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26<sup>th</sup> August 2016

Dear Ofwat

Thank you for the opportunity to provide further evidence and views on your July 2016 New connections charging consultation.

We welcome the opportunity to comment further on the introduction of a revised connection charge methodology and the supporting changes to the licence and charging scheme rules. Overall we are supportive of the objectives of the proposed changes and the introduction of a framework that provides more flexibility to water and wastewater companies to set charges in a way that is reflective of customers' and developers' requirements.

At this stage of the process we remain unsure whether the proposed changes are consistent with all of the requirements of our customers. For example, we understand that one of the requirements from some of our customers is for greater consistency of connection charging across the country. It is unclear in the short term how the proposed framework will meet this requirement, and in fact, may move individual companies further away from this.

To ensure that we implement the changes to our charging policy in a way that reflects customer preferences we are therefore, proposing to implement through a two stage consultation process.

We will carry out an initial consultation with our customers on the proposed changes, recognising that there will be limited time to make any significant changes before we are required to publish the new charges, with Board approval, at the beginning of February 2017. We, therefore, propose to consult again after April 2017 to ensure that our customers have a further opportunity to comment and shape new connection charges. We may then want to make further changes to the charging structure during 2017/18 or to take effect from April 2018.

### **Bristol Water plc**

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We provide some comments and further evidence to each of the questions in your consultation below.

I hope that you will find our response helpful. If you have any questions, please do not hesitate to contact me.

Kind regards

A handwritten signature in black ink, appearing to read 'K. Hutton', with a long horizontal flourish extending to the right.

Keith Hutton  
Director of Strategy and Regulation

## Ofwat Document - New connections charging – Consultation - 27<sup>th</sup> July 2016

### Question One

In light of our updates and clarifications, do you agree that we still retain the key features and approach of our March proposals?

### **Bristol Water Answer**

The key features of the previous document provided guidance on the framework to change the charging mechanism that Water Companies use for New Connections. However, we are not convinced that giving each company discretion on the overall format of Developer Services charging will meet the expectations of the Developer community to deliver Ofwat's principle of a uniform and level playing field in the connections market. We also believe that the implementation timescale of publishing new charges by February 2017, to take effect in April 2017, is insufficient to allow for detailed consultation with stakeholders on their charging requirements. We propose to have some stakeholder engagement prior to publishing the new charging mechanism in February 2017 with subsequent stakeholder engagement post-implementation which we will use to review and amend our charges accordingly.

### Question Two

Do you agree with our updates and clarifications to our proposed rules?

### **Bristol Water Answer**

We welcome clarification of the previous uncertain elements in the proposed charging rules, such as to consider off setting income against Infrastructure Charges instead of Development Mains. The updates and clarifications are drafted to allow companies to have scope to develop charging rules within boundaries set by Ofwat, which we consider to be an appropriate approach.

### Question Three

Do you agree that offsetting the infrastructure charge, rather than requisition charge has merit? If so, when and how should this change be brought about?

### **Bristol Water Answer**

We believe that off-setting against the Infrastructure Charge will ensure that all new connections will benefit equally, whether they be single connections or multiple connections on sites. However, this approach could put a financial strain on Developers with substantial site-specific mains and on site mains, as they would have to pay a large up-front payment to cover mains installations rather than the current mechanism whereby the Developer pays a fixed proportion of the total installation cost as a commuted sum. Given the late introduction of this proposed change we do not feel its implementation should be brought about until the effects have been discussed with relevant stakeholders (post April 2017).

### Question Four

Do you have comments on our proposed approach to implementing the rules?

**Bristol Water Answer**

We agree with Ofwat that whilst the introduction of new charges should be largely revenue neutral to water companies, it will naturally create incidence effects of charges rising or falling for different types of developer, and this could lead to an increased level of complaints in the short term from those who see their charges increase. From a customer perspective the proposed revised remedies appears to be less satisfactory than the current statutory regime which allows for Ofwat to stipulate the exact charge for a development in the event of dispute. As far as we can see the new framework will require a customer to take any dispute about actual costs to judicial challenge with all of the resulting costs. Due to the increased level of disturbance from the introduction of the new charging structures it might be appropriate for Ofwat to retain some initial oversight of the right of appeal for customers on the appropriateness of the overall level of charging.

The revenue companies receive through connection charges forms part of the wholesale revenue control, and is incentivised through the Wholesale Revenue Forecasting Incentive Mechanism (WRFIM). We recognise that the changes to the connection charges rules, whilst intended to be revenue neutral, may introduce greater uncertainty into companies' forecasts for 2017/18, impacting both the level of connection charges recovered and the level of charges to customers. Where outturn revenues are greater than 2% different to those allowed, companies face a penalty under the WRFIM. We suggest that Ofwat may wish to consider whether such a penalty would be applicable for 2017/18 where the difference is primarily attributable to connection charge revenues.

**Question Five**

Do you agree with the approach we have taken to our draft impact assessment? Can you provide quantitative figures in terms of the potential benefits or costs? Is there anything we have missed?

**Bristol Water Answer**

Whilst we agree that the draft impact assessment provides some arguments for change, we note that the current level of complaints received about connection charges is relatively low. For example we provided 4,832 new connections during 2015/16, and received just 3 complaints with regards to the charges levied. We will need to test with stakeholders whether the proposed changes will address all of their concerns, as it is not clear that their requirements have been reflected in the proposed framework. Whilst maintenance of the status quo has been considered as a counter-factual in the impact assessment, we suggest that an alternative option worthy of consideration is to maintain the current charging rules but with tools to encourage greater standardisation across the industry.

**Question Six**

Do you have any comments on the drafting of our new connection rules?

**Bristol Water Answer**

No further comment.

**Question Seven**

Do you have comments on the draft changes to the charges scheme rules?

**Bristol Water Answer**

We consider that there is sufficient information in the proposed charges scheme rules for us to define our 2017/18 charges.

**Question Eight**

Do you have any comments on the drafting of our proposed licence modification, including the wording of the illustrative example.

**Bristol Water Answer**

The transitional arrangements discussed in the consultation document seem fine and it is anticipated that the Water Act commencement order will enact them. Obviously the text of the transitional arrangements has not yet been seen and will need to tie in with the drafting of this condition.