



**New connection charging - emerging
thinking for discussion
- an Ofwat paper**

1 Introduction

- 1.1 The Consumer Council for Water (CCWater) is the statutory consumer organisation representing the interests of customers of water and sewerage companies in England and Wales. CCWater has four regional committees in England and a committee for Wales.
- 1.2 We welcome the opportunity to respond to Ofwat's discussion paper on new connections charging. We are responding on behalf of the generality of water customers and also on behalf of developers, as customers of the water companies' developer services. Overall, we feel that the principles that Ofwat has set out and the proposed charging rules are a step towards resolving some longstanding issues. However, we feel strongly that for the new charging rules to be effective, they must be robustly enforced.
- 1.3 In addition, we want to ensure that the generality of water customers bear only an appropriate level of contribution towards the costs of new development.

2 Key priorities for CCWater

- 2.1 Developers have previously raised concerns with us about the level of charges for work by water companies in relation to laying new water and sewerage infrastructure. Many of these complaints arise from a lack of consistency and clarity in water companies' charging policies. Developers are also concerned about delays in completing work.
- 2.2 In general, CCWater's priorities in this area are as follows:
 - Charging arrangements should not cause a price shock for developers; nor should they result in a significant increase in the costs that will be passed to the generality of water customers.
 - New charging arrangements should ensure that charges are reasonable.
 - Ofwat's approach to enforcing the proposed rules needs to be robust and transparent and any problems should be resolved quickly by Ofwat.
- 2.3 We elaborate on these points further in our specific responses below.

3 Response to Ofwat's specific questions

Question 1: Have we missed any key issues with the current framework?

- 3.1 We note that the 'single till' mechanism introduced at the last price review ensures that water and sewerage companies cannot over-recover the costs of installing new infrastructure. Furthermore, we are pleased that Ofwat has specified in its draft rules that undertakers should 'take reasonable steps to ensure that the present balance of charges between developers and other customers is broadly maintained'. This approach should help water companies to minimise the impacts of any changes in their charges on developers and the generality of water customers.
- 3.2 However, the proposed rules also state that an undertaker may depart from this general requirement if it provides clear objective justification for doing so. In some cases, therefore, there may be significant increases in the costs that are passed on to developers or the generality of water customers. For this reason, we would like Ofwat to specify in its rules that where there are likely to be significant increases, companies should implement changes in a phased manner to reduce the impact on customers.
- 3.4 In addition to this, we would suggest that Ofwat's charging rules state that, where water companies recover the costs of manpower and materials, they should only seek to recover the reasonable costs of these elements. We feel this is necessary to ensure consistency of approach. The original legislation of the Water Industry Act 1991 made several references to water companies only being allowed to recover their reasonable costs in relation to the works involved in laying new water connections, water mains, sewer connections, drainage pipes and sewers. The principle underlying Ofwat's determinations of connection charge disputes was that 'reasonable costs' did not include profit.
- 3.5 Finally, we would like Ofwat to explain more about how it will enforce the new regime. This will send the right signals to water companies and ensure that they comply with the rules. The emerging thinking paper states that Ofwat may instruct water companies to change their behaviour where necessary but we feel that stronger signals are needed to avoid delays which may damage credibility and effectiveness of the new regime. In particular, water companies need to understand that any enforcement will be swift as developers have also raised concerns about delays in complaints processes. For this reason, Ofwat needs to be clear about how complaints will be dealt with when the new charging systems are introduced.

Question 2: 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?

3.6 We agree that this could be an effective way to increase transparency and could also contribute to reducing the number of complaints about water companies' charges. However, please note our comments about enforcement in response to question 3.

Question 3: Do you agree with our emerging thinking to allow companies to develop new approaches to charging?

3.7 We agree with this emerging thinking insofar as it goes hand in hand with a requirement for companies to publish clear connection charges and generally increase transparency. Overall, the emerging thinking appears to be a fairly 'light touch' approach to tackling the issue of charging for new connections. Ofwat states in the paper that if substantial issues with the charging framework were to remain, it would be prepared to set more prescriptive rules in the future. CCWater considers that greater prescription may be inevitable unless the changes are robustly monitored and the rules are enforced.

Question 4: Do you agree with our emerging thinking to promote a level playing field through increased transparency?

3.8 For the reasons set out in response to earlier questions, we agree that transparency will be vital to the effectiveness of the new regime.

Question 5: What would the impact of requiring wastewater asset payments be?

3.9 Ofwat has asked for views on the potential magnitude of these payments, which water companies are better able to comment on. Given the uncertainties, however, we note the proposals that any asset payment will not be introduced with the rest of the charging rules in 2017 but will be delayed until further information is available. We feel that this is a sensible approach as it will help to ensure that the current balance between contributions to costs by developers and bill payers is broadly maintained.

Question 6: Do you agree with our emerging thinking regarding information provision from companies to improve transparency?

3.10 Yes, we agree with this approach.

Question 7: 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?

- 3.11 It will be important to undertake an early review of water companies' proposed charging methodologies, for the following reasons:
- This will help to ensure that water companies are as open and transparent about their charges as possible.
 - It will also enable Ofwat to ensure that water companies are following the rules from an early stage. Furthermore, it will help Ofwat to start any enforcement proceedings that may be necessary in a timely manner.
- CCWater may be able to assist with this process.

Question 8: Do you have any specific suggestions on the draft rules set out in Appendix A1?

- 3.12 We have set out our suggestions in response to question 1.

Question 9: 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?

- 3.13 Yes. We welcome the opportunity to engage with this issue and feel that it sits well with our existing role in considering water companies' charges schemes.

Question 10: Do you consider that any additional actions will be required to ensure an effective transition?

- 3.14 We address this in our response to question 1.

4 Enquiries

If you have any questions about CCWater's response to this consultation, please contact:

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