



Regulatory Reporting consultation team
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Dear Regulatory Reporting team

Consultation on regulatory reporting for 2016-17

SSE's subsidiary SSE Water Limited (SSEW) is a new appointee or 'NAV' company in the water industry framework, providing competition to existing incumbent water companies in the provision of local water and sewerage infrastructure to serve the needs of developer customers. As such, SSEW is not usually involved in the industry discussions about the development of the Regulatory Accounting Guidelines (RAGs), as these are focussed on the accounting requirements for the water companies subject to the periodic price review process. However, two of the RAGs have sections relevant to NAV companies on 'small company reporting' (RAG3 and RAG4) and these have been relatively stable over the last few years. Where it has not been clear from the Ofwat Information Notices discussing annual reporting requirements whether new developments are applicable to NAV companies, we have been able to discuss this with our contact – Gayle Webb – at Ofwat.

In this consultation, we were interested to note that the topic of charging rules for connections is raised. This is a matter of significant interest to NAV companies as, in a similar way to Self Lay Organisations (SLOs), they are customers of incumbent water companies for certain non contestable connection services, while acting in competition with them in delivering a total water/sewerage connection service package to developers of housing schemes. The only difference between NAV and SLO companies is that SLOs arrange for incumbents to adopt the local water and sewerage infrastructure on completion of the development whereas NAVs continue to own and maintain that infrastructure on an ongoing appointed basis.

It can be seen that for both NAV and SLO companies, the establishment and maintenance of a 'level playing field' between themselves and the incumbent water companies in terms of the charges made for connecting particular developments is a vital matter for the health of this form of competition in the water industry. Incumbent charges made directly to developers should be consistent with charges made to NAV/SLO companies for matters such as off site reinforcement and we have raised concerns about this area with Ofwat in the past.

We have therefore welcomed Ofwat's initial work on the development of charging rules for new connections and the specific proposal only to have one type of charge for off site reinforcement. We understand that this may be charged on a standard basis, linking back to what incumbent companies actually spend on reinforcement work over a period due solely to the connection of new developments (rather than pre-existing deficiencies in capacity or capability of infrastructure). Whilst it may take some time for the industry to develop charging arrangements in line with Ofwat's final charging rules for new connections, we would welcome a focus from Ofwat on separating and assessing incumbent costs and basis of charges in this area through the regulatory reporting work.

For the consultation, we respond to the relevant question on this topic below. Beyond this, we would welcome any further developments of Ofwat's regulatory reporting guidance for the incumbent water companies that supports the competition brought by NAV companies to the industry.

Consultation Question

Q10: Ofwat is working with the sector to develop new charging rules covering activities such as connection charges, infrastructure charges and other contributions from third parties. Should the Annual Performance Report contain more detailed cost information on new connections and other costs associated with these charges?

Yes. SSEW supports more detailed costing information being required from incumbent companies to support the monitoring of new connection charging rules. We would welcome more transparency and Ofwat attention on any information emerging from the monitoring that would promote the effective operation of the market for local network infrastructure provision where NAV and SLO companies compete with incumbents. Further background is discussed in the covering letter above.

Yours sincerely

Aileen Boyd
Regulation Manager