

New Connections
Charging – emerging
thinking for discussion –
Response from South
East Water

April 2016

1 INTRODUCTION

This document provides South East Water's response to the consultation "emerging thinking for new connections charging. "

We welcome the opportunity to comment at this stage of the consultation and our principle comments on what we feel the objectives of the new approach should be are set out below:

- To ensure fair costs with limited cross subsidy.
- To provide rules that are easy to apply and understand.
- To minimise variability and provide a transparent, standardised approach.

South East Water agrees that a reform to the current charging approach is required. However, we question how the proposal to allow companies to design their own charging approach will tackle some of the fundamental issues that have been raised by developers, such as a lack of comparability between companies and the confusion over the application of current charges from company to company.

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

All issues with the current framework are covered.

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?

South East Water welcomes any clarification over the current confusion regarding the perceived overlapping of offsite reinforcement and infrastructure charges.

There are benefits to a zonal infrastructure charge, such as the predictability of costs for developers, the removal of the first mover issue and the fact that water companies will not have to wait for a mains requisition request before laying required offsite reinforcement. We also acknowledge that the current arrangement means that there is uncertainty around actual costs until the completion of the works.

Having said this, although there are issues with the current arrangement the charging for offsite work is currently cost reflective as each situation is individually priced. With a zonal infrastructure approach you will lose an element of cost reflectivity as average prices would be used. This is likely to mean that developers will sometimes pay more or less than they would under the current arrangements; this is likely to cause issues for smaller developers who generally would not have to

pay offsite reinforcement costs and may mean they are subsidising larger developments that do require offsite work.

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

We understand that during the charging consultation workshops developers voiced criticism regarding the variability in application of the current charging rules by companies and that a need for standardisation and transparency was their main goal for any new charging rules. We are therefore surprised at the proposal to allow companies to develop their own charging approaches; whilst it is the view of Ofwat that they do not wish to draft detailed rules and allow companies to own their methodology, it is difficult to see how this fits with developers issues around transparency and consistency that has been a key part of the driver behind the new rules, we therefore welcome feedback regarding this concept from the various developer stakeholders.

If it is Ofwat's initial approach to see how companies put together their methodologies and to then use a best practice approach to draft more detailed rules at the later date this could work, however the inconsistency in approach by companies in the interim is likely to cause confusion.

Transparency has been fundamental in all discussions regarding charging, we therefore agree that a simple guidance document explaining the principle behind Developer Services charges would be useful for Water Companies and other stakeholders. The overarching document would provide some much need clarity and consistency for developers and, regardless of the application by each company, could provide clear compliance rules.

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

No comment.

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

Yes, it would seem reasonable for companies to provide details of how charges, such as infrastructure charges, are being allocated.

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?

If companies are being asked to publish their costs and the mechanisms on which they are built, it is unlikely that any additional information will be required.

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

Our comments regarding appendix A1:

- The timescale for development and implementation are very tight. It is hard to envisage any meaningful engagement being carried out in such a short timescale.
- Again, the setting out of Actual v Estimated network reinforcement costs by January 2018 seems unrealistic.
- Clarity required –
 - South East Water currently uses the fixed overhead recovery calculation (for estimate and connection) set out in the Ofwat document “Charges for new connection” guidance document, can we assume from Section 17 of Appendix A (“charges for overhead”) that overheads should not be fixed but should be cost reflective for each job?
 - Sections 20, 27, 34, and 42 of A1 talks about providing a fixed charge option – we assume that this is the current “commercial option” that is provided by some companies?
 - Section 43(c) talks about the period for previous usage, will there be a time limit on consideration of previous usage as we currently have?

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?

As there is already significant engagement with stakeholders in the various Defra led groups regarding charging and other topics it does not appear necessary for Ofwat to set requirements for stakeholder engagement with regards to charging rules. Water Companies and stakeholders already seemed to have embraced a joint approach in this area and we would see this continuing.

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

Proper stakeholder engagement and profiling of the methodologies is vital. Timescales for the transition are therefore very tight and we hope that these will be revisited.