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Dear Sir/Madam

New connections charges for Welsh companies - consultation

Redrow Plc welcomes the opportunity to comment on the proposed changes to connection charges implemented by water companies within Wales.

We had hoped the experience gained during the previous consultation process and subsequent implementation of 'Charging Rules' [for English-based water companies] would have encouraged a more positive and definitive impact on the proposals for Welsh-based companies, because it is evident the approach taken previously has done little to simplify the connection charging process and indeed appears to have increased the administrative burden for all stakeholders.

We accept fewer water companies will be affected by these current proposals than were similarly affected in England, however we consider your proposals in their current form fall short in the level of direction and clarity we would expect, and which would otherwise reinforce the improvements in simplicity, transparency and cost reflectivity to which we all aspire.

The 'Rules Based' approach in England has seen a diverse approach to connection charging in general and has allowed 2018-19 Infrastructure Charges to range from £75 to £566 for water and £190 to £765 for sewerage. We cannot agree this is a result of consistent interpretation and application of 'the rules' and has done little to improve the stability and predictability of costs for developers. It could be considered a demonstration of the lack of clarity as to the purpose, cost basis and principle for such charges.

In response to this particular consultation please see our comments below:

Q1 Do you agree with our preferred option, option 2, for Welsh new connections charging rules?

Of the options presented we agree that Option 2 (principles-based rules) is the best approach. However, we would be concerned if the introduction of 'Charging Rules' allowed the individual water companies to form their own interpretation of the rules and to develop their own individual charging arrangements. Whilst we support a thorough revision of the charging methodology, particularly in regard to infrastructure and reinforcement charges, we would prefer a common template so that individual company charges can be tested against each other and against market-leading service providers.

Q2 to Q4 are questions on which the Welsh Government has specifically requested that we consult.

Q2 Do you have any views on whether Welsh companies' charging arrangements should apply differently to single-build and multiple-build applications?

We believe the principles and charging arrangements should be applied consistently across all application and do not consider this would adversely affect either the single-build or multi-build developer.

Q3 Are transitional arrangements necessary and if so what should apply?

We do not consider any transitional arrangements to be necessary. However, it stands to reason that the consultation process must allow for sufficient consideration and review prior to communication, including the preparation of suitable guidance material and publicity by the water companies, prior to any proposed implementation date.

Q4 Are there additional ways in which our charging rules could reasonably promote the use of SuDS?

Apart from SuDS now being a mandatory requirement for new developments we believe the active support for all environmentally innovative solutions, including SuDS, through the charging structure should be enforced rather than encouraged. The increased cost and investment on the part of the developer invariably results in reduced operating and infrastructure costs on the part of the adopting authority, which should be recognised rather than taken as a benefit. Examples have been seen in some English-based companies whereby water-efficient properties and drainage solutions attract lower infrastructure charges, and we believe this principle should be introduced as a requirement across the Welsh-based companies.

We note your underlying principle of allowing flexibility on the part of the Welsh companies in regard to the application of charges but would reiterate our view that more prescriptive direction is required on your part.

Q5 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 consider that having entered the competitive market and regulatory environment, presumably for the benefit of its shareholders and customers alike, Albion Eco (and others in future) should be treated similarly to other water companies operating within Wales.

Q6 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?

We note that bold statements have been made by both Welsh companies relating to their financing models and the benefits they can bring to customers and shareholders. As examples:

- Dwr Cymru Welsh Water claim their financing model “provides access to low cost borrowing, obtaining funds at sector leading interest rates and allowing any benefits of such to go to customers”^[i]. In this context we believe customers to include Developers, hence we would expect such benefits to be reflected in the costs and charges associated with new connections and reinforcement works.
- There should also be economies of scale for the procurement and delivery of connection services offered by Hafren Dyfrdwy as part of the wider Severn Trent Group and which should therefore be reflected in the costs and charges associated with new connections and reinforcement works levied by Hafren Dyfrdwy. Severn Trent chief executive Liv Garfield said: “We intend to bring real benefits to Dee Valley's operations and customers by bringing best practice and investment to support and enhance the service the company provides *and by sharing the savings we can generate*”^[ii]. In another document, the company claimed “Severn Trent is confident that, through the application of Severn Trent's successful operating model, economies of scale and lower cost of financing to the operations of Dee Valley, this will deliver attractive returns to Severn Trent shareholders”^[iii].

On this basis we would expect to see the costs for procuring, delivering and maintaining infrastructure connections and reinforcement works to reduce over time and for such reductions to be evident in the charges applied.

Q7 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?

The proposed rules clarify to some extent the responsibilities of water companies with regards to what they can legitimately consider and include within reinforcement and infrastructure charges. We also welcome the requirement for Welsh companies to differentiate between site-specific and non-site-specific work, preventing them from recovering costs for wider reinforcement to address pre-existing shortfalls. We do question, however, how this aspiration will be achieved in practice and would welcome further explanation on your proposals in this regard.

Q8 Do you have comments on our draft impact assessment? Can you provide quantitative figures in terms of the potential benefits or costs?

We had hoped your impact statement would have been based on evidence and assessment of quantitative costs and charging methodologies rather than expecting us and other customers to calculate benefits and costs against presently unknown criteria. Our comments on your draft impact assessment are as follows:

- Your draft impact assessment is demonstrably lacking in financial and cost information, although we note that Option 2 is predicted to incur implementation costs of £1.4m (Option 3 £1/6m);
- We note your claim that this will deliver *'a better service for customers, through charges that are predicatable and transparent'*, but cannot see how this statement can be justified when there has evidently been no proposal submitted by the Welsh companies to date, and also given the lack of such evidence observed since the introduction of similar rules within England;
- We do not consider the simple application of rules-based principles alone will encourage greater innovation in charging nor indeed to encourage greater responsiveness to change;
- We can accept that fixed upfront charges alone may result in fewer disputes being escalated to you, thereby resulting in reduced costs for Ofwat. However, as the water companies have relied so heavily, presumably endorsed through the regulatory system, on such a level of reinforcement and infrastructure charges for so long, it stands to reason there will be a significant period of cost and charging review and acceptance before all stakeholders are happy with the overall result. During this settlement period it is highly likely we will experience a continued level of disputes and associated costs.

In summary, we welcome the opportunity for a fundamental review of the charging regime, particularly clarity on what costs are eligible for inclusion and any apportionment or level of contribution that is required from developers. We remain unsure as to whether the proposals in their current form will deliver the desired improvements.

Yours faithfully



Land Director
Redrow Homes South Wales

^[i] DCWW Annual Performance Report 2017-18

^[ii] Liv Garfield (CEO Severn Trent) statement on the acquisition of Dee Valley Water Group Plc 16 Nov 2016

^[iii] Severn Trent Water Press Statement 16 Nov 2016 relating to the acquisition of Dee Valley Water Group Plc