

New connections charging

July 2016

This paper sets out South East Water's views in response to the Ofwat consultation paper – New connection charging - consultation.

1 INTRODUCTION

South East Water welcomes the opportunity to comment on the consultation for new connections charges. We are still concerned that the implementation timetable is unrealistic for meaningful consultation and for new charging rules to be put in place. Whilst we understand the need to continue the momentum and put in place the new rules as quickly as possible, it should not be at the cost of ensuring that companies charging rules are thoroughly tested, trained out and consulted on and indeed that the outcome of the charging reforms are achieved.

Our primary concern is that the open ended nature of the guidance and the limited time to develop and consult on alternative approaches will inevitably lead to an increase in developer dissatisfaction at least in the short term. This is clearly counter to the stated objectives.

There is likely to be lengthy debates with consultees and the trading of ideas and suggestions and there is a very real risk that this debate will not have reached a suitable conclusion before charges are published. To reduce this risk a deferral on the date of implementation would be appropriate to allow comprehensive consultation that in term in will lead to an issues and suggestions to be tested in the consultation period rather than in the charging year itself, thereby avoiding formal disputes. It may also enable companies to have the time to consult on a number of approaches collectively and come to a more consistent methodology.

We also believe the absence within the objectives of a requirement for a consistent charging approach means there is a real risk that all other objectives centred around fairer, predictable and stable will be lost as a result.

2 GENERAL COMMENTS ON THE APPROACH

The initial plan for new charges to be non-prescriptive and company specific is likely to cause issues for developers. The lack of consistency across water companies of the application of the current rules has been an issue for some time; it is difficult to understand how the new approach will tackle this. Certainly in the first few years of the new regime, there is likely to be a spike in disputes, and therefore the costs you refer to in Appendix 4 are likely to be understated, with developers and customers struggling to marry the different approaches likely to be adopted across the country. We do not see that this approach will improve relationships with developers and incumbent water companies, rather developers will be become increasingly frustrated with the lack of continuity.

The objective of transparency and predictability is required across the country; this means a consistent approach to charging so that developers do not have to navigate a number of charging mechanisms depending in what area they are building in.

3 ANSWERS TO SPECIFIC CONSULTATION QUESTIONS:

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

The consultation document has retained the key features of the March proposal. It is surprising that some of the concerns raised around timing and continuity have not been addressed in the updated document. Whilst we understand that the core of the document aims to provide a good basis and general framework for new connections charging moving forward, the fact that the new proposal is so non descriptive means that we are working to a very tight deadline with very little guidance. It is because of this uncertainty that companies need a realistic timescale to work with.

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

South East Water welcomes the clarification of key points in the proposal, specifically to what is covered under the new charging rules. There are still some areas that require clarification, for instance will there be any further mechanism to recognize the extra risk incumbents will take on the upsizing of existing network? We understand that it is not fair for the first developer on a large site to pay more than subsequent developers; however the risk to the incumbent increases significantly and may encourage companies to take a piecemeal approach to designing new mains rather than take a longer term approach and the risks associated with it.

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

The offsetting of infrastructure charge, as newly defined to include off site reinforcement, is workable and can be justified. The issue of offsetting infrastructure against offsite reinforcement has been a cause of contention between water companies and developers for a number of years; we feel the new approach will tackle this and will make the cost for new development more transparent.

As the different application of infrastructure and offsite reinforcement by different companies has been an issue in the past it may be appropriate to put in place an industry standard model to show how companies will calculate new infrastructure charges and any assumptions that are made.

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

License change – The proposal to use S. 55(1) to remove the existing cap on infrastructure seems appropriate to enable the changes required to license condition C.

We support the guidance you have provided on transitional arrangements and how we deal with large sites already in the process of being built. We agree that the new charging rules should not undermine any current agreements in place, this provides some assurance to both incumbents and developers that existing schemes will carry on as is.

Customer engagement on charging will be an important part of the customer experience for our sector. It will be useful to see the different views on approaches from different types of customers. Specifically it will provide a platform for smaller local builders, who are often not a part of the wider national discussions.

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

The main body of the approach detailed in Appendix 4 seems sound. However, we would suggest that an additional impact assessment is required for the potential increase in disputes for both Ofwat and incumbents. We agree that the use of a reduced infrastructure charges as an incentive for developers not to build in water scarce areas is a positive move forward. The current mechanism in place can be complicated and as the actual costs associated with a scheme are not understood until work is complete, this can be a considerable amount of time, especially if developers originally request that larger sites are provided a single estimate rather than a phased.

As previously commented we are not convinced that developers will support the idea of companies applying different charging rules, they are likely to see this as yet another barrier to the transparency and consistency they have asked for.

We agree that it is fair to maintain the balance in contribution for developers and bill payers, any substantial changes are likely to cause a significant amount of disagreement from either side.

The benefits of upfront fixed connection costs for some activities are clear, however we do wonder how the “win some, lose some” approach, which is likely to occur in some instances, will be dealt with in the case of a dispute?

We agree that the current estimate methodology and recalculation of schemes can be an administrative burden, however as previously stated, unless there is a consistent approach across the industry it is unlikely to reduce disputes directed to companies or Ofwat.

We have not encountered any issues with the payment of asset values to SLO's/NAV's, the only time that a delay may occur is if serious defects have not been put right, consequently we are not sure how wide an issue this is for competition. We do, however, agree that there should be a level playing field for all.

There are likely to be a one of cost associated with setting up the new charging rules. We have reviewed options for a new rules and looked at other company's proposal, however we have yet to decide on the final approach we will take, until we have determine this it will be difficult to give a meaningful cost of implementation and the work associated with it.

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

For clarity, the charging rules on new connections should specify expressly that the "Charging Arrangements" to be published by undertakers are not "charges schemes" under section 143 of the Water Industry Act 1991.

Paragraph 19: There should be an exception to the requirement to provide clear objective justification for departing from the requirement to maintain the present balance to the extent this is due to compliance with paragraph 28.

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

No comment

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

No comment