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24 May 2019
By e-mail only: Charging@ofwat.gov.uk

Charging,

Consultation on charging rules for new connections and new developments for English companies from April 2020 (Published 30 April 2019)

Thank you for the opportunity to respond to your consultation on charging rules for new connection services for English companies. We have responded to the pre-consultation on proposed charging rules for new connection services for Welsh companies earlier this year. The Ofwat forward programme confirmed that the introduction of these rules has been postponed until April 2022 at the earliest. We support this decision and will work closely with the developers in our area, Welsh Government, Ofwat and the industry to ensure that any lessons to be learnt from the implementation of charging rules for English companies are captured in the formal consultation on charging rules at that time.

Whilst this consultation focusses on charging rules for English companies we are responding as the Charges Scheme Rules cover Wales as well as England. We also follow the information requirements of the Charging Rules for New Connection Services to ensure that there is some consistency for national developers in terms of timing of publication and assurance of the developer services charges.

Your consultation is split into two parts, the statutory consultation on changes to charges rules to implement decisions made in November 2017 in time for the 2020/21 charges publications and a new information requirement that will not form part of the charging rules but will be take the form of an Information Notice (IN) under Licence Condition M.

We provide the answers to your specific questions in the annex. If you require any further information or would like to discuss the points raised further please contact me.

Yours sincerely

[redacted]

[redacted]

Annex – Welsh Water responses to consultation

Q1. Do you have any comments on the proposed wording for the New Connection Rules and Charges Scheme Rules?

Whilst the first part of the consultation does not impact us at this time, we believe that there is potential for confusion over the use of the term "Income Offset" for the English Rules. Income Offset has a particular meaning in the context of the Water Industry Act 1991 applicable in Wales arising from the calculation of the Relevant Deficit defined in Section 43 and Section 100.

The *Interpretation* section of the Charges Scheme Rules defines Income Offset as a figure reflecting revenue likely to be received in future years for provision of water or sewerage services in line with the old Section 43 [and Section 100] whereas the consultation confirms that the intention of the Income Offset in England is as a balancing figure to be used to maintain the balance of charges required by rule 19 of the new connection rules "as the charges rules require infrastructure charges to be cost reflective."

We would suggest that this balancing figure should not be referred to as an Income Offset as it is being used to maintain the integrity of the "single-till" approach to wholesale revenue introduced in PR14 rather than an amount calculated to offset income derived from a Water Industry Act 1991 obligation.

We note that APR table 2K, introduced to demonstrate the relationship between gross infrastructure charges and costs, requires any adjustments to gross charges to be reported as "Discounts."

Q2. Do you have any comments on our proposal to introduce an information requirement on bill stability?

The proposal is being implemented through an Information Notice (IN) rather than the statutory process to allow flexibility. Given that movements in typical bills is a more abstract concept for the recipients of this service because, as you say, each development is a one-off service, we support this approach in this case. We note that this means that the information requirements contained in the three sets of charging rules will still not be consistent, even though the effect of the combination of charges rules and the IN for developer services will produce consistency, and would suggest that it is added to the rules through the statutory process once the requirement is bedded in.

- **Do you find the proposed requirement helpful in supporting the charging principle of bill stability?**

  The requirement to demonstrate the extent to which nominal bills increase because of proposed charges has proven to be a useful method of engagement with stakeholders for end-bill and wholesale tariffs. A well thought out methodology for developer services charges could be useful at this time of transition.

- **Is the suggested 10% threshold for significant bill increases appropriate for striking the right balance between more scrutiny on bill increases and flexibility for companies to make changes as necessary?**

  Yes, we think that 10% is more appropriate than 5% for the reasons you state. Although there is a need for careful consideration of the interaction with this proposal, cost reflectivity and the current D-Mex design. Perhaps this 10% threshold could be net of any D-Mex reward to highlight changes in underlying cost reflectivity or structural changes?

- **We welcome views on what criteria would be most appropriate to define typical new developments? and what services should be included in a typical package?**

  We agree that a sensible set of developments would cover a single dwelling, together with small medium and large developments.

  The criteria to determine the package (scale, services and bills of quantities) of the small medium and large developments should be left to each Company to determine based on their own circumstances. The publication could explain how the stylised package has been arrived at.