October 2026

Conclusions on amending our charging rules to promote water efficiency in charges

Ofwat

About this document

This document sets out our conclusions and finalised small changes to the charging rules to promote water efficiency in charges. The changes are to clarify that long run costs should include those associated with addressing water scarcity and to allow differences in charging to be based on incentives to promote water efficiency. This follows on from our June 2026 consultation. Having considered the responses to the statutory consultation, we have decided to proceed with the proposed amendments without substantive revision and are issuing updated Wholesale Charging Rules and Charges Scheme Rules alongside this document, to take effect 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.

Charging to promote water efficiency

Reforms to charges for larger business users, who have historically enjoyed discounted charges, is important, because the scale of the water shortage England and Wales are facing means there is a need to keep exploring modern, fairer ways of charging for water, provided the right protections are in place for customers. Some water companies have already been reforming their charges for larger users and others may follow, now that we have made clarificatory changes to our rules. Any changes to charging structures must comply with our charging rules.

Our clarifications also apply to setting charges for households, which reflects practice already happening through existing household charging trials. To support both affordability and water efficiency, since 2022, Ofwat has been encouraging water companies to trial innovative approaches to household charging. Trialling new charges has wide support, not least because of the importance of doing more to support affordability and water efficiency. Consumer Council for Water (**CCW**) has also supported companies' trialling different approaches to charging in a bid to help customers save water and money, and will publish its emerging thoughts on the current tariff trials shortly. We will reflect on what past, current and potential future trials reveal about customer behaviour when using water, before reaching a view on the implications for the wider customer base. To be clear, there are no plans to move away from current charging structures for customers not included in charging trials.

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1. Consultation responses

1.1 Our June 2026 statutory consultation

Our June 2026 consultation on changing our charging rules to promote greater consideration of water scarcity and efficiency ("**June 2026 consultation**") set out proposed changes to our Wholesale Charging Rules and Charges Scheme Rules. The proposed changes clarify that the long run costs of providing water to a customer (which must be reflected in the charging structure) include the long-run costs associated with addressing water scarcity. They also allow differences in charges between larger and smaller users to be based on incentives to promote water efficiency and the associated environmental and wider societal benefits.

1.2 Summary of responses

We received 15 responses to our consultation, mainly from water companies. We include a full list of respondents in Table 1.welsh

Table 1 – Respondents to our June 2026 consultation

Water companies including new appointees				Others	
Affinity Water	Northumbrian Water	Southern Water	Wessex Water	Chemical Industries Association	Independent Networks Association
Anglian Water	Portsmouth Water	Thames Water	Independent Water Networks	Business Stream	Strategic Panel
Dŵr Cymru	South West Water	United Utilities			

All respondents supported the need for greater water efficiency, and most supported the proposed changes without further amendments. Four respondents offered drafting suggestions and several respondents commented on implementation and operational issues.

We provide a high-level summary of responses below. Most respondents expressed broad support for changes to both the household and non-household charging rules. However, the substantive issues raised for further consideration related mainly to non-household charges, including large-user tariffs, retailer impacts and NAV arrangements.

- Eight companies fully supported the proposed changes, with some welcoming the additional clarity. Of these:
    - Affinity Water noted that it had already reduced its large-user discount, and said it sees rising block tariffs and smart metering as tools to help tackle water efficiency in the future.
    - Welsh Water said the changes were proportionate and flexible. However, it stated that Ofwat should monitor the application of these provisions to ensure they continue to support transparency, affordability, consideration of customer impacts, and compliance with legal obligations.
    - Portsmouth Water said that the changes were suitable, and made it clear that companies can take account of water efficiency when setting charges. It noted that it has begun to phase-out large-user discounts and encourages a wider focus on efficiency incentives for non-household users.
    - South West Water said the changes support charging innovation and charging trials while preserving flexibility to serve local circumstances and customer impacts.
    - Southern Water noted the changes would help support wider measures to address water scarcity.
    - Thames Water supported the changes, noting that they support water efficiency objectives while maintaining a stable charging framework for water companies.
    - United Utilities said the proposed changes are reasonable and appropriate.
    - Wessex Water broadly supported the changes, stating that they give greater prominence to water efficiency and environmental protection while retaining flexibility for companies to innovate and reflect local circumstances. It noted that it has already begun phasing out large-user discounts and considers the changes helpful in supporting tariff reform and water efficiency objectives.
- Anglian Water somewhat supported the proposed changes, but suggested some wording changes, arguing that the proposed drafting lacked clarity.
    - It proposed adding 'principally' to the beginning of the 'supply-demand balance' definition, noting this would avoid conflict with wider uses of the term.
    - It suggested changes to WCR rule 15/CSR rule 13 amendment, to clarify what type of long-run costs are referred to. It said the words "addressing water scarcity" are either superfluous (because the wording also refers to "meeting the Supply-Demand Balance") or imply an additional objective outside of the costs incurred in meeting the supply-demand balance. It suggested either replacing "long-run costs" with "long-run social costs", or removing the reference to "and/or addressing water scarcity". Its preferred approach would be the latter option, with consequential alternative drafting to that proposed by Ofwat of the proposed change to WCR rule 16/CSR rule 15, by including "… accepting such difference should be moderated or nullified by

the inclusion of incentives to promote greater water efficiency and the associated environmental and wider societal benefits" to the current rule wording. Anglian Water argued this would better clarify the tension between recognising network cost differences between small and large users, and incentivising greater water efficiency in charges.

- Northumbrian Water generally supported the move to promote greater water efficiency in the charging rules. However, it maintains that any reference to cost differences associated with differential use of network assets should be removed to avoid perceived conflicting priorities in the rules.
- Strategic Panel broadly supported the changes, noting that they retain flexibility for charging innovation and encourage companies to monitor impacts on customer behaviour, retailer experience and water efficiency outcomes. However, it reiterated that charging reforms should recognise differences in non-household customers' ability to respond to price signals and avoid penalising efficient but high-volume water users. It also cautioned against introducing unnecessary complexity into charging structures.
- Independent Water Networks Limited and the Independent Networks Association both supported the proposed changes, noting they better reflected water scarcity and water efficiency incentives. They also asked Ofwat to consider how scarcity signals could be reflected across the whole supply chain, from the perspective of NAVs, including bulk supplies from incumbents and the no worse off requirement.
- Chemical Industries Association (CIA) supports water efficiency but argues that large user discounts could reflect genuine lower costs of supply. It argues that "costs of supply" should be included in the amended charging rules to allow companies to set different charges. It also proposes Ofwat provides guidance that allows companies to continue to provide large user discounts where those users can demonstrate they are already efficient.
- Business Stream supported the intent of the changes, noting that pricing can be an effective tool to encourage water efficiency and improve resilience and cost reflectivity. However, it believed that the current approach could risk increasingly complex tariff structures, and fragmentation in the charges approaches taken across water companies. However, it said that further guidance and a structured evaluation framework are needed to ensure implementation is practical, transparent and fair. It also said that any charges changes should be accompanied by adequate notice periods, phased implementation, and transparent methodologies and evidence.

1.3 Our view and conclusions

We welcome respondents' broad support for the proposed changes. We have considered the drafting suggestions and implementation issues raised. We will continue to monitor how the changes are implemented and their effects on customers,

retailers and water efficiency outcomes, to ensure that the rules remain proportionate and fit for purpose. We also continue to encourage companies to engage early with affected customers and retailers and, where appropriate, use phasing or other transition arrangements to moderate significant impacts arising from changes to charging structures.

We acknowledge the points raised by Anglian Water. On the proposed amendment to the definition of the supply-demand balance, we are concerned that adding "principally" could create unnecessary ambiguity by suggesting that other, unspecified factors may also form part of the definition. For the purposes of these rules, the definition should therefore remain clear and self-contained.

On its proposal to either replace "long-run costs" with "long-run social costs", or remove the reference to "addressing water scarcity", we are not persuaded by Anglian's argument there is any inherent contradiction in our proposed rule changes. The following points are relevant to our thinking.

- First, we disagree with Anglian's suggestion "addressing water scarcity" involves some notion of "social cost" not otherwise reflected in the "allowed revenue" received by companies for "meeting the supply-demand balance". For example, the water resources planning guideline allows companies to "present options [in their WRMP] that do not provide specific supply-demand balance benefits, but which offer wider water supply or ecosystem resilience benefits or meet specific legislative requirements that form part of your best value plan."[1] In our view, addressing water scarcity can include options such as using charges to promote efficient use. These would be covered by the allowed revenue.
- Second, as we say in our conclusions on promoting water efficiency in charges for business users[2] we recognise the cost-reflective rationale for discounting large user charges but the risks and costs associated with water scarcity have grown. Cost-reflectivity remains important, but the scope of the costs we want companies to reflect in their charges is wider. This means companies need to use charging structures that are more innovative and encompassing than before.
- Third, we also note that Anglian Water's proposed wording includes the word "should", essentially requiring companies to reduce or remove large users discounts. We were clear in our conclusions on promoting water efficiency in charges for business users[3] that companies are responsible for setting their

[1] See Water resources planning guideline - GOV.UK section 8.2.
[2] See "Conclusions on promoting water efficiency in charges for business users", Ofwat, May 2026, pages 18-19.
[3] See "Conclusions on promoting water efficiency in charges for business users", Ofwat, May 2026, pages 18-19.

charges in the flexible framework provided in the charging rules, and should retain flexibility to continue providing large user discounts if appropriate. We are not mandating or forbidding any specific charging structures in the charging rules.[4] It remains for companies to decide the appropriate structure and level of charges for all their customers, taking account of all factors relevant to their customers.

We do not agree with Northumbrian Water's proposal to remove the provision in WCR 16 and CSR 15 that allows companies to charge large and small water users differently according to their use of network assets. As we laid out in our May 2026 conclusions document[5], we continue to believe there is a legitimate rationale for companies having the option to reflect various cost differences in their charges, one of which is network-related usage. However, the risks and costs associated with water scarcity have grown, increasing the need for companies to improve water efficiency. Cost-reflectivity remains important, but the scope of the costs we want companies to be able to reflect in their charges is wider. Companies must consider water resources costs as well as network-related costs.

We agree with the Strategic Panel that charging structures should provide effective price signals while recognising that non-household customers differ in their ability to respond. As we explained in our previous conclusions,[6] the changes do not require companies to introduce any particular tariffs or charging structures. Companies retain discretion to design charges that are proportionate, evidence-based and appropriate for their customer base. In exercising this discretion, companies should consider the characteristics of different customer groups and the effectiveness of any incentives they propose to introduce. We continue to encourage companies to consider the ability of customers to respond to price signals, and agree that changes should be implemented incrementally over time, and in consultation with relevant stakeholders as is required by the wholesale charging rules.

We also agree with Business Stream and Strategic Panel about avoiding unnecessary complexity. The amendments are deliberately permissive and principles-based, not prescriptive. They enable charging innovation to support water efficiency objectives but do not require companies to introduce additional tariff bands or complex charging structures. We also note companies continue to simplify and harmonise tariff bands

[4] With the exception of falling block tariffs – we continue to support the phased removal of this charging structure.
[5] See "Conclusions on promoting water efficiency in charges for business users", Ofwat, May 2026, pages 18-19.
[6] See "Conclusions on promoting water efficiency in charges for business users", Ofwat, May 2026, pages 15,18,19,39.

and structures in line with the recommendations of the Retail Wholesale Group[7], and believe our proposed changes to the charging rules will not affect the progress of this scheme of work. Companies should ensure that any new approach is understandable, transparent and that its complexity is justified by the outcomes it is expected to achieve.

In response to the points raised by Independent Water Networks Limited and Independent Networks Association, we recognise the importance of considering how water scarcity and efficiency signals operate, including for new appointees purchasing bulk supplies from incumbent companies. The current amendments apply to the charges within scope of the Wholesale Charging Rules and Charges Scheme Rules and do not alter the separate requirements governing bulk supply agreements or the no worse off principle. We therefore do not propose further changes as part of this exercise. Bulk charges for NAVs are calculated by deducting avoided costs from incumbent wholesale tariffs. We do not expect our decisions to unduly impact on these avoided costs. However, we will keep interactions between these arrangements under review.

In response to the CIA's first proposal, we agree that discounts for large users can be appropriate where they reflect genuine differences in the costs of providing services. The proposed amendments to the charging rules continue to allow companies to differentiate charges between large and small users where cost differences arise from factors such as differential use of network assets, differential peaking characteristics, different service levels, or different levels of service measurement accuracy. We do not consider it necessary to introduce a separate reference to "costs of supply" as we believe that the existing provisions already provide sufficient scope for companies to reflect relevant cost differences in charges.

In response to the CIA's second proposal, we do not consider it necessary to prescribe specific approaches to setting large user charges, such as retaining large user discounts for customers deemed efficient, rebate schemes or investment grant programmes. The proposed rule changes are intended to enable companies to better reflect water efficiency in charging structures and account for the companies respective local circumstances.

We agree with Business Stream that any changes to charges resulting from these charging rules proposals should be implemented transparently and fairly, and are understandable to customers and retailers. As discussed previously, we support phased

[7] See Simplification and harmonisation of metered consumption bands Good Practice Guide, February 2025. For general information on the Retail Wholesale Group, see RWG Water Efficiency Sub-group - MOSL.

implementation of changes to charges and must be accompanied by stakeholder consultation. The proposed amendments are intended to provide companies with flexibility to balance water scarcity considerations and cost differences in a way that also reflects the local circumstances that each company operates in.

We do not consider it necessary to prescribe notice periods, phased implementation arrangements, publication of methodologies or a specific evaluation framework in the charging rules. Existing charging rules and reporting and assurance requirements already ensure that companies must justify their charging approaches, and any significant changes made. Companies continue to remain responsible and accountable for demonstrating that any changes to charging arrangements comply with the charging rules.

2. Next steps

In our June 2026 consultation we set out the version of the Wholesale Charging Rules and Charges Scheme Rules we proposed to issue.

Based on the responses to that consultation, we have decided not to make any substantive revisions to the proposed wording changes to the Wholesale Charging Rules and the Charges Scheme Rules.

Therefore we have issued the updated Wholesale Charging Rules and Charges Scheme Rules alongside this conclusions document, to take effect from April 2027.

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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