



Charging Rules for New Connection Charges Consultation
Ofwat
21 Bloomsbury Street
London WC1B 3HF

16th September 2020

Via e-mail: charging@ofwat.gov.uk

Dear Ofwat,

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

I am writing to you on behalf of independent Water Networks Limited (“IWNL”), part of the BUUK Infrastructure Group of companies, in response to Ofwat’s May 2020 consultation regarding the charging arrangements for new connection services. I can confirm that this response is not confidential.

We welcome Ofwat’s new connections charging review to facilitate transparency and ensure greater consistency between certain aspects of charging; addressing the challenges faced by new connections customers.

As a NAV operating in several incumbent areas, and an organisation operating in multiple supply areas, we have generally found the new connection process complex, lengthy and time consuming. This is supported by our internal reporting which highlights that, even as an informed developer services customer, we needed to seek further clarification for 59% of enquiries in 2019 and 47% up to the end of July 2020. Further supporting information is provided as part of this response.

We support the harmonisation of charging arrangements where it benefits developer services customers to do so, and support the areas as highlighted in the Ofwat consultation (terminology, presentation). We also believe that it is essential to establish a charging methodology such as the use of cost reflective charging, to address the current inexplicable variations as referenced by Ofwat in its consultation.

IWNL also share Ofwat’s view that drawing on best practice from other sectors to promote an inclusive set of standards/codes would prove an effective way to develop and harmonise the sector, whilst respecting the principles of competition and not restricting innovation. Given that other sectors have successfully addressed a number of the challenges raised, Ofwat would be in

a sound position to accelerate the delivery of change compared to looking at the challenges in isolation.

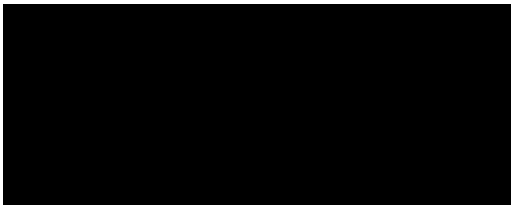
We believe that the pace of change required to address the issues highlighted in the consultation will require a proportionate level of resource to achieve similar success seen in the gas and electricity sectors. We therefore support the creation of a 'task and finish' team within Water UK: this approach has proven effective in addressing specific tasks in the past when supported by guidance from Ofwat.

If resourced appropriately by the sector, we agree in part with the timescales set out by Ofwat and would expect the work to be concluded in summer 2021, so that it can come into effect in April 2022. We do however, question why off-site connectivity could not be included as part of the scope for on-site evaluation given that we experience similar issues off-site as on-site.

The sector's approach to resolving the issues identified need to be ambitious so that developer services customers can achieve a level of certainty on new connection charges when using published incumbent information. We still see, and have provided examples within this response, that many published connection charges do not currently provide information on all charges applied by incumbents. If resourced appropriately, the outcome should significantly reduce SLP and NAV reliance on incumbents for quotes and/or applications, which should also remove a degree of overhead costs required to support the current process.

We have provided answers to Ofwat's consultation questions in Appendix 1. Please do not hesitate to contact me if you have any further questions.

Kind regards



Keith Hutton
Regulation Director (Heat, Fibre and Water)
BUUK Infrastructure

Appendix 1

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?

We agree that a common terminology would reduce the administration associated with clarification of quotes. We also believe it will make it easier for developer services customers to produce accurate quotes based on incumbents' published charges. We would be very keen to see harmonisation implemented.

We have also undertaken a similar exercise to Ofwat during the course of our business operations as a NAV. We used incumbents published information to establish costs associated with connecting a site for quotation purposes and have encountered a number of issues. These issues have been further complicated by varying terminology and the context of specific charging elements and when they apply. Examples of issues include: varied access to network drawings and associated detail; varying degree of technical data for NAV requirements, for example, use of fittings, bypass arrangements, trial holes, traffic management etc.

Q2: Do you agree with the definitions in the glossary? Please tell us what definitions you would amend, remove or add.

We would expect to see the definition of Point of Connection (PoC) expanded further to create a common definition. While the default location would be as described, the Point of Connection location could also be at a point defined by the customer (SLP, developer, NAV).

We accept that, in either instance, the Point of Connection will need to meet the same mains requirement e.g. main needs to be of same size or larger than the new connecting main.

Given the above variables, there should also be a reference within the definition to guidance regarding the incumbent funding additional works if the most cost-effective PoC is not available. We would also like to see the definitions expanded to include Metering Point and Meter Chamber, addressing both end-user and bulk supply scenarios.

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?

The worked examples are a very useful tool for understanding incumbent charges and we continue to support their use. We believe that these examples should not only reflect the type of build (i.e. flats, housing, small and large developments) but also highlight significant changes in an incumbent's charging methodology.

During the consultation process for incumbent new connection charges for the year 20/21 we experienced several issues, some of which are highlighted below in our response to Question 4 of the consultation.

Some examples of good worked examples can be found in Thames Water's Developer Services Charging Documents 2020/21.

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

- I. Scope - We note from the scope of the comparative analysis that self-lay charging variables were reviewed, but it is unclear from the consultation if NAV variables were also captured. Whilst we understand that off-site charges are not currently in the scope of the charges review, the consultation document only refers to infrastructure charges. It is unclear if connection between the NAV boundary and the incumbent network was considered within the scope of the new connection charging consultation. We would have welcomed the inclusion of boundary connectivity, as we see significant variables between metering arrangements and associated charges.*

We note that elements of the above point are touched on in section 3.1.2 regarding the "lack of clarity of some of the charges for new connection charges" where charges associated with the incumbents metering solution charges can be unclear. It is also unclear (from information published by incumbents) how some charges work when an SLP is undertaking work on behalf of a NAV e.g. payment of the meter, bypass and associated installation works.

While incumbents do not charge NAVs for the cost of their boundary meter, there are considerable variations to the meter bypass solutions employed by incumbents and therefore the associated costs of connecting into the incumbents' network. We believe that any additional connection elements required by the incumbent are associated with its decision to install a boundary meter and the incumbent should therefore bear these costs.

While some incumbents have confirmed that these bypass costs do not form part of their NAV quotes (Bristol and Yorkshire) and based on quotations we believe that there are a further 5 other incumbents do not charge, however many still appear pass on these charges, which can vary significantly. We have therefore written to Cambridge, South Staffs, Essex & Suffolk, Northumbrian, Portsmouth, and Severn Trent to seek the clarification that cannot be found in their published charging documents.

- II. Off-site charging – It is not clear why off-site new connection charges were not included within the scope of the consultation given the issues it shares with on-site costing definitions and charges. The new*

connections review has highlighted numerous key areas that require further stakeholder action and highlights the level of work urgently needed to address key issues affecting developers, SLPs and NAVs.

Given that similar issues exist for off-site charges, there is urgent need to mobilise the necessary resources to focus on bringing the sector in-line with other utilities as highlighted by Ofwat in its consultation. Should an industry group be formed as an outcome of this consultation, we would be keen for the group to also assess off-site charges in parallel with on-site charges to avoid further customer uncertainty. We are concerned that the proposed 2023 PR24 business plan submission date could otherwise be missed.

- III. Incumbent engagement - Several incumbents did not undertake a public consultation on their proposed changes to new connection charges for 20/21, (Bournemouth, Portsmouth, South East, South West, Sutton and Yorkshire) which meant that the incumbents' approach was unclear until the publication of new connection charges. Given the level of change and impact on customers, this was not seen as best customer practice and has caused a high-level of interaction during the quotation stages. We also found that some incumbents that consulted did not provide feedback on the outcome of their consultation or include the full range of changes and associated customer impact. Examples include; Anglian's use of the 'Credits' for NAVs, the financial impact on some Affinity customers and many instances of IWNL unable to breakdown quotes to align with published charges.*
- IV. Changes to charges – We experience changing to charging methodologies and charging elements not covered as part of incumbents' consultation process. Some incumbent new connection consultations failed to include key areas of change that were later included in their published changing schemes, for example, while Anglian Water consulted on its new connection charges for 20/21, it failed to state that 'credits' would not always be accessible to NAVs. For sites where the NAV is appointed the waste provider but not the water appointee NAV are unable to access 'credits,' however other developer customers are able to access the 'credits'. This creates a bias against the NAV and is a matter which remains unresolved.*

We would not expect to see key changes missing from a consultation process as it dilutes the benefits of stakeholder engagement and can result in lengthy post-publication incumbent engagement to conclude matters during the quotation process, which is often heavily time constrained.

- V. Worked examples / transition – While examples are key in outlining how charges are used, it is also essential that they highlight areas of significant change to customers, whether this is stated as part of the example or supporting text. We found that while examples used showed*

a low percentage of change in charges, customers would see real projects negatively impacted more than 100%. We welcomed mechanisms put in place by South East Water and Thames to protect their customers against such extreme changes in charges. We would like to see further protection for customers to improve the predictability of charges.

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.

- I. Definitions - It is possible that, given some of the varying definitions between incumbents, not all costs are allocated in the same way, which would create differences in charging levels that are not solely explained by variables in companies' costs. Ofwat's review of definitions and charging guidance could result in some incumbents needing to review how they allocate costs for some of their services; however, the result would be a more consistent approach across the sector.*
- II. Recently Ofwat undertook a review of NAV Bulk Charges, the consultation and supporting CEPA consultancy report found variations in approach and examples of incumbents levying charges incorrectly. It is essential that any exogenous differences are recognised separately from poor reflection of actual costs. This highlights the need for greater guidance and transparency in incumbent charges that could be achieved through a common methodology.*
- III. Complexity of work – Historically, NAV sites have only tended to be viable on larger schemes, which can often be more complex to connect. Access to the new connections market for NAVs has been heavily governed by incumbent NAV charges which dictate the viability of a site. While the evolution of regulation in this area is enabling NAVs to provide services to smaller developments, this would contradict the suggestion that NAVs tend to focus on less complex schemes. The findings in Section 3.2.4 of the consultation 'Levels of charges and self-lay activity' would appear to support this, where no obvious pattern was found.*

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?

We agree with the proposal to explicitly include cost-reflectivity as part of the general principles that companies use to set and publish charges, forming part of the new connection rules from April 2022.

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

There are a number of clear customer benefits to having a common charging methodology. The primary objective of published charging should be that the customer can clearly identify the cost elements that are required to undertake the new connection task: by producing a common charging methodology this is more likely.

This above is reflected in the high number of clarifications that IWNL need to raise in proportion to pre and post point of connection enquiries. This figure stood at 59% in 2019 and 47% up to the end of July 2020. This clearly demonstrates that nearly half of applications for water connections require clarification. This average includes 4 incumbents with whom we had to raise queries on all (100%) of our water applications, namely Affinity, Portsmouth, United Utilities and Wessex Water. This is despite IWNL being an informed customer.

We have a limited time to make a competitive offer to developers and the very high level of clarifications for basic point-of-connection requests directly impacts our ability to compete. The best performer was Severn Trent, although 25% of quotes required clarification, which is still unacceptable.

The impact of the above cannot be looked at in isolation and needs to be considered along with incumbent performance against industry average response times for providing potable water point of connection (POC) requests, (as observed by IWNL). The average response times for Essex and Suffolk, Severn Trent, South Staffs, Southern Water, Thames, United Utilities, and Yorkshire Water all exceed the new (as of 1 April 2020) industry SLA of 28 calendar days. Yorkshire have been the worst performer with an average response time of 46 days, which is more than double that of the previous year.

We believe that incumbents should have a degree of flexibility beyond the minimum charging methodology standards. This would then allow them to innovate and not be constrained by the average performing companies in the sector. An example of this could be the simplification of charges (without financial penalty to the customer), while retaining transparency for 3rd party customers to unbundle such charges for quoting clarification purposes.

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 our new connection rules.

We believe that the pace of change required to address the issues highlighted in the consultation will require a proportionate level of resource to achieve similar success seen in the gas and electricity sectors. We therefore support the creation of a 'task and finish' team within Water UK. This approach has

proven effective in addressing specific tasks in the past when supported by guidance from Ofwat.

The group must focus on addressing the charging inconsistencies by defining and implementing a clear scope for new connection services charging and harmonised charges.

If resourced appropriately by the sector we agree, in part, with the timescales set out by Ofwat and would expect the work to be concluded in summer 2021, so that it can come into effect in April 2022. We do however question why off-site connectivity could not be included with the on-site evaluation given that similar issues exist. This approach would help improve the customer experience and avoid further charging uncertainty.

Delivery of the above would significantly improve customer certainty on new connection charges when using published incumbent information. This outcome should also significantly reduce SLP and NAV reliance on incumbents for quotes and/or applications, which is also likely to remove a degree of incumbent overhead costs and support growth.