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26 August 2016

Dear Andrew

New connections charging – consultation

This consultation is part of a programme of work intended to ensure developers benefit from clearer, more predictable and stable charges. Change provides us with a good opportunity to review and improve the information on our dedicated webpage for developers' services: <https://www.wessexwater.co.uk/Developers/> to ensure that it meets the needs of our customers and is more user-friendly and accessible. We are looking outside of the water sector to see what we can learn from how other utilities provide developers with more certainty and predictability on charges and costs.

Achieving Transparency & Consistency

Changes need to be customer led. While developers are not a single homogenous entity, in general they want more transparency, consistency and certainty on the way that charges are levied and while your proposed charging rules do provide more clarity on a principles level, we are not sure that they will deliver the consistency of approach that developers are seeking. Water UK has organised a workshop in September where stakeholders can discuss how these rules can be applied in practice and we think this will provide an opportunity to understand better whether the government's objectives will be met.

Defra's overarching principles require that the current balance of charges between developers and existing customers is maintained. The government's rationale for this principle is that it will protect developers. In practice, we believe its effect will be to limit the number of options available to companies going forward and remove the option of reducing charges paid by developers even if this is likely to lead to better outcomes.

Because companies start from different positions, even if they take a consistent approach to say infrastructure charges in the light of specific new rules, they will need to take a different approach to other developer charges to ensure that the balance of charges remains unchanged. In total therefore this will not provide the consistency of approach that developers are seeking. The balance of charges principle will need to be relaxed at some point to meet other objectives.



The Charging Rules

Firstly, we welcome the greater clarity in the services that are included in infrastructure and requisition charges. Given the points made above, this change in definition does not however give clarity on how income from new properties is netted off costs. It is the treatment of this income that may require companies to take differing approaches to retain the current overall balance of income received from developers as a contribution towards new development.

Secondly, we think that there are certain circumstances where infrastructure charges could also be appropriately used to recover the costs of new "off-site" sewers on third party land connecting a development to the existing sewer network as opposed to solely upstream reinforcement costs. A property based infrastructure charge in this instance would avoid disadvantaging the first developer in a new strategic location where there are expected to be multiple developers requiring a connection over a period of time. It would be helpful if Ofwat's charging rules were written in such a way that they do not preclude such an approach.

We see some merit in offsetting future income against the infrastructure charge rather than the requisition charges but caution that, where offsite reinforcement is significantly lower than requisition costs, this may reduce the overall amount of income that can be offset and it will be difficult to retain the overall balance of charges to developers.

While the proposed rolling five-year cumulative period is intended to ensure that infrastructure charges are more stable we think this average should be based on a longer period, more reflective of long-term planning horizons. The longer period could be a balance of both historic costs and future forecasts.

Timescales

To meet the proposed timeframe of publishing new charges by 1 February 2017 we have begun a review of our charges. We would however suggest that the timeframes are reviewed in light of responses to this consultation and the September Water UK workshop.

The change to developers' charges was seen as a "once in a generation opportunity" and we remain strongly committed to ensuring an outcome is beneficial to all stakeholders, including potential new entrants.

We hope you find these comments helpful.

Yours sincerely



Phil Wickens
Director of Regulation and Reform

Questions: new connections charging consultation

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

This consultation is part of a programme of work intended to ensure developers benefit from clearer, more predictable and stable charges. Change provides companies with the opportunity to review and improve the information and service they offer but we do have concerns about the proposed time frame for implementation, particularly if you are expecting companies to adopt innovative charging structures and trial new approaches. We anticipate modest change for 2017/18 to allow us more opportunity to determine how best to ensure our charges scheme is consistent with Defra's overarching principles.

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

The draft rules are clearer than the proposed rules published in March, although there is scope for increased clarity in defining which activities are contestable and which are not.

Developers want more transparency, clarity and certainty on the way that charges are levied and while Ofwat's charging rules do provide more clarity on a principles level, we are not sure that they will deliver the consistency of approach that developers are seeking. Water UK has organised a workshop in September where stakeholders can discuss how these rules can be applied in practice and we think this will provide an opportunity to understand better whether the government's key objectives will be met.

Q3. 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?

Your draft rules redefine the infrastructure charge and the requisition charge so that off-site charges are moved from the latter to the former and the new definition should ensure more clarity both for developers and companies and help developers (and lay parties) understand the purpose of the infrastructure charge and prevent double-charging, inadvertent or intended.

We see some merit in offsetting future income against the infrastructure charge rather than the requisition charges but we would caution that, where offsite reinforcement are significantly lower than requisition costs, this may reduce the overall amount of income that can be offset and it will be difficult to retain the overall balance of charges to developers.

The proposed rolling five-year cumulative period is intended to ensure that infrastructure charges are more stable but we think that the average should be based on a longer period, which could be a balance of historic costs and future forecasts.

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

Implementation of your rules is scheduled for 1 April 2017, although you have noted that you may decide on a review of the timetable and, possibly, a phased implementation of your rules this autumn.

To meet the proposed timeframe of publishing new charges by 1 February 2017 we have begun a review of our charges. We would however suggest that the timeframes are reviewed in light of responses to this consultation and the September Water UK workshop.

The change to developers' charges was seen as a "once in a generation opportunity" and we remain strongly committed to ensuring an outcome is beneficial to all stakeholders, including potential new entrants.

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 have begun discussions internally on what changes might be required but will wait for your decision before we begin modelling new charges and alternative new options.

We note that your IA notes that companies must offer the choice of upfront fixed charges and alternative charges in addition but your draft rules¹ include the word may suggesting that companies have a choice. We see benefit in allowing companies more flexibility rather than prescribing what they need offer.

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

We note a minor drafting mistake in the second paragraph of the definition of Fixed Charges where the sentence is half-finished.

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

The charges scheme rules define the infrastructure charge as meaning the charges described in section 146(2) of the WIA91. We think it would be clearer to define the infrastructure charge within the charges scheme rules, rather than refer to a section in the Water Industry Act 1991 that is entitled "connection charges etc. and charges for highway drainage."

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

No.

¹ Draft Charging Rules for New Connection Services; paragraph 25(b), 32(b) 41(b); Appendix 2: Proposed revised charges scheme rules, paragraph 31