arrangements for Welsh companies. Table 2.1 summarises the concerns raised.

Table 2.1 – Issues with the current framework for Welsh companies

Issues	Detail
Administrative burdens	The current charging framework for Welsh companies is administratively cumbersome for customers as Welsh companies currently provide an upfront calculation on the estimated contestable charges and following completion of the work they undertake a reconciliation for the actual costs. Ofwat has been involved in several determinations over disputes regarding the reconciliation of estimated and actual costs which impose costs on the developer customer, the water companies and ourselves to undertake.
Predictability of charges	The uncertainty and lack of transparency about how water companies calculate charges can result in differences between estimated and actual costs which the water company charges to the developer, as the final charge is based on the final costs to provide the service. It also makes it difficult for customers to predict the likely charges for a particular developer service before the customer requests the official estimate from the water company. This lack of predictability in charges is an issue for developers in their decision-making on developments.
Risk of double charging	Developers have told us that due to a lack of transparency in how water companies calculate charges, there is a perception that they could be charged twice for network reinforcement, through both the requisition charge and the infrastructure charge.
Arbitrary calculations	There is no clear, economic rationale for the calculation of income offset ⁶ and why it applies to the requisition on new mains but not to new connections, or why asset payments are not applied to sewerage assets.
Weak economic price signals	At present, infrastructure charges are fixed at the same level for all Welsh companies and do not reflect the costs incurred in carrying out the reinforcement works that they are supposed to fund. This leads to weak price signals to encourage developers to build in areas where there is existing network capacity, contributing to inefficiency.
Lack of transparency	Developers are sometime unclear what they pay for as costs are not broken down in the charges.

⁶ 'Income offset' is a discount on charges for requisitions of water mains and sewers, reflecting the benefits to the water company of connecting new customers. It is calculated as part of the charges for requisitions through the Discounted Aggregate Deficit (or 'DAD') calculation or through a 'relevant deficit calculation'. Where an SLP provides a requisition service to a customer and the incumbent company then adopts the new water main or sewer, the incumbent water company will pay the SLP for the new asset (an 'asset payment') equal to the value of income offset.

Unclear incentives to self-lay that may not provide a level playing field	Currently, self-lay providers (SLPs) require information from the water company about the asset payment that the water company will make to the SLP in order to fully understand the costs it will incur in providing a developer service. This presents a potential barrier to fair competition between the SLPs and the water companies.
Barrier to a level playing field for NAVs	The current approach of providing an income offset against requisitions is a barrier to allowing NAVs to compete on a level playing field with the incumbent Welsh companies.

However, while stakeholders supported the need for change, they did not agree on which approach to setting charging rules should be adopted.

The two large Welsh companies preferred light-touch rules. Dŵr Cymru believed that their customers preferred a charging regime that was both predictable and simple, such as charging for developer services on a per-plot basis. It argued that it would only be able to implement such an approach to charging under light-touch rules. Hafren Dyfrdwy raised concerns about the potential regulatory burdens of targeted rules⁷ and the difficulties that a smaller water company would have in setting upfront charges.

Other respondents preferred a set of targeted charging rules, as they considered these would provide more predictability and transparency, but also a consistency of approach of having a charging framework that broadly aligned with that in England (particularly for those customers that operate in both Wales and England).

Respondents did raise some concerns with the new connection charging rules introduced for English companies in 2018, such as a lack transparency in how charges are set. We have addressed these and other issues through amendments to our English charging rules. For example, we have set new requirements on English water companies to publish a statement of significant changes for developer services charges as well as worked examples to demonstrate to their customers how their charging arrangements work in practice. If we proceed with either option 2 or option 3, we will consider which of these improvements would be appropriate to include, to ensure that Welsh companies and their customers benefit from these improvements to the charging regime.

In July 2020, several stakeholders, including Hafren Dyfrdwy and Yorkshire Water, expressed support for introducing a charging framework in Wales that is broadly similar to the approach used in England, on the basis that this would provide a clarity, transparency, greater predictability and simplicity for stakeholders that operate in both England and Wales.

⁷ In our previous consultation documents, we referred to one of the proposed options as the ‘principles-based option’. In this document we have re-named this option to the ‘targeted rules’ as this better reflects the nature of these proposed rules.

In response to both of the previous consultations, several stakeholders commented that they would like to see the details of all of the proposed charging rules in order to better understand the proposals. We have therefore set out draft rules in this document.

3. Options

In this section we describe the objectives we aim to achieve by setting rules for new connection charges. We also introduce the options we are consulting on.

3.1 Our objectives for new connection charges

Our aim is to establish a new connections charging framework that supports our strategy⁸ for the water sector to provide the very best service for customers, improve the environment, and improve life through water, both now and in the future. We are looking to move away from the current approach to setting charges which sets out specific rules that govern how new connection charges are set. We want to introduce a charging framework that gives Welsh companies greater freedom to set charges in a way that better reflects the costs they are incurring. We also want to place the focus of those companies on considering the needs of their customers and developing approaches to charging that meet these needs, rather than following prescribed rules.

We are proposing that Welsh companies set charges that are consistent with the following principles. We have set these having regard to the Welsh Government's guidance to Ofwat:

- simplicity and transparency;
- stability, predictability and timeliness;
- fairness and cost reflectivity; and
- environmental sustainability.

3.2 Summary of options

We are consulting on charging rules for how Welsh companies charge for developer services in Wales focused around the following three options:

- option 1 – keep the **status quo**, setting charging rules that maintain the current charging framework for new connection services as set out in the WIA91;
- option 2 – set specific, **targeted rules** that companies must comply with when setting charges for new connections services; and
- option 3 – set general, **light-touch rules** that give companies more freedom in designing and implementing their charges for new connection services, subject to compliance with selected charging principles.

⁸ [Our strategy](https://www.ofwat.gov.uk/about-us/our-strategy/) <https://www.ofwat.gov.uk/about-us/our-strategy/>.

Under option 1, we would set rules that replicated the current charging framework for new connections by Welsh companies⁹ as set out in the WIA91. We have not set out what the charging rules would look like under this approach, as stakeholders are already familiar with the current way of charging.

We do not support option 1, as it would not address the issues that stakeholders have raised with the current charging framework and would not be compatible with our objectives for a new connections charging framework.

For the remainder of this consultation, we will focus on options 2 and 3. In broad terms, option 2 puts specific requirements on Welsh companies, whereas option 3 is more permissive.

As well as the general principles we have set out above, under each of the options the Welsh companies will also be required to comply with any other relevant legislation that relates to the charges that they set, such as the Competition Act 1998.

As noted in section 2.1 above, under either option 2 or option 3 we would establish a new set of charging rules for new connection services, but we would also amend the Charges Scheme Rules, in particular with respect to infrastructure charges. For ease, we refer to both sets collectively in this document as “charging rules”. Under options 2 or 3, we propose that Albion Eco (and any other new appointee operating wholly or mainly in Wales) would be affected by a proportionate version of our proposals which is designed to avoid placing an unreasonable administrative burden on small companies.

The charging rules themselves cover many aspects of charging for developer services, including the type of costs to be recovered, the timing of when costs are recovered, how costs are translated into charges, the structure of charges and how companies should explain and present their charges.

We provide in appendix A2 a full draft set of charging rules that would apply to either option 2 or option 3. Text in black would apply to both options, and additional text in red would only apply to option 2. We have also included a full draft set of the amended Charges Scheme in appendix A3.

⁹ If the Welsh Government and Defra commence the relevant parts of the WA14 that require Welsh companies to charge by reference to charging rules, under this option we would issue charging rules that match the current charging arrangement for Welsh companies.

4. Specific aspects of charging for comment

4.1 Infrastructure charges

When new connections are made to the public water or wastewater network, it may be necessary for the water company to improve the existing infrastructure ('network reinforcements') in order to cope with the additional demand required by the newly connected premises.

For Welsh companies, the costs of these improvements are currently recovered in two ways – through requisition charges and through infrastructure charges.

- **Infrastructure charges** contribute towards wider network reinforcement. They are a capped fixed charge which is the same across Welsh companies;
- **Requisition charges** recover the costs reasonably incurred by the water company in providing the assets (mains or sewers) to serve the new development (net of income offset, which we discuss below). Requisition charges also include the cost of network reinforcement triggered by the development.

There is not a clear distinction between the costs each charge is intended to recover, leading to concerns that developers may be over charged for some network reinforcements.

To address these concerns, we propose to reclassify the works as either:

- site-specific, by which we mean works that are on, near to or in the immediate vicinity of the development; or
- network reinforcements;

and that:

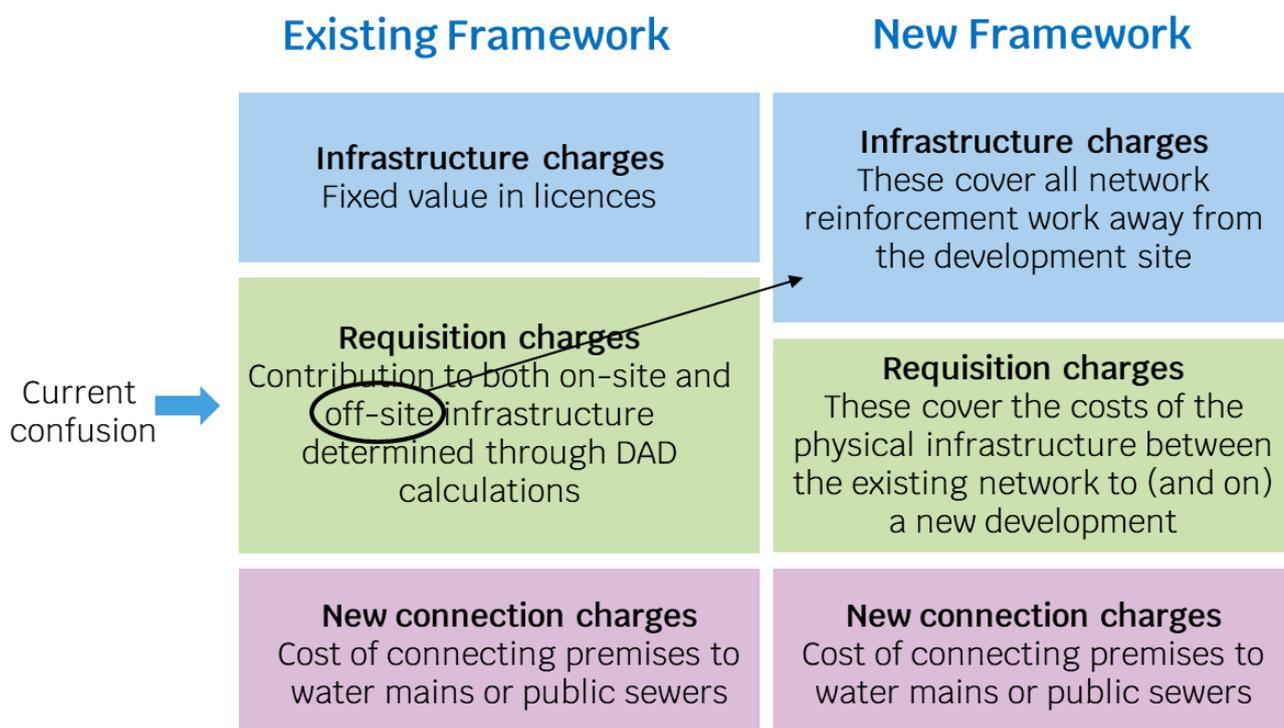
- infrastructure charges are set to recover network reinforcement costs (so there is no longer a cap on these charges); and
- requisition charges only recover mains or sewer costs for site-specific works.

The current approach and our proposal are shown in Figure 1 below.

Question 1

Do you agree with our proposal to redefine what costs are recovered by infrastructure and requisition charges?

Figure 1: Our proposed structure of charges



This is the same classification of charges as for English companies. We set out in detail the reasoning behind our proposed approach in the documents relating to the introduction of this change in England¹⁰, which can be found on our website.

We recognise that reinforcement works may not be carried out in the financial year in which the associated new development is undertaken, especially for larger developments. Therefore, we propose that infrastructure charges are set to recover costs incurred over a rolling period of years, rather than charges to match the costs incurred in any particular year.

This new approach will help to avoid significant annual changes in infrastructure charges as the costs of any significant one-off reinforcement works could be recovered over a number of years. However, we are also considering potential amendments to this approach to account for a specific issue raised by Hafren Dyfrdwy.

Question 2

Do you agree with our proposal that infrastructure charges should be calculated to recover costs incurred over a rolling period of years?

Under Option 2 we propose that the costs are calculated over 5 years for all companies.

¹⁰ www.ofwat.gov.uk/wp-content/uploads/2016/03/New-connections-charging-%E2%80%93-consultation.pdf.

4.2 Infrastructure charges for Hafren Dyfrdwy

Hafren Dyfrdwy told us that due to its relatively small size, there are extended periods in which it incurs little or no network reinforcement costs. Therefore, setting an infrastructure charge on the basis of its reinforcement works over a 5-year period may result in periods where the charge is very low or even zero. However, the premises that are connected in such a period would still be contributing to a likely future need for reinforcement works to be carried out and so should be contributing their fair share towards the costs of this reinforcement work.

Hafren Dyfrdwy suggested two ways to address this issue. It could either base its charges on those of Dŵr Cymru rather than its own expected costs, or it could base its charges on reinforcement costs incurred over a longer time period, for example 10 years.

Option 3 includes the second option proposed by Hafren Dyfrdwy, using a rolling 10-year basis. This approach would allow the company to continue to set charges based on its own costs while taking account of the likely variability it expects in its level of network reinforcement works. Hafren Dyfrdwy is required to report its annual spending on network reinforcement works and its annual income from infrastructure charges as part of its annual regulatory accounts, so both Ofwat and Hafren Dyfrdwy's customers would be able to monitor these costs and spending on an annual basis.

Under either option 2 or option 3, Dŵr Cymru would calculate network reinforcement costs over a 5-year time period. Dŵr Cymru provides a significantly larger number of developer services each year than either Hafren Dyfrdwy or Albion Eco. As a result, we do not have the same concerns about Dŵr Cymru being unable to set reasonable infrastructure charges on a rolling 5-year basis.

However, we could allow Dŵr Cymru to set infrastructure charges on the same basis as Hafren Dyfrdwy and other Welsh companies, and set the period at 10 years. We have not included this potential approach as an option in this consultation, but we would be interested in views on whether this approach would be better than either option 2 or option 3. For completeness, we have included in section A3 an example of what the Charges Scheme Rules would look like under each approach.

Question 3

Do you prefer option 2 or option 3 (or another approach) as the basis for setting the relevant time period over which costs are calculated for the purpose of setting infrastructure charges?

4.3 Income offset and asset payments

Currently for Welsh companies, income offset is a discount that is applied to requisitions of new water mains and sewers using a complex formula. It is applied in recognition of the revenues the water company will receive from the new customers as a result of the new development. Where a company adopts a new water main laid by an SLP, it makes an asset payment to the SLP equal to the value of income offset.

However, income offset is not applied where there is not a requisition, even though new connections result in new bill-paying customers being connected. It represents a barrier to other providers of developer services who want to compete with Welsh companies as these providers will need information about the size of this discount from the water company before they are able to provide an accurate quotation to customers. It also provides a barrier to new appointees competing on a level playing field with incumbent Welsh companies as they are also required to provide an income offset on requisitions in the area that they serve, but only benefit from part of the value of any newly connected customers, with the rest passed through to the incumbent company through the bulk supply agreement.

We propose to simplify the approach to income offset and asset payments.

First, we propose that companies have flexibility in how they calculate income offset, subject to the requirement that the balance of charges that currently exists is broadly maintained, consistent with the Welsh Government's guidance.

Second, we propose to change income offset from a discount on requisitions to a discount on the infrastructure charge and to remove asset payments. We made this change to charging rules in England, with effect from April 2020. This means that the discount would be applied to all new connections rather than just to those that involve a requisition. This will benefit developers that do not require new mains, new appointees and other providers of developer services. However, this will mean that the size of the discount that some developers would receive may be smaller than it would have been as the total discount is being spread over a

larger number of developer services. It may also have cash-flow implications for some developers as the discount will be applied later in the development process.¹¹

By moving the income offset from requisition charges to the infrastructure charge, the requisition charges will no longer be discounted. This removes the need for the Welsh companies to provide asset payments to SLPs when an SLP builds a new water main or sewer that is adopted by the incumbent Welsh company. This will help SLPs as they no longer have to rely on getting information about the size of the asset payment in order to provide an accurate quote to their customers.

We note that the charging rules for infrastructure charges are currently included in the Charges Scheme Rules rather than the proposed charging rules on developer services. As a result, if we proceed with this change, we will implement it by amending the Charges Scheme Rules that apply for Welsh companies. We have set out the proposed changes to the Charges Scheme Rules in appendix A3.

Question 4

Do you agree with our proposal to simplify the calculation of income offset and apply it to the infrastructure charge, instead of the requisition charge (thereby removing the need for asset payments)?

4.4 Upfront fixed charges for site-specific services

We propose under option 2 that companies publish charges or a predetermined methodology for calculating charges. We refer to these as fixed upfront charges, as the charges are not subsequently adjusted on the basis of actual cost incurred. If charges are set upfront, developers can accurately understand the costs they are likely to incur for any developer services before the work takes place and can provide a reasonable indication of the likely costs before they contact the water company to request developer services. This approach would address one of the key concerns with the current framework – the predictability of charges.

We recognise that it is not possible for a water company to provide upfront fixed charges in all circumstances as it requires the water company to have a reasonable basis on which to set such charges, typically by reviewing the costs it has incurred in providing similar services in previous years. In particular, Hafren Dyfrdwy has raised concerns that it does not deliver a large number of developer services to customers and consequently may have too few previous examples of delivering certain developer services upon which to base upfront fixed

¹¹ The requisition charge is typically paid by the developer before the developer service is carried out by the water company while the infrastructure charge is normally due after the new premises have been connected.

charges. We also recognise that most site-specific sewerage infrastructure is laid by developers or third parties. This means wastewater companies are unlikely to have a reasonable basis on which to set upfront wastewater charges.

Therefore under option 2 we propose that companies need publish upfront charges for water services only where it is reasonably practicable to do so. And for wastewater services, companies need not publish upfront charges, but they must clearly explain the methodology used for calculating the charges.

Option 3 does not place any requirement to publish upfront charges for water or wastewater connection or requisition services. Companies would not be prevented from setting upfront charges but they would decide whether to do so, subject to the general charging principles.

Question 5

Do you think option 2 or option 3 is the better approach to setting upfront charges for site-specific developer services? Or would you prefer another approach?

4.5 Requisition charges and new connections

Requisition charges recover costs of infrastructure necessary for the provision of water mains and/or public sewers necessary to connect a specific site. Connection charges relate to domestic connections, construction of lateral drains and communication with public sewers. Under option 2, the charges imposed on the customer must relate to the site-specific work provided by the water company.

Under option 3, the requisition charges and new connection charges that are imposed on the customer would only be required to reflect the costs of providing requisitions and new connections in general rather than reflecting the work carried out at each specific site.

The charging rules under option 3 would allow Welsh companies to set a per-plot charge, though the rules require a separation of contestable and non-contestable charges. This is consistent with the approach Dŵr Cymru said it was considering in its response to our December 2018 consultation.

Question 6

Do you think option 2 or option 3 is the better approach to setting charges for requisitions and new connections? Or would you prefer another approach?

5. Comparison of options

In this section we compare options 2 and 3. First, we look at the charging rules that would apply under both options. Then we explain how the charging rules would differ between options 2 and 3.

5.1 Charging rules applicable to options 2 and 3

We are proposing charging rules for new connection services under option 2 that are similar to those that are currently in effect for English companies. There are some differences, relating to the context in Wales and differences between the charging guidance issued by the Welsh Government and Defra. For example, the proposed rules for Welsh companies include a requirement to consider options for promoting the use of sustainable drainage systems (SuDS). They also include a requirement for companies to explain how they have taken the views of stakeholders into account when making their charging arrangements and to set out and justify where there is a trade-off between the general charging principles and objectives raised by stakeholders.

The proposed charging rules under option 3 are similar to the rules under option 2, but have fewer specific requirements and rely more on compliance with the general charging principles rather than setting specific charging rules.

Under both options 2 and 3 we propose to include a transitional arrangement that would allow the option for agreements that were in place before any changes to the charging framework came into effect to continue as they were. We would work with the Welsh Government to ensure that the commencement of the relevant parts of the WA14 necessary for us to introduce new connection charging rules would allow for this transitional process.

As well as issuing charging rules, we would largely remove condition C from water companies' licences, as it currently sets out rules relating to the amount that can be charged through infrastructure charges. Instead, the rules covering infrastructure charges would be included in our charges scheme rules which would allow flexibility to amend them without the need to amend a company's licence. We discussed the new infrastructure charge in more detail in section 4 and the proposed changes to the licences of the Welsh companies are explained in section 7.

Box 5.1 summarises the charging rules that are common to both option 2 and option 3. A full draft of the proposed charging rules is set out in appendices A2 and A3.

Box 5.1 – Summary of our proposed charging rules under options 2 and 3

Welsh companies would be required to:

- ensure charges reflect the charging principles. These are consistent with the Welsh Government’s guidance and are: simplicity and transparency; stability, predictability and timeliness; fairness and cost reflectivity; and environmental sustainability;
- ensure the balance of charges between developers and bill payers is broadly maintained;
- allow a level playing field for contestable work between new appointees, self-lay providers and existing undertakers; and
- consider how their charges incentivise the building and adoption of SuDS.

When setting infrastructure charges, companies would also be required to:

- ensure they reflect the cost of network reinforcement over a rolling period of years;
- include a clear methodology in their charging arrangements for how the infrastructure charge has been derived;
- consider setting infrastructure charges that includes variations to promote environmental sustainability, reduce surface water drainage and improve water efficiency; and
- take account of previous connections, explaining the methodology behind any discounts or credits.

When applying income offsets:

- companies should apply it to infrastructure charges, not requisition charges – asset payments would no longer apply;
- the infrastructure charge should be cost reflective, but if this leads to an increase in the infrastructure charge, consideration should be given to increasing income offsets to ensure that the current balance of charges is maintained; Welsh companies would be required to clearly explain their methodology in their charging arrangements; and
- companies would have discretion on how they calculate income offsets as set out in the Welsh Government’s guidance.

To promote transparency to customers, companies would be required every year to:

- publish their charging arrangements at least two months before they apply (to be proportionate, new appointees are not required to publish a full set of charges, but published charges arrangements must still comply with our rules); and
- ensure their charging arrangements cover all relevant costs and so that their customers can understand them, in keeping with the Welsh Government’s principle that the charges should be transparent and simple.

5.2 Charging rules applicable only to option 2 or option 3 (but not both)

Under option 3, our approach is to give more flexibility to Welsh companies in how they set and apply their charges, while retaining minimum requirements to ensure a functioning charging regime. The full draft charging rules in appendix A2 show the additional requirements that would apply under option 2 and option 3. The main differences between the two options are summarised in Table 3.1. Note that under option 3, companies are not prohibited from choosing to adopt the approaches required under option 2; they may do so if they consider that would be in the best interests of customers.

Table 5.1 Key differences between options 2 and 3

	Option 2 – targeted rules	Option 3 – light touch rules
Upfront fixed charges	Charges must be published and communicated to the customer upfront (prior to work commencing). Some exemptions may apply.	General requirements for charges to be transparent and predictable. Infrastructure charges should be published.
Site-specific	Charges levied on customers must reflect the actual work carried out on the specific site and their costs.	Charges levied on customers must relate to the costs incurred in providing developer services in general.
Customer consultation	Requirement for meaningful consultation on charges before they come into effect.	General requirement for charges to be fair, simple and transparent.
Publication of charges	Charging publication to include worked examples and high level methodology for how charges are derived (including how stakeholder views have been taken into account).	General requirement for charges to be fair, simple and transparent.

Question 7

Are there any charging rules that have been included under options 2 or 3 that are not required due to the general requirements of the charging principles?

Question 8

Are there any additional charging rules that should be included under options 2 or 3?

Question 9

What are your views on the three proposed options? Which of the options do you prefer?
Would you prefer another approach?

6. Stakeholder impact assessment

As part of developing these proposed rules we have assessed the likely impacts of our proposed changes. We base our initial assessment on stakeholders' responses to our previous consultations and impact assessments for similar changes to the new connections charging framework for English companies.

6.1 New connection customers

Under option 2 ('targeted rules') we consider new connections customers will be better off compared with the status quo (option 1). Principally, this is because developers, self-lay providers and new appointees should receive:

- better service and improved stakeholder satisfaction as a result of more predictable and transparent charges;
- greater innovation in new connections charges, for example through the provision of discount schemes for more sustainable infrastructure that are responsive to changing circumstances;
- more choice due to a level playing field between incumbents, self-lay providers and new appointees in the market for new connection services; and
- fewer disputes due to the prevalence of fixed upfront charges, and a more flexible regulatory framework for addressing customer concerns, which should lead to lower ongoing costs for all parties over time.

Under option 3, while it is similar in many respects to option 2, it is a more permissive approach which means these benefits may be reduced. We summarise the relative merits of options 2 and 3 in Table 6.1.

Table 6.1 – Impacts on customers from options 2 and 3

Issue	Option 2	Option 3
Upfront site-specific charges	Requiring upfront charges reflecting site-specific works for water services will mean charges are more predictable, transparent and reflective of actual costs incurred for that site.	Not requiring site-specific costs may result in charges that are less transparent and predictable, and reflective of costs incurred more generally. Potential risk of stakeholder dissatisfaction.
Contestable charges	Requiring separation of contestable and non-contestable charges supports a level playing field for other parties, including SLPs and new appointees, offering greater choice for new connection customers.	
How infrastructure charges are set	Cost-reflective and transparent charges. Ten-year rolling period may be more appropriate where there are relatively few new connections.	

How the income offset is applied	Delivers a level playing field between potential providers of new connection services.	
Consultation, publicity and transparency approach	More prescriptive ensuring a minimum level of publicity and transparency and consistency with the publication approaches by English companies.	Less prescriptive which may encourage innovation but could lead to lower engagement without the right incentives or requirements.
Consistency between charging regimes in England and Wales	While there are notable differences between the new connections charging frameworks for companies wholly or mainly in England and Wales, for those new connections customers that operate across both countries, they are likely to have a more consistent experience under option 2.	Under option 3 there is greater scope for significant differences between the charging regimes in England and Wales. This may be detrimental to customers.

6.2 Water companies

Compared with the existing framework, **under option 2** we consider Welsh companies should experience:

- greater freedom and flexibility to set their new connections charges with the ability to take ownership for developing their charges in accordance with our rules and in consultation with their stakeholders;
- increased scope to innovate when setting their new connections charges;
- the opportunity to develop meaningful engagement with their new connections customers, helping water companies to better understand and meet their needs;
- increased access to a level playing field for new connections services; and
- reduced regulatory burdens and ongoing costs overall due to the lower likelihood of lengthy disputes under a more flexible framework that facilitates greater predictability, transparency and engagement.

While Welsh companies are likely to incur initial implementation costs from moving to a new framework, we consider this to be outweighed by the benefits outlined above. We also expect them to be relatively minor due to the substantial level of consultation over recent years which should reduce companies' familiarisation costs.

Compared with the existing framework, **under option 3** we consider Welsh companies should experience:

- greater freedom and flexibility (and even more than under option 2) to set their new connections charges with the ability to take ownership for developing their charges in accordance with our rules;
- increased scope to innovate when setting their new connections charges;
- the opportunity to develop meaningful engagement with their new connections customers, helping water companies to better understand and meet their needs; and

- reduced regulatory burdens and ongoing costs overall due to the lower regulatory requirements of this option.

When considering the relative merits of options 2 and 3, while option 3 should give greater scope for Welsh companies to own their charges, this could lead to a high degree of divergence and future regulatory intervention arising from disputes. On the other hand, the less prescriptive nature of option 3 may reduce the likelihood of breaches with the charging rules and may be less burdensome on Welsh companies over time. We consider initial implementation costs to be broadly equivalent between options 2 and 3.

6.3 Our regulatory objectives

In terms of delivering our regulatory objectives and our strategy, because either this is not possible or limited by the existing framework, we consider **option 2** will:

- help to deliver better service – by enabling water companies to engage with their customers and to set charges that meet their needs, as well as providing greater choice from providers of new connections services;
- facilitate innovation – by enabling water companies to develop new approaches when setting their charges, for example through the provision of discounts and innovative charges structures; and
- enable environmental sustainability – by requiring water companies to consider the principle of environmental sustainability and providing them the flexibility to incorporate appropriate measures into their charges, for example by promoting more environmentally friendly dwellings.

Furthermore, we consider option 2 will enable us to periodically update our charging rules to reflect additional guidance issued by the Welsh Government and any further developments or evidence.

Under option 3 we consider that the proposed rules will:

- facilitate innovation – by enabling water companies to develop new approaches when setting their charges, for example through the provision of discounts and innovative charges structures;
- enable environmental sustainability – by requiring water companies to consider the principle of environmental sustainability and providing them the flexibility to incorporate appropriate measures into their charges, for example by promoting more environmentally friendly dwellings.

However, it is not clear that this option will help to deliver better service to the extent that option 2 would as the lack of fixed upfront charges may not remove barriers to other providers of developer services, reducing the potential choice of providers of new connections services

compared with option 2. While option 3 does provide Welsh companies with the freedom to engage with their customers in developing charges that meet their needs, it does not have the specific rules such as the requirement to undertake stakeholder consultation when developing charges that can help to facilitate a meaningful relationship with these customers.

When considering the relative merits of options 2 and 3, we are concerned that the less prescriptive nature of option 3 will not fully realise these benefits and our regulatory objectives. We are also concerned that it may lead to charges that are less cost-reflective and a lack of a level playing field which may not deliver the best outcomes for customers and the environment.

6.4 Aligning with the Welsh Government's guidance

When developing our proposed charging rules under options 2 and 3 we have acted in accordance with the Welsh Government's strategic priorities and objectives statement, and have had regard to guidance issued to us in relation to new connections charges.

6.4.1 Strategic priorities and objectives statement

We give an overview of how **options 2 and 3** for charging rules align with the [Welsh Government's priorities](#) below.

- **Affordability** – our proposed rules require Welsh companies' charging arrangements to be in accordance with the principle of fairness and cost reflectivity. To ensure further customer protection, Welsh companies must take reasonable steps to broadly maintain the balance of charges between developers and bill payers which will help to ensure that the introduction of new charging rules does not result in a sudden change in the levels of charges.
- **Innovation** – a more flexible charging framework allows Welsh companies to innovate with their new connections charges, for example to encourage greater water efficiency and more SuDS. The scope for innovation would be higher under option 3.
- **Long-term** – by changing the infrastructure charge to be set by each Welsh company to be on a cost reflective year averaged over a fixed period, Welsh companies will have a greater opportunity to invest ahead of need, considering future challenges and long-term requirements on water and wastewater infrastructure.
- **Markets and competition** – under option 2 our proposed rules better support a level playing field between new entrants and incumbent Welsh companies in the delivery of contestable developer services. Water companies would be required to publish fixed upfront contestable service charges for water services and potentially for wastewater services and consult and engage with local communities and all relevant stakeholders on these charges in order to ensure accountability and legitimacy in their charging

arrangements. As the proposed option 3 would not require upfront charges or consultation on the proposed charging rules, the resulting charges may not align as well with this priority.

- **Resilience** – a more flexible charging framework and better price signals should encourage a more efficient use of resources. Resilience of supply could be improved, for example if Welsh companies use the charging framework to incentivise greater water efficiency and more SuDS.
- **Strong customer focus** – our proposed charging rules under option 2 require Welsh companies to consult on their charging arrangements with local communities and all relevant stakeholders. We would also require Welsh companies to publish their charging arrangements in a clear and accessible format that customers can understand. Option 3 does not include these specific requirements, but also would not prevent the Welsh companies from ensuring a strong customer focus. As a result, the charges under option 3 may not align fully with this priority.
- **Sustainable management of natural resources** – a more flexible charging framework enables Welsh companies to incorporate innovative solutions to sustainable development, though we recognise that more significant outcomes may be reached through other means. Our rules also enable more efficient price signals to better reflect the wider environmental costs of new developments.

6.4.2 Welsh Government guidance on new connections charges

In 2017, the Welsh Government issued [guidance](#) to us under section 144ZE of the WIA91 on new connections charges.

Our proposed rules **under option 2** would require Welsh companies to set charges in accordance with the Welsh Government’s high-level principles set out in their guidance. We consider that our proposed rules will deliver these principles in the following specific ways:

- **Simplicity and transparency** – under our proposed rules Welsh companies would have to consult on their charging arrangements before publishing them. Our proposed rules ensure there is a clear boundary between site-specific and other work, and give companies flexibility to calculate income offsets provided the methodology is clearly published.
- **Stability, predictability and timeliness** – our proposed rules would ensure developers are able to plan with confidence, by requiring Welsh companies to consult on and publish their charging arrangements in advance.
- **Fairness and cost reflectivity** – our proposed rules would require Welsh companies to differentiate between site-specific and non-site-specific work and prevent them from recovering costs for wider network reinforcement to address pre-existing shortfalls. To protect end customers, Welsh companies would be required to broadly maintain the balance of charges between developers and bill payers. Where there are trade-offs, Welsh companies are required to consult and provide a clear rationale.

- **Environmental sustainability** – our proposed rules will deliver better price signals which should incentivise developments where there is a lower impact on the environment, and also facilitate Welsh companies to develop more environmentally friendly solutions such as SuDS.

Welsh companies would also be required to act in accordance with the principle that changes to their charging arrangements should only be made after effective, timely and proportionate consultation. To complement this our rules would require Welsh companies to publish a statement setting out any engagement undertaken and how stakeholders' views have been taken into account when developing their charging arrangements.

Under option 3, the Welsh companies would be likely to deliver charges to their customers that would satisfy the majority of the requirements of the Welsh Government guidance due to the requirements to set charges that satisfy the general charging principles. However, it may be that Welsh companies take different views of what is required to comply with the general charging principles in charging rules under option 3, and their charging arrangements may in consequence fail to reflect all of the aims of the Welsh Government guidance, with Ofwat being required to seek to change charging arrangements through ex-post regulation.

Under option 3, we consider that our proposed rules will deliver these principles in the following specific ways:

- **Simplicity and transparency** – Our proposed rules ensure there is a clear boundary between site-specific and other work, and give companies flexibility to calculate income offsets provided the methodology is clearly published. However they do not require the Welsh companies to undertake consultation on their charging arrangements.
- **Stability, predictability and timeliness** – our proposed rules would ensure developers are able to plan with some confidence, by requiring Welsh companies publish their charging arrangements in advance. However, as there would not be a requirement for the Welsh companies to set fixed upfront charges, the charges under this option may not provide the predictability that the Welsh Government and Welsh customers would like.
- **Fairness and cost reflectivity** – our proposed rules would require Welsh companies to differentiate between site-specific and non-site-specific work and prevent them from recovering costs for wider network reinforcement to address pre-existing shortfalls. To protect end customers, Welsh companies would be required to broadly maintain the balance of charges between developers and bill payers. Where there are trade-offs, Welsh companies are required to provide a clear rationale.
- **Environmental sustainability** – our proposed rules will provide the Welsh companies with the freedom to set innovative tariffs and to set tariffs that reflect the views of their customers. This can lead to better price signals which should incentivise developments where there is a lower impact on the environment, and also facilitate Welsh companies to develop more environmentally friendly solutions such as SuDS.

Under option 1, we do not consider that we would meet the Welsh Government guidance. The current charging arrangements result in charges that stakeholders do not believe are always transparent, predictable or cost reflective as discussed earlier in this document. As a result, we do not consider that retaining the current charging arrangements would result in charges that reflect the Welsh Government guidance.

Question 10

Are there any other issues we should consider as part of our assessment of the impacts of introducing the proposed charging rules?

7. Proposed licence condition variations

As well as issuing rules, under both proposed options 2 and 3 we would need to remove licence condition C, which currently concerns the maximum amount that can be charged through infrastructure charges. It also gives water undertakers a duty to promptly inform the relevant sewerage undertaker of any new water customers that connect to the public water network. Retaining this licence condition could limit the ability of Welsh companies to set appropriate, cost reflective infrastructure charges. The rules covering infrastructure charges would then be included in our charges scheme rules which would allow flexibility to amend them without the need to amend a company's licence.

In appendix A1, we have set out a draft version of the proposed licence amendment that we would introduce under this option for the Welsh companies to provide comments on. We propose to make this licence change in agreement with the Welsh companies under section 13 of the Water Industry Act of 1991. We welcome any views and comments from Welsh companies on this proposed licence amendment. We will undertake a formal consultation on a proposed licence modification when we consult on the final proposed charging rules.

We have set out two separate proposed licence changes, one that would apply to the two large water companies in Wales and one that would apply to Albion Eco. We have done this because Albion Eco, as a new appointee, has a different licence and different customer protections than that of the two large water companies in Wales.

7.1 Proposed modification to condition C (Infrastructure Charges) for Welsh water companies other than new appointees

The proposed modification of the text of condition C is intended to remove the existing price cap on infrastructure charges from the point at which the new charging rules come into effect, except where the requisition or adoption of the water main or public sewer being connected to would have been covered by the existing charging provisions in the Water Industry Act 1991 and not by Ofwat's new charging rules.

We consider that this change is necessary for two reasons. First, our new rules will move some costs currently covered through requisition charges to the infrastructure charge. Hence, the existing cap would no longer be appropriate. Second, instead of a cap, our rules will in future protect customers by requiring incumbent water companies to set cost-reflective infrastructure charges over a rolling five-year or ten-year period. The proposed condition C modification intends to reflect these policy changes.

We recognise that licence condition C also gives water undertakers a duty to promptly inform the relevant sewerage undertaker of any new water customers that connect to the public

water network. We therefore intend to include this duty in a modified condition D, discussed below.

7.1.1 Proposed modification to condition C (Infrastructure Charges) for Albion Eco

Currently, all Welsh companies (including new appointees) have a condition C which imposes the same limits on the level of infrastructure charges. In the interests of simplification, we therefore propose to modify the appointment of Albion Eco by simply deleting condition C.

Albion Eco currently only supplies two large non-household customers and so unlike other new appointees does not have the provision in condition B to prevent it from applying higher charges than the equivalent charges of the regional incumbent company. As this customer protection is not in place we could consider whether an alternative solution to the modification of condition C is necessary for Albion Eco. However, given the number and type of customer that Albion Eco currently serves, and the benefits of simplifying its licence by removing unnecessary provisions, we do not consider this is currently necessary. In the future, we could consider amending their licence if the circumstances change.

7.1.2 Proposed modification to condition D (Charges Schemes) for all Welsh companies

Currently, all Welsh companies have licence condition D which relates to the payment of infrastructure charges and charges schemes. We consider that the provisions in the current condition D would either no longer be necessary or would be adequately covered in our proposed charges scheme rules for Welsh companies. We therefore propose to remove these sections of condition D as part of this proposed licence modification.

We do note that the current licence condition C does include a duty placed on water companies when connecting a new customer to the water network to inform the relevant wastewater company of this connection. As there may be benefits in retaining this duty, we propose to move this duty from condition C to condition D, replacing the current condition D.

We set out in our 2018 consultation on making these changes to English companies¹² that we would implement these changes for companies operating wholly or mainly in Wales once the new charging regime for developer services is in place in Wales.

¹² [Consultation under section 13 of the Water Industry Act 1991 on proposed modification to simplify various conditions of all undertakers' licences - Ofwat.](#)

A1 Draft modification – condition C (infrastructure charges) and condition D (Charges Schemes)

If we decide on either options 2 or 3, the revised Charges Scheme Rules would set out new rules for the calculation of infrastructure charges when they come into effect. Existing charging provisions for connections and new infrastructure would be replaced with charging rules for new connection services. Currently, the rules concerning the amounts that can be charged through infrastructure charges are set out in condition C of the Welsh companies' licences. We would engage with Welsh companies on a proposal to modify condition C of their licence on infrastructure charges that would:

- remove the current restrictions on the maximum amount of infrastructure charges from the point at which the new rules come into effect; and
- provide that the existing restrictions on the maximum amount of infrastructure charges will continue to apply after the new rules come into effect in relation to connections where the existing charging provisions continue to apply under any transitional arrangements that the Welsh Government sets out when they replace the existing charging provisions in the WIA91.

We have provided an illustrative example of what such a change to condition C may be, which is based on the change that was made to the licence conditions of companies whose areas are wholly or mainly in England.

We would also propose a change to condition D similar to the proposal recently consulted on that would preserve the requirement for water undertakers to inform wastewater undertakers of any new customers that are connected to their network.¹³ We consider that the provisions in the current condition D would either be no longer necessary or would be adequately covered in statutory charges scheme rules for Welsh companies.

Albion Eco currently only supplies two large non-household customers and so unlike other new appointees does not have the provision in condition B to prevent it from applying higher charges than the equivalent charges of the regional incumbent company. As this customer protection is not in place we could consider whether an alternative solution to the modification of condition C is necessary for Albion Eco. However, given the number and type of customer that Albion Eco currently serves, and the benefits of simplifying its licence by removing unnecessary provisions, we do not consider this is currently necessary. In the future, we could consider amending their licence if the circumstances change.

¹³ [Consultation under section 13 of the Water Industry Act 1991 on proposed modification to simplify various conditions of all undertakers' licences - Ofwat.](#)

Whilst we will engage with Welsh companies on this proposal as a separate process, we also welcome any comments on our proposed licence modifications at this stage, including the wording of the illustrative example.

Proposed licence modification for large Welsh undertakers – illustrative example

This is an illustrative example of our proposed modification to condition C (Infrastructure Charges). The actual wording of any licence modification we make might be different for some or all undertakers and has assumed an implementation date of 1 April 2022 for illustrative purposes:

Insert after paragraph 15:

“16 Cessation of this condition

16.1 Subject to sub-paragraph 16.2, this condition (including the Appendix) shall cease to have effect on 1 April 2022 and shall not limit the amount of any Infrastructure Charge in respect of each Charging Year starting on or after that date.

16.2 This condition (including the Appendix) shall continue to have effect in relation to a connection made on or after 1 April 2022 in the following circumstances:

(a) in relation to a Water Infrastructure Charge, if the premises are connected to a water main that;

(i) was provided by a water undertaker under section 41 of the Water Industry Act 1991 and the charges for that water main were calculated on the basis of the provisions of the Water Industry Act 1991 before they were amended by the Water Act 2014; or

(ii) was, or will be, adopted by a water undertaker in accordance with an agreement to which new charging rules do not apply; and

(b) in relation to a Sewerage Infrastructure Charge, if the premises are being connected to a public sewer that;

(i) was provided by a sewerage undertaker under section 98 of the Water Industry Act 1991 and the charges for that public sewer were calculated on the basis of the provisions of the Water Industry act 1991 before they were amended by the Water Act 2014; or

- (ii) was, or will be, adopted by a sewerage undertaker in accordance with an agreement to which new charging rules do not apply.

16.3 In this paragraph “new charging rules” means rules about charges issued by the Water Services Regulation Authority under section 51CD or 105ZF of the Water Industry Act 1991.”

This is an illustrative example of our proposed modification to condition D (New connections). The actual wording of any licence modification we make might be different for some or all undertakers:

Condition D: New connections

Introduction

This condition requires that, where the Appointee makes a new connection to one of its water mains, the Appointee must provide specified information to any separate sewerage undertaker for the premises.

Informing sewerage undertakers of connections

D1 Where the Appointee connects premises to a water main which is owned by the Appointee, and the drainage of those premises is into a public sewer owned by a sewerage undertaker which is not the Appointee, the Appointee must as soon as reasonably practicable inform that sewerage undertaker of:

D1.1 the address of the premises;

D1.2 the date of the connection; and

D1.3 to the extent known to the Appointee:

D1.3.1 the name and address of the person who is liable to pay charges for the supply of water to the premises; and

D1.3.2 the name and address of any other person who is liable to pay Infrastructure Charges in respect of the premises.

Defined terms used in condition D (to be included in condition A)

“**Infrastructure Charge**” means a Water Infrastructure Charge or a Sewerage Infrastructure Charge.

A2 Draft Charging Rules for New Connection Services – Welsh Undertakers

Under options 2 and 3, many of the proposed charging rules are the same, but some aspects would be different. The following draft charging rules show these similarities and differences; black text would be included under both options, whereas red text would only be included under option 2.

WATER SERVICES REGULATION AUTHORITY

WATER INDUSTRY ACT 1991, SECTIONS 51CD, 105ZF AND 144ZA

Draft Charging Rules for New Connection Services (Welsh Undertakers)

Introduction

1. These rules are issued by the Water Services Regulation Authority under sections 51CD, 105ZF and 144ZA of the Water Industry Act 1991.
2. These rules have effect in relation to charges imposed on or after 1 April 2022 by water undertakers and sewerage undertakers whose areas are wholly or mainly in Wales.
3. For the avoidance of doubt, these rules do not apply to a relevant undertaker in relation to any:
 - a) request for a supply of water for non-domestic purposes to which section 55 of the Water Industry Act 1991 applies;
 - b) application for a consent to discharge trade effluent from any trade premises under section 119 of the Water Industry Act 1991;
 - c) request made by a water supply licensee for the connection of premises to a water undertaker's supply system, or other steps in respect of that system, to which section 66A of the Water Industry Act 1991 applies;
 - d) charges that may be imposed by a water undertaker under an agreement to provide one or more water undertakers with a supply of water in bulk; or
 - e) charges that may be imposed by a sewerage undertaker under an agreement to permit a main connection into its sewerage system by one or more sewerage undertakers.
4. The rules are supplementary to statutory provisions that apply to relevant undertakers under any enactment, or instrument made thereunder (including the conditions of their

appointments). In the event of any conflict between the rules and any statutory provision, the latter shall prevail.

Interpretation

5. Unless the context otherwise requires, in these rules:

- a) “**Asset Payment**” means:
 - i. in relation to a section 51A agreement with a water undertaker, the amount described in section 51CD(3) of the Water Industry Act 1991; and
 - ii. in relation to a section 104 agreement with a sewerage undertaker, the amount described in section 105ZF(3) of the Water Industry Act 1991.
- b) “**Charging Arrangements**” means a document setting out the charges, and/or the methodologies for calculating them, applied by the water or sewerage undertaker in accordance with these rules.
- c) “**Charging Year**” means a calendar year running from 1 April in a given year to 31 March in the following year.
- d) “**Charges Scheme Rules**” means the Charges Scheme Rules issued by the Water Services Regulation Authority under sections 143(6A) and 143B of the Water Industry Act 1991.
- e) “**Communication Pipe**” means any part of a Service Pipe which a water undertaker could be, or have been, required to lay under section 46 of the Water Industry Act 1991.
- f) “**Connection Charges**” has the meaning given by paragraph 31 below.
- g) “**Contestable Work**” means work or services that either the relevant undertaker or persons other than the relevant undertaker may do or provide.
- h) “**Developer**” means any person or business which is responsible for a Development.
- i) “**Development**” means premises on which there are buildings, or on which there will be buildings when proposals made by any person for the erection of any buildings are carried out, and which require connection with, and/or modification of, existing water or sewerage infrastructure.

- j) “**Diversions Charges**” has the meaning given by paragraph 42 below.
- k) “**Fixed Charges**” mean charges set for a given Charging Year which are fixed in amount or which are calculated by reference to a predetermined methodology set out in the undertaker’s Charging Arrangements, the application of which allows calculation at the outset of the total amount owing in that Charging Year in respect of the charges in question. Such charges are to be fixed for a Charging Year, as defined above.

For the avoidance of doubt, and subject to the above, undertakers may impose Fixed Charges by reference to a unit measurement (for example, per mega-litre). Furthermore, undertakers may offer more than one Fixed Charge in charging for a service provided in accordance with the present rules (for example, by differentiating between different geographic areas).

- l) “**Income Offset**” has the meaning given in the Charges Scheme Rules.
- m) “**Infrastructure Charge**” has meaning given in the Charges Scheme Rules
- n) “**Lateral Drain**” means (a) that part of a drain which runs from the curtilage of a building (or buildings or yards within the same curtilage) to the sewer with which the drain communicates or is to communicate; or (b) (if different and the context so requires) the part of a drain identified in a declaration of vesting made under section 102 of the Water Industry Act 1991 above or in an agreement made under section 104 of this Act.
- o) “**Network Reinforcement**” refers to work other than Site-Specific Work, as defined below, to provide or modify such other:
- i. Water Mains and such tanks, service reservoirs and pumping stations, or
 - ii. Sewers and such pumping stations

as is necessary in consequence of the Site-Specific installation or connection of Water Mains, Service Pipes, Public Sewers and Lateral Drains pursuant to an agreement with, or a duty owed under the Water Industry Act 1991 to, a person other than a relevant undertaker, including a requisition (under sections 41(1), 98(1) or 98(1A)), under an agreement for adoption (under sections 51A or 104), under a section 66D agreement, pursuant to section 45(1) (Duty to make connections with main) or in accordance with another duty imposed by the Act, or in consequence of the exercise of rights under section 106(1) (Right to communicate with public sewers). It also includes the additional capacity in any earlier Water Main or Sewer that falls to be used in consequence of the provision or connection of a new Water Main or Sewer.

- p) “**New Appointee**” means
- i. a company holding an appointment as a relevant undertaker where the conditions of that appointment limit the charges that can be fixed under a charges scheme by reference to the charges fixed by one or more other relevant undertakers; or
 - ii. Albion Eco Limited.
- q) “**Non-contestable Work**” means work or services that only the relevant undertaker (or an agent acting on their behalf) can do or provide.
- r) “**Public Sewer**” means a sewer for the time being vested in a sewerage undertaker, whether under the Water Act 1989, the Water Industry Act 1991 or otherwise.
- s) “**Requisition Charges**” has the meaning given by paragraph 23 below.
- t) “**Service Pipe**” means so much of a pipe which is, or is to be, connected with a water main for supplying water from that main to any premises as — (a) is or is to be subject to water pressure from that main; or (b) would be so subject but for the closing of some valve, and includes part of any service pipe
- u) “**Sewer**” includes all sewers and drains (not being drains within the meaning given by section 219(1) of the Water Industry Act 1991) which are used for the drainage of buildings and yards appurtenant to buildings. This definition includes tunnels or conduits which serve as such a pipe and any accessories for such a pipe.
- v) “**Site-Specific**” refers to work on, or the provision of, water or sewerage structures or facilities located on a Development as well as work to provide and connect a requested Water Main, Sewer, Communication-Pipe or Lateral Drain on, to, or in the immediate vicinity of, the Development and “**Site-Specific Work**” shall be construed accordingly. It does not refer to costs or work required as part of **Network Reinforcement** as defined above.
- w) “**Sustainable Drainage System**” means a drainage system that complies with the national standards for sustainable drainage and those terms shall have the same meaning as in Schedule 3 to the Flood and Water Management Act 2010.
- x) “**Undertaker**” means a water undertaker or sewerage undertaker.

- y) **“Water Main”** means any pipe, not being a pipe for the time being vested in a person other than the undertaker, which is used or to be used by a water undertaker or licensed water supplier for the purpose of making a general supply of water available to customers or potential customers of the undertaker or water supply licensee, as distinct from for the purpose of providing a supply to particular customers. This definition includes tunnels or conduits which serve as a pipe and to any accessories for the pipe.
6. Unless the contrary intention appears, words and expressions used in these rules have the same meaning as in any provision of the Water Industry Act 1991.

Consultation

7. Undertakers must determine what types of charges covered by these rules may or may not be imposed, and the amount of such charges, in accordance with the principle that changes to charges covered by these rules should only be made after effective, timely and proportionate consultation with groups of persons likely to be significantly affected by the proposed Charging Arrangements (or their representatives), the Consumer Council for Water and any other persons the Undertakers consider it appropriate to consult.

Publication and Transparency

8. Relevant undertakers must publish charges developed under these rules in a single document (the Charging Arrangements). The Charging Arrangements must be published on the Undertaker’s website and in any other manner the undertaker considers appropriate for the purpose of bringing the Charging Arrangements to the attention of persons likely to be affected by it.
9. The maximum amount of any charge that may be imposed by an Undertaker under the provisions of the Water Industry Act 1991 covered by these rules shall be the amount set out in, or calculated in accordance with, the Charging Arrangements published by that Undertaker. For the avoidance of doubt, the charges and charging methodologies set out in the Charging Arrangements must therefore include relevant miscellaneous and ancillary costs such as assessment, inspection, design, legal and supervision charges that the Undertaker is entitled to recover, unless there is a different legal basis for the recovery of such costs.
10. The Charging Arrangements must be published no later than two months before the period in relation to which they have effect. Charging Arrangements must be published at least once in every year from 2022 onwards.

11. The Charging Arrangements must explain how each charge has been calculated or derived. Where an Undertaker determines the applicable charges other than by Fixed Charges, the methodology for the calculation of such charges must be explained clearly in the Charging Arrangements.
12. The Charging Arrangements are to be written and presented in a clear and accessible manner, which takes due account of the varying levels of expertise of all Developers or other customers who may rely on the Charging Arrangements. Undertakers should consider publishing worked examples where this could aid customers' understanding.
13. Charges must be published with such additional information or explanation as is necessary to make clear what services are covered by each charge.
14. Undertakers must publish the charges covered by these rules in such a way that a Developer or other customer can confidently work out a reasonable estimate of the charges payable if they know the relevant parameters of a Development.
15. The Charging Arrangements must identify which charges are associated with Contestable Work and Non-contestable Work.
16. Undertakers must provide a reasonable choice of times and methods of payment of the charges and set these out in the Charging Arrangements.

New appointees

17. These rules apply to New Appointees subject to the following provisions:
 - a) a New Appointee is not required to publish one or more of the charges covered by these rules (or a methodology for calculating them) where it would be unreasonable to expect the company to do so (having had regard to the number of requests for the relevant services that the company would reasonably expect to receive);
 - b) the charges imposed by a New Appointee under the provisions of the Water Industry Act 1991 covered by these rules must be calculated in accordance with the principles and requirements set out in these rules whether or not they are published in Charging Arrangements and this includes, where relevant, requirements to provide the option of upfront Fixed Charges;
 - c) paragraph 9 of these rules does not restrict the maximum amount of a charge imposed by a New Appointee if Charging Arrangements published by that company do not include relevant charges or charging methodologies;
 - d) paragraph 10 of these rules does not apply to a New Appointee – instead, a New Appointee must publish any Charging Arrangements no later than five weeks before the period in relation to which they have effect; and

- e) for the avoidance of doubt, this paragraph does not exempt a New Appointee from the requirement in paragraph 44 of these rules to clearly set out in its Charging Arrangements requirements for security in relation to any charges to be applied.

General charging principles

18. Relevant undertakers must determine what types of charges may or may not be imposed and the amount of any charges that may be imposed in accordance with the principle that charges covered by these rules should reflect:
- (a) simplicity and transparency;
 - (b) stability, predictability and timeliness;
 - (c) fairness and cost reflectivity; and
 - (d) environmental sustainability.

Principles for Determining the Nature and Extent of All Charges Covered by these Rules

19. In setting charges in accordance with the present rules, Undertakers should take reasonable steps to ensure that the present balance of charges between Developers and other customers prior to the implementation of these rules is broadly maintained. 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 prepared pursuant to these rules.
20. Consistent principles and approaches must be applied to the calculation of charges and when they are payable for different classes of customer. For the avoidance of doubt, this includes the calculation of charges and when they are payable for Non-contestable Work, whether or not a person other than the undertaker is carrying out Contestable Work.
21. Charges (including any Income Offsets) and any Asset Payments and arrangements for when they are each payable must be set in accordance with the principle that they should promote a level playing field for Contestable Work.
22. For the avoidance of doubt, in charges covered by these rules Undertakers may recover reasonable administrative expenses and other overheads incurred in discharging any rights or obligations under the relevant provisions of the Water Industry Act 1991.
23. When setting its charges, Undertakers should consider options for promoting the use of Sustainable Drainage Systems. This should include the consideration of charges that

take into account the extent to which surface water drains from newly connected sites to the public sewer network.

Charges for the Requisition of Water Mains and Public Sewers

24. Each Undertaker shall set out in its Charging Arrangements charges that will be imposed by that Undertaker for work carried out by it in accordance with the duties imposed by section 41(1) (provision of requisitioned Water Main) and section 98(1) (provision of requisitioned public sewer) of the Water Industry Act 1991 (together, “**Requisition Charges**”).
25. These charges are concerned with the cost to the Undertaker of providing **Site-Specific** infrastructure necessary for the provision of a Water Main and/or Public Sewer.
26. In relation to charges for requisitioned Water Mains, an Undertaker:
 - a) must provide for the option of upfront Fixed Charges in respect of any work carried out by the Undertaker; and
 - b) may also provide for other alternative methods for calculating charges but, where it does so, each alternative method must be explained clearly in the Charging Arrangements.

In relation to charges for the provision of requisitioned public sewers, an Undertaker must clearly explain the method for calculating the charges in the Charging Arrangements.

27. Requisition Charges must relate to the costs of providing **the** requisitioned Water Mains and/or Public Sewers. Such charges may not include any amount for Network Reinforcement costs.
28. Any Requisition Charges imposed by an Undertaker:
 - a) must relate only to Site-Specific Work carried out and costs incurred by the Undertaker in order to meet its duties under sections 41(1) or 98(1) of the Water Industry Act 1991; and
 - b) must not relate to work needed or desired to modify or enhance existing network infrastructure in order to address pre-existing deficiencies or to enhance network flexibility, in capacity or capability, unrelated to requirements associated with the requisition.

29. Where an Undertaker provides a Water Main or Public Sewer pursuant to a requisition and, in so doing, decides to increase the capacity of pipes or other infrastructure beyond that which is needed to meet the undertaker's duty under section 41(1) or section 98(1) of the Water Industry Act 1991, the costs of this work shall, if this increases the costs of the work, be apportioned so that the person making the requisition only pays costs which are in proportion to the particular capacity required by his or her requisition.

Charges for the Provision of Lateral Drains, the Connection of Water Mains and Communications with Public Sewers and for Ancillary Works

30. Each Undertaker shall set out in its Charging Arrangements charges that will be imposed by that Undertaker for work carried out by it in accordance with the duties (or rights) created by the following provisions of the Water Industry Act 1991: section 45(1) (connection with Water Main); section 46(1) (ancillary works for purposes of making a domestic connection); section 98(1A) (provision of lateral drains); section 101B (construction of lateral drains following construction of a public sewer) or section 107(1) (right of undertakers to make communication with Public Sewer) (together, "**Connection Charges**").
31. In relation to charges for a connection with Water Main and ancillary works for purposes of making a domestic connection an Undertaker:
- a) must provide for the option of upfront Fixed Charges in respect of any work carried out by the Undertaker; and
 - b) may also provide for other alternative methods for calculating charges but, where it does so, each alternative method must be explained clearly in the Charging Arrangements.

In relation to charges for the provision of lateral drains, the construction of lateral drains following construction of a public sewer and the right of undertakers to make communication with Public Sewer an Undertaker must clearly explain the method for calculating the charges in the Charging Arrangements.

32. Any Connection Charges imposed by an Undertaker must relate **only** to **Site-Specific Work carried out and** costs incurred by the undertaker pursuant to sections 45(1), 46(1), 98(1A), 101B or 107(1) of the Water Industry Act 1991.
33. Undertakers shall not provide for Income Offsets in setting Connection Charges.

Charges and Asset Payments in respect of an Agreement under Section 51A or 104 of the Water Industry Act 1991

34. Each Undertaker shall set out in the applicable Charging Arrangements the charges to be imposed in respect of an agreement under section 51A or section 104 of the Water Industry Act 1991.
35. These charges are concerned with the cost of **Site-Specific** Work necessary as part of the adoption or connection of a Water Main, Communication Pipe, Public Sewer and/or Lateral Drain. Such charges may not include any amount for Network Reinforcement costs.
36. Any charges imposed by an Undertaker in respect of an agreement under section 51A or section 104 of the Water Industry Act 1991:
 - a) must relate only to **Site-Specific** Work carried out and costs incurred by the Undertaker in order to meet its duties **under such an agreement; and**
 - b) **must not relate to work needed or desired to modify or enhance existing network infrastructure in order to address pre-existing deficiencies, in capacity or capability, unrelated to requirements associated with the agreement.**
37. **Insofar as section 51A agreements are concerned, water undertakers shall not provide for Asset Payments for the adoption of a water main.**
38. **Insofar as section 104 agreements are concerned, sewerage undertakers shall not provide for Asset Payments for the adoption of a Sewer.**
39. **Undertakers shall not provide for Asset Payments for the adoption of a Communication Pipe or Lateral Drain.**

Charges for Diversions of Pipes and other Apparatus under Section 185 of the Water Industry Act 1991

40. Each Undertaker must set out in its Charging Arrangements its method(s) for calculating the charges imposed by that undertaker pursuant to section 185(5) of the Water Industry Act 1991 ("**Diversion Charges**"). **In relation to Diversion Charges an Undertaker:**

- a) should provide for the option of upfront Fixed Charges in respect of any work carried out by the undertaker, unless it would be unreasonable to expect an undertaker to do so; and
 - b) may also provide for other alternative methods of calculating charges but, where it does so, each alternative method must be explained clearly in the Charging Arrangements.
41. Charges levied pursuant to section 185(5) must be calculated by reference to the principle that the Undertaker is only entitled to recover costs reasonably incurred as a result of complying with the duty imposed by section 185(1) of the Water Industry Act 1991.

Security/Deposit Arrangements

42. An Undertaker is allowed to require security prior to commencing work, whether in the form of a sum deposit with the Undertaker or otherwise:
- a) under section 42(1)(b), 47(2)(a), 99(1)(b), 101B(3A), 107(3)(b)(ii) or 185(4); or
 - b) for the purposes of any charges imposed under an agreement under section 51A or section 104 of the Water Industry Act 1991.
43. The type and amount of security should not be unduly onerous, taking into account the risk to be borne by the Undertaker in carrying out the work in question. The type and amount of security and the payment of interest on the security, where Undertakers require security, should reflect the general charging principles set out in paragraph 18.
44. The Undertaker must clearly set out requirements for security in relation to any charges to be applied in its Charging Arrangements.

Exception from requirements to provide upfront Fixed Charges

45. Undertakers are not required to provide for the option of upfront Fixed Charges in accordance with paragraphs 26 (in relation to Requisition Charges) and paragraph 31 (in relation to the provision of new connections and lateral drains) of these rules, or to comply with paragraph 14, where, and to the extent that, it would be unreasonable to expect an undertaker to do so (having had regard to the practicality of setting a cost-reflective upfront Fixed Charge and the benefit to customers of producing such a charge).

46. Where paragraph 45 applies, an Undertaker must set out, and explain clearly, in its Charging Arrangements the alternative method or methods that will apply for calculating charges.

Appendix: Information requirements

1. Each Undertaker should provide to the Water Services Regulation Authority an assurance statement from its Board of Directors and publish its statement no later than the time of publication of the Charging Arrangements:
 - i. confirming that the company complies with its obligations relating to these Charging Rules;
 - ii. confirming that the company has appropriate systems and processes in place to make sure that the information contained in the charges scheme, and the additional information covered by this appendix is accurate;
 - iii. explaining how the present balance of charges between Developers and other customers is broadly maintained; and
 - iv. explaining how they have taken the views of stakeholders into account when making their Charging Arrangement and set out and justify where there is a trade-off between the general charging principles and objectives raised by stakeholders.

A3 Option 2 and 3 revised Charges scheme rules

[Differences from the current Charges Scheme Rules are shown in red.]

Introduction

1. These rules are issued by the Water Services Regulation Authority under sections 143(6A) and 143B of the Water Industry Act 1991.
2. The rules come into effect on [date to be inserted] replace the rules that came into effect on [insert date].
3. The rules apply to water undertakers and sewerage undertakers when they are making a charges scheme.
4. The rules are supplementary to statutory provisions that apply to relevant undertakers under any enactment, or instrument made thereunder (including the conditions of their appointments), and in the event of any conflict between the rules and any statutory provision, the latter shall prevail.

Interpretation

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

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

where:

R = reception and conveyance charge [p/m³]

V = primary treatment (volumetric) charge [p/m³]

Bv = additional volume charge if there is biological treatment [p/m³]

M = treatment and disposal charge where effluent goes to sea outfall [p/m³]

B = biological oxidation of settled sewage charge [p/kg]

Ot = Chemical oxygen demand (COD) of effluent after one hour quiescent settlement at pH 7

Os = Chemical oxygen demand (COD) of crude sewage one hour quiescent settlement

S = treatment and disposal of primary sewage sludge charge [p/kg]

St = total suspended solids of effluent at pH 7 [mg/litre]

Ss = total suspended solids of crude sewage [mg/litre]

- **“Network Reinforcement”** has the same meaning
 - i. as in the charging rules for new connection services (English Undertakers) for relevant English Undertakers; and
 - ii. as in the charging rules for new connection services (Welsh Undertakers) for relevant Welsh Undertakers

issued by the Water Services Regulation Authority under sections 51CD, 105ZF and 144ZA of the Water Industry Act 1991;

- **“new appointee”** means
 - i. a company holding an appointment as a relevant undertaker where the conditions of that appointment limit the charges that can be fixed under a charges scheme by reference to the charges fixed by one or more other relevant undertakers; or
 - ii. Albion Eco Limited
- **“rateable value charge”** means a charge fixed wholly or partly by reference to a rating valuation list or otherwise determined, whether directly or indirectly, by reference to any value or other amount specified at any time in such a list or which purports to be so fixed or determined;
- **“rating valuation list”** means a list which is or has at any time been maintained, for the purposes of rating, under section 41 of the Local Government Finance Act 1988, section 67 of the General Rate Act 1967 or any other enactment;
- **“service”** includes the supply of water;
- **“unmetered charge”** means a charge for services that are not based on measured quantities of volume to any extent; and
- **“Welsh Undertaker”** means an undertaker whose area is wholly or mainly in Wales.

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

Consumer Council for Water

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

Bill stability

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

Publication

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

Principles for determining the amounts of charges

12. Consistent principles and approaches must be applied to the calculation of charges for different classes of customers.
13. Charging structures must reflect the long run costs associated with providing the relevant service.
14. Charges for services provided to domestic premises must be fixed so that the average difference between metered charges and unmetered charges only reflects any differences in the costs of, and the additional benefits of, the provision of one service relative to the other;
15. Differences between charges for services provided to larger users of water and charges for services provided to smaller users of water must only be based on cost differences

associated with differential use of network assets, differential peaking characteristics, different service levels and/or different service measurement accuracy.

16. Where cost differences associated with differential peaking characteristics are used as a basis for differences between charges for services provided to larger users of water and charges for services provided to smaller users of water, the charges fixed on that basis must be structured on an appropriate peak demand basis.
17. Charges for sewerage services must take into account the different pollutant loads associated with household foul sewage, non-household foul sewage, trade effluent, surface water draining from premises and surface water draining from highways.

Assessed charges

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

Unmetered charges

19. Charges schemes that include any unmetered charges must clearly state the basis on which those charges are fixed or determined and, in the case of rateable value charges, state:
 - (a) which rating valuation list charges are fixed or determined by reference to; and

- (b) if the undertaker uses a different value or other amount to that specified in such a list, the methodology or other basis on which that different value or other amount is calculated.

Wastewater charges

- 20. Sewerage undertakers' charges schemes must provide for a cost reflective reduction in the charges payable for the provision of sewerage services to any premises where the sewerage undertaker knows, or should reasonably have known, that surface water does not drain to a public sewer from those premises.
- 21. Sewerage undertakers must set out in their charges schemes how any reduction in the charges payable for the provision of sewerage services to any premises will be calculated if customers can demonstrate that they have significantly reduced the volume of surface water draining to a public sewer from their premises or explain why there is no such provision.

Trade effluent

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

Social tariffs / Concessionary drainage charges

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

Times and methods of payment

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

New appointees

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

Infrastructure charges

26. Each relevant undertaker must fix Infrastructure Charges in a charges scheme.
27. Infrastructure Charges must be determined in accordance with the principle that the charges should reflect:
- i. for each English Undertaker
 - (c) fairness and affordability;
 - (d) environmental protection;
 - (e) stability and predictability; and
 - (f) transparency and customer-focused service
 - ii. for each Welsh Undertaker
 - (a) simplicity and transparency;
 - (b) stability, predictability and timeliness;
 - (c) fairness and cost reflectivity; and
 - (d) environmental sustainability.
28. Infrastructure Charges must be determined in accordance with the principle that:
- (a) For English Undertakers the amount of such charges will over each period of five consecutive Charging Years ending on 31 March 2023 and, thereafter, on 31 March in each subsequent year cover the costs of Network Reinforcement that the relevant undertaker reasonably incurs, less any other amounts that the relevant undertaker receives for Network Reinforcement; or
 - (b) For Welsh Undertakers the amount of such charges will be over each period of ten consecutive Charging Years ending on 31 March 2032 and, thereafter, on 31 March in each subsequent year cover the costs of Network Reinforcement that the relevant undertaker reasonable incurs, less any other amounts that the relevant undertaker receives for Network Reinforcement.

If we decide that the Welsh companies should base their infrastructure charges on a rolling 5-year period, we will amend rule 28 (b) to reflect this.

If we decide that Dŵr Cymru should base its infrastructure charges on a rolling 5-year period, but Hafren Dyfrdwy and NAVs should base their infrastructure charges on a rolling 10-year period, we will replace rule 28 (b) with the following:

(b) For Dŵr Cymru Welsh Water the amount of such charges will be over each period of five consecutive Charging Years ending on 31 March 2027 and, thereafter, on 31 March in each subsequent year cover the costs of Network Reinforcement that the relevant undertaker reasonable incurs, less any other amounts that the relevant undertaker receives for Network Reinforcement.

We will also add an additional rule 28 (c):

(c) For Hafren Dyfrdwy and New appointees that operate wholly or mainly in Wales, the amount of such charges will be over each period of ten consecutive Charging Years ending on 31 March 2032 and, thereafter, on 31 March in each subsequent year cover the costs of Network

29. Charges schemes must include a clear methodology explaining how Infrastructure Charges have been calculated.
30. For the avoidance of doubt, Infrastructure Charges must not relate to the costs of reinforcing, upgrading or otherwise modifying existing network infrastructure in order to address pre-existing deficiencies in capacity or in capability unrelated:
- a) to the provision of a new water main or public sewer pursuant to an agreement with, or a duty owed under the Water Industry Act 1991 to, a person other than a relevant undertaker (including, but not limited to, the provision of a new water main or public sewer pursuant to a requisition under sections 41(1) or 98(1), a section 66D agreement or, for English Undertakers only a section 117E agreement);
 - b) to the adoption of infrastructure under a section 51A or 104 agreement; or
 - c) to connections described in section 146(2) of the Water Industry Act 1991.
31. Infrastructure Charges may be set as a fixed charge per connection or calculated in accordance with a formula. As long as the difference between amounts is cost-reflective,

the amounts of Infrastructure Charges may vary to reflect different circumstances and, in particular, may be different for different geographical areas.

32. In making charges schemes, each relevant undertaker must ensure that:

- a) charges schemes clearly set out how Infrastructure Charges have been calculated;
- b) the amount of Infrastructure Charges applied in respect of the modification or redevelopment of existing buildings or premises is determined in accordance with the principle that the amount must take due account of any previous usage associated with the buildings and/or premises to which the charges are to be applied and be discounted accordingly; and
- c) charges schemes clearly explain the methodology to be applied for determining a discount to reflect previous usage.

33. Rules 26 to 32 above do not apply to:

- a) new appointees; or
- b) **for English Undertakers** any charges scheme that has effect in relation to a period ending before 1 April 2018; **or**
- c) **for Welsh Undertakers** any charges scheme that has effect in relation to a period ending before 1 April 2022.

Appendix: Information requirements

- 1 Each undertaker should provide to the Water Services Regulation Authority an assurance statement from its Board of Directors and publish its statement no later than the time of publication of the charges schemes confirming that:
 - (c) the company complies with its legal obligations relating to the charges set out in its charges schemes;
 - (d) the Board has assessed the effects of the new charges on customers' bills for a range of different customer types, and approves the impact assessments and handling strategies developed in instances where bill increases for particular customer types exceed 5%;
 - (e) the company has appropriate systems and processes in place to make sure that the information contained in the charges scheme, and the additional information covered by this appendix is accurate; and
 - (f) the company has consulted the Consumer Council for Water (CCW) in a timely and effective manner on its charges schemes.

- 2 With the exception of new appointees, each undertaker should provide to the Water Services Regulation Authority a statement setting out any significant changes anticipated by the undertaker, and publish the statement, at least three weeks before the publication of the charges schemes. The statement should include the following:
- (a) Confirmation of whether the undertaker is expecting there to be any bill increases of more than 5% from the previous year (for a given customer type assuming a constant level of consumption) and, if such increases are expected:
 - (i) what size increase is expected;
 - (ii) which customer types are likely to be affected; and
 - (iii) the handling strategies adopted by the company or why the company considered that no handling strategies are required.
 - (b) Details of any significant changes in charging policy by the company from the previous year.
- 3 In addition to the assurances set out in 1 above, new appointees' assurance statements must include assurance that their charges schemes offer:
- (a) levels of service at least comparable to the previous appointee's charges scheme;
 - (b) prices that do not exceed those in the previous appointee's charges scheme for similar services; and
 - (c) prices equivalent to those specified in the new appointee's application for each individual appointment or variation area.

**Ofwat (The Water Services Regulation Authority)
is a non-ministerial government department.
We regulate the water sector in England and Wales.**

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