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Ofwat
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By email: charging@ofwat.gov.uk

Date: 23 July 2026

Dear Ofwat

Re. Consultation on consultation on changing Wholesale Charging Rules and Charges Scheme Rules to promote greater water efficiency

We welcome Ofwat's focus on further supporting the sector as it faces into the challenge of water scarcity. AWS is a high growth area and designated water scarce. We are already in the position were NHH requests for water for non-domestic purposes cannot be facilitated in all situations.

We are therefore acutely conscious that long-term economic growth depends on addressing water scarcity.

We support facilitating greater alignment and consistency of pricing structures with the ongoing communication to customers to improve water efficiency. This holds for both households and non-households and if successful can unlock further economic growth in our region.

We are mindful that the cost reflectivity of charges should be paramount, albeit the definition of the costs being referenced may change.

Our response to the consultation is set out in the appendix attached.

Yours sincerely,

[redacted]

[redacted]
Head of Income & Tariffs

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APPENDIX 1

A new defined term in rule 5 of the WCR and CSR ("Interpretation")

We would suggest that the new defined term is amended, as below, in order to avoid conflict with any wider application of the term.

*"Supply-Demand Balance" is **principally** 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.*

Amendment to rule 15 of the WCR and rule 13 of the CSR

We note that application of this rule should be framed within the bounds of the allowed revenue control and the cost reflectivity of charges when considering differing customer groups.

The inherent confusion would appear to be what "long-run costs" are being referenced, particularly when read alongside the proposed rules WCR 16/CSR 15.

Historically, this has been taken to mean the costs allowed through the quinquennium price review process on a forward looking-basis. The reference to "meeting the Supply-Demand Balance" is consistent with that.

The reference to "addressing water scarcity" is therefore either superfluous or implies an objective outside of the costs incurred directly in "meeting the Supply-Demand Balance".

The implication is therefore that "addressing water scarcity" involves some notion of "social cost" not otherwise reflected in the "allowed revenue".

We consider therefore that the proposed changes to rules 15 WCR/13 CSR and to rules WCR 16/CSR 15 contain an inherent contradiction.

This could be resolved by changing the drafting for rule 15/13 to include "the long-run ***social*** costs" or by removing completely the reference to "and/or addressing water scarcity".

Either:

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

Or:

*Charging structures must reflect the long-run costs associated with providing the relevant service, **including the costs associated with meeting the Supply-Demand Balance.***

If the latter is adopted, then the distinction between long run costs (to serve a customer group) and the long-run **social** costs can be drawn out in the amendment to rules WCR16/CSR 15.

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This would be our preferred approach and one that we consider more consistent with the approach set out in Ofwat's document "Conclusions on promoting water efficiency in wholesale charges for business customers" published in May, where it states that "[Owat] therefore agree with the consensus that changes to charging structures should be implemented over time, allowing customers to explore opportunities for investment in on-site storage, recycling and reuse options, and potentially seek efficiencies elsewhere in their businesses".

It is also an approach we consider most consistent with the general charging principle of "stability and predictability".

Amendment to rule 16 of the WCR and rule 15 of the CSR

Using the wholesale charging rules as an example, the proposed wording does not we consider provide the necessary clarity given the inherent tension in reflecting costs differences associated with differential use of network assets (which provide the main driver of the lower price for non-household large user tariffs) and the incentives to promote greater water efficiency that necessarily mean offsetting or removing those lower prices.

Aligned with our concerns outlined above in relation to rules 15 WCR/ 3 CSR, we propose the following as alternative drafting:

Any 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 cost differences associated with differential use of network assets, differential peaking characteristics, different service levels and/or different service measurement accuracy; ***accepting such differences should be moderated or nullified by the inclusion of incentives to promote greater water efficiency and the associated environmental and wider societal benefits****.*

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