



Charging rules for new connections and new developments for English companies from April 2020

Southern Water Response

Thank you for the opportunity to respond to your proposed changes to the charging rules for new connections and new developments to be implemented in April 2020. Below we have provided feedback on the proposed changes and then responded to the specific statutory and non-statutory consultation questions.

Changes to Income Offset

We very much welcome the proposed move to apply the income offset payment to the infrastructure charge rather than the requisition charges as envisaged in the November 2017 policy decision document. This provides much greater simplicity and transparency of the charges to developers, whilst also ensuring a level playing field for New Appointees.

Removal of Asset Payments

The proposed change to the income offset and associated removal of the asset payment to Self-Lay Providers (SLP) also improves the SLP market, with a much more transparent choice for developers based on the full cost of the contestable work.

Infrastructure Charges

The contribution of the income offset applied to the infrastructure charge is likely to be equal or greater than the current infrastructure charge and is, therefore, likely to result in a net zero infrastructure charge. We would like clarity in the guidance that a negative infrastructure charge should be avoided, as indicated in the draft determinations of Severn Trent, South West Water and United Utilities. Any negative infrastructure charge would in essence be providing payment to a developer for connection to the water or wastewater network at the expense of the current customer base which appears both unreasonable and does not meet the principle concept of fairness. Furthermore, the probable net zero infrastructure charge would fundamentally result in current bill payers contributing for all offsite network reinforcement with respect to the water network. This will need to be fully reflected in the PR19 cost assessment approach to growth.

Worked examples would be helpful giving companies a range of scenarios that indicated how income offsets should be treated when they are larger than the infrastructure change income.



Full Service NAVs

We welcome the consultation recognises the issues concerning full service NAVs. We are keen to ensure that optimum schemes are delivered and that income offsets do not distort the market. We would, therefore, welcome further guidance or reforms to address this issue.

Statutory Consultation

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 no comments on the proposed wording of the New Connection Rules and Charges Scheme Rules.

As described in our comments to the proposed changes above, we believe that it should be made clear that, in providing an income offset, the infrastructure charge should not result in a negative sum. This principle should be included within the guidance but could be included in either new Rules 31 or 32 of the proposed Charges Scheme Rules.

Non-statutory Consultation

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 of 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 development; and
- What services should be included in a typical package

We accept the proposal of a new information requirement to support the charging principle of bill stability. We also agree that new connection charges should have greater flexibility than other customer segments and agree with the suggested 10% threshold.

Due to the significant changes to the charging rules for 2020, we do not feel it would be appropriate to introduce this requirement for April 2020 charges. We suggest that the information notice under Licence Condition M is introduced to apply from April 2021 in order to ensure bill stability following the implementation of the new charging rule.

We agree that four examples for water and wastewater services would be sufficient, possibly for individual connections and for developments of 20 properties, 200 properties and 1500 properties



which would reasonably represent small, medium and larger developments. These should contain the common site specific charges including new water connections (a representative mix of connection types), new water mains laying, associated sewer laying (via requisition and Section 104). Infrastructure charges should also be included to reflect the mix of services requested by a developer. We would have concerns of applying an illustrative bill impact assessment for too many case study examples.

In summary, our three key points of feedback are:

- We would like clarity that a negative infrastructure charge should be avoided, as any negative infrastructure charge would in essence be providing payment to a developer for connection to the water or wastewater network at the expense of the current customer base.
- The position on negative infrastructure charges needs to be fully reflected in Ofwat's PR19 growth cost allowances.
- We suggest that the information requirement under Licence Condition M is introduced to apply from April 2021 in order to ensure bill stability following the implementation of the new charging rule.

Please contact me should you have any queries or would like to discuss the above.

Yours sincerely,

[Redacted signature]

[Redacted name]

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