Fair Water Connections

An association seeking a fair deal in water supply provision

April 2013

Response to Ofwat Discussion on Proposals to Split Water Company Activities into Wholesale and Retail Components

Introduction

1. - This response is made by members of Fair Water Connections (FWC) which is an association set-up to represent the interest of SLOs, and others, who wish to ensure that there is fairness in the way competitive water connections are offered as an alternative to statutory water company provision. Hence the response is focused on new connections related activities and the services provided to developers

2. - FWC recognises that this is a late submission. This is due to the association only recently recognising that where water company developer services activities are positioned, in any future move to segregating 'wholesale' and 'retail' activities, could have a material impact in addressing the unfairness that exists in the way that many water companies currently charge developers and the barriers they barriers which restrict the competitive connections market.

3. - Part of the late realisation that servicing new developments is part of the 'wholesale/retail' split discussion is that whilst there is much rhetoric about developers being handled as 'customers' there is little evidence of this happening or this customer group being separately identified by Ofwat.

4. - The needs of developer customers differ from the other defined customer groups, which broadly fall into household or non-household/business classifications. In both these categories the supplier aims to have an on-going relationship with the customer whereby developers are a time limited customer who facilitate the eventual supplier having new household and/or non-household customers.

5. - FWC has been investigating the way many water companies operate the competitive alternatives they are required to offer alongside connecting new properties themselves. This work has highlighted a number of aspects about the way water companies charge developers, regardless of who does the work, so this response covers all activities typically administered by a water company developer services section.

6. - As discussed below FWC members have come to the view that the need to:-
   a) remove the barriers that are currently restricting activity in the competitive connections market,
   b) create service agreements which adequately define interfaces between what water companies need to do and what can be done by a connections provider
   c) create links between new infrastructure design and the tariff structure suppliers wish to offer

   means that water company developer services functions fit best with what could become 'retail' activities.

Background and Overview

7. - Under current legislation water companies should subsidise the provision of mains needed to supply new developments (assuming that the new demand is for 'domestic purposes'). The mechanics of the subsidy is based around using the income from the newly connected properties to pay a loan (taken out over 12 years with equal annual payments) with any payment shortfall covered by developer contributions. (In this discussion it is worth noting that the subsidy utilises all charge income; for water supply this is money covering abstraction, treatment and distribution). Whilst the historic basis of the subsidy may not accord with current water company cost build-up the argument that new infrastructure is not as costly to maintain as older systems still holds and continues to merit reflecting in the new infrastructure charging structure.

8. - In addition to funding any new mains developers are also required to pay for the cost of each service connection and to pay Infrastructure Charges. The purpose of the Infrastructure Charge being to provide water companies with the means, whenever it arises, to enhance their networks to deal with the detrimental impact of network capacity being used to supply new demand.

9. - Ofwat has investigated a number of service connection charges referred to them and routinely identify that water companies are charging administrative costs which go beyond what Ofwat regard as 'costs reasonably incurred' and are seeking to charge for activities that should not be passed onto developers.

10. - There is much evidence that many water companies seek to charge developers both for enhancing their networks to supply developments and for upgrading their networks through Infrastructure Charge funding. This means that water companies are taking money for future enhancements to their network which should not be needed because of the network enhancement work developers are directly funding.

11. - Whilst an alternative to water company provision of new mains and service should exist in the competitive connections (or self-lay) market the terms and conditions imposed by many water companies are restraining this market. In this regard evidence exists of water companies offering better terms for (in-house) requisition provisions than for self-lay agreements and of water companies charging fees which they are not entitled to charge.

12. - With sewers a similar arrangement to that needed for water supply exists except that it is normal for the developer to construct the on-site sewers and drains and to 'gift' these to the water company. Off-site sewers are usually requisitioned with the same (12 year) loan arrangements as apply to water mains. Again, with sewers, Infrastructure Charges may duplicate funded enhancements.

13. - There is currently little evidence of any innovative thinking in determining the arrangements to supply new developments. The stereotypical view is that water companies regard it as work done at the expense of someone else so why do they need to optimise solutions. The situation is currently compounded by water companies not providing detailed breakdowns of their charges in ways which provide transparency and openness such that there is objective justification about what developers, SLOs and others are being expected to pay.

14. - By not introducing the innovative thinking which occurs on other infrastructure provision activities that water companies do costs to developers are increased and they are not provided with the flexibility that a properly operating competitive market place could deliver.

15. Hence FWC members feel that a fundamental change of thinking is needed in the way that water companies consider, and charge for connecting new developments. FWC members consider that this would best be achieved by operating to a defined 'service agreement' framework which:-
    - segregates 'asset owner' activities from those of the 'connections facilitator',
    - ensures there are clear specifications that in-house and external providers have to work to,
    - introduces a consistent cost structure which applies to water company activities in the same way as competitive connections providers.

Benefits of Transferring Developer Facing Activities into Retail Provision

16. Currently both water and wastewater provision to new developments is conservatively designed mostly using empirical approaches with developers having to largely accept the work the water company says is needed. Changing this to better focus the design on future tariff and metering structures would facilitate more innovative design approaches and could reduce construction costs.

17. Similarly aligning metering arrangements with actual supplier tariffs would safeguard against developers having to pay for meters with a tariff capability that is not going to be utilised or for meters which the property occupier needs to replace for ones with the tariff or meter reading capability required by their chosen supplier.

18. In other utility sectors the supplier is often willing to subsidise connection costs by the on-going (future) services that are being provided. For this to happen in water there would need to be a greater linkage between connections provider and the supplier. This would be eased if both parties were part of any 'retail' provision.

Other Considerations

19. Currently each water company uses different forms for what are affectively the same set of activities. As developers and competitive service providers work across water company areas it would provide considerable benefits if a standard set of forms were to be universally used.

20. In reviewing the connections process the role of the Fire Service needs to be considered. This is because there is a statutory duty to consult with the Fire Service whenever new mains are laid and the legislative timescale for this consultation is 6 weeks. Whilst consideration of water for fire fighting needs to be done the consultation arrangements, and particularly the response timescale, merit review along with considering whether more innovative arrangements for sourcing fire fighting water can be identified.

Summary

21. As discussed above FWC members consider that it would not create the innovative approach needed to better serve developers for the management of new development infrastructure provision to remain as a 'wholesale' activity. This is because transferring the activities into a 'retail' operation provides:-
    - developers with the choice that is currently being restricted
    - clearly defines the charging structure in open and transparent ways
    - for consistent service provision whether the provision is in-house (water company) or by a competitive service provider
    - opportunities to link design and metering with future service provision

Should further information be required, or a wish to discuss any of the points made, then please contact Martyn Speight, the FWC Managing Co-ordinator. Martyn can be contacted by either email at martyn.speight@fwconnections.org or phone on 07889187717.