



Charging Team
Ofwat
21 Bloomsbury Street
London
WC1B 3HF

26 August 2016

Dear Sirs,

New connections charging – consultation

Please find attached our submission in response to your consultation publication of 27th July 2016.

We support Ofwat's efforts to improve the connection charging regime, which is currently unsatisfactory for all stakeholders. We believe the consultation, which largely builds on the proposals published in March 2016 ('New connections charging – emerging thinking for discussion'), is a workable set of proposals. However, we remain concerned with the proposals for two reasons:

- how the resulting regime will be perceived by stakeholders; and
- time available to implement the new charging rules for new connection services and revised charges scheme rules for April 2017.

We think there is a risk that the resulting regime will be complex and onerous. This could be particularly true for a developer who may be operating across the country and potentially having to interact with multiple sets of charging arrangements. The improvement in predictability and fairness of the new arrangements may well get lost in the complexity of the flexibility afforded by the proposed new rules.

We think it is helpful that you have recognised concerns raised by some stakeholders regarding the absence of a standardised structure to new connections charges. While you have agreed to monitor the situation we would encourage predictability and simplicity of the new regime and so more standardisation sooner. We would support the application of a single charging regime applied nationwide that is revenue neutral.

We think the timetable remains very challenging. This is acknowledged in your summary of responses but you then conclude that as one company has said implementation is possible that this must apply to all. We understand the desire to implement these changes as soon as possible but



would urge you to consider this again in light of the complexity that we expect will remain with the new rules.

We have responded to the specific questions in the consultation in the appendix to this letter.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'C Offer', written over a light blue horizontal line.

Christopher Offer
Director of Regulation

Appendix: Specific consultation questions

Q1 In light of our updates and clarifications, do you agree that we still retain the key features and approach of our March proposals?

We agree that in light of the updates and clarifications you have retained the key features and approach of the March proposals.

We remain concerned about the complexity that will endure from the flexibility afforded by the proposed rules in promoting cost reflectivity. Full cost reflectivity is a particularly difficult to achieve in the area of new connections and infrastructure charging due to the nature, timing and dependency of existing assets. This leads inevitably to differences of approach and dispute.

Connecting to water and wastewater services is not a major cost for most developers, but it is our understanding that predictability and simplicity of costs is the primary concern. We think it would be unfortunate if this objective is not achieved.

We fully support Ofwat's regulatory principles set out in 'Figure 1: our regulatory model'. However, we do question whether those principles are applicable to every situation. New connections' charging is an area where a more 'prescriptive' principle may have more merit.

Q2 Do you agree with our updates and clarifications to our proposed rules?

We are content with the updates and clarifications to the proposed rules.

Q3 Do you agree that offsetting the infrastructure charge, rather than requisition charge, has merit? If so, when and how should this change be brought about?

We can see the merits of an approach that offsets income against infrastructure charges rather than requisition charges, if for no other reason than to address concerns expressed by self-lay organisations. If it is felt that this change should be implemented then we think this should be done as part of the price review process to avoid issues arising from the interaction with the exiting price control.

Q4 Do you have comments on our proposed approach to implementing our rules?

You asked for responses on the potential threshold for APR reporting on cumulative variances in infrastructure charge costs and revenues. It seems to us that a percentage variance is appropriate here. We think a 5% variance would be appropriate. This would avoid excessive reporting and investigation, but also give companies an achievable target to aim at. We will be happy to contribute to any industry wide collaborative work to develop reporting requirements around cost information, and welcome the clarity that Ofwat is seeking to bring to this area.

We are content with the proposal to provide further granularity of cost information in relation to developer services for FY17/18. However, we consider that much of this information is commercially sensitive data and therefore companies should not be required to report this information in publically available regulatory reports such as the APR.

We currently publish detailed information on charges for specific services on our website. We consider that this is the most effective way of providing this information to our stakeholders, as detailed explanatory notes can be included. Inclusion of such information in regulatory accounts and the APR may only detract the reader from areas of focus or interest in the reporting period and may be difficult for customers to understand without the detailed commentary we currently provide on our website.

Q5 Do you agree with the approach we have taken to our draft impact assessment? Can you provide quantitative figures in terms of the potential benefits or costs? Is there anything we have missed?

We generally agree with this impact assessment, which seems to be reasonable.

As noted above we feel that wider economic benefits might be greater if there was a more prescriptive regime. The wide variety of schemes that are likely to result from the principles which Ofwat have set out will be complex and onerous from the perspective of the housebuilding sector. It is helpful that you have specifically recognised this point under the 'Risks and Uncertainties' and acknowledge that this may need to be mitigated by "revisiting our rules to promote standardisation, should the circumstances warrant it".

Q6 Do you have any comments on the drafting of our new connections rules?

The draft new connections rules lack clarity as to transitional arrangements and do not reflect the principle that where a developer has entered into an agreement or been given a quote as to the charges payable prior to the rules coming into effect, the new rules should not apply. This is particularly important given the interplay with the proposed amended Condition C and the draft charges scheme rules.

The definition of "Network Reinforcement Costs" in the draft new connections rules differs to the definition used in the draft charges scheme rules. It would be appropriate for both sets of rules to adopt a common definition.

Q7 Do you have comments on the draft changes to the charges scheme rules?

The new provisions on Infrastructure charges in the charges scheme rules should include transitional arrangements consistent with the transitional arrangements included in the new connections rules.



The definition of “Network Reinforcement Costs” in the draft charges scheme rules differs to the definition used in the draft new connections rules. It would be helpful for both sets of rules to adopt a common definition.

Q8 Do you have any comments on the drafting or our proposed licence modification, including the wording of the illustrative example.

No comments on the drafting.