

September 2022

Consultation to change the Charges Scheme Rules from April 2023

Ofwat

About this document

This is a consultation on a proposal to change the charging rules for household customers to remove a potential barrier from preventing water companies from trialling new charging structures in their charges schemes. We are also proposing to introduce a new charging rule that will include a number of general principles that companies should consider when setting their charges. We propose that these changes come into effect from 1 April 2023.

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 3 November 2022. If you wish to discuss any aspect of this consultation, or to arrange a conversation on the issues we have raised, please contact us at 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this consultation on our website at www.ofwat.gov.uk, unless you indicate that you would like your response to remain unpublished.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.

1. Introduction and summary

This document sets out the changes we propose to make to our Charges Scheme Rules under section 143B of the Water Industry Act 1991 (**the Act**). This should be read alongside our [consultation on household charges](#), which sets out our policy considerations in detail.

Specifically, we are consulting on changes as highlighted in the following [draft of the Charges Scheme Rules](#). Subject to our consideration of responses to this consultation, we propose to issue revised rules under the Act to take effect from **1 April 2023**. The Secretary of State or the Welsh Ministers may also, within 28 days of the end of the consultation period, direct us not to make the proposed change.

2. Proposed updates to the Charges Scheme Rules

We are proposing to update the Charges Scheme Rules from 1 April 2023 to:

- highlight more explicitly the need to consider affordability and charges intended to achieve better environmental outcomes, as well as other key principles; and
- clarify that there are no barriers to companies carrying out good practice trials for innovative charges intended to achieve those outcomes.

The revised rules will include a new charging rule requiring companies to reflect general charging principles – such as affordability, fairness and environmental protection – and update the current Rule 12 to make it clear companies can charge customers differently for the purpose of charging trials.

2.1 Charging principles

We propose to introduce a new rule (Rule 12) in the Charges Scheme Rules to include general charging principles:

" 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) fairness and affordability;
- (b) environmental protection;
- (c) stability and predictability; and
- (d) transparency and customer-focused service."

These principles reflect general charging principles set out in Defra's [charging guidance](#) to Ofwat (2016), which we have already incorporated in our other charging rules – Wholesale Charging Rules and Charging Rules for New Connection Services (English Undertakers). These principles also align with the Welsh Government's [charging schemes guidance](#) to Ofwat (for household customers). We consider that the inclusion of these principles in the Charges Scheme Rules formalises our expectations and further highlights the importance of considering affordability and fairness in setting charges. This will also improve accountability, as company Boards need to issue an annual statement that the company complies with the charging rules.

In consequence of this change, the numbers of the rules from rule 12 onwards will change, with current rule 12 becoming rule 13, and so forth. No other consequential changes will be made.

2.2 Treatment of charging trials

Rule 12 in the current Charges Scheme Rules, which will become Rule 13 under the revised version of the rules from 1 April 2023, states that:

"Consistent principles and approaches must be applied to the calculation of charges for different classes of customers."

We propose to amend this rule to make it clear that companies can trial new charging structures which could result in different charging approaches for the same class of customers during the duration of the trial. We are encouraging companies to be more innovative in the way they set household charges and try new approaches which could help with affordability and help deliver better environmental outcomes. We discuss this in detail in chapter 6 of our non-statutory consultation.

We propose the following update to that rule (new parts in bold):

"Consistent principles and approaches must be applied to the calculation of charges for different classes of customers. **For the avoidance of doubt, when trialling new charging structures undertakers may (for an appropriate limited period) impose different charges to customers participating in the trial as compared to customers who are not participating in the trial even if, absent the trial, the charges imposed would be the same for both groups.**"

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