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Dear Ofwat,

Ofwat Document - New connections charging – emerging thinking for discussion

We are grateful for the opportunity to comment on Ofwat's discussion document. Bristol Water's main priority is to ensure fair and efficient delivery of our infrastructure to service our customers. In this context we need to ensure that a range of stakeholders' interests are balanced, specifically: the major house builders, developers, self-lay organisations, smaller builders, individuals and, of course, our existing customers. It is valuable to recognise when considering a new set of rules that the clear majority of new connections from development in the Bristol Water region for the past five years is through small developments of one to three properties. Any rules need to work for both these small and large developers and the growing SLO industry.

We support fully proposals to make the whole process more transparent and also to ensure that charges are fair and equitable to all parties. To this end, we are proposing to publish on our web site a plan to indicate where developments could most likely take place with little or no remote augmentation works being required¹. We also will indicate the costs which could be incurred in certain areas where major augmentation works have already been carried out, and towards which we would seek contributions.

We will seek to ensure that self-lay organisations are not disadvantaged by any proposed changes to the current processes. In particular, Bristol Water considers it important that any planned changes are considered fair. To avoid this, we consider it is important to avoid over -simplifying the charging rules and avoiding excessive standardisation of charges. We recognise that some standardisation of pricing methodologies is desirable given that some developers operate nationally and seek greater

¹ Please see associated maps attached along with this response document.

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clarity of what is being charged by different regional water companies, but that should not come at the price of stifling innovations in pricing.

We see the benefit of ensuring existing customers are fully aware of the way in which they are contributing to or subsidising the cost of future water infrastructure to support development in their regions. Such subsidy should ideally be supported through the customer challenge group process with involvement from the relevant stakeholders in much the same way as social tariffs are supported.

Your sincerely,

Tom Kiedrowski
Director of Strategy and Regulation, Bristol Water

Question One

Have we missed any key issues with the current Framework?

Answer

Most of the key issues have been identified. However, there is currently a disparity between situations where mains are requisitioned for multiple properties, for which we can recover contributions, and single connections for multiple occupancy buildings such as nursing homes, hotels, blocks of flats etc. whereby providing a sufficient supply for these connections may require major augmentation works, the cost of which must be borne wholly by the Water Company without attracting any contributions from the developer.

In addition, we are not sure that the proposed rules in general cater for the small developments comprising just one property or a small number of properties.

Question Two

Do you agree with our emerging thinking to require work that is remote from the site to be recovered through infrastructure charges only, to increase transparency?

Answer

We believe that this may disadvantage smaller developers where remote from site work is not required and could therefore potentially be subsidising the larger sites. In the Bristol Water supply area a high proportion of new connections are smaller developments.

We seek clarity from Ofwat whether the intention is for the cost of the remote works to be covered by Infrastructure Charges from the specific development requiring the remote works, from all developments within an area or zone, or by all Infrastructure Charges levied throughout the company's area of supply.

Question Three

Do you agree with our emerging thinking to allow companies to develop new approaches to charging?

Answer

We believe that this is an area which could benefit from standardisation from a developers point of view operating nationally but that this would need to be offset from constraining companies from being able to innovate their pricing.

Question Four

Do you agree with our emerging thinking to promote a level playing field through increased transparency?

Answer

We fully support increased transparency but have concerns that a one-size-fits-all approach may financially disadvantage certain developers. An added concern would be what scope would there be for a developer to challenge costs payable and how Ofwat intend these challenges would be determined. Any averaging or standardisation of charges will mean that there will be winners and losers. We consider that Ofwat will need to consider and clarify whether the losers be able to challenge their charges and whether water companies will be obliged to refund any overcharging.

We see the transparency should extend to any differences in approach or policies between companies which have the effect of subsidising the development cost at the expense of existing customers and such approaches should ideally be supported by the customer base through the customer challenge groups.

Question Five

What would be the impact of requiring wastewater asset payments?

Answer

As a water only company, Bristol Water has no views with respect to waste water payments.

Question Six

Do you agree with our emerging thinking regarding information provision from companies to improve transparency?

Answer

We agree that information provision and communications are key to delivering a more efficient service. However we are conscious that some data, such as term contractors' tendered rates are commercially sensitive.

Question Seven

What further information should Ofwat seek to collect from companies to aid transparency of charging in relation to new connections, as well as enabling on-going monitoring and enforcement?

Answer

We believe that Standard Connection elements could be used which will enable cross company comparisons, although these are generally a function of the rates that the Water Company pays its term contractor which in our case was a contract let under competitive tender.

With regards to standardising costs where possible we need to understand the potential mechanism and impact of a challenge to these rates (see above response to Q4).

Question Eight

Do you have any specific suggestions on the draft rules set out in appendix A1?

Answer

We agree with the sentiment of changes to charging rules. However we believe that more specific guidance from Ofwat could go some way to restrict differences between company charging rules, providing more certainty and predictability for developers and reducing the scope for and time taken with complaints to Ofwat.

In paragraph 21 it is mentioned that charges for the requisitioned water main may not include Network Reinforcement costs. We understand that is it intended that work is funded through setting of Infrastructure charges in a given year. Is there to be a mechanism whereby adjustments are made either up or down if the infrastructure charges pot is under or over spent? As Developers want transparency and certainty of costs, it will be difficult for developers to have any degree of certainty of future Infrastructure Charges when coming to financial appraisal of land as it will have a dependency on any proposed Reinforcement works for that particular year.

We believe that the draft rules favour the large developers which could restrict the ability of smaller developers to deliver new housing.

A mechanism needs to be put in place to ensure that off-site main laying (funded through Infrastructure Charges rather than the developer) can be self-laid with a SLO paid for this work.

Question Nine

Do you consider it to be appropriate for Ofwat to set requirements for companies to engage with their stakeholders as part of the charging rules?

Answer

Yes we support the need for water companies to engage further with all stakeholders including Local Authorities, Developers and Self Lay Organisations to address any changes to the charging rules. We see it as advantageous were Ofwat to engage with those stakeholders in order to enable them to provide more detailed rules which take their views into account.

Question Ten

Do you consider that any additional actions will be required to ensure an effective transition?

Answer

We consider that the publication of all responses to this proposal would be helpful followed by workshops to discuss the ideas further and formulate workable processes to support the emerging thinking.

Furthermore we would welcome a detailed communication and engagement plan to ensure efficient processes/procedures are in place to service the developer and SLOs and to ensure these groups and other stakeholders are ready prior to roll out.

One of the many practical details involved in a change as envisaged by the document is about transition. Transition arrangements need to provide for the common situations where charging mechanisms have already been agreed between developers and/or SLOs and water companies for the servicing of sites. Many larger sites will take many years to complete. In particular we would welcome clarity from Ofwat on whether such arrangements would continue after the introduction of the new rules or whether the basis of charging would then change.