Charging Team
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[redacted]

Date: 28 May 2019

Dear Charging Team

Our response to the Consultation on charging rules for new connections and new developments for English companies from April 2020

Thank you for the opportunity to respond to this consultation.

We support your ambitions to deliver a level playing field for the provision of developer services as well as stability and predictability of charges. We have three key points for your consideration.

Maintaining the balance of charges

In section 2.1, you note that you "introduced the 'balance of charges' rule intended to broadly maintain the level of bills **for similar work overall**" [our emphasis]. You also state in section 3.2, in relation to maintaining the balance, that you "think that this may be a helpful way of considering the rule for **like for like work**" [our emphasis]. We believe this is the first time you have used the words regarding similar, or like for like, work and are concerned that this is open to misinterpretation. Your original documents, including the (original and updated) charging rules and the charging scheme rules, have only ever stated that "companies should broadly maintain the present balance of charges between developers and end customers". This is the same as the Defra guidance, which states that "the current balance between contributions to costs by developers and bill payers should be broadly maintained". We urge you to reconsider your new choice of words and remove them such that there can be no misinterpretation as we do not believe that anything in the charges rules or Defra's guidance suggests that bill levels should be broadly maintained for similar types of work.

We note that your feedback to us confirmed that we have correctly interpreted rule 19 and that you are satisfied that our approach broadly maintains the balance of charges between developers and end customers. We have also been transparent that there will be differences between specific "like for like" developments under the old and new charging arrangements. For the avoidance of doubt any reinterpretation of the balance of charges rule so that it is applied at a more granular level than the aggregate balance between developers and end customers would in our view be retrospective in nature and we would not support it. This seems in contradiction to establishing a level playing field for all participants in this market, including small developers and full-service NAVs.

Infrastructure charges

We support your proposal to provide stability and predictability of charges. With this in mind, investment in network reinforcement as a result of new development is often lumpy and cannot be smoothed over a five-year period. We suggest you allow flexibility in rule 28, of up to 15 years' costs. This is particularly pertinent in a world where we are moving towards localised infrastructure charging.

Implementing changes to the income offset

Your proposal in section 5.5.2 that "companies could publish income offsets that are proportionately greater for sites with a larger number of new connections", whilst helping to provide stability and predictability for some types of development, may prove difficult to implement. Full service NAVs would under the current charging rules have no access to the income offset yet may consider that they are most likely to be able to compete to provide solutions for larger developments. The current consultation wording will create a legitimate expectation from larger developers for more favourable treatment and therefore we would appreciate Ofwat's guidance on how to do this in a way that does not create a conflict with our other statutory obligations.

Moreover, there will still be incidences where such an approach did nothing to provide stability. For instance, a development with only a handful of properties that required a substantial requisition would still see a significant change in cost because of your proposals.

We suggest that it would be far more appropriate that a fixed percentage reduction is applied to the infrastructure charge for all new connections. Whilst there may be bigger incidence effects in the first year, this would lead to predictability, stability and fairness over the longer term.

We now answer your individual questions.

Q1 – Our key points are covered in the opening section to this letter and we ask you to consider them alongside other respondents' views on this question.

Q2 – We support your proposal for an information requirement on bill stability but suggest that you set out prescriptive scenarios to aid transparency, trust and confidence for our customers and stakeholders. We are soon to introduce worked examples into our charges schemes and suggest they would be an appropriate starting point.

We believe that the 10% threshold is appropriate for explanation but confirm that this does not exclude the possibility of larger price changes, particularly with your proposal to require infrastructure charges to be calculated based on five-year average costs. Our proposal to allow flexibility in this matter, up to 15 years, would be a clear improvement in this regard and better reflect the fact that the benefits of such schemes are enjoyed over a period longer than five years.

I hope you find this response useful. We would be happy to provide more information if this is needed.

Yours sincerely

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