



**CCWater's response to
New connections charging
- an Ofwat consultation**

1 Introduction

- 1.1 The Consumer Council for Water (CCWater) is the statutory consumer organisation representing the interests of customers of water and sewerage companies in England and Wales. CCWater has four regional committees in England and a committee for Wales.
- 1.2 We welcome the opportunity to respond to Ofwat's consultation on new connections charging. As with our response to Ofwat's emerging thinking paper¹ on the same topic, we are responding on behalf of the generality of water customers, and also on behalf of developers as customers of the water companies' developer services.
- 1.3 In response to the earlier emerging thinking piece, we said that:
- Charging arrangements should not cause price shocks for developers or the generality of customers; and
 - Where there are likely to be significant price increases, Ofwat should ensure that companies implement changes in a phased manner.
- 1.4 We generally agree with the updated proposals, subject to the concerns that we set out in this response. In particular, we agree that:
- All charges must be clearly explained;
 - Asset payments for wastewater should not be mandatory at this stage;
 - Companies should balance their costs with revenues received over the rolling 5-year period suggested by the consultation, as far as is possible. We consider this will help reduce the possibility of price shocks; and
 - Infrastructure charges should take due account of previous usage.
- 1.5 Our concerns are as follows:
- We do not support the new proposal to offset income against infrastructure charges in its current form, mainly because this could, as Ofwat acknowledges, increase the costs to the generality of customers;
 - We question whether the current enforcement process is sufficient to ensure the proposed charging regime will work effectively;
 - To ensure the transition to the new regime is as smooth as possible, we recommend that Ofwat extends by six months the period during which developers still have the option of choosing the current charging method. We also suggest that Ofwat ensures that water companies agree to the developer's choice of charging methodology during this time;

¹ Ofwat (2015): New connections charging - emerging thinking for discussion
<http://www.ofwat.gov.uk/consultation/new-connections-charging-emerging-thinking-discussion/>

- Ofwat needs to consider whether the level of information that companies will provide with their annual performance review, prior to 2022, is sufficient to ensure that the new charging regime is operating effectively;
- We are concerned about the potential for the new regime to have a significant impact on smaller scale and single property developers; and
- We would like Ofwat to review whether the charging rules will prevent water companies from ‘gold-plating’ their requisition charges.
- Finally, clarity is needed in relation to water companies’ ability to increase the capacity of self-laid mains.

1.6 We set these points out in full below.

2 Response to Ofwat’s specific questions

Question 3: Do you agree that offsetting the infrastructure charge, rather than the requisition charge, has merit? If so, when and how should this change be brought about?

- 2.1 Ofwat has identified that this approach could increase costs to customers. This is because the single till mechanism enables water companies to recover revenue from the generality of customers to compensate for a loss of revenue derived from infrastructure charges. We do not support any change that results in an increase in costs with no discernible benefit for customers.
- 2.2 As we set out in our response to Ofwat’s emerging thinking paper, we feel strongly that the generality of water customers must bear only an appropriate level of contribution towards the cost of new development. Furthermore, we question how this proposal, in its current form, fits in with Ofwat’s stated aim to maintain the current balance of payments between customers and developers.
- 2.3 With this in mind, we urge Ofwat to consider introducing this change only if it can incorporate a clear mechanism to ensure that water companies’ existing customers do not bear additional costs. If this is not possible, then Ofwat should consider other options.

Question 4: Do you have any comments on our proposed approach to implementing our rules?

Enforcement

- 2.4 In our response to the emerging thinking paper, we also said that Ofwat’s approach to enforcing the proposed rules needs to be robust and transparent, and any problems should be resolved quickly. Although we are pleased to see that the consultation includes an explanation of the enforcement process, we

are disappointed that timescales are not currently defined. We believe that they should be, for the benefit of all parties.

- 2.5 Robust and swift enforcement will be key to making this regime successful. For this reason, we strongly recommend that Ofwat considers how it will ensure its process is as speedy as possible, and sets out the timescales that will apply to any case that is referred to them for enforcement.
- 2.6 Developers will require a prompt resolution to any issue that they refer for enforcement. Otherwise, there is a risk that they will lose clients and confidence in the new regime. This is especially true since historically, as highlighted in David Gray's review², Ofwat's process for handling complaints about charges for new connection work led to significant delays in resolving complaints. Any new process for looking at complaints about connection charges must be clear about timescales and process and, overall, be more effective than the existing regime.

Transition

- 2.7 Even with clear timescales for enforcement, we can see some merit in Ofwat taking additional steps to ensure that confidence in the market is maintained.
- 2.8 It is currently proposed that the new charging rules will apply from April 2017. Developers will be able to use the current methodology for specific sites if they have agreed this with water companies prior to April 2017. As charges schemes are published at the beginning of February, this will give developers a window of around two months during which they can compare, and choose between, the current and proposed charging methodologies. However, property developments can take many years to set up and it seems unlikely that many developers will be able to take this opportunity within this timeframe.
- 2.9 With this in mind, CCWater suggests two things. First, we suggest that Ofwat specifies in its rules that water companies would need robust reasons for not agreeing to a developer's choice of charging methodology.
- 2.10 Secondly, we recommend extending the period, by a further six months, during which developers can choose which charging mechanism to apply. This would enable developers and Ofwat to identify any charging methodologies that give cause for concern. Ofwat will then be able to take any necessary action to ensure that company policies meet their rules. Developers would be reassured because they could still ask for charges to be calculated under the old charging methodology.

² Defra (2011) Review of Ofwat and consumer representation in the water sector:

Infrastructure charges

- 2.11 We support Ofwat's proposal that companies balance their costs with revenues received over a rolling 5-year period. However, we are concerned that companies are not being required to provide a detailed commentary in their annual performance reports on the balance of costs and income prior to 2022. Ofwat accepts that there are 'likely to be greater variances in the earlier years as the new charging rules are implemented and transitional arrangements are made'. As such, we would expect Ofwat to want to assure itself that new charging arrangements are working well at the earliest opportunity, rather than wait until the 2019 price review to take remedial action.
- 2.12 We are also concerned about the potential effects that the new charging regime may have on those small-scale and individual developers who would not be eligible for network reinforcement costs under the current regime. Now that these costs have been incorporated into the infrastructure charge, some of these developers may face significant cost increases, depending on water company policies. Ofwat should review whether it needs to take action to address this issue before the new charging regime is implemented.

Question 6: Do you have any comments on the drafting of our new connection rules?

- 2.13 Broadly speaking, the connection rules seem fit for purpose. However, we note that the main mechanism in place to ensure that the companies do not overcharge seems to relate to infrastructure charges only. Although there is a general requirement for companies to create fair and affordable charges, we question whether this is sufficient to prevent 'gold-plating' of the requisition element of the charges. This could be a particular issue for developers operating in those parts of the country where the self-lay option is less well established, such that competition is unlikely to be a sufficient constraint on prices.
- 2.14 We would like Ofwat to ensure that, whatever methodology water companies choose to calculate their charges, their requisition charge calculations are based on a reasonable cost for the work involved in laying new water mains and sewers.
- 2.15 We also have a query in relation to a rule which seems to apply to requisitioned works but not self-laid works. In paragraph 28 of Appendix 1, the rules state that where an undertaker decides to increase the capacity of a requisitioned main, beyond what is needed for the requisition, then the person making the requisition only pays costs in proportion to the capacity required by his or her requisition.

- 2.16 It seems feasible that a water company might want a self-lay operator to install a pipe of a larger capacity than what is needed to serve the self-lay operator's development. Any extra enhancement carried out in this way would have to be paid for by the water company. However, we cannot see how this enhancement work could be enabled under the current rules. We suggest that Ofwat clarifies this.

3 Enquiries

If you have any questions about CCWater's response to this consultation, please contact:

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