



South Staffs Water

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Charging,
Ofwat,
21 Bloomsbury Street,
London,
WC1B 3HF

By email to: charging@ofwat.gsi.gov.uk

26 August 2016

Dear Sir,

South Staffs Water response to consultation on new connection charging

Thank you for the opportunity to respond to the above consultation. Our responses to the specific questions are attached. Please let me know if you have any questions.

Yours sincerely,

Philip Saynor,
Director of Finance and Regulation
South Staffordshire Water PLC

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

Overall, and as set out in our response to the March proposals, we agree with the key features as set out in the consultation.

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

We would welcome confirmation of our understanding regarding the transitional arrangements set out on pages 41 to 43. We believe that it means that any existing negotiations with a developer over whether to use existing arrangements or new charging rules must have been completed by April 2022, otherwise the new charging rules must be used. In addition, if there is a binding agreement in place based on the current charging arrangements, this would remain in force after April 2022 if necessary.

We agree with all other 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 benefits to both companies and developers of offsetting future income against infrastructure charge. However, we recognise the problem with the 'single till' which would allow companies to recover this net difference from customers.

In our response to the Water 2020 May consultation, we outlined our preference to exclude all developer services from the network plus price control as the single till is currently causing issues for South Staffs as highlighted in our Annual Performance report:

'The Company over recovered by £2.9m on developer contributions in 2015-16 reflecting higher costs incurred for a significant number of non-standard connections on brownfield sites and infill of smaller developments. The wholesale control assumed that all connections were large housing developments in greenfield sites. However, the Company has seen no net benefit from this as the additional contributions simply reflect the additional costs incurred in delivering the service to developers. We will be discussing this issue with Ofwat over the summer.'

By excluding developer charges, it would eliminate any issue of over/under recovery of developer charges and hence allow the offsetting of income against infrastructure charges without detriment to customers.

The timing of implementation will be dependent upon how Ofwat decide to address the issue of the single till within this price control period. A pragmatic approach, allowing companies to defer any adjustment to the wholesale control in relation to developer contributions and then submit a claim at PR19 would allow the offsetting of income against the infrastructure charge from the 2017-18 charging year.

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

We are supportive of the approach to implementation and welcome the option of reviewing the timetable if there is significant change to the charging rules when the final position is published in the Autumn.

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 agree with the approach and the outcome of the draft impact assessment.

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

We do not have any comments.

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

We do not have any comments.

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

Please see our response to question 2 with regards our understanding of how the transitional arrangements work.