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28 May 2019

Dear Sir

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

Thank you for the opportunity to respond to the above consultation, which was published on 30 April 2019.

We welcome the lead Ofwat have taken on the general issue of charging for new connections and more generally the services provided to developers. Whilst we do not recognise some of the perceptions highlighted in the consultation relating to overcharging, we believe this is an opportunity to review and revise the overall charging methodology to ensure the market is efficient and that a level playing field is given to all parties.

We have provided a response to each of your questions as below.

***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.***

We have reviewed Appendix 1 - Table 1 and have the following comments:-

- The revisions to rule numbers 5b, 5d, 5l and 5m addressing issues relating to the income offset, are clear. Similar rule numbers 17a and 17b relating to a Small Company are clear.
- We welcome the greater clarity on the phrase “ensure that the present balance of charges between Developers and other customers .... is broadly maintained.” We spent a considerable amount of time considering how we should demonstrate this expectation. The feedback we received from Ofwat in particular on our 2018/19 Charging Arrangements stated that Ofwat was comfortable with the approach we applied. We understand the reference to relevant balance being “prior to 1 April 2018” given the subsequent change to the income offset.

- Finally we note the revisions to Rules 21, 29, 30, 35, 38, 39, and 40 all relating to decision on how / where to recover the income offset / asset payment.

Similarly we have reviewed Appendix 1 – Table 2 and have the following comments:-

- We note the revision to Rule 5, which appears clear
- The text for Infrastructure Charges in Rule 28 refers to five consecutive Charging Years ending on 31 March 2023. Given these are the rules which apply from April 2020, should this be 2023 or 2025?
- Rule 31 allows discretion on whether the income offset should be included in the infrastructure charge calculation. We suggest that Ofwat should be more prescriptive on this issue, given the observations made elsewhere in the consultation on consistency of approach between undertakers.
- We note the requirement under the new Rule 34 that the Charges Scheme clearly explains the approach to calculating all charges and the income offset in particular.

We will be interested to read the views of other stakeholders but in general we feel that the proposed wording for the New Connection Rules and Charges Scheme Rules are not prescriptive enough. More prescription would improve consistency between companies to the benefit of any developer working in different water company areas.

In particular, the proposed wording does not provide any more consistency to the calculation of new development charges by water companies, following the changes to the implementation of the income offset that were introduced in April 2018, it merely requires us to explain how we have calculated the charges.

***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 have experience, from setting Wholesale Charges, of the rule requiring the Board to provide an annual statement relating, in particular, to the price increase different classes of customers will face at the start of the next charging year. We therefore support this principle and agree that a handling strategy will be required if customers (in this case developers) see a material increase in prices in any year.

For our wholesale charges we look at over 30 different types of customer. We welcome the observation that this requirement should reflect the mix of situations we face as the water supplier. We would if there is a specific number Ofwat wish to see, notwithstanding our comments below.

We also note the threshold at which handling strategies are required is double that for wholesale charges. We have not explicitly considered this issue in the past but believe it is unlikely that prices will need to increase by more than 10% assuming application of the charging methodologies (the rules) remain constant over time.

We would typically differentiate sites by two dimensions:-

- location, in-fill or greenfield sites and
- by number of plots, where less than 10 are deemed small sites, 10-50 medium sites and 50+ large sites.

Our current largest site is 300 plots. We suggest this would not be considered “large” by many in the industry. This would give us 6 categories to illustrate price changes.

Similarly we would typically consider the following activities when advising about a new connection:-

- Design
- Mains laying
- Service laying
- Meter installation

Finally, we suggest Ofwat should consider standardisation of examples by companies. This will ease comparison of charges between companies.

If you wish to discuss further please do not hesitate to contact me.

Kind regards,

