

Charging
Ofwat
Centre City Tower
7 Hill Street
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By email to: charging@ofwat.gov.uk

28 May 2019

Dear Ofwat,

Consultation on charging rules for new connections and new developments for English companies from April 2020

Thank you for inviting us to consider the proposals to implement your November 2017 decision to change the way that income offsets are applied for developer services and to introduce a new information requirement to support stability and predictability of bills for new connection services going forwards.

We have considered the proposed changes and the drafting changes to both the Charging Rules for New Connection Services (English Undertakers) and the Charges Scheme Rules.

The implementation of the decision to offset income offsets against infrastructure charges and remove asset payments from April 2020 aligns with the decision from November 2017 following consultation in July 2017, and the prior decision document from December 2016.

In 2016 Yorkshire Water shared its intention to remove both income offsets and asset payments from its new connection charges arrangements for the 2018/19 period, a concept noted in Ofwat's December 2016 decision document under additional options proposed. As the balance of our incomes to expenditures between developer services customers and other customers over the long term was 'in balance' prior to April 2018, we were able to introduce a simpler and fairer charging framework with cost-reflective developer charges where the balance can be maintained.

Through this framework, we provided a set of infrastructure charges that reflect network reinforcement expenditure as required by the rules aligned to Defra's Charging Guidance, moving away from the legacy sector-level infrastructure charge regime. This has resulted in a significant reduction in the level of these charges payable by developers, SLPs, or NAVs for each property connected.

Our approach to date means we are somewhat detached from the core changes proposed under this consultation, having already taken the significant steps we did last year.

We do have some observations on the following areas:

1. Infrastructure charges that vary by geographical area

- We presently operate a single set of regional infrastructure charges that reflect the cost of relevant reinforcement averaged over time across the region served by Yorkshire Water.
- We believe moving to a set of geographical based charges may result in less price predictability and stability for developers impacting their ability to forecast their costs for developments and negotiate with landowners. For example, a large atypical reinforcement growth scheme will have the potential to skew a geographical based charge for all developers in the same locality for several years following the investment.
- There may be unintended consequences that distort or excessively influence housing development, making, for example, rural developments more expensive and concentrating development in lower charge areas.
- Self-builders and small developers may be disproportionately exposed to an infrastructure charge postcode lottery, being affected by large developments that drive significant network reinforcement.
- We would support a detailed industry level study of the range of likely costs and impacts on customers prior to a move to geographical area charging.

2. Implementation and impacts

- Reflecting on the period prior to implementation of our new approach to new connection charges for 2018/19, we would like to stress how important engagement and clear communication with developers, SLPs, and NAV is. We redoubled our customer consultation efforts for our 2019/20 new connection charges based on our learnings.
- Companies will be implementing the revised rules over the same period, but may well have different approaches and outcomes, depending on their respective balance of contributions to costs between developer customers and the generality of customers, and their present new connection charges. Unless the communication of the rule's changes, and impacts are clearly and carefully laid out and delivered, there could be confusion for developer customers who operate across multiple company regions.
- We would welcome continued support from Ofwat in positioning the changes with customer groups, including SLPs as part of the necessary customer communication programme.

We provide responses to the consultation questions appended to this letter.

Should you wish to discuss any matters relating to this in further detail, I would be grateful if in the first instance you would contact Colin Fraser, our Regulatory Strategy Manager.

Yours sincerely,



Yorkshire Water response to the consultation on charging rules for new connections and new developments for English companies from April 2020

<p>Q1</p>	<p>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?</p>
<p>Response</p>	<p>We have reviewed the proposed wording changes for the New Connection Rules from April 2020 and have the following comments:</p> <p>New definition 5d – we welcome the inclusion of this definition for the “Charges Scheme Rules” for improved referencing. This is especially important as Ofwat also propose to define the Income Offset in the Charges Scheme Rules in future.</p> <p>Revised rule 19 – where the new text states “For the avoidance of doubt, Income Offset also needs to be included.”, we would welcome clarity that where companies made Asset Payments prior to April 2018, these should be included in the contributions to costs balance between Developers and other customers.</p> <p>We appreciate the intention to remove as many references to Asset Payments in the Rules as feasible, as the implementation of the November 2017 decision effectively removes them from new connection charging regimes for all companies from April 2020. However, where the Rules reference historic positions, it may be worthwhile to retain a reference to ensure no company misconstrues what the updated rule 19 aims to achieve.</p> <p>We have reviewed the proposed wording changes for the Charges Scheme Rules from April 2020 and have the following comments:</p> <p>New rule 32 – where the new text states “For the avoidance of doubt, Income Offset also needs to be included.”, we would welcome clarity that where companies made Asset Payments prior to April 2018, these should be included in the contributions to costs balance between Developers and other customers. Where the Rules reference historic positions, it may be worthwhile to retain a reference to Asset Payments to ensure no company misconstrues what rule 32 aims to achieve.</p>
<p>Q2.</p>	<p>Do you have any comments on our proposal to introduce an information requirement on bill stability? More specifically:</p> <ul style="list-style-type: none"> • 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?
Response	<p>We recognise the value in informing developer customers where there is the potential for significant bill increases from one year to the next, and that the proposed information requirements will improve consistency between charging rules.</p> <p>We support the requirements as presented and consider the 10% threshold to be a suitable level for these customers and these charges, which may be influenced by a number of factors year on year.</p>
Q2. (cont'd)	<p>In order to assist companies in implementing this requirement effectively, we welcome views on:</p> <ul style="list-style-type: none"> • what criteria would be most appropriate to define typical new developments; and • what services should be included in a typical package.
Views	<p>We would consider a small number of 'typical' customer / developments should be used test bill changes and apply the above stability threshold against. Our initial thoughts are:</p> <ol style="list-style-type: none"> a) small development – 1 to 10 properties b) medium development – 11 to 50 properties c) large development – 51+ properties <p>Once the groups are determined it would be helpful to retain the same groups for both water and wastewater services. We think it helpful to align the classifications to the DMeX scheme, where possible.</p> <p>We would be happy to discuss definitions with Ofwat and other companies to support the proposed information requirement on potential impacts of bill changes.</p>