

## **Northumbrian Water Response to Consultation on charging rules for new connections and new developments for English companies from April 2020**

***Q1 Do you have any comments on the proposed wording for the New Connection Rules and Charges Scheme Rules (see Appendix 1 tables, and the rules for consultation), which will come into effect from April 2020.***

### **Table 1: New Connection Rule 19**

We support the wording as set out. The amendments that have been made to the wording of Rule 19 are particularly important for the following reasons:

The reference to broadly maintaining the **balance** of changes (not the 'level' or 'total' of charges) is helpful. This allows the aggregate total of costs and charges to vary according to the volume of new properties built and does not disincentivise a water company in encouraging development.

The reference to maintaining the balance compared to those charges **prior to 1 April 2018** is correct in our view. The two years following 1 April 2018 have seen partial implementation of the 2020 guidance and thus should not be used as a reliable reference point for comparisons.

The reference to Section 3 of the Government Charging Guidance ensures that Rule 19 applies to all the material developer charges. It is strongly implied this applies to the aggregate of all such charges, but, for the avoidance of doubt, it may help to add the word aggregate into the wording in Rule 19:

*...undertakers should take reasonable steps to ensure that the balance between **aggregate** contributions to costs by Developers and other customers prior to 1 April 2018 is broadly maintained.*

As the guidance makes clear, companies will be making full cost charges for requisitions post 2020, balancing this increase by reducing infrastructure charges. This will only maintain the balance of charges in aggregate, not individually.

### **Table 2: Charges Scheme Rule 31**

We welcome the recognition that undertakers need not provide for an income offset. Our preference is to remove the income offset entirely, as this is the best way to ensure a level playing field with NAVs, both those that are boundary supplied and those that are self supplying.

Although it will not apply for NWL, we understand that some undertakers are considering negative infrastructure charges. It would help if Ofwat could address whether these would be allowed under the charging rules.

**Q2 Do you have any comments on our proposal to introduce an information requirement on bill stability? More specifically:**

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

**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?**

**In order to assist companies in implementing this requirement effectively, 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 presume this information requirement would apply from 2020/21 onwards.

Whilst we understand the desire to ensure charging stability, we suggest there may be a more simple way to test this.

As the consultation makes clear, undertakers have a duty to set charges to recover their full costs for connections and requisitions. If there was an external 'cost shock' (e.g. construction costs, taxation changes, change in legislation) that caused costs to increase by more than 10%, undertakers would be required to increase charges or they could be challenged under competition rules for subsidising their charges from income from other customers.

As such, the only discretionary decision that undertakers could make that could challenge the stability of charges is the level of income offset. We believe that this should be the target of any stability measure. A simple rule could be a 10% maximum threshold for changes in the income offset. This would be easy to track and report on annually for those companies that apply an income offset.

There is no such thing as a typical new development 'bill'. We do not believe that multiple stylised examples would give confidence to developers that charges were stable. The exercise would be onerous for undertakers and add to the perceived complexity of charging rules that developers have already expressed concern over.

**Northumbrian Water  
May 2019**