

5 December 2022

Decision document – Consultation on changes to the Charges Scheme Rules from April 2023

About this document

This document sets out our decision to change the Charges Scheme Rules for household customers to remove a potential barrier to water companies trialling new charging structures. We have also decided to introduce a new charging rule requiring companies to consider a number of general principles when setting their charges. These changes will come into effect on 1 April 2023.

The Water Industry Act 1991 (**the Act**) allows us to set rules about water companies' charges for new connections and developer services. It also allows us to make amendments to these rules following a statutory consultation.

This document follows our consultation to change the Charges Scheme Rules from April 2023, which we published on 22 September 2022.¹ It also summarises the responses to this consultation and sets out our decision on the proposal.

The consultation on the change to the Charges Scheme Rules accompanied a wider consultation on charging innovation to support affordability. We will conclude on that consultation in early 2023.²

Responses to the consultation

We received 18 responses to our consultation on the changes to our Charges Scheme Rules. Of these, 15 were from the affected water companies and 3 were from other stakeholders. We have provided a complete list of the respondents in Appendix 1 and have published all of the responses on our website alongside this document.³ Additionally, we received 7 responses to our consultation on charging innovation to support affordability that did not provide any comments on the proposed change to our Charges Scheme Rules.

¹ [Consultation on charging innovation to support affordability - Ofwat](#)

² [Consultation on charging innovation to support affordability - Ofwat](#)

³ [Consultation on charging innovation to support affordability - Ofwat](#)

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1. Proposed updates to the Charges Scheme Rules

We proposed to make two changes to the Charges Scheme Rules that would come into effect on 1 April 2023:

- Update Rule 13 to make it clear that that companies can trial new charging structures which could result in different charging approaches for the same class of customers for the duration of the trial; and
- Introduce a new Rule 12 to include four general charging principles:
 - (a) fairness and affordability;
 - (b) environmental protection;
 - (c) stability and predictability; and
 - (d) transparency and customer-focused service.

This is consistent with the recommendation from CCW's affordability review⁴ relating to charging: "Improving water affordability should be considered by water companies, Ofwat and CCW when exploring future options for alternative tariffs and charging structures."

We set out the full details of the proposed changes in the consultation document.⁵

⁴ [Independent Water Affordability Review | CCW \(ccwater.org.uk\)](https://www.ccwater.org.uk/independent-water-affordability-review/)

⁵ [Consultation on charging innovation to support affordability - Ofwat](#)

2. Responses to the consultation

We received 18 responses to our consultation. The full list of respondents can be found in Appendix 1. We have also published the responses on our website alongside this decision document.

In summary, no respondents objected to the proposed changes to the Charges Scheme Rules. The majority of respondents supported making the changes as proposed, with several respondents commenting that the changes would add clarity to the rules when water companies undertake trials of innovative approaches to setting charges.

In its response, Waterwise considered that the proposed principle of ‘environmental protection’ was not sufficient. It suggested that the principle should be ‘environmental protection and enhancement’ as this would better align with the strategic policy statement issued by the Secretary of State.⁶ It also considers that this change would better reflect the links between reducing water consumption and the environmental benefits this can provide.

We based the proposed principles on the charging guidance to Ofwat issued by Defra and the Welsh Government. The principle of environmental protection that we proposed is also consistent with the principles in our Wholesale Charging Rules⁷ and Charging Rules for New Connection Services (English Undertakers).⁸ As a result, we consider that there is greater benefit to having consistency in the charging principles across all of our charging rules.

South West Water suggested a number of potential clarifications or changes that we could make to the proposed charging principles. These include clarifying how the principle of fairness and affordability should be applied and making an explicit statement that there are trade-offs between the principles. We note that several other respondents also asked for further guidance on how to apply the new principles. South West Water also suggested that the wording of the proposed rule 12 requires that water companies ‘should consider’ the charging principles rather than having charges that ‘should reflect’ the principles.

⁶ [Strategic policy statement for Ofwat - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/strategic-policy-statements/strategic-policy-statement-for-ofwat)

⁷ [Wholesale charging rules - Effective from April 2022 - Ofwat](#)

⁸ [Charging Rules for New Connection Services \(English Undertakers\) - Effective from April 2022 - Ofwat](#)

Similar principles, with the same introductory wording, have been in effect in our Wholesale Charging Rules and our Charging Rules for New Connection Services (English Undertakers) for several years without the need for additional guidance on how to comply with these principles. We also consider it to be beneficial to maintain similar wording between the three sets of charging rules where possible.

Providing detailed guidance would present a significant departure from our approach to setting charging rules. A key feature of our charging rules is that they are largely based on principles and enable greater company ownership over setting their charges. This approach allows for flexibility and innovation. Water companies are best placed to respond to the needs of their customers and set charges to reflect the characteristics of their customer base.

3. Our decision to change the Charges Scheme Rules

When we propose a change to the Charges Scheme Rules under section 143C of the Act, we are required to publicly consult on the proposal. In accordance with the Act, we must not issue the revised Rules within 28 days after the consultation finishes (beginning with the day after the end of the consultation period) during which time the relevant Minister (the Secretary of State for the Environment in respect of English companies and the Welsh Ministers in respect of Welsh companies) may direct us not to issue the rules.

We have not received such a direction and the responses to our consultation support our proposal. Therefore, we will proceed with the proposed changes to our Charges Scheme Rules, which will come into effect on 1 April 2023.

For simplicity, we have inserted the new rule containing the general charging principles as rule 11A rather than rule 12 to avoid any potential confusion that could be caused by renumbering the subsequent rules. We have also taken the opportunity to correct a small error in the text that sits between rule 25 and 26.

We have published the amended Charges Scheme Rules alongside this document with the changes made to the rules highlighted in red text.⁹

⁹ <https://www.ofwat.gov.uk/publication/charges-scheme-rules-from-april-2023/>

Appendix 1 – list of respondents

We received responses from the following organisations to our September 2022 consultation:

- The Consumer Council for Water (**CCW**)
- National Energy Action
- Waterwise Limited
- Affinity Water Limited
- Anglian Water Services Limited
- Dŵr Cymru Cyfyngedig
- Independent Water Networks Limited (**IWNL**)
- Northumbrian Water Limited
- Portsmouth Water Limited
- Severn Trent Water Limited
- South East Water Limited
- Southern Water Services Limited
- South Staffordshire Water plc
- South West Water Limited
- Thames Water Utilities Limited
- United Utilities Water Limited
- Wessex Water Services Limited
- Yorkshire Water Services Limited

We also received 7 responses to our consultation on charging innovation to support affordability that did not provide any comments on the proposed change to our Charges Scheme Rules.

**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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