

Point	Summary point	Detail point	Location	Response
1	Not competitive or complying with the charging rules	Alleged that incumbent water companies through their charges, contractual terms and/or actions have made it difficult for SLPs to compete	Page 1, para 1	<p>For some years now, we have been actively promoting to developers in our area the choice that they have when it comes to new connections and the delivery of on-site infrastructure. Through closely working with developers and self-lay providers (SLPs), we have seen a significant increase in the number of self-lay applications we receive. We are continuing this engagement in order to understand how we can deliver better services to developers and SLPs. (TW letter to Ofwat 25.1.19)</p> <p>We have implemented numerous changes to our self-lay process over the past 3 years and continue to make changes, with current focus on Code of Adoptions consultations. In Sept 2017, [redacted] from Fair Water Connections said: 'Thanks for giving me the leaflets Thames Water has produced relating to self-lay promotion – I really think that they are spot on.'</p> <p>We have built up a dedicated self-lay team who work closely with our SLPs. We hold bi-annual forums and send out monthly newsletters as we seek to continually improve our service to SLPs. At 12.7.18 SLP forum, 40% &amp; 27% said we were easier than most and the easiest respectively to deal with compared to other water companies.</p> <p>We take competition law compliance very seriously and on an annual basis, deliver face to face competition training in conjunction with our Legal department to those in high risk roles. This year, we launched an elearning competition training course so that everyone in Developer Services could refresh their understanding in this area. Competition Law compliance in 2018/19 - 53 people attended face to face competition training and 232 people did the elearning competition training.</p> <p>Competition law perspective in charging is dealt in point 4 below on assurance.</p>
		Each company has a special responsibility to ensure its conduct does not prevent, restrict or distort competition	Page 1, para 2	
		Many companies have failed to transparently demonstrate to us how their charging schemes satisfy para 21 of our charging rules for new connections (set under principle of promoting effective competition for contestable work).	Page 2, para 7	
2	Clear, transparent charging	Charges (including income offsets and asset payments) are set to promote effective competition for contestable work. Charges should be published in a clear and accessible manner and should explain how each charge has been calculated so it's clear what services are covered.	Page 1-2, para 3	<p>We have received positive feedback from various stakeholders on our new connection charges, including from Ofwat in their Jan 2019 report which said: "The new connections charging arrangements were particularly well laid out and accessible. They included clear explanations of what work was needed at each stage, and the charges that applied. Clear, helpful diagrams were also included. A number of worked examples were provided, which were clear and helpful and supported the main document."</p> <p>Both the 2018/19 and 2019/20 new connection charges can be found on our DS website (see link). In addition to Ofwat comments above, contestable and non-contestable charges are identifiable by <sup>c</sup> and <sup>nc</sup> throughout the document, and we explain what services are included in our fixed charges.</p> <p>Design fees are covered in point 5 below and income offsets/asset payments are covered in point 6 below.</p>
		Where equivalent services are provided, water companies charge competitors the same amount as their own downstream businesses.	Page 2, para 4	
		Complaints about level, clarity and application of design fees; clarity and comparability of how requisition and self-lay charges are calculated, and the way in which asset payments and income offsets are calculated.	Page 2, para 5	
		Water companies should publish charges with sufficient additional information or explanation to make clear what services are covered by each charge, so developer or other customer can confidently work out reasonable estimate of the charges they will face if they know relevant parameters of a development.	Page 5, Annex - concern 2	
3	Consultation on charging	Extent to which changes to companies charging schemes for new connections are properly consulted on has also been questioned.	Page 2, para 5	<p>We consulted extensively when developing the 2018/19 new connection charges, as well as further consultation for the 2019/20 charges, both of which are detailed in our assurance statements (see link below).</p> <p>In particular for 2018/19 charges, we held a consultation in Aug 2017 with a range of customers led by an external research agency, engagement with CC Water and CCG, used feedback from Developer Scrutiny Panel to inform communications on new charges and held engagement day with SLP's on 10 Nov 2017 and with large-scale developers and consultants on 30 Jan 2018 - the main purpose of both was to discuss the new charges.</p> <p>Feedback has been positive. Apr 2018 developer scrutiny panel told us our engagement on charging "hit the mark" and was "best in the bunch". At Jul 2018 SLP forum, 82% of audience said our 18/19 charging arrangements were better than previous arrangements. In Oct 2018, Ofwat fed back no major changes were required and CCW asked for clearer messaging when we request further payment from customers which we have reflected in our 19/20 charging arrangements. In Oct 2018 developer scrutiny panel, there were no objections to proposed approach for 19/20 charges. In Nov 2018 meeting with Home Builders Federation (HBF), they agreed our charges were transparent and will continue to collaborate with us on future consultations. In Dec 2018, Ray Farrow from HBF praises DS for the 'seismic' improvements it says we've made in communicating with developers.</p> <p>In Feb 2019 report, Ofwat also assessed Thames Water as one of only two companies that 'exceeded expectations' in engaging with stakeholders about charges and charging policies.</p>

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4	Assurance	Assurance statements companies are required to submit to us are intended to confirm they consider that they are complying with the charging rules and their legal obligations.	Page 3, para 8	<p>We followed rigorous assurance for both the 2018/19 and 2019/20 new connection charges, as outlined by our assurance statements (see link below) and included sign-off from TW Board.</p> <p>For 2018/19, KPMG reviewed our charging methodology and provided confidence to the Board that our charges complied with the Rules and reasonable steps had been taken to ensure charges were cost-reflective. The same cost models were used in setting 2019/20 charges and reviewed by TW Internal Audit to ensure charges remain in line with the Rules and reasonable steps were taken to ensure charges were cost-reflective.</p> <p>For both years, we have undertaken a review with our legal team and Charging Arrangements have been developed bearing in mind competition law considerations. In particular, consistent principles and approaches have been applied to the calculation of charges and when they are payable for different classes of customer. Charges (including any income offsets), asset payments and arrangements for when they are each payable have been set in accordance with the principle that they should promote effective competition for contestable work.</p>
5	Design fees	Complaints allege that it's not clear what services are included in design fees and other charges or how charges for these are calculated or compare between requisition or self-lay provision.	Page 2, para 6	<p>To date, we have not seen interest from SLPs in delivering their own design and this experience was validated by feedback at our November 2018 Self-lay provider forum where SLPs explained that undertaking their own design is not a priority for them. We have therefore not developed separate charges for design services and these are reflected in our overall charges for mains requisitions. We understand that there are regional differences and in some company areas, SLPs actively offer design services to developers. As a result, we are planning to review how we charge for design costs in time for 2020-21 charges. This review is timed to align with other changes being made to our new connection charging arrangements. (TW letter to Ofwat 25/1/19)</p> <p>To date, it is very rare that a SLP will do their own design. At the Nov 2018 SLP code of adoptions workshop, [REDACTED] voiced that he felt there wasn't sufficient opening of the market for design to which all the other SLP's responded, that they didn't want to do design. Most SLP's are regional with only 1 or 2 operating nationally.</p>
		It's not always clear which charges apply in circumstances where a self-lay provider supplies its own design as compared to when it purchases a design from the water company.	Page 6, Annex - concern 2	
		Charges for providing design services vary significantly across water companies. Some water companies appear to be providing their services for free in certain circumstances whereas others are charging over £1000 for what appears to be an equivalent services	Page 6, Annex - concern 3	
6	Income offsets and asset payments	Concern has been raised that water companies are not applying a consistent methodology when calculating income offsets in their charges for requisitions when they calculate asset payments for SLPs.	Page 2, para 6 Page 5, Annex - concern 1	<p>For water connections, we have continued to calculate asset payments using the old methodology (Discounted Aggregate Deficit, DAD model) which is a well-established model as we felt that the alternatives weren't appropriate. There is a DAD calculator on our DS website to help estimate the asset payment we'll make if a SLP lays a new water main or income offset we'll apply if developer asks us to lay a new water main or new sewer.</p> <p>For waste connections, we never do the work so there is no asset payments and the guidance says "you may" - we don't. We felt it was important to maintain the balance of charges so felt it was inappropriate to do so.</p> <p>New charging rules in Apr 2020 will remove income offsets and asset payments.</p>
7	Escalation	Having put all companies on notice of our concerns, we're now more likely to escalating our response through our formal enforcement powers where these issues are not addressed promptly or if we identify any future breaches of the charging rules or competition law.	Page 3, para 9	We don't believe we are in breach of the charging rules or competition law as all points here cover. We acknowledge that whilst historically there has been no interest from SLPs operating in our area to do their own design, we will be looking to unbundle mains design as a separate charge from April 2020 as outlined in our letter to Ofwat dated 25.1.19
8	New charging April 2020	It is our intention from April 2020 the nature of income offsets will be changed so they are applied to infrastructure charges rather than to water main or sewer requisitions.	Page 4, para 11	We will ensure that we comply with the new charging rules and will continue to conduct extensive engagement with all our stakeholders, as well as continue to undertake rigorous assurance
9	Lack of cost reflectiveness	Water companies need to review their charges for design services and other contestable services to ensure they accurately reflect the costs of the activities undertaken to provide the service.	Page 6, Annex - concern 3	Currently, the costs are bundled and specifically, design costs are embedded in the the total cost. We have committed to "unbundle" mains design in our 2020/21 charges as we flagged in a letter to Ofwat dated 25 Jan 2019.
10	Absence of sufficient margin	There are concerns in relation to margins available for self-lay providers when competing against the requisition charges of water companies to provide new connections, though would need further information on this.	Page 7, Annex - concern 4	We have followed the Ofwat guidance in the Charging Rules (Independent review of section 45 administration fee and overhead costs on behalf of the Water Services Regulation Authority (Ofwat) - summary, April 2014), in particular, on allocation of overheads to ensure that all attributable costs are taken into consideration. We don't believe this relates to us.
		Water companies should review their design prices to ensure when their administration, vetting and other design costs are deducted, there would be sufficient margin for a self-lay provider to provide its own design.		We are planning to do this.