

4 August 2017

Charging Team  
Ofwat  
21 Bloomsbury Street  
London  
WC1B 3HF

*By email: [charging@ofwat.gsi.gov.uk](mailto:charging@ofwat.gsi.gov.uk)*

Dear Sir

#### **NEW CONNECTIONS CHARGES FOR THE FUTURE**

This is South West Water's response to Ofwat's consultation document 'New connections charges for the future – England'. We welcome the opportunity to contribute to the development of the new charges rules and comment on issues linked to their implementation.

We support the direction of travel towards a more transparent and customer-focused new connections charging framework, and have welcomed the collaborative nature of the work undertaken by the sector.

We broadly agree with the rationale for the proposals laid out in the consultation however we are concerned that within some areas there is potential for unintended consequence. The main concerns that we have are:

- the timeline for transitioning income-offsets to infrastructure charges
- exceptions for new connections, and
- clarification of expectations surrounding charges to NAVs.

We provide our detailed responses to the questions raised, and to the points raised above in the Appendix.

If you have any questions on our views we will be pleased to provide further information.

Yours faithfully



**Iain Vosper**  
**Regulatory Director**  
D: 01392 443967  
E: [ivosper@southwestwater.co.uk](mailto:ivosper@southwestwater.co.uk)

## APPENDIX 1

**Q1 Do you agree that our Option 3 on the treatment of the income offset/asset payments, has merit? If not, please explain your reasoning and provide relevant evidence. If so, how and when should this change be brought about?**

We agree with the rationale behind the preferred choice of Option 3 and the implementation of income-offsets against infrastructure charges with effect from 2020. While some benefits of the changes will be deferred, it is preferable that the avoidance of negative impacts on end-customers' bills should take precedence.

However a staggered approach to the implementation of the new charging framework may also cause confusion to developers. To reduce this risk and avoid compromising trust and confidence it will be critical for the sector, i.e. companies, Water UK and Ofwat, to ensure that clear and consistent messaging is used to describe the process and the reasoning behind the timetable.

We have the following additional comments.

### *Income offsets - staggered timetable*

We note that rule 29 of the new connections rules states that there will be no offset against requisitions from 1.4.2018, and rule 6 of the charges scheme rules suggests offsets may be given against infrastructure charges from 1.4.2018. We assume that this tension with the proposals in Option 3 will be corrected once the conclusions from this consultation have been reached.

### *Income offsets – transition from requisitions to infrastructure*

It is possible that a developer could requisition an onsite main or sewer some time ahead of the connections being required and infrastructure charges becoming due. This opens the prospect of a developer receiving an income offset against a requisition charge; and then inappropriately receiving it again when paying infrastructure charges as the build develops.

We believe that clarification text within any guidance or rule produced by Ofwat to implement Option 3 will be needed to remove this ambiguity and clarify that during the transition phase income offsets will be paid only once.

### *NAVs*

In the interest of shared understanding and clarity we believe that the situations when a NAV might receive an income offset should also be made clear.

For example this would not be appropriate if the NAV operates the infrastructure and is billing the customer directly.

**Q2 Do you agree with our draft impact assessment? Can you provide quantitative figures in terms of the potential benefits or costs? Is there anything we have missed?**

We do not have any comment on the draft impact assessment.

**Q3 Do you have any comments on the drafting of the possible future changes to our rules (set out in Appendices A3 and A4)?**

### *Comment in relation to Option 3 implementation*

As we have commented on above we note that rule 29 of the new connections rules states that there will be no offset against requisitions from 1.4.2018, and rule 6 of the

charges scheme rules suggests offsets may be given against infrastructure charges from 1.4.2018. We assume that these rules will be amended once the conclusions from this consultation have been reached.

#### *Charging Rules for New Connections Services (English Undertakers)*

While we are pleased that Appendix 6 contains the provision for exceptions to upfront charges in relation to requisition charges, we are concerned to note that the same exception has not been extended to connection charges.

Similar issues that affect certainty of pricing could also prevail for communication pipes, lateral drains and other related costs as they do for requisitioned or diverted water mains and sewers. This exposes companies to the risk of pricing for connection work where there is similar technical complexity in making a connection, or similar uncertainty of third party costs; for example connections to individual properties may involve significant traffic management or require access to third party land to access company apparatus.

For parity and fairness the same provision should apply across both requisitions and new connections.

#### *Charges Scheme Rules*

We query whether the new definitions for 'sewerage infrastructure charge' and 'water infrastructure charge' should refer to sections 146(2)(b) and 146(2)(a) respectively. Having cross-referenced these to the WIA1991 on 'legislation.gov.uk' these sections (which provide the description of the charges) appear to be more relevant to than the equivalent sections in 142. <http://www.legislation.gov.uk/ukpga/1991/56/section/146>

We also note that a number of sections in the rules as provided in the consultation are no longer applicable and assume that this will be amended for the final applicable version of the rules for 2018/19 charges. For ease of reference we have noted the following:

- paragraph 2 of the rules still refers to an effective date of 15 December 2016
- rule 27 should in future refer to rule 11 not applying to new appointees
- rule 35 should refer to rules 28 to 34
- we assume that the references in Appendix 6 may have already been updated as rules as presented finish at rule 44, and not 46 as presented in the appendix.

Finally, we would appreciate confirmation of whether the draft provided with this consultation represents the proposed final charges rules for 2018/19 end-user charges, or whether companies can expect any further versions.

#### **Q4 Do you have any comments on our proposed licence modification to Condition C (Infrastructure Charges) for English water companies other than NAVs (including the proposed wording set out in Appendix A7)?**

We have noted throughout the consultation and supporting documents that section 144Za is referred alongside 51CD and 105ZF in relation to the authority to issue charging rules, however this is not the case in the proposed modification to Condition C. We query whether for consistency section 144ZA should be referred to in C16.3.

We have no further comment on the proposed modification.