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Dear Andrew

New connections charging – emerging thinking for discussion

Thank you for giving us an opportunity to comment on your emerging thinking in respect of new connections charging.

The existing charging mechanisms, whilst far from perfect, have been in place since privatisation and we believe that a considerable amount of work will be required to revise and embed alternatives. To this end we question the feasibility of introducing a standardised system by April 2017, and we would caution against a rush to standardisation that inadvertently removes incentives and opportunities for innovation from developers and/or new entrants that would reduce costs to consumers in the long run.

While we understand the proposal to eliminate potential overlap between off-site reinforcement charges and infrastructure charges, we do not believe that complete removal of the actual off-site cost signal is appropriate. Removing this signal will reduce incentives on developers and/or opportunities for new entrants to compete in the market to provide capacity upstream that may promote more sustainable approaches to be taken.

We would take a different approach to striking the balance of cost reflectivity, strong signals on developable locations and undertaker responsibility for core capacity in line with local plans.

- Retaining the s41/s98 off-site requisition approach but focussed solely on connecting development sites to our existing infrastructure and including the netting-off of reckonable income
- Introducing company calculated zonal (possibly regional) infrastructure charges which are set to address the developer-driven, capacity improvement requirements needed and which would then be recognised as a justifiable forward looking infrastructure impact levy for water and sewerage infrastructure.

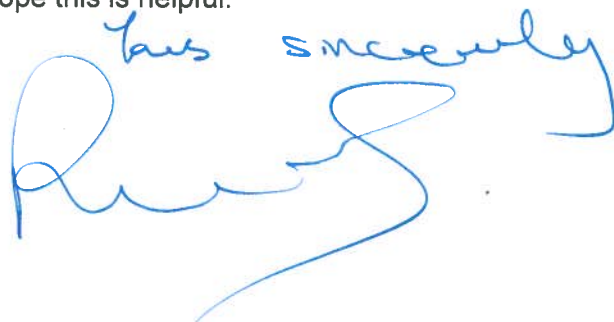


Within this approach it needs also to be open to developers and/or new entrant undertakers to show how their proposed developments would reduce off-site capacity requirements on a per premises basis compared to the assumptions used by incumbents (which will need to be transparent) when setting their zonal infrastructure charges.

With suitable controls in place to assure that these capacity benefits are achieved in practice these upstream savings could then be passed back through the bulk supply price offered or up-front through discounted infrastructure charges, or a combination of the two approaches.

We note that it is not currently proposed to require asset payments to be made for sewerage assets however sewerage undertakers will explicitly have the option of offering such payments. We have estimated the annual cost in our region to be c.£30m. Before making such a change Ofwat should consider the impact on markets already operating to give developers greater choice, including New Appointees operating under the inset regime.

I hope this is helpful.

Yours sincerely


Phil Wickens
Head of Economic Regulation