



South Staffs Water

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Charging,
Ofwat,
Centre City Tower,
7 Hill street,
Birmingham,
B5 4UA

By email to: charging@ofwat.gsi.gov.uk

23 May 2019

Dear Sir,

South Staffs Water response to consultation on charging rules for new connections

Thank you for the opportunity to respond to the above consultation. Our responses to the specific questions are attached. Please let me know if you have any questions.

Yours faithfully,

[Redacted signature]

[Redacted name]

[Redacted title]

South Staffordshire Water PLC

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.

Although the reference to Government's charging guidance in relation to maintaining the balance of charges (rule 19) is helpful, we believe it still leaves this rule open to interpretation in respect of what the word 'balance' means, for example:

- the actual amount recovered from developers
- the percentage of developer contributions compared to total developer costs
- the percentage of developer revenue as a total of wholesale price control revenue.

One approach would be for more Ofwat prescriptive in the charging rules about how the word 'balance' should be interpreted. However, we recognise that this would put the onus on Ofwat to set out their own interpretation of the definition when different approaches are equally valid.

We therefore think that what is more important is that companies explain clearly how they have complied with this rule in their charging arrangements so that it is transparent to stakeholders and that this should be set out explicitly in the charging rules. Although this requirement is set out in Annex 1, rule 19 only says companies should take reasonable steps to ensure that the balance is maintained.

We also want to flag that in complying with the charging rules there is a danger that it may lead to companies exceeding the allowed wholesale revenue price control, especially if developer costs are not fully funded in the PR19 Determination.

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 support the proposal to introduce an information requirement on bill stability. Through engagement with stakeholders, stability of charges is seen as important to developers.

We do also however recognise that in maintaining the balance of charges between developers and customers may inadvertently impact on the ability to maintain stable bills.

Therefore, we think that this information requirement should apply to all charges except the infrastructure charge net of associated income offset. This is because:

- The level of offsite reinforcement can vary significantly over time and from 2018-19 companies have to reconcile their costs and income in the Annual Performance Report, explaining any significant variances.
- Maintaining the balance of charges is achieved by varying the income offset so is also likely to fluctuate.

In terms of how bill stability should be assessed, an alternative approach to trying to use example packages would be to simply compare how the published price list of developer charges has changed compared to the previous year. Handling strategies would need to be explained for any individual charge increasing by greater than 10%. We think that this would be clear and transparent to stakeholders too.

We do not think that this list of charges published by customers should change over time. In any case, any new charges would need to be explained to stakeholders if they were introduced.