

Charging
Ofwat
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21 April 2016

www.anglianwater.co.uk

Dear Ofwat,

Re: New connection charging – emerging thinking for discussion

We welcome the opportunity to respond to Ofwat's emerging thinking for new connection charging. The purpose of this letter is to set out our key points and the attached appendices capture our response to each specific consultation question and more detailed comments on the draft rules.

As Ofwat will be aware, we have for many years recognised the importance and impact that a well-functioning charging regime has on developer confidence when engaging with the water and sewerage sector for the provision of new connections and infrastructure. Given the wider economic and social issues linked to housing supply shortages, we also remain very focussed on ensuring that we work with developers to support the delivery of much needed new homes across our region.

As a business, we have played a leading role in shaping the reform of new connections charging and we have extensively engaged with a wide range of stakeholders including Defra, Ofwat, Water UK and developer customers. We have used these discussions to propose improvements to the current charging regime.

We support the need for a level playing field between incumbents and aspiring competitors including NAVs and SLOs. We believe that our zonal charging approach outlined below, and in our Funding for Growth paper, promotes a simpler and more transparent solution to the current regime.

Overview of our approach

The charging regime we have developed consists of a new zonal charge, on-site requisition charge and a new connection charge.

Our proposed approach is for all off-site costs to be subsumed within a single zonal charge. This zonal charge is based on forecast growth and infrastructure requirements within a defined area, thus reflecting the supply/demand deficits in a manner which is transparent (a single charge across an entire zone), predictable (a single charge over set period), and promotes a level playing field (by charging the same zonal tariff to all developers regardless of who builds first). The approach also sends an environmentally beneficial price signal as the zonal charge unit is £/litre/second thus providing developers with an economic incentive for water efficiency. Annex A below, outlines how the proposed zonal charge will be calculated.

On-site costs will be recovered from an on-site requisition charge. This simplifies the current system which is based on Relevant Deficit (RD) and Discounted Aggregate Deficit (DAD) calculations by recovering instead through a fixed-proportion of on-site costs. This retains the current balance of costs between existing customers and developers, but is based upon a much simpler and more transparent calculation of costs.

We consider that the new connections charge should remain site-specific; however the sector and Ofwat should work together to develop a clear and transparent approach to which costs are deemed reasonable, and therefore recoverable.

We agree with Ofwat's emerging thinking to increase transparency and predictability, place ownership/accountability with companies to develop charging approaches and to help support a level playing field and believe the approach outlined above promotes and implements these principles.

Detailed comments on draft rules

Our detailed comments on the draft rules are provided in appendix B accompanying this letter.

Timetable and alignment with broader charging reform

We note Ofwat's intention that companies will reform their approaches to new connection charges within the new charging rules for the 2017-18 report year.


On this basis, we would be required to consult and engage with relevant stakeholders in July which would be prior to the finalisation of the new connection charges rules. We would encourage clarity and certainty in Ofwat's

transition timetable in order to help us to engage and consult effectively with our stakeholders.

Next steps

I trust these comments will help to positively shape Ofwat's thinking as the final developer charging rules continue to develop. If you have any questions on this response, please contact Darren Rice (dRice@anglianwater.co.uk 01480 323906) in the first instance.

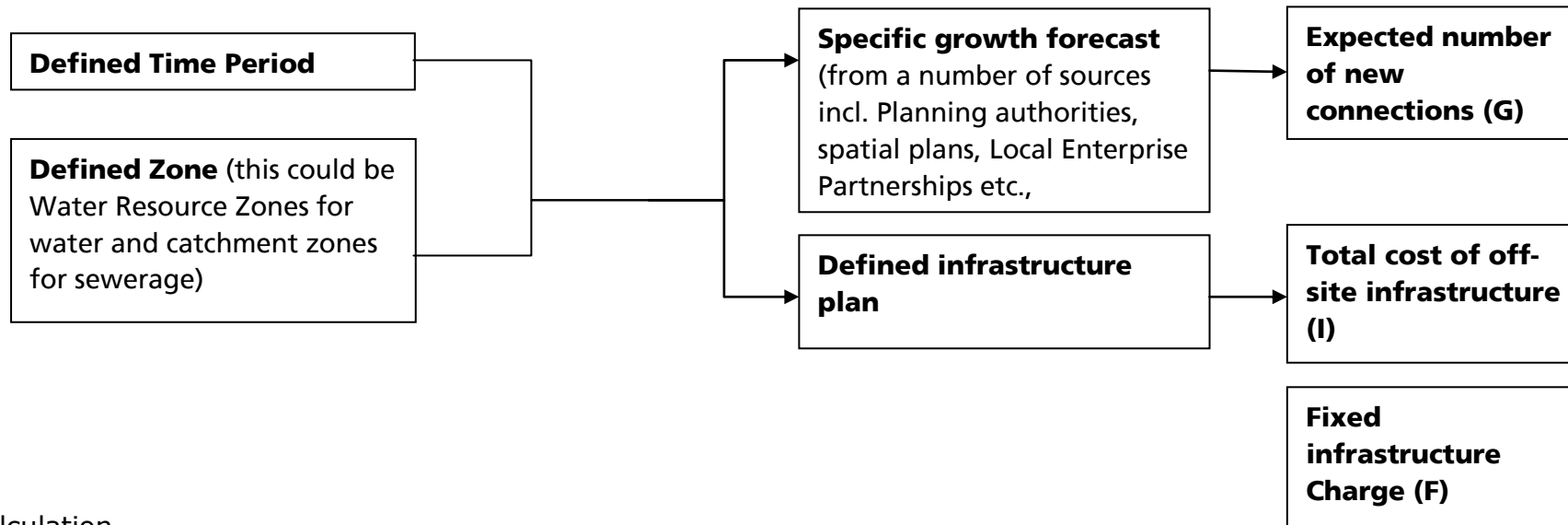
Yours faithfully,

A handwritten signature in black ink that reads "Jean Spencer". The signature is written in a cursive, slightly slanted style.

Jean Spencer
Regulation Director

Annex A – Illustration of Zonal charge calculation

Inputs



Calculation

$$\text{Zonal Charge } (\text{£Z/l/s}) = f((I/G) + F)$$

i.e. Zonal Charge is a function of forecast Zonal Infrastructure costs shared across the new connections in a zone over a defined time period plus a fixed charge. The Zonal Charge unit is £/litre/second.

Scenarios

- a) Minimal forecast growth & no planned investment: Zonal charge is equal to the fixed infrastructure charge as $I = 0$
- b) Small forecast growth & small planned investment: Zonal charge is calculated as a function of the small off-site infrastructure value shared between a small number of new properties. The fixed infrastructure charge is then added on to this.
- c) Large forecast growth & large planned investment: The value of the Zonal charge is similar to b) because although there is a large off-site infrastructure cost, this cost is shared across a larger number of new properties.

Incentive for water efficiency

As the zonal charge is a value in £/litres/second, properties built to consume a smaller amount of water will pay a lower zonal charge than properties in the same zone that consume a larger amount of water. The Zonal Charge thus provides developers with an economic incentive to build water efficient properties as the lower water consumption of these properties will feed into a lower zonal charge and thus a smaller overall charge for new connections.