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26 August 2016

Dear Charging team

Consultation on new connection charging rules

SSE's subsidiary SSE Water Limited (SSEW) is a new appointee or 'NAV' company in the water industry framework, providing competition to existing incumbent water companies in the provision of local water and sewerage infrastructure to serve the needs of developer customers.

SSE Water therefore very much welcomes the developments in Ofwat's proposed Charging Rules for new connections, which seek to promote a level playing field for alternative providers of local infrastructure such as NAV companies. We have some ongoing concerns and set these out below.

Timing of payments

We remain concerned that incumbent companies could seek to treat NAV companies differently and less favourably than in their own direct dealings with a developer for provision of infrastructure. As we seek to understand how the proposed new rules will affect commercial discussions between NAV companies and incumbents, we perceive that a NAV company may be subject to accelerated requests for connection payments compared with an incumbent directly dealing with a developer. For this reason, we propose that the rules on the principles for determining charges (numbers 19 - 22) are augmented by reference to consistency in the required profile of payments as well as in the calculation of charges and asset payments.

Proportionate burden on NAV companies

The proposed rules only seem to recognise a difference between incumbent water companies and NAV companies in terms of when Charging Arrangements documents have to be produced (with NAV companies being allowed to produce these documents 3 weeks later than incumbents). NAV companies typically do not provide 'new connections' at all – their initial work is for developers to provide the infrastructure to meet all the dwellings that have been granted planning permission on the developer's site and their initial customer codes of practice were approved by Ofwat without the need for any content on

new connections for this reason. To jump from this situation to one where a whole range of charges for connection are required to be published is, in SSE's view, a disproportionate burden on new appointees in the time before the first set of Charging Arrangements are required in February 2017. We would like to explore with Ofwat if there is a way of making the documentation requirements less burdensome for NAV companies, given their more limited resources and likely low volumes of new connection requests.

Infrastructure Charges

We have supported Ofwat's intention to clarify new connection charging arrangements by only allowing one specific charge (known as the infrastructure charge) to cover the costs of any offsite reinforcement work. We agree that for the incumbent price-controlled companies, an assessment of the balance of expenditure and revenue for the type of work intended to be covered by Infrastructure charges over a rolling five year period – as discussed in section 4.4 – is appropriate. But we are still unclear on the expected role of NAV companies (who do not own any 'offsite' infrastructure, almost by definition, as they apply to be appointed on a site by site basis) in setting, collecting and interacting with incumbent companies on infrastructure charges. We do not consider that it is helpful for the proposed rules to remain silent on this topic or to imply – for example in proposed new rule 28 of the amended Charges Scheme Rules – that NAV companies are actually engaged in 'network reinforcement' activity. We would wish to understand if NAVs are to develop their own 'infrastructure charges' or, as now, be required to cooperate in the levying of these charges in their own sites for the benefit of the incumbents in whose areas their appointments lie.

Income Offsets

We note the discussion on pages 28-30 of the consultation about how income offsets are applied to the basket of charges that collectively are known as 'new connection' charges. As Ofwat has noted, NAV companies are not being treated fairly by an incumbent, from the perspective of competition law, if discounts are applied to new connection charges by the incumbent dealing directly with a developer that are not being applied to the connection charges made to a NAV company for the same development. Ofwat poses the question as to whether income offsets should be applied to infrastructure charges rather than requisition charges (which are a contestable element that NAV companies are in competition with incumbents to provide). We would welcome income offsets being applied in a non-discriminatory manner and would support such a move, if it will help to reinforce the new Connection Rules on this matter. We would welcome this amendment taking place as soon as possible for NAV companies rather than having to wait until April 2020 – we do not expect that the amount of revenue involved across NAV companies in aggregate would be significant for the balance of any incumbent company's price control, although it could have a significant positive impact on the economics of individual NAV sites.

In addition to our main points above, we have provided responses to some of the specific consultation questions in the appendix to this letter.

Yours sincerely

Aileen Boyd

Regulation Manager

Response to 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?

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

We do not support NAV companies being required to produce the full range of new connection charge documentation, as discussed in our covering letter.

We still do not understand how the setting and collecting of infrastructure charges will affect NAV companies.

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?

Yes. As discussed in our covering letter, we support this change if it will help to ensure that NAV companies are not discriminated against in new connection charging. On that basis, we would like to see the change introduced from 2017, at least with respect to charges to NAV companies.

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

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 would urge a proportionate approach to applying a requirement on NAVs to prepare charging statements relating to new connections, which have not previously been required and for which there is little or no demand.

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

We would like to see an additional point made on the principles of charging that provides for the required timing of payments for new connection charges to be consistent across different classes of customer, as discussed in our covering letter.

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

It is not clear to us how the new text on infrastructure charges in the Charges Scheme Rules can apply in the same way to NAV companies as it does to price controlled incumbents.

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