

Introduction

United Utilities welcomes the opportunity to comment on the New connections charging – emerging thinking for discussion.

We consider the consultation raises the following key points, which are set out in more detail in our response:

- We believe that zonal charging fails to address the high level principles set out in the Defra draft guidance:
 - Fairness and affordability
 - Environmental protection
 - Stability and predictability
 - Transparency and customer-focused service
- Connection charging should remain unchanged - it is simple to administer, is understood by developers, and seldom results in regulatory complaints. However, we accept that there is scope for increased consistency within the industry.
- Infrastructure charges are misunderstood by developers who are asked to contribute to funding off-site works and to pay separate infrastructure charges. We propose an alternative solution should be investigated where by a developer only pays an infrastructure charge where there are no off-site reinforcement costs. The implications for other customers need to be considered as part of this investigation.
- Infrastructure Charges currently sit within the Wholesale Revenue Cap (WRC), part of this review should include reconsidering the appropriateness of these charges being within the WRC.

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

We are not aware that any key issues have been missed.

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?

Whilst this approach would bring more certainty of costs for the developers it would lead to more problems regarding transparency, a lack of consistency (with charges varying over time relative to the amount of remote work required), and could also be difficult to administer.

We also believe that this approach could be regarded as unfair, effectively requiring developers to pay increased fees where reinforcement costs are not applicable, to contribute towards investment for other less easily serviced developments. Investment for future demand will in some cases cross multiple price control periods and the infrastructure charges requested from developers in any given year would not reflect the work required or spent in that year.

It would also seem to provide perverse incentives for developers, with all developments cross subsidising developments which would be most expensive to service. It seems more reasonable to us that the cost of providing services to an individual development should be reflected in the cost of that development, not spread onto other developments that have not benefited from those costs.

An alternative proposal would be to charge the developer for the offsite work as required, providing full transparency regarding the specific work. We propose that an infrastructure charge would not be collected in cases where offsite reinforcement is required. This would remove the

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confusion caused to developers when charging for both the normal infrastructure charge and for remote work.

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

We welcome the flexibility to work with our customers and stakeholders to develop an approach which is simple, transparent and fair.

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

We support the principle of transparency to promote a level playing field. However, we do already have a high level of self-lay operator (SLO) activity in our area and continually engage with SLO's. We are happy to share details of our approach with others.

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

Based on adoption information representative of the past 3 years, we calculate the construction value of sewers which could be adopted to be in the region of £50 million per year.

This figure is calculated from the lengths of sewer identified in adoption agreements we have entered into discussions on. This is because not all adoption discussions or applications currently result in a final adoption agreement and ultimate vesting declaration, primarily due to the speed the house building industry has recovered and the fact that adoption is not mandatory in England.

Given that this cost is not currently reflected in totex assumptions, it would represent an additional financing requirement to be recovered from customers. We estimate that this would add (based on the aforementioned £50m pa) c.0.2% pa annum to household customer bills (cumulating). We would support wider industry analysis investigating how asset payments would be calculated and the resulting impact on customer bills.

It is also not clear that these payments are necessary, as the cost to developers would be included within the final market price for the development. It is unclear why it is reasonable for water household and non-household customers more generally to cross subsidise asset payments to developers.

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

We agree with the emerging thinking regarding information provision for companies to improve transparency.

For 2016/17 we have produced a charges scheme that documents charges for developers, please see the link below:

<http://www.unitedutilities.com/documents/uuw-limited-new-connection-developer-services-charges-schemes.pdf>

We will be developing this document further in preparation for publication of 2017/18 charges.

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We have conducted “Developer Days” for the past 3 years, at which we present industry updates and seek feedback via facilitated interactive sessions on specific areas of focus. In addition we have conducted surveys to gather views and concerns from housebuilders and consultants working for developers and SLO’s. We have listened to views on charging and worked towards creating far greater transparency and fairness in this area. Evidence of our good working relationship with developers is demonstrated with our award for ‘Best Utility Provider’ from the HBF (national) last year, the third year we have won an award recognising our approach to developers and house builders.

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?

We believe we already publish all relevant information to aid transparency.

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

Our observations on the rules are set out below:

- Rule 8 requires an assurance statement confirming compliance with the rules. We currently provide and publish an assurance statement in January, prior to the publication of our charges schemes. We would expect that this assurance statement would equally apply to these charges and charges scheme.
- Rule 12 is listed in the section “Publication and Transparency” – whilst we understand that this does enable transparency and should be taken into account, we think it would be more appropriate to list this under the “General charging principles section”.
- Rule 14 states “*undertakers should take reasonable steps to ensure that the present balance of charges between Developers and other customers is broadly maintained, and provide details as to how this has been assured.*” We agree that it is appropriate to maintain the balance and would suggest that this is a rule and therefore compliance with the rule would be covered by the assurance statement. Therefore there should be no need to “*provide details*”.
- Rule 34a relates to upfront Fixed Charges. Greater clarity should be provided to differentiate between upfront charges and deposits (which would potentially be interest bearing).
- Rules 39 and 40 suggest that Infrastructure charges should be based on costs in “the given Charging Year”. Annually calculated charges would result in infrastructure charges that fluctuate year on year. This would not be consistent with the Defra guidance objective – Stability and predictability.

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?

We support proportional engagement with stakeholders as charges are developed. If there is no significant change to either the structure of charges or to the level of costs to be recovered engagement may not be necessary.

We already engage with developers in our region through our annual Developer Day and regular Developer Forums. Our agenda typically includes, an industry update, a summary of performance

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and levels of service, details of progress and improvements made over the previous year, an indication of what we are planning to focus on next and concludes with interactive group sessions to gather feedback to inform our improvement plans.

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

We cannot at this stage determine what additional actions would be required to ensure an effective transition, but we do have concerns about the short timescales proposed.

Transition arrangements will depend on the changes to be introduced and an evaluation of those changes to understand:

- the financial implications for other customers and for UUW; and
- operational changes to support new ways of working e.g. updates to IT systems, financial models, processes and procedures