Meeting note

Wednesday 18th January 2017
Ofwat office, Bloomsbury Street, London
10.00am to 12.00 pm

New connection cost information sub-group – Second Meeting

Attendees in person	
Alex Whitmarsh	Ofwat
Mark Jones	Ofwat
Samuel Larsen	Thames Water
Ray Farrow	Home Builders Federation
Paul Voden	Home Builders Association
Claire Lenoan	United Utilities
Attendees on the phone	
Paul Fox	Ofwat
Rebecca Lamb	Wessex Water
Amy Johnson	Anglian Water
Beverley Lawton	Bristol Water
Steve Wielebski	Home Builders Federation
Martyn Speight	Fair Water Connections
Apologies	
Lynne Gibson	United Utilities
Iain Amis	Anglian Water
Tim Charlesworth	Affinity Water
Heather Blamire-Brown	Affinity Water

Summary of Actions

Action	By whom	Deadline
• Distribute definitions of cost classifications to group members	Anglian Water Wessex Water	13th February 2017
• Distribute potential options on the separate reporting of foul and surface water costs to group member	Thames Water	20th February 2017
• Arrange and circulate the date for the next meeting	Ofwat	31st January 2017

Note of the meeting

Introduction

Alex Whitmarsh of Ofwat, welcomed everyone to the meeting and confirmed that the work of this group is essentially providing an informal consultation and dealing with outstanding issues, ahead of the formal Regulatory Accounts consultation in March 2017. He also explained that one of the benefits of agreeing this quickly and efficiently will be to allow companies to turn their attention to focussing on other policy areas such as Cost Assessment.

Actions from previous meeting held on 25 November 2016

All actions were assigned to Ofwat and have been completed. With regard to the minutes, a point was raised that on page 5, the slide references were incorrect. Ofwat said that they would look it this.

Agenda item 3: Do developers carry out upgrading work on the water company's existing network?

TMS confirmed that developers do carry out this work in wastewater. BRL confirmed that self-lay providers can do mains diversion and off-site work as long as it does not affect customers e.g. the upsized main would be laid alongside the original main, and only BRL will carry out the connection to the original 'live' main. BRL would pay a cost that reflects what it would have cost them had they done the work themselves.

HBF commented that this type of work depends on the vicinity to the site and can vary between companies. Very often if the developer or self-lay provider is in the area it can be more cost effective for them to do the work rather than the water company. HBA added that sometimes the work is more complicated and so the water company does it but if resources are already on site, it can be cheaper for the developer / self-lay provider to do the work and thus avoid 2nd mobilisation costs that the water company would incur. HBA emphasised that this upgrading [reinforcement] work is ultimately the water company's responsibility. But it is important to retain flexibility and so it doesn't really matter who does the work.

HBF commented that what is important is the discussion between the water company and the developer / self-lay provider around the justification for the work because companies have differing levels of service. Also, achieving agreement on definitions and using the same language across the industry is also important.

Ofwat replied that the boundary work of Water UK will address this and we will reflect that thinking in the cost information we will collect for monitoring purposes.

The updated strawman

The group then discussed specific elements of the strawman slide pack.

Slide 6

WSX raised the question of whether the network activity relates to capex only or should it also include opex? HBF responded that Licence Condition C refers to capex only and so the table should be capex. TMS questioned whether the tables should capture totex as this is might be needed in the future. TMS expanded by giving an example whereby, to meet the requirements of the new development, a company could either:

a) Increase annual opex costs i.e. a pumping station designed to deliver loads 6 times an hour would need to deliver loads at 7 times an hour. The pumps would burn out and need replacing periodically; or
b) Incur capex of £250k enhancing the existing pumping station.

TMS questioned whether only basing network reinforcement works on capex costs provides the right incentives to water companies. HBF stated that there are opportunities for different types of infrastructure on developments. Charging for the chosen solution is an apportionment issue.

Ofwat commented that the solution is for the water company to make but variances between what a company has charged for and what it has spent will need to be explained.

TMS explained that they are basically trying to link the rules with the engineering challenge to keep costs down and are keen that the costs/revenues are recovered from the right customer segments.

WSX wanted to make the point that separation of wastewater costs between foul and surface will be difficult as their current accounting system does not collect information in this way.

At the end of the discussion it was generally accepted that the table should capture a water company's capex costs, that work needs to commence on the definitions and there has to be alignment between the rules and the APR.

In addition, ANH raised the issue of 'in the immediate vicinity' and that this is not particularly helpful and could be tighter.

Both ANH and WSX took an action to feedback what respective information they had internally regarding definition for the various cost classifications and feedback to the group.

ACTION: ANH and WSX to feedback to the group their respective definitions of the cost classifications by the 13th February 2017

HBF reiterated their point with regards to the justification for costs.

TMS suggested that there need not be any distinction between distribution and trunk mains and that these could be combined, as could pumping and storage meaning there would only be 3 categories for water.

The discussion then turned to the reporting of foul and surface water costs. Both HBF and HBA supported disaggregation of these costs, so as to ascertain the amount of money being spent on storm water systems. Thereby enabling some form of monitoring on the take up of SUDS on sites, which DEFRA have requested.

TMS asked how one might apportion costs between these assets depending on the solution chosen and the existing system which maybe combined; they noted that different approaches and assumptions could be made which could lead to potentially different numbers being reported. HBF said that we need to be very careful here as there is variability in data and there are many different engineering solutions to solve drainage problems. The table cannot be expected to cover every eventuality.

Ofwat invited members to provide 1 or 2 examples in this area for consideration at the next meeting.

ACTION: TMS to provide options on the separate reporting of foul and surface water costs at the next meeting and to send these around the group at least one week before the next meeting

Finally, all agreed that the word ‘service’ should be removed from the two sub-title rows in the table.

Slide 7

Confirmed as being reported on a cash basis.

Slide 9

Some confusion on timescales, but subsequently clarified as the reporting for 2017-18 is a pilot end as the rules do not come in effect until 1st April 2018.

Slide 11

Agreed that the words ‘new connection’ should be removed from the line title though of course the definition should make reference to this. BRL sought confirmation on basis of reporting network reinforcement capex i.e. is it the majority of the previously reported growth and new development capex? Ofwat confirmed that was a reasonable assumption. BRL also suggested that since there will be no network reinforcement capex on water resource assets, would it be better that this cell was blanked out. Ofwat responded that it wanted to maintain consistency with other parts of the APR and so would prefer that companies simply enter a zero.

NAV’s / small company reporting

The small slide pack provided by Ofwat set out the thresholds for reporting by NAVs and small companies as there was a query at the last meeting regarding the reporting requirements for smaller organisations. Ofwat noted that although they were not envisaging an increase in regulatory burden on NAVs, this would be covered in the formal consultation. Ofwat noted that the absence of NAVs in the working group meant it would be important to engage with them in other ways.

Next steps / actions

It was agreed that another meeting should be held to discuss definitions and surface water costs, to be scheduled for mid-February. Ofwat to organise and send out invites.

AOB

HBF expanded on a point raised earlier in the meeting in that it is not unreasonable to require water companies to provide the short-term justification to developers for what they are paying for, particularly given the differences in company approaches and the errors that can be inherent in water company modelling. They quoted a recent example of a water company’s modelling assumptions resulted in an excessively high value for daily water consumption per connection. Therefore, if one company’s infrastructure charge is £200 but another company’s is £2,000, developers need to know why.

TMS stated that water companies are not incentivised to set high charges due to the way the wholesale revenue price control operates.

Ofwat replied that companies are required to explain the basis of their costs through their published charging arrangements, that the data on which charges are set must be robust and that Ofwat will be monitoring this information and could initiate Targeted Reviews where it had concerns.