

# Information notice

26 October 2021

## **IN 21/04 Expectations, assurance and information requirements for water company charges for 2022–23**

### **About this document**

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

This document should be read in conjunction with our charging rules which set out the requirements in full (see below) as well the changes we made to the charging rules which will come into effect from 1 April 2022.

This information notice is an update from [Information notice 20/07](#).

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

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## 1. Overview of our charging rules

Water companies are allowed to charge for the services they provide. We have issued charging rules that water companies must comply with when setting these charges. These are:

- [Wholesale Charging Rules](#) (first issued in November 2016 and re-issued most recently in October 2021) for the wholesale services they provide to water supply and/or sewerage services licensees;
- [Charges Scheme Rules](#) (first issued in November 2015 and re-issued most recently in October 2021) setting out end-user charges to residential customers (and in the case of Welsh companies unless they are served by a licensee, business customers);
- [Charging Rules for New Connection Services \(English Undertakers\)](#) (or English New Connection Rules, first issued in August 2017 and re-issued most recently in October 2021)<sup>3</sup> which apply only to English undertakers' charges for new connection services<sup>2</sup>; and
- [Common Terms and Worked Examples – English New Connection Rules](#) (first issued in October 2021).

Incumbent companies should also publish revised bulk charges for new appointees annually, in line with the expectations set out in [revised guidance on bulk charges for new appointees](#) in January 2021.

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

### 1.1 Changes to our charging rules coming into effect from 1 April 2022

In October 2021 we made several changes to our charging rules that come into effect on 1 April 2022. The full details of these changes can be found on our website.<sup>3</sup> The main changes that impact water company charging submissions are:

- A simplification of the publishing deadlines for charging documents (see section 3.1 below);

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<sup>2</sup> 'New connection services' is the collective term for activities associated with serving developers, which may include the provision of new water mains and communication pipes, new sewers and lateral drains, diversions of existing water and sewerage assets and connections made to supply water for building purposes. These rules apply only to water companies whose areas are wholly or mainly in England.

<sup>3</sup> [Statutory consultation on updating Ofwat's charging rules - Ofwat](#)

- Allowing water companies greater flexibility to publish their charges scheme at the same time as their associated statement of significant changes;
- A new general principle in the English New Connection Rules that charges should reflect the relevant costs of the service;
- A new requirement for water companies to set out how they will treat quotations for developer services that would cross into a new charging year; and
- A new requirement on English water companies to use standardised terms in their charging arrangements for developer services.

Also, in previous information notices, we set out several scenarios of typical developments for English companies to prepare worked examples, though we gave companies flexibility to use additional or alternative scenarios. This requirement has now been included in the English New Connection Rules and a standard template, agreed by water companies and stakeholders, is set out in the document entitled "Common Terms and Worked Examples – English New Connection Rules", that we have published.

## 2. Our expectations

Water companies need to be transparent about how they set charges. Customers and other stakeholders expect water company charges to comply with all relevant statutory obligations, including our charging rules. They also expect water companies to engage meaningfully on proposed charges and ensure that the information they publish is subject to high-quality assurance. Where water companies introduce new charging policies or see changes in the cost of providing services which lead to significant<sup>4</sup> increases in charges, we expect water companies to have met a high evidential bar including:

- appropriate third-party support for why the changes are being proposed, for example, a change in drivers or activity;
- proven interactions with customers; and
- evidence of engagement with and support from customer representatives, where appropriate, especially with CCW<sup>5</sup> representing water consumers, on changes to charges schemes for which it is a statutory consultee.

The information we expect water companies to publish under the charging rules is set out in appendices to those rules documents.

### 2.1 Engagement when setting charges

It is for water companies to take ownership of their charging policies and charges, and deliver these in an efficient and innovative way, supported by customers and other stakeholders. Water company boards are responsible for water company charges and the processes and policies that underpin the charges.

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

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<sup>4</sup> In this context, 'significant' bill increases to a water company's Wholesale Charges Schedule or Charges Scheme charges are increases of more than 5% from the previous year (for a given customer type assuming a constant level of consumption). For New Connections services, a 'significant' bill increase is an increase of more than 10% for a typical development.

<sup>5</sup> [www.ccwater.org.uk/](http://www.ccwater.org.uk/)

## 2.2 Common terms for developer services in England

We have introduced a new requirement to improve the transparency of developer services charging arrangements in England. From 1 April 2022, English water companies will be required, where appropriate, to use standard definitions for a number of terms in their charging arrangements. Having a greater use of common terminology between water companies can help to reduce misunderstandings, especially for customers that require developer services from more than one water company. The list of terms and their standard definitions can be found on our website.<sup>6</sup>

## 2.3 Sia Partners' analysis of companies' costs and charges for new connections

In August 2021, we published a report by Sia Partners analysing companies' costs and charges for new connections. We expect incumbents to review the findings of the Sia Partners' report to establish how they might improve the cost-reflectivity of their charges for 2022-23, consistent with the principles in our charging rules. This supports the new general principle of cost reflectivity which we introduced to our English New Connection Rules. The report can be found on our [website](#).<sup>7</sup>

## 2.4 September 2021 RISE letter

David Black, our interim CEO, wrote to the chief executives of the English incumbent water companies to reaffirm our commitment to monitor incumbent company support for effective markets and, consistent with our strategy, to improve company performance. His letter recognised there were areas where companies have made improvements, including the Retailer-Wholesaler Group establishing a group to explore the simplification of wholesale tariff structures and industry's work to develop a consistent set of terms for new connection charges. There are areas where we expect progress, such as following Ofwat's [revised guidance on bulk charges for new appointees](#), and using the findings from the Sia Partners' study to improve the cost-reflectivity of new connection charges.

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<sup>6</sup> [Common Terms and Worked Examples – English New Connection Rules – Effective from April 2022 – Ofwat](#)

<sup>7</sup> <https://www.ofwat.gov.uk/wp-content/uploads/2021/08/Connection-Charges-Analysis-Final-Report-1.pdf>.

## 2.5 Bulk charging for new appointees

In our [revised guidance on bulk charging for new appointees](#) we set expectations that incumbent companies publish charges that were more predictable, consistent and transparent.

We expect incumbents to apply the wholesale minus approach including a starting point accurately reflecting the characteristics of individual sites.

Incumbents should ensure their approaches to cost estimation are cost reflective and only include relevant avoided costs. When estimating their costs, incumbents should carefully consider which costs are relevant.

Incumbents should publish a 'menu' of charges so that new appointees are able to calculate their bulk charges based on the actual mix and quantity of properties supplied on a site.

Published charges should be updated on at least an annual basis, not least to reflect updates to wholesale charges and no later than the confirmation of incumbent wholesale charges.

## 2.6 Environmental incentives in developer services

Most English water companies offer some form of environmental incentive as part of their charges for developer services, typically providing a discount where developers build water efficient properties or avoid or attenuate surface water draining into the public sewer system. In April 2021, we asked stakeholders about the types of environmental services that should be offered and how we can support such measures.<sup>8</sup> We encourage water companies to consider offering environmental incentives, consistent with the new connection charging principle of environmental protection. In 2022 we will be undertaking a review of good and bad practice with respect to these incentives, including how effectively companies communicate these incentives to their customers. In designing such incentives, water companies must ensure that self-lay providers and new appointees are able to compete on a level playing field.

## 2.7 Completeness of published information on social tariffs

Companies' charging schemes must include all reporting requirements set out in our charging rules. In particular, companies are to ensure that they include all charges that are

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<sup>8</sup> [www.ofwat.gov.uk/consultation/a-consultation-on-the-scope-and-balance-of-developer-charges-and-incentives/](http://www.ofwat.gov.uk/consultation/a-consultation-on-the-scope-and-balance-of-developer-charges-and-incentives/).

available to customers, including social tariffs or other reduced charges designed to support customers with affordability challenges.

Rule 11 states that companies must indicate in their charging schemes where on their websites customers can obtain a copy of charges not stated in their charges schemes. Rule 23 also states that companies must confirm whether they offer social tariffs and if so how eligible customers can apply for such reduced charges.

We note that in previous years some new appointees have not clearly set out the level or eligibility of such charges. Rules 11 and 23 applies to new appointees and we expect to see this information presented in their charges schemes in future years.

## 3. Submission of charging publications

Water companies need to send us electronic copies of the documents required to be published by our charging rules as well as providing us with correct links to the relevant pages on their websites to the email shown below. We need this to monitor some specific aspects of charges. These include:

- The indicative wholesale charges document;
- An assurance statement, statement of significant changes and the charging arrangements for the wholesale charges, charges scheme charges and charges for new connections and new developments;
- Bulk supply transactions; and
- Average bills information for residential customers.

Water companies should send all submissions and any questions about this document to [Charging@ofwat.gov.uk](mailto:Charging@ofwat.gov.uk). They should state the subject matter of their email as: 'Charges - information requirements for 2022-23'.

### 3.1 Document submission deadlines

To simplify our charging rules and make them easier to use, we have amended many of the publication deadlines such that all of the publication deadlines now have a specific date. This means that the publication deadline requirements no longer change each year depending on whether certain dates fall on weekends or if it is a leap year. As a result, we have not included a table of publication dates in this document as the charging rules themselves now clearly set out the deadlines for publishing charging documents.

### 3.2 Board assurance of charges

We expect water companies to publish all their charges set under our charging rules in either their Charges Schemes, Wholesale Charges Schedules<sup>9</sup> or new connection services Charging Arrangements<sup>10</sup>, as appropriate. For each set of charges, a water company should:

- provide an assurance statement from its Board of Directors that the charges comply with legal obligations and the relevant charging rules, and that the water company has systems and processes in place to ensure that the charging information published is accurate; and

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<sup>9</sup> Water companies set their wholesale charges in their Wholesale Charges Schedule.

<sup>10</sup> Water companies' charges for new connection services are set out in their Charging Arrangements.

- ensure that its Board assurance statement covers the list of specific issues for assurance set out in each set of charging rules.<sup>11</sup>

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

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

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

In addition to the Board assurance statement, we require each large<sup>12</sup> water company to publish on its website a statement setting out details of any significant increases (i.e. more than 5%) it anticipates in its Wholesale Charges Schedule and/or Charges Scheme.<sup>13</sup> We have set out in the annexes of these charging rules what we expect water companies to include in this statement.

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

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

In [information notice 19/05](#) we introduced an information requirement to support bill stability and predictability for new connection services. It requires large companies to report whether bills for typical developments have increased by more than 10% and what handling strategies they have developed to manage the impact that such increases would have on customers where such price increases have taken place.

From 2022-23, this requirement will be part of the English New Connection Rules and can be found in annex parts A2 and A3.

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<sup>11</sup> The specific charging rules relating to Board assurance statements can be found in Annex A1 of the Wholesale Charging Rules, Charges Scheme Rules and the English New Connection Rules.

<sup>12</sup> 'Large' water companies are water companies for whom we set full price controls at price reviews.

<sup>13</sup> Charges Scheme Rules Annex A2 and Wholesale Charging Rules Annex A4.

### 3.5 Average bills for residential customers

We require each large water company to send us average bills data for residential customers by 21 January 2022. This comprises data on residential customer numbers and revenues from residential charges. We have [published a template](#) alongside this document for water companies to capture and send us this data.

Since 2014-15, we have shared average bills information with Water UK for publication on the Discover Water website. We will continue with this approach for 2022-23.

### 3.6 Early information about significant bill increases

Consistent with our approach last year, we are asking large companies that expect any groups of their household customers to experience significant increases in their bills in 2022-23 (as defined by Rule A2 of our Charges Scheme rules) to contact Ofwat by 14 December 2021 to inform us about those significant increases at [charging@ofwat.gov.uk](mailto:charging@ofwat.gov.uk).

We appreciate that at this point, the final decisions around the charges for 2022-23 may not have been made and that any information about charges will be subject to change. We are asking for this information in order to understand the likely changes in household customer charges ahead of the publication of companies' statements of significant changes to Charges Scheme charges in January 2022.

This request is due to additional uncertainty over company charges for 2022-23, including the effects of the CMA determinations and reconciliation of the 2020-21 revenue, which was significantly impacted by the effects of the response to the coronavirus outbreak.

### 3.7 Bulk supply register

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

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

We expect water companies (including new appointees) to use [our bulk supplies template](#) to submit their bulk supply data by 28 February 2022. They should complete all three parts of each table, keeping in mind the field definitions stated in the template, and submit the

information to [Charging@ofwat.gov.uk](mailto:Charging@ofwat.gov.uk), stating the subject matter of their email as: 'Bulk supply transactions'.

### 3.8 Special agreements notification

Water companies are required under section 142(6A) of WIA91 to notify us of any new special agreements they enter into after 13 July 2014 (New special agreements include those that existed before this date which have subsequently been re-negotiated after 13 July 2014). Special agreements are typically agreements between a water company and a customer to provide a supply of water or wastewater services under charges other than the standard charges included in the water company's charging arrangements. They should send such notifications to [Charging@ofwat.gov.uk](mailto:Charging@ofwat.gov.uk), and can do so anytime of the year. They should state the subject matter of their email as: 'New special agreements notifications'.

### 3.9 Re-issue of documents

If a water company needs to re-issue any of its charging documents (e.g. there is an error in the published version) it should make it clear in the new document that it is a revised version and clearly set out the differences between the original and revised versions. The re-issue should be pro-actively communicated to Ofwat at [Charging@ofwat.gov.uk](mailto:Charging@ofwat.gov.uk), and to other relevant stakeholders as far as reasonably practicable.

## **4. Surface water drainage charges for new developments**

We want to highlight a potential issue regarding the charging for surface water drainage to customers on new developments. When a new development is constructed in a wastewater company's area of operation, we expect them to know whether or not surface water from the properties on that development is draining into the public wastewater system as part of the process of applying to connect the new properties. We therefore do not expect companies to charge new household or non-household customers for surface water drainage on these new developments if they do not receive this service. These customers should not be required to inform their wastewater company that their property does not receive this service.