



Charging
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Dear Charging Team

Discussion document on new connections charging

SSE has a subsidiary – SSE Water Limited – which participates in the existing water market as a relatively new entrant ‘new appointment and variations’ or NAV company. There are only a small number of NAV companies bringing a competitive force to bear in exactly the area covered by the discussion document: the charges for connections of new housing developments to existing incumbent water and sewerage infrastructure.

SSE Water pioneered the use of the ‘new appointments’ process from 2007 to introduce a form of competition ‘for’ the market into the water industry, whereby SSE Water becomes the appointed water and/or sewerage undertaker for a customer developer’s geographic development area. In doing so, it reaches a commercial agreement with the developer to provide the local water and/or sewerage infrastructure for the development, having been a competitor to the local incumbent water company in order to reach this point. It then becomes a customer of the local incumbent water company in terms of the ‘non-contestable’ connection work, charges made and service levels provided for the completion of the non-contestable parts of the connection.

SSE Water has encountered various difficulties in developing its business since then compared to the framework in energy networks, where independent distribution network operators and independent gas transporters can provide local infrastructure on a licensed basis, as noted in the discussion document. These entities are exactly analogous to the role of appointed NAV companies, as far as developers are concerned: they all provide an alternative to the incumbent licensed or appointed company for provision and ongoing ownership and maintenance of the local utility infrastructure needed for the developer’s project. One aspect of the frameworks for energy network connections is that incumbent network operators are required to provide connection quotations in non-discriminatory fashion to ‘any person’ who asks. The positive effect of this could perhaps be developed more strongly in the proposed Rules by defining a ‘Customer’ as any person who enquires about connection – whether for contestable works, non-contestable works or both and linking this with the proposed rule 15.

One of SSE Water's areas of difficulty lies exactly in the scope of discussion document: the transparency, consistency and fairness of connection charges applied to it by incumbents. The overall effect of the different elements of connection charges and liabilities placed on SSE Water as a NAV company by an incumbent forms a major element of the economics of SSE Water's business and we have had occasion to be concerned that our developer customers are not being provided with consistent connection costs and liabilities if they approach an incumbent directly to 'requisition' the local infrastructure required for their development on a statutory basis. We certainly recognise that different approaches to connection charging are taken by different incumbent companies and that some elements of connection costs charged to NAV companies lack transparency.

SSE Water therefore very much welcomes Ofwat's discussion document and its stated intention, in developing connection charging rules, to promote a level playing field for 'potential alternative providers that wish to compete with water companies to provide new connections' as noted in the Executive Summary section of the document. NAV companies such as SSE Water are such alternative providers and we would welcome more discussion in the 'Existing Framework' section of the role that NAV companies play in the developer connections market.

Against this background, SSE Water particularly supports the following aspects of Ofwat's emerging thinking:

- the development of a 'level playing field' for alternative providers of connection infrastructure to developers when competing against the incumbent water companies;
- that the charging rules set out a series of principles for what each type of connection charge is expected to recover;
- the reduction in potential double counting for offsite reinforcement costs by allowing only one element of connection charges to cover these costs;
- the requirement for consistent principles to be applied in setting charges for different classes of customer, as set out in proposed rule 15 – it would be helpful for the Rules or general introduction to note that all alternative providers of connections are to be considered as customers of undertakers with respect to non-contestable works (even though they are also competitors for the contestable works);
- the development, where feasible, of a fixed charge (or fixed calculation methodology) for the most commonly applicable types of connection element – we agree that 'highly bespoke' or unusual connection elements might not practicably be able to be 'fixed' in advance but would hope that the majority of commonly occurring connection situations could be covered by charges fixed in this manner; and
- the recognition in proposed rule 17 that Undertakers may recover reasonable administrative overheads incurred in discharging rights and obligations under the Charging Rules.

Building on our main points above, we have provided responses to some of the specific consultation questions in the appendix to this letter.

Yours faithfully

Aileen Boyd, Regulation Manager

Response to Consultation Questions

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

As discussed in the covering letter, we believe it would be helpful for the position of NAV companies to be given greater prominence in these charging rules. NAV companies provide a form of competition for provision of infrastructure to new developments and should be given the same prominence, in our view, in descriptions of the existing framework for developer connections as 'self lay' organisations, as well as being unambiguously covered, as customers of incumbents, by the proposed new Rules.

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 support Ofwat's thinking that off site work should be covered by only one type of charge to avoid the lack of clarity and impressions of double counting that have arisen in the current methods of connection charging. We are content if Ofwat wish to retain the description of 'infrastructure charges' for this element of charging for new connections and need assurance that the connections requested by NAV companies (on behalf of developer customers) will be charged in a consistent manner to connections made by water companies themselves for developers in response to requisitions under section 41/98 of the Act. If this cannot be assured in the proposed new connection charging approach, then there will not be a level playing field between NAV companies and incumbents in competing to provide local infrastructure for housing developments.

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

Yes, we would welcome this provided that charges to NAV companies are set consistently with how other charges are developed and that there is transparency on the new approaches being developed.

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

Yes, we believe that transparency is a useful tool for both Ofwat and customers of incumbent to understand and be able to question how charges have been set in particular cases. Over the years SSE Water has been required to pay many elements of connection charges for developer sites that have been applied with little transparency about how they have been set.

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

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

Yes, we support the development of connection charging methodology statements – proposed as 'Charging Arrangements' in the proposed draft charging rules. These statements should comprehensively cover the types of charges that would be made in the new connection charging situations that are likely to occur for each water undertaker in such a way that a connecting party would be able to form a reasonable understanding of the elements of connection charging that would apply to his proposed connection and subsequently be able to relate all elements of his actual connection charge to the explanations in the statement. As noted in the consultation, such connection charging methodology statements have been required from the outset in electricity and gas networks, with continuing oversight in this area from the regulatory framework.

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?

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

We do not have any comments on the overall shape of the proposed draft rules set out in appendix 1, but have the following observations on points of detail:

1. In paragraph 5 e), there is repetition of the phrase 'are carried out' mid-sentence
2. We found the explanation in paragraph 5 g) a little hard to understand: should there be more explanation of what these charges are 'resulting' from? Connection charges should only be payable on a one-off basis, so why is there an implication that they could be spread over different Charging Years?
3. Paragraph 5 k) refers to 'Site Specific Work' as though this is a defined term but later on, only 'Site Specific' is defined.
4. Paragraph 5 n) has a dash without a prior space before part (a)
5. There seem to be some words missing after 'comprise' in the definition at paragraph 5 p) and the following 'as' is mis-spelt. See also comment 3 above.
6. There is some duplication of content between paragraphs 8 and 16 – with respect to the requirement for a single connection charging document.
7. In paragraph 23, there is an unnecessary 'which' in the second line.

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?

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