

Meeting note

Thursday 2nd March 2017

Ofwat office, Bloomsbury Street, London
10.00am to 12.00 pm

New connection cost information sub-group meeting – third meeting

Attendees in person	
Alex Whitmarsh	Ofwat
Mark Jones	Ofwat
Imogen Turner	Ofwat
Ray Farrow	Home Builders Federation
Steve Wielebski	Home Builders Federation
Paul Voden	Home Builders Association
Samuel Larson	Thames Water
Rebecca Lamb	Wessex Water
Clare Leonan	United Utilities
Attendees on the phone	
Beverley Lawton	Bristol Water
Ian McCrickard	United Utilities
Apologies	
Crawford Winton	Northumbrian Water
Darren Rice	Anglian Water
Martyn Speight	Fair Water Connections
Dave Mitchell	Home Builders Federation
Lynne Gibson	United Utilities

Tim Charlesworth	Affinity Water
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Note of the meeting

Actions from previous meeting

All actions from the previous meeting have been completed.

Review of reporting tables

Ofwat set out that the group needs to agree a definition for infrastructure network reinforcement, for inclusion in the APRs.

The HBF were worried that the APRs wouldn't capture refunds from draft determinations. The HBF want companies to be accountable for what they build.

This led to the suggestion of having a project based allocation instead of a cost based allocation.

However, the new charging rules are clearer on what activities charges cover. In addition, the order that developments are built in may affect the type of infrastructure needed.

The HBF suggested that project level information should be provided in companies' business plans. This could help provide visibility and assurance at a project level that housebuilders haven't been overcharged.

The HBF's three main issues are:

- if costs match expenditure,
- the validity of charges, and
- if developers are contributing the right proportion of costs towards infrastructure network reinforcement.

Companies did not think it would be possible to provide project level information in their business plans and Thames did not think it was in companies' interests to over design.

The group agreed that trust and confidence in infrastructure charges wouldn't be resolved solely by the APRs.

The new data table will be incorporated into section 2 of the APR which requires the highest level of auditing. It was suggested that an extra stage could be added. Companies could provide methodology on how infrastructure network reinforcement has been split. Ofwat could do a sample check on companies. Ofwat could consult in

March on the idea of additional audit checks to aid trust between companies and developers. Ofwat will also consider how we could use the company monitoring framework to build trust and confidence.

The figures in the APR will be aggregated, and the over-riding principal is that the revenue and costs from Infrastructure charges should, as far as reasonably practical, balance over a rolling 5 year period.

A company raised the point that we mentioned moving the income offset into the infrastructure charge in our December 2016 decision document on new connections charging rules. The table does not accommodate this suggestion. Ofwat stated that no decision on moving the income offset from the requisition charge to the infrastructure charge has yet been made, but should it arise in the future then we would go through a formal consultation process.

Review of Cost Classification definitions

Action: Ofwat to distribute a revised definition on infrastructure network reinforcement for the group to comment on.

The HBF wanted to know what stops a WaSC dealing with/removing excessive levels of infiltration from public foul sewer networks. The HBF suspects that companies do not always use the most cost effective solution when seeking to deal with network capacity limitations.

The group clarified that if a company chooses a capex solution, this expenditure would form part of the calculation of the infrastructure charge. Whereas, choosing an opex solution would result in the cost being recorded as a business as usual activity and therefore excluded from the infrastructure charge. The regulatory regime incentivises companies to choose the most cost effective solution as capex and opex expenditure are treated the same.

The group reviewed Wessex's work on cost definitions tables. One company asked what the line "other mitigation works" was. Other mitigation works refers to unexpected works that aren't factored into a companies' budget at the start of the year. For example, if you start digging and come across a gas pipe. It was suggested that as the tables are a record of actual expenditure the costs should go against the respective line, regardless of whether they were budgeted or not. If it was felt of benefit, a note on the table could be included as a way of companies explaining these costs, however it was pointed out that there is no requirement as to reporting of budgeted costs versus actual costs incurred. Although, this could complicate the tables the HBF asked where water towers would go? The group agreed that water towers are a storage facility.

A further question was raised concerning the definition of "water interception flows".

Action: Wessex will confirm what is meant by interception of water flows and discharge under the line, 'other', and further clarify the line definition for distribution

and comment by the group. Distribution by 10th March, Comments by no later than 17th March.

Review of options for identifying surface water drainage costs

The group reviewed a note prepared by Samuel on surface water drainage costs. It was thought that customers would like to see if investment in sustainable drainage systems leads to lower surface water drainage costs. It was thought that as sustainable drainage systems develop, you would see investment in surface water sewer assets diminish.

There was concern over the extent to which companies segregate network reinforcement into categories. Foul and combined are reported and surface water drainage is reported separately. In Thames's data base, foul, combined and surface water drainage are calculated separately due to historical reasons. Foul and combined are aggregated to produce APRs.

Connecting a development to a main further away from the nearest point of connection

The HBF still think there is a definitional issue with 'where you connect to a main'. Connecting to a main further away from the nearest point to the site would be collected under the infrastructure charge in the new rules. However, in the context of new sewer connections to the public sewer the HBF's view is that this would be a breach of S106 of the Water Industry Act 1991.

The group clarified that the cost of connecting further down the main would fall into a greater pot of infrastructure charges which would be spread across developments. Ofwat stated that this issue is part of Water UK's work. The HBF will take up this issue with Water UK.

Anglian's proposal

Anglian circulated a table to discuss at the meeting. The group agreed the discussion was around the definition of the line items as the columns had already been agreed at a previous meeting. The discussion over splitting pumping stations and storage has been resolved. The group previously decided that pumping and storage stations should be combined.

Next steps and future meetings

The Regulatory Accounting Working Group (RAWG) was held on the 28th February where Ofwat presented the cost working group's proposals on the infrastructure charge. There was no challenge from water companies.

Ofwat will commence writing the section on the infrastructure cost reporting for inclusion in the RAGs (Regulatory Accounting Guidelines) consultation. This will be issued in late March/ early April and the consultation period will be 3 months.

Action: Ofwat will highlight to the group the relevant section of the RAGs consultation once it is published.

Any other business

The HBF thought that in the water diagram, the description 'in the vicinity' seemed vague. The HBF thought one purpose of the diagram was to reduce determinations and disputes. Although, it was pointed out that you can't have determinations over off-site costs in the new charging rules as they would fall under infrastructure charges. Companies agreed it is useful to know the boundaries and clear definitions to help consistency across the industry. It was also agreed that this diagram is a Water UK issue.

There was a question of what 'other capex' is. This refers to page 11 of the slides. Other capex is new enhancement that is downstream of what developers should pay for e.g. capacity and effluent treatment improvements at water treatment works.

There was also a question over what happens with Wales given that they have new legislation. At the moment, the boundaries are on a company basis i.e. wholly and mainly in Wales. The upcoming Silk review may conclude that WaSC/WoC operating areas may well be re-designated to reflect the national boundary. In addition, after Severn Trent acquired Dee Valley, their press release said they would adopt a national boundary for regulatory purposes. This would mean they'd have 2 licenses, 1 for Wales and 1 for England. At the moment the Welsh Government are producing their guidance for Ofwat to create new connections charging rules for Wales.

The group agreed that there was no further requirement for any additional meetings unless a significant need arose and as such this would be the last meeting of the group. Ofwat thanked everyone for their active and positive participation which enabled the group to achieve its objectives in a timely manner.