



The voice for water consumers  
Y corff sy'n rhoi llais i ddefnyddwyr dŵr

**CCW's response to Water Services  
Regulation Authority (Ofwat)  
consultation:-**

Charging arrangements for new connection services for English companies: comparative analysis and consultation

**15 September 2020**

## Introduction

1. CCW is the statutory consumer organisation representing water and sewerage consumers in England and Wales. We welcome the opportunity to comment on this consultation. We have replied from a customer perspective, taking into account both developers and the end-user water customers.
2. The consultation is a welcome contribution to the discussion of connection charges but we feel that it would be useful for Ofwat to provide greater transparency about how it has developed its comparisons and considered the elements that drive the charges
3. CCW carried out its own review of the charges that Ofwat has examined in its comparison and our findings form the basis of this response. We would welcome the opportunity to discuss these matters further with Ofwat, in due course.

## Executive Summary

4. We agree that charges need to be as cost-reflective as possible, avoiding unfair cross-subsidies between developers and other customers. The way to achieve this will be to clarify and define the different elements of the costs. We have some suggestions for this and have highlighted areas that we think Ofwat needs to address.
5. We agree with Ofwat's proposal to harmonise terminology but we have some comments on the proposed definitions. In particular, we consider that Ofwat needs to do more to ensure that its definitions are consistent with any national specifications, such as the [Fourth Edition of the Specification for the Reinstatement of Openings in Highways](#).
6. We agree with the proposal to set out explicit expectations on the presentation of worked examples. We feel that, as a minimum, companies should offer worked examples that break charges down to their component costs, rather than just presenting an overall total. If Ofwat also specifies that companies should provide information on all elements of the charge this will enable developers to compare their charges across the country.
7. We feel that population density needs to be included in the section 3.2.3 list of factors that drive the level of costs and, hence, charges.

8. Ofwat needs to consider whether there are any differences in costs between connection work on development sites and connections to single off-site properties and, if so, whether the charges reflect these differences. The two types of work may incur different costs and it is not clear how/if Ofwat has considered this, or how any differences are currently reflected.
9. In addition, we question whether Ofwat could do more to analyse some of the areas that it has highlighted, with a view to identifying reasons for differences in charges. In particular, we feel that Ofwat could do more to examine the relationship between companies' charges and the levels of self-lay in their areas.
10. We agree that Ofwat could modify the charging rules to include cost-reflectivity in the general principles but we feel that Ofwat needs to do more work to understand the factors affecting the costs of, and charges for, connection work first.
11. Ideally, we would like to see all companies taking proactive action to ensure that their contractor's charges are cost reflective.
12. However, we feel that it may be too early to consider introducing a common methodology. The measures referred to in this consultation may be effective in ensuring that charges are more cost-reflective, in which case, there would be no need to introduce a common methodology.
13. We agree with the idea of setting up a New Connection Charges working group to help to improve transparency and consistency of methodology and we would like to have the opportunity to represent the voice of the consumer on this group. However, we feel that Ofwat needs to set out clear terms of reference, to ensure that the voices of all relevant stakeholders have an equal weight within the process. We also feel that it would be appropriate for Ofwat to chair this group, to help ensure that the approach is fair.
14. We agree with much of the high-level scope of the proposed New Connection Charges working group with the exception of the proposal to limit the work to on-site costs, which Ofwat has not explained. As a general principle, it would not be reasonable to treat individual or small-scale developers differently. In addition, it seems to us that the costs relating to individual, off-site connections

may fall out of any work done on on-site connections, so it seems illogical to delay looking at these.

15. In general, we would expect any working group to contribute towards improving consistency and transparency, especially in relation to how charges are derived, so that all customers can expect good service from each company.

## **Response to specific questions**

### **Q1: Do you agree with our proposal on common terminology and the way we propose to implement it? What do you think would be the impact of harmonising terminology for charges for new connection services?**

16. We agree that the terminology could be more consistent. This could be a relatively quick change to make. We feel that, as part of this, Ofwat could review how to ensure that the component elements of charges are named consistently. For example, some companies insist on byelaws inspections, while others have regulation compliance fees and it is not clear what these cover or whether they are the same.
17. In general, Ofwat needs to ensure that its prescribed definitions are consistent with any definitions that have already been set at a national level. We outline an example of this in response to question 2. We would be happy to get involved in discussions on this issue to offer the consumer perspective.

### **Q2: Do you agree with the definitions in the glossary (Appendix 1)? Please tell us what definitions you would amend, remove or add.**

18. We have comments on the following proposed definitions:
19. *“Alternative point of connection” means a location on our water or sewerage network other than the point of connection.*

We do not feel that this is as clear as it could be. We interpret the definition to mean a second point of connection, when the main point of connection is unsuitable to use. Is this what Ofwat means? If so then, we suggest this may need tweaking for clarity.

In addition, this definition appears to have been drafted from the perspective of a company, rather than Ofwat. We noticed this was also the case for the

definition of 'No excavation'. In general, the definitions would benefit from a review for consistency of point of view.

20. *“Carriageway” means tarmac covered ground.*  
*“Footpath (Footway)” means a concrete covered surface.*  
*“Unmade ground (verge)” refers to ground which does not have a surface. For example, unmade ground may feature grass and topsoil.*

We suggest that Ofwat reviews its text to ensure that the definitions it uses are consistent with the standards and definitions that companies' own contractors will have to meet. For example, water companies, and their contractors, have to follow the '[Fourth Edition of the Specification for the Reinstatement of Openings in Highways](#)'. The definitions above allow too much space for confusion. Carriageways can have a variety of surfaces, including concrete, as can footpaths. In addition, unmade ground is not automatically verge – it could be a field or the stripped surface of a development site.

21. *“Communication Pipe” means any part of a Service Pipe which a water undertaker could be, or have been, required to lay under section 46 of the Water Industry Act 1991. It consists of a pipe laid from an existing or newly laid Water Main to the boundary of a property, including a meter housing and stop valve.*

This definition needs to be revised to reflect the variety of arrangements that are possible under the current legislation and regulations. The word 'typically' could be inserted before 'consists of' but there should be an additional sentence indicating the different kinds of arrangements which may be in place. It is our understanding that, although this is the most common arrangement, communication pipes do not always stop at the boundary of a customer's property. Furthermore, meters can be located in a variety of places<sup>1</sup>. Finally, the stop valves may also be in a variety of locations<sup>2</sup>.

**Q3: Do you agree with the proposal to set out explicit expectations on the presentation of worked examples? What do you think would be the right level of detail to be required?**

22. We agree that there needs to be explicit expectations on the presentation of worked examples, as we think it will help to increase transparency for

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<sup>1</sup> <https://www.ofwat.gov.uk/households/your-water-bill/metering/>

<sup>2</sup> <https://www.ofwat.gov.uk/households/supply-and-standards/supply-pipes/>

developers. CCW also reviewed companies' connection charges for 2019/20 and we were also disappointed that worked examples were often unclear, and that not all companies provided them.

23. We feel that, as a minimum, companies should offer worked examples that break charges down to their component costs, rather than just presenting an overall total.
24. To enable developers to compare charges from different companies, Ofwat would also need to specify that companies should provide information on all elements of the charge, such as type of work and type of materials. For example, in the worked examples that we reviewed, and with no clear guidance on these parameters, companies differed as to whether they quoted for lay-only or no excavation connections. Also, while most companies provided a worked example for basic connections, one provided a worked example that related to providing a new connection with barrier pipe, needed for contaminated ground.

**Please note, we have a joint response to questions 4 and 5.**

**Q4: Please highlight any substantive areas of our analysis you think are missing or could be improved.**

**Q5: What do you think are the reasons for the differences in charging levels? Do you think these differences are a problem? Please provide evidence to support your views where possible.**

25. There are some areas of analysis that we feel Ofwat should look at further, with a view to identifying differences in costs and whether these are reflected in the charges. As mentioned above, CCW has also looked into the connection charges for the year 2019/20 and we agree that there are some differences between the charges that may not be down to costs and need further consideration.
26. First, as a basic suggestion, we feel that population density needs to be included in the section 3.2.3 list of factors that drive the level of costs and, hence, charges. The population density will affect the density of houses and buildings, which will affect the type of infrastructure that needs to be installed and therefore the costs of that work. For example, where there is a greater density of housing, there may be more need for shared connections, to serve apartments or blocks of flats. Conversely, in areas where there is a lower

population and lower density of housing, the average distance per connection may be longer.

27. We have more detailed observations on the following:

### **On-site vs off-site costs**

28. We feel that Ofwat needs to identify the differences in charges between connection work on development sites (on-site work) and work away from large development sites (off-site work). For example, it would be useful to see a table that sets out the range of charges for different elements of the work for both on-site and off-site situations.

29. Based on the information provided, it is not clear to us what, if any, consideration Ofwat has given to this issue so far. This is important since the connections to single properties are generally off-site, carried out in surfaced roads, away from development sites. In contrast, the bulk of on-site work is in unmade or pre-excavated ground. These two situations will incur different costs, which should be reflected in charges.

30. For this reason, it seems to us that the charging scenarios set out in table 3.1 are unlikely to apply to all single new service connections universally. Based on the information we have, we feel that the charges associated with a no-excavation connection in this table are more likely to reflect what happens on a development site, rather than the majority of connections to single properties. In fact, in our review of charges, we found that some companies do not seem to offer the option of a 'no excavation' charge to customers who want to connect single properties. This may also be the case for very small-scale developers, with only few properties to connect.

31. The differences between on-site and off-site work mean that, in practice, very few accredited self-lay providers will agree to make connections to single properties on surfaced roads. This is generally because this off-site work offers less opportunity for the economies of scale that can be achieved when making connections on a development site.

32. CCW would typically expect most connections to single properties to involve a much higher proportion of 'one-off' developers, or developers who will only need a handful of connections. These customers are less likely to build up substantial experience or develop an ongoing relationship with the water

company. This means that they may need more help and support, which could affect admin and/or application costs. Furthermore, the costs per plot of any necessary inspections or site visits are also likely to be higher, mainly because they will not be undertaken in bulk.

33. Hence, there are cost-based reasons why customers who want to connect single properties, or very small-scale developers, may incur higher costs than the developers of larger-scale sites. These differences should all be reflected in the charging rates offered by companies' contractors.
34. The flip side to this is that there will be a small number of individual or very small-scale developers who will need connections in unmade ground. Typically, CCW would expect this circumstance to make it more viable for these customers to employ their own contractors, especially if these customers need longer connections. However, it is not currently clear how, or whether, the costs incurred in these situations are reflected in the charges that companies make to these customers, especially if their schemes are generally based on the average costs of carrying out work in surfaced roads.

### **Factors affecting the market**

35. We generally feel that Ofwat should to clarify its understanding of the practical situations underpinning the market. Overall, we agree that charges need to be as cost-reflective as possible, to remove or reduce cross-subsidies between developers and other customers. This will have an effect on the market, as Ofwat has pointed out. However, we question some of the assumptions that Ofwat has made about these effects.
36. For example, we were unsure about the purpose of the comparing SLP market share to water companies' on-site charges, as set out in the graph at figure 3.1. Ofwat seems to be using the latter as a proxy for costs in spite of the fact that it also states that charges are not wholly cost-reflective. With this in mind, it is perhaps not surprising that there is no correlation between the two figures.
37. In general, however, we were not surprised at what the graph at figure 3.1 illustrates. For example, United Utilities has more self-lay activity in its area because the company was the first company to take proactive steps to develop the market in the early 2000s. Similarly, Anglian Water and Severn Trent Water have also worked to develop a market to support competition in their areas. It is not surprising, therefore, that the charges for these companies, as set out in the



graph at figure 3.1, are broadly closer to industry average than some other companies.

38. Based on our experience of looking at connection charges, we feel it that Ofwat should look at the outliers on this graph. For example, Thames Water has the highest level of charges. We have discussed this with the company in the past and understand that there are a number of factors that could contribute towards greater charges, including the density of population and infrastructure in its area and the profile of types of connection that it makes. There are potential cost differences in all of these factors that we feel Ofwat needs to explore further.
39. At the other end of the scale, the Ofwat consultation states that the low level of SLP activity in South West Water's and Portsmouth Water's areas is contrary to Ofwat's expectation, bearing in mind these companies have low overall charges for a development of 50 houses. It seems to us that if the companies' charges are low, there is less opportunity for SLPs or NAVs to find sufficient margins to enable them to compete. We would expect Ofwat to look at why these charges are low and how they relate to costs.
40. In addition, there may be other factors affecting competition that Ofwat needs to consider. For example, the charge to South West Water and Portsmouth Water customers, for a development of 50 houses, is broadly comparable with the charges levied by Bristol Water and South East Water. However, Bristol Water and South East Water have higher levels of SLP activity. Hence, it may be useful to compare and consider the differences in approach between these four companies' charging practices and policies.
41. If Ofwat identifies the reasons for these differences, this could help it to improve its overall analysis of the factors affecting costs and charges.

**Q6: Do you agree with our proposal to modify the Charging Rules for New Connection Services to explicitly include cost-reflectivity in the general principles? What other measures, if any, could be put in place to provide greater assurance that water companies' charges are cost reflective?**

42. We agree with this proposal but, as referred to in response to questions 5 and 6, we feel that Ofwat needs to do more work to understand the factors affecting the costs of and charges for connection work before proposing any modification.

43. Ofwat has highlighted the good practice of one company that undertakes a detailed review of the actual costs incurred by its contractor for each different service to ensure that the contractor's charges are cost reflective. Ideally, we would like to see this adopted as common practice, across the industry.

**Q7: What do you think are the benefits and disbenefits of having common charging methodologies? Do you think companies should adopt common methodologies?**

44. Companies' practices, processes and systems vary in many ways - for example, the materials that they use, and the way that they process applications, answer queries and handle complaints. These differences are likely to affect how that they bundle costs to develop their charges schemes. Hence, some companies may find that they have to review and change their practices, administrative processes and IT systems if they were required to adhere to a common methodology.

45. In general, we feel it is too early to make a judgement about a common methodology. The consultation proposes that stakeholders work together to improve the definitions relating to connection work and the transparency of charging elements. In addition, companies should work with their contractors to ensure that their schemes of charges are cost reflective. If these measures are implemented, then charges may become more reflective of the actual costs of the work without any need to introduce a common methodology.

**Q8: Do you agree with the high-level scope of the proposed New Connection Charges working group? Please tell us your views on the proposed working group, including whether Ofwat should make the work mandatory, for example through a change to its new connection rules.**

**Scope of proposed New Connection Charges working group**

46. We generally agree with the scope of the proposed working group project with one notable exception. We strongly disagree that the scope of any work undertaken by the group should be limited to on-site costs only at the beginning.

47. Ofwat has not justified why it feels this distinction is necessary, so the proposal seems arbitrary. As a general principle, however, we feel that Ofwat should ensure that all customers are treated on an equal basis and that it is

unreasonable and inconsistent to expect smaller scale or individual developers to suffer potential detriment for longer.

48. Furthermore, if companies are examining and, potentially disaggregating costs, and processes relating to on-site work then, by default, this exercise will necessitate them identifying the costs and processes of off-site work. Hence, it is difficult to understand why this information should not be considered straight away.
49. In general, we expect from the scope that Ofwat has outlined, that the working group will look at a number of issues, with a view to driving greater consistency and transparency. We think that key questions issues to look at include:
  - how the companies account for the same types of costs when quoting and charging for customers; and
  - what rationale is being used to decide what costs should be included in charges.

#### **Additional views on proposed New Connection Charges working group**

50. We agree that the establishment of a working group would be a positive step. However, it is important that the voices of non-water company groups, such as SLPs, NAVs, developers and builders, are given an equal weight within the process. If Ofwat sets up a working group, therefore, we would like it to develop a terms of reference that clearly identifies and sets out the role and involvement of all of the sectors, ensuring that they are on an equal footing to the water companies.
51. On this basis, we feel that Ofwat would be a better choice of chair and that this arrangement may help Ofwat to provide greater clarity on its perspectives.
52. As mentioned above, we consider it is too early to say whether any methodology should be made compulsory by revising Ofwat's new connection rules. Given the gaps that we have highlighted in our responses above, and the lack of certainty about whether a shared methodology is possible, it seems sensible to defer a decision on this until there is further clarity on these points.
53. We would like to have the opportunity to represent the voice of the consumer on any working group that is set up.

## **Enquiries**

Please address any enquiries about this consultation to:

Sarah Thomas  
Policy Manager  
CCW

Email: [REDACTED]

Telephone: [REDACTED]

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