



# Fair Water Connections

An association seeking a fair deal in water supply provision

## Response to the Ofwat Consultation on New connections charges for Welsh companies

### 1. Outline Overview

This consultation response is made on behalf of Fair Water Connections members (who are Self-Lay Providers who operate across England and Wales). It draws on experiences brought about by the (April 2018) changes to water connection charging in England and covers the specific questions posed by Ofwat in relation to Wales.

Based on what has been implemented in England a number of weaknesses have become apparent to our membership, particularly regarding where costs fall and openness and transparency in charging for competitive water connection provision. These are discussed below along with elements of the current consultation Risk Assessment which, to us, looks far too simplistic.

In the Option Risk Assessment Ofwat have not assigned any costs on themselves to implementation. This is difficult to comprehend, as surely the drafting of new Rules and the consultation itself incurs costs. Moreover it demonstrates, as looks to be happening in England, that Ofwat sees no role for themselves in checking how companies have implemented the new provisions and whether they fully satisfy the new charging Rules. Whilst maintaining the principle that the Rule implementation is a matter for companies themselves this is allowing unexplained widespread cross company charging differences which is, from a customer perspective, discrediting the new local arrangements and makes it difficult to see what is different between the offered Options 2 and 3.

So before responding to the consultation questions we give our feedback on the current charging situation in England. Addressing these matters are, to us, all factors that Ofwat needs to take into account when deciding on new connection charging arrangements in Wales.

### 2. Factors Learnt From English Connection Charging

Given that the proposals are, effectively, to implement the English Connection Charging Rules into Wales there is much to be gained from reflecting what has not worked particularly well in England.

This includes:-

- Lack of transparency and openness, especially around 'the balance' and Infrastructure Charges:
- Limited consultation:
- Publications which are 'defensive' rather than providing clear information:
- Scant information on what constitutes network enhancements, and how this work is funded when it arises on site specific works. (This can leave SLPs, and developers, having to pay for works which should be funded from Infrastructure Charges):
- Transitional arrangements not being rolled forward, or explanation given about increases:
- Limited worked examples which do not cover many layout site scenarios.

## 2.1 Lack of Openness

A major driver for the making connection charging changes was the lack of openness in demonstrating to (developer) customers what they are funding and why the work is necessary for their new premises to be supplied. A key element of this being works covered by Infrastructure Charges. Whilst the Welsh consultation stresses the need to “include a clear methodology in their charging arrangements for how the infrastructure charge has been derived” the proposed Rules wording largely replicates what is already in place in England. This, based on what companies have published, is not providing customers with any quantified understanding of how Infrastructure Charge rates have been set or the full range of works that they should be funding. This leaves customers, for a key charging element that is always payable to the water company, without any feel as to whether they are over or under paying until, in Year 5, the rolling balancing requirement ‘kicks-in’. (An exception to this is Bristol Water who publish a rolling budget in their local charging arrangements).

To prevent this happening in Wales there is a need for the Rules to set out a requirement on companies to publish an envisaged Infrastructure Charge budget on a rolling 5 year basis. This showing high level expenditure predictions (named major schemes, plus general network improvements and enhancements to site specific works) such that customers can readily see what they are funding and how the annual amounts have been derived.

Moreover there is a requirement that “Welsh companies must take reasonable steps to broadly maintain the balance of charges between developers and bill payers” but no requirement to set-out how this ‘balance’ is being calculated. Exactly this situation in England has created much customer disquiet and looks to blatantly fail the expectations around transparency and openness. Hence this needs to be addressed in Wales; especially as companies have actually published the information in their AMP 19 submissions (but this is far from easy for customers to find and is not expressed in a way that ‘balance’ maintenance is readily apparent).

A further openness related issue is understanding which party is responsible for funding the water efficiency credits some companies offer. These arise when a company wishes to encourage developers to install fittings which reduce water consumption, typically by offering Infrastructure Charge credits. Whilst supplying such premises should have less impact on the company’s existing network it is unlikely that the reduced water demand in the new property will entirely mitigate the need for any network enhancements. Nevertheless the rationale for companies to try and defray the need for new water sources by offering discounts is understandable. It is however unclear whether the resultant credit should be funded by the company or can be passed back onto the population of developer customers who are not constructing water efficient homes. This therefore needs addressing in the Rules.

*Note – Without adequately defining this (discounting) situation there surely could be a breach of proposed Charging Rule 12, which states “consistent principles and approaches must be applied to the calculation of charges for different classes of customers”.*

## 2.2. Limited Consultation

The need for English water companies to consult with their customer over their connection charging intentions has pushed English companies into unfamiliar territory and only some of the companies have demonstrated anything near best engagement practice. Issues have been late recognition of

the need to consult and not sufficiently understanding the changes themselves to hold meaningful consultations. In Wales it should however be slightly easier, for companies and customers, as there will be English company examples which both will be able to reference.

Although company consultations when the English Charging Rules were implemented left much to be desired follow-up consultations to test how customers feel about the actual local arrangements, and changes to be made for the coming year, has been much worse with most companies not doing any form of consultation during 2018-19. So whilst we welcome the proposed requirement for Welsh companies to “explaining how they have taken the views of stakeholders into account when making their Charging Arrangement” our view is that there needs to be some meaningful sanction against any Welsh companies who does not meaningfully engage with their customers over water connection charging.

### 2.3 Ready Access To Required Information

Whilst English companies will all claim to have published the required charging information many of their booklets major on defending the company’s right to charge rather than give clear access to the charging information itself. One of the worst examples being that of a company who also operates in a Welsh region.

Hence either Ofwat’s Rules need to stress best publication practice or they need to be seen to be tackling those companies who do not provide ready access to key charging information.

A related clarity issue has also arisen in England when a company publishes rates for a range of surfaces, including a no-excavation option. What can then happen is that the company assumes that their customer wants the ‘no-excavation’ alternative (which denies them access to the higher levels of income offset credits which would apply had they been allowed to select an ‘excavation’ option). Hence worked examples offered at the consultation stage need extending to specifically cover this work classification scenario.

Note – it is possible to demonstrate in the current charging system that the developer incurring excavation costs can save them money but the way some English companies have, in their new arrangements, capped credits at cost of provision levels has markedly changed this situation and disadvantages customers regardless of who they get to do their site works.

### 2.4 Clear Provision of Site Specific Network Enhancement Information

Although the charging model (in Consultation Fig 2.1) works well for requisition provision it is not sufficient to set-out responsibilities for site specific network enhancement (and thereby clearly establish that these are costs which the water company funds and not a SLP or developer). Typically such costs relate to:-

- a) Making secondary cross connections to adjoining existing network (to enhance company supply flexibility rather than being needed to supply the new site); and,
- b) Upsizing on-site works to facilitate feeds to subsequent developments; and,
- c) Works that a SLP may do between the ‘Chargeable Point of Connection’ (i.e. nearest main of equivalent size) and the ‘Supply Point of Connection’ (i.e. the point on the company network which has the capability to meet the new demand).

All of these work types are ‘network enhancements’ and should be funded from Infrastructure Charges. So the published charges need, for self-lap provision, to demonstrate how the installer’s extra costs, when they are required to construct ‘enhancements’, are to be reimbursed. Again this is probably best done by extending the coverage of worked examples.

## 2.5 Extending Transitional Arrangements

In England a 2 month transitional period was applied, during which customers could either accept already offered terms or have their work re-costed. Such arrangements have much value (though, given the lead time on site developments 2 months is somewhat short).

However, whilst English companies recognised a need to define transitional measures when the new arrangements were introduced, there is much less signs of these being deployed when any subsequent (annual) pricing changes are made. This looks a significant omission so the Rules should stipulate how any regular updates will be introduced such that customers with on-going sites can readily determine which charges will change.

## 2.6 Envisaged Infrastructure Charge Changes

Given that Ofwat has announced their intention to, from April 2020, make changes in England to Infrastructure Charges (see “New connections charges rules from April 2020 – England: Decision Document” published on 2 November 2017) it has not been made clear, in the Welsh consultation, whether the same changes will apply in Wales. These changes will, on the basis of what has been said to date, result in the removal of income offset credits on site specific works but a corresponding discount being given off Infrastructure Charge payments.

Lack of clarity on this matter regarding connection charges in Wales is causing confusion, and could be distorting responses, so urgently needs to be rectified.

## 3. Responses To Consultation Questions

### ***Questions 1 - Do you agree with our preferred option, option 2, for Welsh new connections charging rules?***

If the improvements to the draft Charging Rules discussed above are made we have no issue with the proposed Option 2 being implemented (as it would then ease issues of understanding with our members working in both Wales and England face.)

### ***Question 2 - Do you have any views on whether Welsh companies’ charging arrangements should apply differently to single-build and multiple-build applications?***

We assume that this question is geared towards Network Enhancement costs (i.e. work covered by Infrastructure Charges).

The consultation does not define ‘single-build’ which makes a definitive response difficult. (This is because a block of flats, or large complexes such as hotels, offices and schools could all be viewed as a ‘single-build’ but would place significant demand on the water network).

Given that all new demand creates impact on existing networks we cannot see why different charging arrangements should apply to ‘single-builds’, especially if the intended income offset credit

transfer Ofwat has announced for England is applied in Wales i.e. moving the subsidy (from the discount that arises from new developments being cheaper to supply) from 'income offsets' to Infrastructure charging. This then giving 'single-builds' credits they do not currently enjoy.

***Question 3 - Are transitional arrangements necessary and if so what should apply?***

Given that there could be a stepped change in charging on sites where customers have already had indicative costs, or where a small developer anticipates costs aligned to previous charges, a transitional period needs to be factored into implementation.

Based on experiences in England, and that water companies typically issue mains quotations giving customers 6 months to accept, it is proposed that:-

- Previously issued mains quotations be kept open for 6 months (i.e. from 1 February new charges publication until 31 July) with,
- The same approach being applied to non-standard service connections; and,
- With previously issued service quotations being kept open for 2 months (i.e. until 31 March)

***Question 4 - Are there additional ways in which our charging rules could reasonably promote the use of SuDS?***

Fair Water Connections members are primarily interested in water supply arrangements, so we are not responding to this question.

***Question 5 - Does the preferred approach place an undue regulatory burden on Albion Eco? If so, what approach would maintain customer protections while avoiding an excessive regulatory burden?***

We are not responding to this question.

***Question 6 - Are there additional issues, not identified in this consultation, that relate specifically to Welsh companies, which we should take into account when developing new connection charging rules?***

None that we are identifying.

***Question 7 - Do you have any comments on the drafting of our proposed new connections charging rules, proposed changes to the charges scheme rules or proposed licence modification?***

See the points discussed in Section 2 (above). These are all matters that we feel need to be addressed in the final wording. These specifically include:-

- a) Companies having to publish a 5 year rolling budget covering Infrastructure Charge setting; and,
- b) Companies having (for openness and transparency) to demonstrate how they have calculated the 'balance' (between costs directly funded by developers/SLPs and those which are carried by other bill payers (all be these actually picking up the savings which arise from supplying customers off 'new systems'); and,
- c) Strengthening the need for (as a minimum) annual consultations; and,

- d) Ensuring that site specific network enhancements (i.e. works specifically requested by companies and not necessary to supply a site) are adequately described and company funding for such works made clear; and,
- e) Expanding the accompanying diagram to explain how any work between the 'Chargeable Point of Connection' and the 'Supply Point of Connection' (which, with self-lay, is often advantageous for the SLP to do) is funded: and,
- f) Giving best practice guidance on charges publications; and,
- g) Enhancing worked examples to cover situations where the work, provided through self-lay, is a mix of site specific provision and network enhancement. Plus covering the full range of offered excavation categories; and,
- h) Clarifying whether, on implementation in Wales, income offsets will normally defray the costs of site specific mains/fund any asset payments or if any such credits are to be set against Infrastructure Charges.

***Question 8 - Do you have comments on our draft impact assessment? Can you provide quantitative figures in terms of the potential benefits or costs?***

As discussed above it looks naive to state that Ofwat will not incur any implementation costs. We also feel that it is paramount that some form of follow-up review is undertaken by Ofwat post implementation (which will require funding).

We also note that Ofwat has not drawn on any experience of implementation of very similar Rules in England and factored this into their assessment.

So our view is that the Draft Impact Assessment prepared by an Economic Regulator is lacking detail and is not sufficient to differentiate between the Options or give any sense that necessary follow-up far will be undertaken.

**Part 4. Follow Up Queries**

Any questions/queries that arise from this document should be made to:-

[Redacted]  
 Fair Water Connections Managing Coordinator  
 Email: [Redacted]  
 Phone: [Redacted].

*This submission dated 21 January 2019.*