



# Fair Water Connections

An association seeking a fair deal in water supply provision

April 2016

*This (pre-deadline) response may be supplemented with additional FWC member feedback.*

## Response to Ofwat consultation on new connections charging – emerging thinking for discussion (issued on 24 March 2016)

Fair Water Connections (FWC) is an association set-up to provide support to SLOs (Self-Lay Organisations) seeking to provide developers with an alternative to connections laid by the incumbent water company. FWC appreciates the opportunity to respond to this consultation, especially as our view is that a changed mind-set for water connections charging is needed for all developers to gain from a fully functioning competitive water connections market.

Although FWC welcomes, in the Ofwat document, the introduction of greater transparency we have reservations about the 'open' proposals towards how water connections will be able to be charged. Hence we provide below a full response to the Ofwat consultation. In this we detail the factors which we feel are of concern if, as we sense, the intention is to give water companies freedom about how they charge for water connections particularly (for FWC) mains and services.

The key issues we have with the proposals are:-

- Given the many water companies who retain a dominant position in their local water connections market we are surprised that Ofwat has not elected to be more prescriptive in their charging rules proposals.
- Currently there are issues with;-
  - the charges themselves (in so far as they are not set on a consistent basis and draw on local interpretation of the legislation); and,
  - how individual charges, and allowances, are incorporated into a calculation which determines either the developer contribution or what a SLO gets paid.Combined these mean that there is not currently a consistent view about permissible new water connection charging. This needs addressing as it results in many 'disputes'.
- Where Ofwat has already determined permissible approaches to new connections charging these usually only lead to case specific settlements without the 'learning' being implemented into ongoing charging arrangements. Hence we are surprised that 'learning' from recent Ofwat determinations does not appear to form the basis for future charging rules.
- It appears, from data published in company Business Plans, that there are many inconsistencies in how companies have budgeted to provide water connections over the 2015-2020 period. Ofwat appears not to have picked these up during the regulatory review process and we foresee difficulties in using this data to ensure that the new charging regime does not increase the proportion of costs being funded by developers.

Because of these issues we would rather see Ofwat place greater emphasis, in new water connection charging rules, on:-

1. Standardisation and consistency (at least until a fully functioning water connections market can be shown to be operating) across what is being charged and the way the charges are applied to determine developer payments and asset payments to SLOs: and,
2. Ensuring (as already outlined in the consultation document) that there is greater transparency about the charges themselves and how they will be applied (ideally through the use of pre-costed examples) to development sites (i.e. move away from the all too familiar situation of water companies quoting a total cost without indicating how the quoted amount has been derived): and,
3. Prescribing, using common terminology and definitions, a schedule of charges against which companies should publish their charges: and,
4. Specifying which costs (particularly overhead and administrative related charges) can, permissibly, be included in the published charges: and,
5. Defining how 'cost of provision' is determined in ways which avoid risks of rate distortion caused by reliance on contractors rates (who are increasingly looking to maximise 'non-contestable cost recovery at the expense of 'contestable' work rates): and,
6. Recommending minimum standards for deriving 'income offsets' and prescribing how details of these should be published: and,
7. Publishing, in a consistent form, maximum annual totals for cost contributions from developers/SLOs (so as to safeguard maintaining the current balance between connection work funded by developers and the water company themselves).

Furthermore we would also like to see the introduction of charging rules as a means towards getting response times from water companies on water connection activities which match those that electricity and gas providers are already able to deliver. Given that there could well be a need to introduce licence changes we would like to see this opportunity taken to cover the introduction of guaranteed service standards backed with financial (non-performance) penalties. This being the mechanism used to stimulate electricity and gas companies to improve their connection performance.

We also comment that we do not feel that the emphasis on the term 'charging' helps with the development of arrangements where there is genuine separation between the 'non-contestable' activities a water company (as the 'wholesale' undertaker) has to do and those 'contestable' services which they offer, as competitive alternatives, to other 'retail' providers. This is because the focus on 'charging' places the developer/SLO in the role of 'customer' which is not always the case (though many companies continue to structure their connection provision offering on the basis of retaining some 'contestable' work activities for themselves).

Additionally, in electricity and gas, the concept of a 'competition test' has been introduced whereby company specific charging freedoms are linked to the openness towards competition. We feel that such a model has merit in the water connections arena and call for any licence change to facilitate the introduction of similar arrangements.

Our final introductory comment is that only allowing a short time for transition from the current arrangements to the new rules shows a limited understanding of the timescale to advance new

sites. This is because preliminary information about costs is routinely built up over many years and significant increases (as could, on some sites, happen with any change to the way off-site work is funded) could cause many issues to developers. (Those who recall the introduction of Infrastructure Charges will have some sense of the sort of issues that could arise).

Our rationale behind requesting the above matters are considered further below in our review of the topics discussed in the 'emerging thinking' section (No 5) of the Ofwat document. This is followed by sections giving our suggestions about what companies should publish and setting out our response to the Ofwat 'next steps' questions.

## Section A

### FWC Feedback on the Ofwat 'Emerging Thinking' commentary (Section 5 of the consultation)

1. Our view is that the existing mains contribution (commuted sum) calculation is not 'complex' (as in most cases the calculation is automated). However the numerous inputs into this calculation get interpreted differently by companies and full details of the worked calculation are often not shared. Different approaches to the calculation have been tested through various determinations, these show that companies do not always correctly interpreted the legislation. This supports our argument for Ofwat to now be prescriptive about how developers/SLOs should be charged rather than leaving companies to themselves define their charging methodology.
2. To us the major issue with the current mains contribution calculation is that it integrates the 'cost of provision' and the 'income offset' and focuses on the combined outcome. With requisitioning this is usually a small developer contribution. As discussed further below 'small' headline water company provision figures can negatively impact on self-lay competition. We therefore feel that 'cost of provision' and 'income offset' need to be always be separately stated when terms are issued to the developer/SLO and only combined when the actual developer payment, or asset payment (to SLO), is finally calculated.
3. A related concern, which impacts on the competitive ability of self-lay, is that with requisition the developers contribution is mostly determined in advance of the work being done and is rarely subjected to post work re-evaluation. However, with self-lay, companies always hold finalising the asset payment until they have done a post work review of the calculation. To remove the risks, and payment delays, this causes to SLOs we welcome the proposal towards always agreeing the charges in advance.
4. A major concern we have about the greater flexibility in new connection charging being proposed by Ofwat is that it is likely to create many different charging models which will take time and effort to understand. Given the current differences in interpretation across companies, and relatively few 'specialists' with a working knowledge of the charging system, we can foresee a situation whereby the introduction of new charging rules creates greater 'chaos' and 'miss-trust' than currently exists. We therefore feel that it is unreasonable for Ofwat to place reliance on discussions with stakeholders and the Consumer Council for Water (who have hitherto not meaningfully engaged in, specialist, discussions around connecting new developments) rather than taking responsibility directly themselves for what

happens when the new rules are implemented. Given that, if implemented as currently proposed, we can foresee increasing numbers of disputes we sense it will be necessary for the Ofwat casework team to be restructured to give it the capability to quickly respond to resulting queries (rather than the months/years it currently takes for determination responses).

5. To help identify issues with any new charging arrangements ahead of implementation we propose that a requirement be introduced for all companies to publish worked models of their costs to connect a range of typical new developments. This would support the move towards greater transparency and enable differences to be identified at an early stage. Also for anomalies to (hopefully) be rectified before the charges are applied to actual schemes. (See Appendix for a range of typical sites we feel it would be reasonable to model).
6. These 'costed models' should cover phased and adjoining developments. This is because it is not clear whether companies are currently calculating terms for larger sites on the basis of all costs being incurred in advance whereas the actual costs are phased over a number of years. Furthermore, in such arrangements, the developer is disadvantaged as the income allowance is deferred resulting in early years construction costs being fully borne by the developer.
7. To us an inherent unfairness with the way that SLOs get paid for mains compared to the funding of water company provision is the timing of the various payments. With water company provision the developer (assuming a commuted sum option is chosen) makes an advance payment. Often this is for a relatively small amount (which can be zero). But where the work is done by a SLO they can be expected (where security is required) to match the upfront commuted sum payment and then fund the construction themselves until (sometime after commissioning) they get paid for the installed mains. This means that with water company provision they are financing the work but, with self-lay, the SLO is having to incur the financing costs themselves. Hence we urge that the new charging rules address the inherent unfairness in the timing of payments between the provision options.
8. The concept of security described (in 6) above is not always limited to be equivalent to the commuted sum payment. Abuses of security are an 'equivalence' charging issue and gave rise to Ofwat, in their 'trust and confidence' consultation (issued in September 2015) saying 'where such [*security*] requirements are not justifiable, this might be an abuse of the water company's dominant position in providing non-contestable services, and could potentially be in breach of competition law.' Hence the new charging rules should provide safeguards against competition connection provision being disadvantaged through unreasonable security payments and upfront deposits.
9. We support the view that the current balance of water connections costs (those associated with mains and services being of particular interest to SLO members of FWC) should be maintained. If this were to be changed we feel that greater account should be made of resultant income stream credit in ongoing water charges that companies receive (particularly in the years immediately post connection) from the reduced cost to serve newly connected properties. Moreover, as off-site works constructed to supply developments invariably adds network capacity, new connections work also, invariably, benefits the ability of companies to supply existing customers.

10. A further benefit to water company factor is that they do not currently fund any betterment they derive when mains get diverted. This is unlike highway work diversions where betterment gets paid and is an anomaly that merits being addressed in the new charging rules.
11. The current arrangement whereby, particular off-site, work has to be determined on a site specific basis which, in most cases, has to wait until the development proposals are fully specified slows delivery compared with that of electricity and gas connection provision. This affects work planning and can cause construction delays. We therefore welcome charging approaches which facilitate flexibility in the timing of offsite work delivery (especially as full demand on new developments does not usually arise at the initial site connection date).
12. We regard as an omission in the current water connection arrangements is that Level of Service commitments are voluntary and there are no consequences when water companies fail to honour performance targets. As it is likely (to address Infrastructure Charge arrangements) that water company licences will need to be changed we feel that the opportunity this provides should be used to introduce guaranteed performance standards.
13. We note the suggested approach, by Anglian Water, for some form of 'zonal charging' to cover all off-site work costs. Clearly this will much simplify charging but we are concerned about the (negative) impact this method to charging will have on developers whose sites can currently be supplied without any off-site work. Hence we feel that there may be merit in introducing a scaled charging approach whereby the amount being paid varies depending on the size of:-
  - a) the connecting main; and,
  - b) whether it is larger, or smaller, than the main to which the site is being connected.i.e. if the existing main is 150mm a different charge would be payable if the site main was 125mm or 180mm or, say, 315mm.
14. Although Anglian Water are suggesting (in their initial zonal charging proposals) that developers should pay, after allowing for the income offset, 15% of the on-site provision we do not agree that this is the correct figure. Our view is based on a recent Ofwat determination (Ref OFW-4908) covering 5 sites supplied by Anglian Water. These sites are of differing sizes with some needing extensive offsite works (or to draw on strategic provision) and, in all, covered supplies to 502 new premises. Based on the determination figures the total cost of supplying all the sites (including contributions to permissible strategic works) was £339,108 with the amount paid by developers (through commuted sum payments) being £55,491. This works out at only 16% of the total on sites with significant off-site costs. Hence we are sceptical of the 15% being suggested by Anglian Water and feel that there is an argument for the water company to fully fund all on-site mains work.
15. A major concern in seeking to balance new charging costs and income against current arrangements is that there are significant differences in the way companies have presented this data in their ongoing Business Plans. Hence it is not readily apparent that a definitive set of base-line data currently exists. This has been discussed in the Defra Task Group and the view taken that it would take much effort for this to now be 'untangled'. Nevertheless we feel that it essential for each company to publish for the remaining years of their Business

Plan (using an Ofwat defined template) the amounts they have budgeted:-

- a) for the provision of new mains supplies to new developments; and,
- b) to receive as developers contributions towards mains; and,
- c) to receive by way of Infrastructure Charge income; and,
- d) for providing service connections.

Plus the number of new premises they envisage connecting each year.

*Notes*

- *similar data will be required for sewer connections.*
- *going forward adjustment in the service connection cost data may be needed to reflect reducing total costs as (increasingly) more connections are done through self-lay.*

16. An apparent omission from the Ofwat proposals is defining what costs it is legitimate for water companies to recover. A good illustration of this issue is the number of new supply determination cases where it is common for the Ofwat findings to identify a different interpretation of what can be charged to that of the company. Usually this results in a case specific settlement but there is little evidence of determination findings forming the basis of changes to ongoing charging. Hence without a definitive listing of what each charge covers we cannot see how the new rules can operate with the necessary greater openness and transparency.

*(Note - in relation to self-lay service connection costs what can be recovered has yet to be determined by Ofwat)*

17. With mains an illustration of different charging approaches is the way that the companies handle application processing and design. Some charge for these activities whilst others recognise that, as with internal work, the feasibility and preparation elements should form part of the 'cost of provision' and be taken through the (loan) funding. Hence the issue is not always about getting charges published but in knowing how the charges get applied. Modelling a range of typical schemes (as suggested above) would help with this issue.

18. A further factor with design charges, which again highlights an issue with the charges themselves, is that many companies charge the same for checking a design as producing a full design themselves. This is difficult to understand as design checking is a much simpler task than assembling all the information to do a design and to produce a drawing with a pipework schedule etc. To us this highlights that 'contestable' works needs to be genuinely separated from 'non-contestable' activities and the basis of each charge merits review by Ofwat. It would also aid this review process if a standard charge template was produced against which each company could publish their charges against a common definition.

19. The proposals do not identify an issue about 'cost of provision' which is getting progressively apparent to SLOs. This is because companies always seek to pass on their period contractors rates but these contractors are increasing becoming aware that they are losing on-site work to SLOs. This looks to be resulting in newly tendered rates for the 'non-contestable' work elements (such as mains connections themselves) being increased to enhance overhead recovery on the work the contractor will always get whilst they reduce their rates for the 'contestable' (on-site) work. This results in SLOs being disadvantaged because although the

total scheme cost remains static the amount they get for 'contestable' provision has been reduced whilst 'non-contestable' work charges are increased.

20. Many water companies already publish a schedule of charges for service connections but mains are always costed on a scheme specific basis. It will therefore be interesting to see if companies are prepared to publish schedules of mains costs. From a SLO perspective a minimum requirement is for the cost of each mains connection to be known along with all non-contestable work charges. If this were to be done, and the basis of 'income offset' allowances given, SLOs would be in a much improved position to progress the offer of terms to developers.
21. Incorporating consideration of Infrastructure Charges in the discussion around connection charging is welcomed. We broadly support the suggested approach to get companies to account for where money from these charges are being spent but feel that clarification about how 'deep' into their system enhancements can be funded from this source needs to be defined (i.e. are they restricted to the 'local network' and, if so, what is 'local'?).
22. We feel that permissible 'associated works' needs to be fully defined. Also requiring clarification is whether developers/SLOs should be expected to pay for multiple cross connections (often added to enhance network resilience for existing customers rather than those on the new site) and for any district metering (to improve ongoing system monitoring but not necessary to 'supply' a new site). To avoid any doubt about permissible charging we recommend that a concept of 'minimum cost design' be introduced whereby only work solely needed to supply the development gets charged. Should the water company wish to enhance the 'minimum cost design' then the additions should be at full cost to themselves.
23. Water companies often handle any diversion work separate to new connection provision, even though such work can be linked with the provision of new pipework. Hence we would like to see the new charging rules be an opportunity to both improve the coordination of diversions and to routinely open up this work to competitive installation provision.
24. We foresee transition to the new charging rules as being a major issue because of the time it takes for developers to start progressing individual sites. Also, once underway, individual sites may take many years to 'build out' with multiple (phased) mainlaying visits. Hence we feel that, as a minimum, terms should be kept open for 12 months. We also sense that subsequent changes in charging approaches need to be announced well in advance with all offered terms being honoured for a similar (minimum) 12 month period.

## Section B

### Minimum requirements of what companies should publish

Most companies already publish a booklet setting out a range of charges payable by developers. Against the new charging criteria such booklets will need extending to cover all charges and allowances but should also:-

- a) Illustrate how charges are to be applied (by showing how standardised models, see Appendix, of typical developments) will be charged; and,
- b) Provide a statement (against Business Plan data) showing the envisaged income and expenditure against new connection activities and the volume of premises being connected.

The costed models should provide the level of information that will be provided against all offered terms and, as a minimum, separately identify costs/charges from (income offset) allowances.

On publication these costed models should be evaluated by Ofwat and, if needed, action taken to improve information transparency and to ensure that charging methodology meets minimum requirements.

The, high level, Business Plan data should show all relevant expenditure and income lines consistently interpreted in ways which facilitate intercompany comparisons and year end reconciliations. The template for this should be specified by Ofwat.

As a minimum the income/expenditure template should cover the charging year (envisaging an annual publication) with consideration being given towards publishing a rolling 5 year forecast (as this would provide transparency of future charging changes and demonstrate capability to meet envisaged future development need). To us this needs to be done in advance for 2017/18 if the intention of, in January 2018, publishing analysis of actual charging against budgets is to be achieved.

*Note – there could be an issue with reconciliation as early as January 2018 depending on how many ‘legacy term’ schemes get constructed in 2017/18 (i.e. the cost structure for that year may be too heavily weighted towards the previous charging regime).*

## Section C

### Responses to Ofwat 'Next Steps' Questions

Consolidating the matters discussed above our response to the specific questions posed by Ofwat are as follows.

#### **Q1 Have we missed any key issues with the current framework?**

Factors which we feel should be included, or given greater prominence, in the new water connections charging framework are:-

- Ofwat need to recognise that the competitive water connections market is not fully functioning and there is a need for Regulator involvement. Hence the new charging rules need (at least for a short while) to place the onus on Ofwat to ensure that the charging structure is fair to all stakeholders.
- Ofwat should better identify that it is not the charges themselves that are the issue but how they are applied (and from a self-lay perspective demonstrating equivalence with requisitioning provision). Hence to introduce, without adequate controls, a new (flexible) approaches could well strengthen the ability of water companies to disadvantage developers and SLOs.
- To recognise the impact on developers being caused by water connection planning currently taking much longer than with gas and electricity connections. (So whilst the proposed 'emerging thinking' approach should address this companies who decide to maintain the current charging basis will need 'encouragement' to address this factor).
- Because companies charge differently it can be difficult to do direct cost comparisons. So we would urge that a standard charges template be produced, with common charge definitions, against which each company can detail their charges. Companies should also, to demonstrate the impact of different approached to charging, be asked to price some pre-set development scenarios.
- The disparity that currently exists in company budgetary provision for new connections work, based on data extracted from company business plans, is a concern. Advancing new charging arrangements without this being regularised could increase scepticism about companies wishing to get developers to pay higher charges (when determination findings lead to a conclusion that companies could already be 'over charging').
- An increasing issue to SLOs is that what they are paid is based on the rates company contractors tender for the work. However these contractors appear alert to the situation that they are losing work to SLOs so they are increasing the cost of the non-contestable work they always retain whilst reducing their on-site (contestable) work provision costs. This reduces the amounts SLOs get paid and increases the payments they have to make so this, market distortion, needs to be addressed by Ofwat getting more involved in the setting of rates themselves.
- Payment timings and the way that companies look to maintain their ability to recover additional charges but are not willing to reimburse SLOs when their legitimate construction costs increase looks to highlight equivalence issues which the new charging rules do not currently look to address.

**Q2 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?**

We agree that such a change will considerably simplify connection charging and open the way for improving response times (as there will not then be a need to hold back approving allowing site works to proceed until off-site supply arrangements had been finalised). However we are concerned that the change in charging could create many 'losers' (as well as 'winners') with smaller developers being adversely affected. This will create 'noise' in the competitive water connections market which could be to the detriment of the planned charging improvements.

If this approach is to be taken forward then care will be needed in the transition arrangements to not disadvantage those developers who, on larger phased developments, have already funded much of the off-site work when 'feeder works' were constructed to supply the initial site phases.

**Q3 Do you agree with our emerging thinking to allow companies to develop new approaches to charging?**

Whilst wishing to encourage new approaches we are concerned that the greater flexibility in new connection charging being proposed will create many different charging models which will take time and effort to understand. Given the current differences in interpretation across companies, and relatively few 'specialists' with a working knowledge of the charging system, we can foresee a situation whereby the introduction of new charging rules creates greater 'chaos' and 'miss-trust' than currently exists.

We therefore feel that it is unreasonable for Ofwat to place reliance on discussions with stakeholders and the Consumer Council for Water (who have hitherto not engaged in, specialist, discussions around connecting new developments) rather than taking responsibility directly themselves for what happens when the new rules are implemented.

Also, not mentioned in the Ofwat document is whether any form of impact assessment is to be done by Ofwat before the new charging rules are introduced or company specific rules are brought into use. To us doing this, both at a 'rules' and 'company specific' level, would help ensure that the new arrangements deliver benefits prior to implementation.

**Q4 Do you agree with our emerging thinking to promote a level playing field through increased transparency?**

Achieving greater transparency is paramount as, without this, developers/SLOs cannot establish that they are being correctly charged and in ways which assure equivalence between the different provision options. To us the issue is as much about knowing how various charges are to be applied so we feel that published worked examples, which show both the charges and how they function, are essential.

**Q5 What would be the impact of requiring wastewater asset payments?**

This is not a concern to FWC members so we are not making comment on this matter.

**Q6 Do you agree with our emerging thinking regarding information provision from companies to improve transparency?**

As discussed above it is not the charges themselves, as many of these are already published, but their application which merits being fully demonstrated. There is also a need for openness about the budgetary provision companies have in their ongoing business plans about the monies they expect to recover from developers and the 'income offsets' they intend to provide.

Hence we feel that the requirements about what companies publish should be extended to include costed worked examples (which show all the information that would typically be provided to developers/SLOs at the terms issue stage). Also for high level budget information to be shared in ways which facilitate future reconciliation to show that the balance of work funded by developers/SLOs and companies themselves is not changed by new approached to water connection charging.

**Q7 What further information should Ofwat seek to collect from companies to aid transparency of charging in relation to new connections, as well as enabling ongoing monitoring and enforcement?**

See response to Q6.

Additionally there is a need for companies to fully define the activities covered by each of their charges. This is to safeguard costs of work not associated with the provision of water connections themselves being recovered from developers/SLOs (examples of this, on service connections, are regulations inspections and setting up new billing accounts).

We also see benefit in each company being required to publish an impact assessment detailing how the changes they are making affect developers/SLOs.

**Q8 Do you have any specific suggestions on the draft rules set out in appendix A1?**

Many of the comments provided above relate to the draft charging rule proposals.

Additional observations particular to Appendix 1 are:-

- Whilst 'domestic premises' are defined there is no definition of 'domestic use' (as this is the current basis of the 'income offset' (i.e. applies to commercial premises where the use of water is for domestic purposes),
- The limits, in terms of restricting chargeable enhancements to 'local network systems' is not defined,
- 'Associated works' (typically mains connections between on-site work and existing systems) is not defined,
- The 'service pipe' definition does not differentiate between the part which is the responsibility of the water company and the private 'supply pipe',
- It is currently unclear about which overheads (and the level of these) which is reasonable to charge developers. Hence we feel that such costs should be better defined by Ofwat and not left to companies to define themselves.
- To limit what developers/SLOs are being charged to a defined 'minimum cost design'.

A further requirement, ideally in the rules, but possibly in the guidance, should be for Ofwat to set-out how they intend to police the new rules and the ways that developers/SLOs can dispute

what they are being charged. Ideally this should facilitate speedily resolution as currently SLOs are not prepared to do some projects because they are unable to get disputes about the terms settled before the developer wishes to get the work done.

**Q9 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?**

Although engagement is laudable we are far from certain that what is being proposed will serve much purpose. This is because there is limited specialist knowledge amongst the various stakeholder groups and any dialogue could end up as being in 'one direction' (i.e. happens but does not provide meaningful feedback). To counter this we ask that already offered terms be re-calculated using the new rules and these be used to inform stakeholders of the advantages, and disadvantages, the changes will bring.

**Q10 Do you consider that any additional actions will be required to ensure an effective transition?**

We consider that Ofwat needs to take the lead and become directly involved in setting the framework for new water connection charging rules rather than leaving it for the companies to develop separate approaches. This is because it is paramount for an effective transition that common terminology, and templates etc., are now established along with giving developers and SLOs certainty that what they are paying, or being paid, has been correctly assessed.

A key issue for developers/SLOs is getting improved water company response times. We feel that it is now timely for guaranteed levels of service to be introduced as, without such safeguards, the transition to new charging could lead to worsening delays.

We do not feel that the impact of a transition has been sufficiently thought through, especially if a markedly different approach to charging is to be introduced. In our view greater recognition is needed of the long lead times it can take to advance many developments, where the basis of information shared at the advance planning stage may be significantly changed, especially where the cost to supply specific sites is being considerably increased. Hence we call for transition arrangements to be fully evaluated before decisions on implementation are finalised.

Whilst we are keen to see early reconciliation between what is in company business plan projects for financing new water connection provision and actual expenditure we are concerned that, because of the transition period where sites get supplied on previously issued terms, doing this by January 2018 may not be realistic. Hence, to aid transition, we ask that the base data is presented in ways which facilitate direct comparison with previous charging and which separate on-going work done against previous charging methodologies.

This response has been submitted on behalf of Fair Water Connections by:-

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## Appendix 1 – Suggested Charging Examples

In 2009 Ofwat asked all companies to cost a prescribed development and state their terms for both in-house and self-lay provision. This exercise, which was done at a time when self-lay was restricted to a few areas, demonstrated wide variations and was (probably) based on a more complicated development situation than is now needed. Hence it is suggested that 3 simple scenarios are costed and sample terms published for both self-lay and in-house provision.

The suggested scenarios are:-

1. A standard connection off a main in an adjacent pavement to a new (individual) premise. Whilst the cost of this will largely just draw on a published schedule it will show how future changes to infrastructure/'one-off joining' changes impact on such connections.
2. A small development of, say, 26 new premises requiring an on-site main. Some parameters will need to be set for this such as:-
  - total main length 150m,
  - to be connected to a 150mm ductile iron main situated in the pavement on the opposite side of an adjoining road,
  - the supplying main is capable of supplying the site,
  - the on-site main can be laid in a single visit,
  - the site has had a previous industrial use so pipe suitable for 'contaminated ground' needs to be laid,
  - 13 premises will be constructed on each side of a road passing through the site with the main able to be laid in a service strip/future pavement,
  - all of the premises will be occupied within 18 months of the main being provided
3. A larger development in an area where there will be subsequent developments. The development being of 160 premises with the (through site) spine main being sized to supply a subsequent development of 115 premises. The parameters for this site being:-
  - total mains length of 1,000m (400m of 180mm, 250m of 125mm and 350m of 90mm). The 125mm is split into 2 'loops off the 180mm with the 90mm forming 4 spurs (all off the 125mm),
  - the on-site main to be laid in 3 separate visits,
  - the site is 'greenfield' with mains able to be laid in service strips/future pavements. The developer installing ducting for any road crossings,
  - premises will be occupied at the rate of 1 per week starting from 1 month after the initial main is provided,
  - the mains to be installed in 3 separate visits,
  - adjacent to the site is a road with a 4" cast iron main which is not capable of supplying the development. The nearest supply point for the development is a 250mm ductile iron main some 500m from the site entrance. Excavation from the supply point to the site entrance is in residential highway (with all the construction needing to be in the roadway)

(A sketch layout plan could be provided if it aids clarity of the above information).

The expectation being that each situation be costed against:-

- a) The current charges (for 2016/17)
- b) The proposed future charges
- c) For both requisitioning and self-lay provision

The information provided showing all elements of the costs and allowances for the future charges, against both in-house and self-lay provision, against the level of information that is currently provided. This should demonstrate the greater transparency about what is currently being provided as well as highlighting any differences against the current charging mechanism.

*Notes:-*

- 1. These scenarios will need to be verified as being typical examples producing meaningful outcomes before they become used as test standards.*
- 2. All company responses could be reviewed by a stakeholder group which Ofwat facilitates, with feedback provided before final versions are published.*

## Appendix 2 – Review of costs from determination OFW-4903

Anglian Water have recently had details of 5 schemes in their area published in an Ofwat determination (OFW-4903). These schemes range in size from 32 to 166 units so represent a reasonable spread of new housing scheme provision and charging. Hence these merit review as part of the ongoing consideration about new charging rules.

Details of the cost of supplying the (total of) 502 premises are as follows.

Scheme	Red Lodge	Ringlands	Bedford St	B'ington Rd	Rifle Hill	Total
No of props	77	166	32	161	66	502
CSUM	£1845	£2255	£0	£30,766	£20,625	£55,491
Onsite mains (m)	359	1179	42	739	207	2526
Cost of provision	£30,354	£38,704	£10,741	£140,903	£118,406	£339,108
Infrastructure Chg Income	£27,181	£58,598	£11,296	£56,833	£23,298	£177,206

*Notes - CSUM = commuted sum/developer payment*

*Cost of provision includes contributions to strategic mains enhancement*

*Infrastructure charges calculated on £353/property*

The total cost of supplying all the sites (including contributions to permissible strategic works) was £339,108 and the amount paid by developers (through commuted sum payments) was £55,491 (i.e. 16%). This is very close to the 15% which Anglian Water have indicated is their normal contribution to onsite mains alone so it could be reasonable to assume that on-site mains should always be fully subsidised?

Additionally Anglian Water will have collected Infrastructure Charges of £177,206 (at current rates). This is 52% of the cost of provision meaning that, assuming the Infrastructure Charges are not needed to fund network enhancements (as, for these sites, such works have been identified in the scheme specific costs and include strategic upstream work back to the supply system) that the developer is already funding  $\frac{2}{3}$  of the provision costs.