

June 2026

Statutory consultation on changing our Wholesale Charging Rules and Charges Scheme Rules to promote greater water efficiency

Ofwat

About this document

In this statutory consultation we are proposing small changes to our Wholesale Charging Rules to promote greater consideration of water scarcity and efficiency when setting wholesale charges. These changes correspond to the conclusions we set out in our [May 2026 conclusions on promoting water efficiency in wholesale charges for business users](#). We are also proposing the same changes to our Charges Scheme Rules, to retain alignment with our Wholesale Charging rules.

We propose the following amendments to our Wholesale Charging Rules and Charges Scheme Rules:

- to clarify that long run costs include those associated with addressing water scarcity, and
- to allow differences in charging to be based on incentives to promote water efficiency and the associated environmental and wider societal benefits.

The amendments would apply from April 2027.

Independent Water Commission

Ofwat is working with the UK and Welsh governments on the implementation of water reforms while strengthening our collaboration with partner regulators. Until these new arrangements are in place, we will keep working hard to drive water companies to improve performance and deliver maximum value for customers, communities, and the environment.

Responding to this consultation

The closing date for this consultation is 30 July 2026. Please email us at charging@ofwat.gov.uk with your response, or if you wish to discuss any aspect of this consultation, or to arrange a conversation on the issues we have raised.

We may publish responses to this consultation on our consultation platform at <https://consult.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, unless you indicate that you would like your response to remain unpublished.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.

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1. Introduction and summary

Water is vital for life. Everything from food production to housing to manufacturing ultimately depends on water. However, water is becoming increasingly scarce. There are increasing pressures on water resources from population growth and climate change, which will lead to significant water shortfalls if action is not taken to change current approaches to water provision and consumption.

Increasing water efficiency is an essential part of tackling scarcity. Ofwat, the government, water companies and retailers must work together to develop and promote measures that encourage customers to be more water efficient. The way in which companies set charges for their customers is just one area where changes could be made to encourage water efficiency.

Our Wholesale Charging Rules (**WCR**), issued under sections 66E and 117I of the Water Industry Act 1991 (**WIA91**), are principle-based rules that give companies flexibility to innovate in the way they charge business customers. In our [August 2025 consultation](#), we set out options for how we might amend our WCRs to promote greater consideration of environmental costs and the need for water efficiency. We also looked at alternative charging structures to the current approach of offering discounts for volumetric charges. We subsequently set out our decisions on which options to take forward in our [May 2026 conclusions](#).

In this statutory consultation, we propose the following amendments to our **WCR** to give effect to these decisions:

- amend rule 15 ("Charging structures must reflect the long run costs associated with providing the relevant service") to clarify that long run costs include those associated with addressing water scarcity.
- amend rule 16 (the conditions for differences in charges between larger and smaller users of water) to allow differences in charging to be based on incentives to promote water efficiency and the associated environmental and wider societal benefits.

We also propose corresponding amendments to rule 13 and rule 15 of the Charges Scheme Rules (**CSR**), which are very similar to rules 15 and 16 of the WCR. We consider it important to ensure the continued alignment of the CSR with the WCR, and therefore propose applying the same clarifications to the CSR.

2. Proposed changes to our charging rules

In this section we set out our proposed changes to our charging rules. We also publish a full draft of our proposed amended charging rules alongside this document.

2.1 Context

In August 2025 we consulted on water efficiency and wholesale charges for business users.¹ We explored important questions including whether existing volumetric discounts should continue and if so, in what form, and how to encourage water companies, retailers and customers to increase water efficiency.² We set out options for changing our charging rules so companies could reflect water scarcity and promote water efficiency to a greater extent when setting charges. We held a workshop on 8 December 2025 for interested stakeholders to discuss some of the issues raised in more depth.

On 18 May 2026 we published our conclusions on water efficiency in wholesale charges for business customers.³ In that document we summarised stakeholder views and how they informed our decision to progress options 3 and 4a⁴ and our next steps.

2.2 Proposed changes to our Wholesale Charging Rules

The options we are progressing would support greater consideration of water scarcity and efficiency by water companies when setting their wholesale charges, and encourage more tariff innovation. Below we re-state our chosen options and the rationale for them, and we explain how we intend to incorporate them into the WCR.

¹ See Ofwat.gov.uk, [Promoting water efficiency in wholesale charges for business customers – a consultation](#), 27 August 2025.

² In this document we use 'companies' to refer to appointed water undertakers, to distinguish from 'retailers' operating in the business retail market.

³ See Ofwat.gov.uk, [Conclusions on promoting water efficiency in wholesale charges for business customers](#), 18 May 2026.

⁴ We originally identified five options (including option 1, "do nothing") divided into two groups. Options 2 and 3 refer to rule 15 of the WCR which sets out a cost reflectivity requirement for setting wholesale charges. Options 2 and 3 are mutually exclusive. Options 4a, 4b and 4c relate to principles for differential charging of different types of business customers and how these principles could be amended to include greater consideration of water efficiency. Options 4a, 4b and 4c provide alternative approaches that are mutually exclusive. However, the three options can all work alongside options 2 and 3.

We are progressing option 3 ("provide additional clarification that under rule 15 "long-run cost" includes the long-run cost of addressing water scarcity and the supply-demand balance"). Although we do not consider that the current WCR prevents companies from structuring their charges to better incentivise water efficiency, we have heard from stakeholders who nonetheless feel constrained from doing so by the WCR. Option 3 makes it very clear that companies should consider the costs of addressing water scarcity as part of their assessment of long-run costs. This is a small change which should support water efficiency objectives, whilst maintaining a stable charging framework for water companies.

We are also progressing option 4a ("amend rule 16 - the conditions for differences in charges between larger and smaller users of water - to allow different charges that reflect benefits to water companies and to wider society and the environment associated with water and wastewater efficiency"). We consider this change clarifies that companies are able to set charges that incentivise water efficiency through variable volumetric and fixed charges, while still allowing alternative charging structures that reflect existing cost differentials.

2.3 Proposed changes to our Charges Scheme Rules

Originally, our proposals were set in the context of wholesale charges for business users. However, the rules within the WCR that we propose to amend (rules 15 and 16) are also contained in the CSR (rules 13 and 15).

We have considered whether to apply the same amendments to the CSR or leave them unchanged. As we noted in our May 2026 conclusions document, it is important to have consistency between our sets of charging rules and to ensure any differences between them are intended and appropriate.

If we were to leave the CSR unchanged, we would risk introducing uncertainty about whether long run cost reflectivity in setting charges for household customers was different to setting wholesale charges for business users. We do not consider there is such a difference. Similarly, companies should be able to set different charges to encourage water efficiency for both business and household customers. In fact, several companies are already running or planning charging trials that encourage water efficiency.

Therefore, it is appropriate for the WCR and CSR to continue to be aligned on these issues, so we propose to amend rule 13 and 15 of the Charges Scheme Rules in the same way.

2.4 Implementing our proposed changes

We set out below three proposed amendments to our charging rules.

First, we propose a new defined term in rule 5 of the WCR and CSR ("Interpretation").

“Supply-Demand Balance” is the difference between water available for use that a company has from its supply sources, and the demand for the water from household and non-household needs and leakage. Supply-Demand Balance can be calculated for the present situation across the whole company or individual water resource zones or projected out for the future across the company's planning horizon.

Second, we propose to amend rule 15 of the WCR and rule 13 of the CSR in the following way.

- [15 / 13]. Charging structures must reflect the long-run costs associated with providing the relevant service, **including the costs associated with meeting the Supply-Demand Balance and/or addressing water scarcity.**

Third, we propose the following amendment to rule 16 of the WCR and rule 15 of the CSR.

WCR 16. **Any d**Differences between charges for services provided to Eligible Premises that are larger users of water and sewerage services and charges for services provided to Eligible Premises that are smaller users of water and sewerage services must only be based on **one or both of the following:**

- cost differences associated with differential use of network assets, differential peaking characteristics, different service levels and/or different service measurement accuracy;
- **incentives to promote greater water efficiency and the associated environmental and wider societal benefits.**

CSR 15. **Any d**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 **one or both of the following:**

- cost differences associated with differential use of network assets, differential peaking characteristics, different service levels and/or different service measurement accuracy;
- **incentives to promote greater water efficiency and the associated environmental and wider societal benefits.**

We will require companies to report to us how they are incorporating the proposed changes to our charging rules in their charges for 2027-28. We will set out this reporting requirement in our autumn 2026 charges information notice.

We have published the proposed amended WCR and CSR alongside this document.

3. Next steps

The closing date for this consultation is 30 July 2026. Please email us at charging@ofwat.gov.uk with your response, or if you wish to discuss any aspect of this consultation. We will carefully consider all responses.

This statutory consultation is the final, formal step we take before issuing revised rules. In accordance with the WIA91, we must not issue 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 (in this case the Secretary of State for the Environment in respect of English companies and the Welsh Minister in respect of Welsh companies) may direct us not to issue the rules.

Subject to any such direction, we aim to issue revised rules later this year, to take effect from 1 April 2027. We want to give companies sufficient time to implement the changes as they prepare charges and related documents for the 2027-28 charging year. In our autumn charging information notice we will require that water companies report on any changes to their charging rules resulting from the implementation of the proposed changes.

**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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