

# Information notice

08 September 2022

## IN 22/03 Expectations, assurance and information requirements for water company charges for 2023–24

### 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.

This document should be read in conjunction with our charging rules which set out the requirements in full (see below).

This information notice is an update from [Information notice 21/04](#).

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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 incumbent water companies and new appointees (see footnote 3).

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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 household customers (and in the case of Welsh companies unless they are served by a licensee, business customers); and
- [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> which incorporate
- [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<sup>3</sup> 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.

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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> New appointees are limited companies which provide a water and/or sewerage service to customers in an area which was previously provided by the incumbent monopoly provider.

## 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 particular types of new development.

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

## 2.2 Consultation on removing barriers to undertaking pilot charging schemes

This autumn we will be consulting on a proposal to amend the current Charges Scheme Rules. This forms part of a wider consultation on how household charges might better support customer affordability. Under the current charging rules, the requirement at rule 12 that consistent principles and approaches be applied to the calculation of charges for different classes of customers may prevent water companies from undertaking certain pilot schemes (rule 12). We propose to amend these principles to make it clear that such pilot schemes can be undertaken.

## 2.3 Bulk charging for new appointees

Incumbent water companies should publish bulk supply and discharge charges for new appointees so that they are transparent, accessible and up to date. The information should allow prospective new appointees to confidently estimate their bulk charges when seeking to serve new sites. Published charges should be updated on at least an annual basis, not least to reflect updates to wholesale charges.

Despite consensus from most incumbent companies and new appointees on best practice in relation to bulk charging to new appointees, as seen through the work of the [Bulk Charging Working Group \(BCWG\)](#), there were a number of unexplained variations and increases in available margins to new appointees in the current charging year.

Incumbent water companies should state how they have accounted for industry best practice, for example by using the BCWG's [Wholesale-minus charging framework](#), to assure that their bulk charges remain cost reflective.

Within-year adjustments to reflect industry best practice or correct errors should be made as soon as is reasonably practical, with relevant documents re-issued. This is to ensure that charges support existing competition and the development of future effective markets. The published material should clearly set out that the charges are revised, and 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.

## 2.4 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>6</sup> We encourage water companies to consider offering environmental incentives, consistent with the new connection charging principle of environmental protection. We have undertaken a review of good and bad practice with respect to these incentives, including how effectively companies communicate these incentives to their customers which we have recently published.<sup>7</sup> . In designing such incentives, water companies must ensure that self-lay providers and new appointees are able to compete on a level playing field.

It is also important that water companies review their bulk charges to new appointees to ensure that they adequately account for and incentivise environmental initiatives by new appointees, looking to meet developer demand. For example, that any sustainable drainage systems are included in the calculation of environmental discounts to new appointees.

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<sup>6</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/).

<sup>7</sup> [Water companies' environmental incentives to support more water efficient new homes - Ofwat](#)

### 3. Submission of charging publications

Water companies need to send 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 (submission dates specified in wholesale charging rules);
- An assurance statement, statement of significant changes and the charging arrangements for the wholesale charges, charges schemes and charges for new connections services (submission dates specified in relevant charging rules);
- Bulk supply transactions (28 February 2023 submission); and
- Average bills and typical bill changes for household customers (21 January 2023 submission).

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 2023-24'.

#### 3.1 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>8</sup> or new connection services Charging Arrangements<sup>9</sup>, as appropriate. For each set of charges, a water company should:

- provide an assurance statement from its Board of Directors that the charges comply with legal obligations and the relevant charging rules, and that the water company has systems and processes in place to ensure that the charging information published is accurate; and
- ensure that its Board assurance statement covers the list of specific issues for assurance set out in each set of charging rules.<sup>10</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.

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<sup>8</sup> Water companies set their wholesale charges in their Wholesale Charges Schedule.

<sup>9</sup> Water companies' charges for new connection services are set out in their Charging Arrangements.

<sup>10</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.

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.

## 3.2 Statement of significant changes in charges

With the exception of new appointees, we require each water company to publish on its website a statement setting out details of any significant increases it anticipates in its Wholesale Charges Schedule, Charges Scheme or new connections services Charging Arrangements.<sup>11</sup> We have set out in the annexes of the corresponding charging rules what we expect water companies to include in this statement and the associated Board assurance.

Where a water company anticipates significant changes in the margins of its bulk charges to new appointees (i.e. the difference between wholesale charges and bulk charges), they should set out the change in methodology and assumptions that has led to this change.

## 3.3 Average bills for household customers

With the exception of new appointees, we require each water company to send us average bills data for household customers by 21 January 2023. This comprises data on household customer numbers and revenues from household charges. We have [published a template](#) alongside this document for water companies to capture and send us this data. We would like to remind companies that the final figures on revenues and number of properties should be consistent with the relevant figures in the latest annual performance reports.

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 2023–24.

## 3.4 Typical bill changes for household customers

The average bills metric provides useful headline information on both expected levels and changes to household bills. It incorporates bill reductions that may result, for example, from customers switching to metered billing, consuming less water or moving to a social tariff. We think this information can be complemented by additional insight on typical changes to bills based on the relevant charges. This information will provide a clearer link to bill changes for individual customers who are not switching tariffs.

We are therefore introducing a new information requirement for incumbent companies to send us data on typical bill changes alongside their average bill submissions by 21 January

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<sup>11</sup> Charges Scheme Rules Annex A2 and Wholesale Charging Rules Annex A4.

2023. We have published a [template](#) alongside this document for these submissions. In addition, we are asking these companies to provide us with links to their websites where they explain their household charges and the annual change in those charges, including the key drivers for the increases/reductions in charges and bills for 2023-24.

The data requested in the template will provide calculations of typical changes to metered and unmeasured bills from 2022-23 to 2023-24. We will provide a summary to the Consumer Council for Water (CCW) and to Water UK, which they may or may not use to publish information on typical changes to coincide with annual bill announcements.

In our template, the calculation for metered customers will be based on annual household consumption of 100m<sup>3</sup>. We do not propose a RV for all companies to use as we recognise these vary significantly between different regions, and companies may choose to use other metrics to charge unmetered customers. Therefore, the calculated typical unmeasured bill will be based on companies' estimate of the weighted average RV in their area and the relevant charges.

Some companies have more than one fixed or variable charge. We expect companies to take a proportionate approach in their calculations. We anticipate that they would not include social tariffs or assessed charges in the calculation of typical bill changes. They may use a weighted average of two sets of charges (e.g. for different regions) where there are a material number of customers on both sets. In those instances, we expect companies to calculate a weighted average charge, based on the number of customers on it during 2022-23, and keep the weightings constant for 2023-24 charges. In some instances it might be sensible to provide separate figures for different regions, but this should be done only if it's proportionate and adds value to presenting a simple overview of companies' typical bills. We do not expect a detailed breakdown of charges to be included in this data.

We are also asking water companies to provide us and CCW with a link to an appropriate page of the water company's website which customers can go to in order to get more information about their bills and how these are changing. This link will be published alongside the new typical bill changes information on CCW's website to allow customers to find more information about changes in their bills. We are not prescribing what information that water companies should provide at this link, as the water companies themselves will be best placed to decide how to communicate these changes with their customers. We expect that information to include charges for customers on assessed charges and the annual change to those charges, as we do not propose to include this information in the typical bill changes presentation.

### 3.5 Early information about bill increases

Consistent with our approach in recent years, we are asking incumbent companies to provide early information on the significant bill increases (as defined at Rule A2 of the Charges Scheme Rules) which they anticipate for any customer groups for 2023–24. We also expect companies to let us know if they are intending to make material changes to their social tariffs. We expect companies to contact Ofwat by 8 December 2022 to inform us about those changes at [charging@ofwat.gov.uk](mailto:charging@ofwat.gov.uk).

We expect this information to include the likely changes to the bills of metered customers, unmetered customers and average change in charges for household customers overall. We also expect on this occasion an estimate of the inflation impact in next year's charges and a breakdown including the key drivers for changes to bills and their impact on annual changes to bills.

This request is due to sharper focus on changes to household bills in the context of affordability being an acute issue and higher levels of inflation. We appreciate that in early December, the final decisions around the charges for 2023–24 may not have been made and that information submitted may be subject to change.

### 3.6 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 template](#) to submit their bulk supply data by 28 February 2023. 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'.

### 3.7 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'.

### 3.8 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.