

Our Ref: PK/LAT/Ofwat

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Dear Ofwat,

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

Please find attached our responses to the above consultation on new connection charges. As you will note, we are in agreement with the majority of recommendations within the consultation document.

Thank you for this opportunity to provide input into the new connection services activities and do not hesitate to contact us for further information or clarifications.

Your sincerely,



Paul Kerr
Group Chief Financial Officer

Appendix I: Responses to the consultation on new connection charge

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?

Response: We agree and fully support the proposal on common terminology and the proposed way to implement it. We believe that such a harmonisation of terminology will assist interactions with the developer community and particularly those operating nationally.

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

Response: We agree with the definitions provided in Appendix 1.

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?

Response: We agree and fully support the proposal to set out explicit expectations on the presentation of worked examples. We believe this will assist with comparing and contrasting costs between companies. In terms of detail, the appropriate level will be one in which underlying assumptions for various operational scenarios are clear, and where there is transparent linkage to associated calculation of costs.

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

Response: We do not consider there to be any substantive areas from your analyses that 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.

Response:

There are a number of factors that can influence differences in charging levels, although with the appropriate clarity of cost calculations, we do not necessarily believe these differences represent a problem.

- The scale of operation: The overhead for administering works can vary based on volume and type of work requisitioned. High volumes of individual connection applications require more administration than a small number of large developments with a significant number of associated service connections.
- Regional employment costs.
- Type of commercial and contractual terms engaging the supply chain. Companies may let network construction activity as single lots or combinations of deliverables such as mains investment capital delivery, developer services, metering, repair and maintenance and

reinstatement of the highway. Contractors will provide competitive tenders to be successful in the award of this contract and, depending on volume and activity types, this can influence the pricing schedules.

- All companies have varying approaches to the execution of service delivery in terms of insourcing and outsourcing activity particularly surrounding administration and design activities which may influence the cost efficiency of the administrative work for construction delivery.

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?

Response: We agree with proposal to modify the charging rules to explicitly include cost-reflectivity in the general principles. Measures to be considered to provide greater assurance in this area could include companies to improving the transparency around the structure of their operations to identify the specific overheads in order to manage the function of administration, design and supervision of construction activity where these are not bound into contracted unit costs.

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

Response: Commonality of charging methodologies (if given appropriate guidance and instruction on the composition and scope of rates) can be an effective tool to draw direct cost comparisons, eliminating ambiguity when comparing across the sector. If not clearly defined, these can lead to individual interpretation. We are largely supportive of common methodologies being adopted, but would be cautious to ensure that the correct level of detail and scope are applied to costing scenarios at a sufficiently granular level. Where costing, for example a typical housing development, this should include for a number of factors including: number and type of mains connections, hydrants, tees, bends, valves, type of pipe, pressure rating of pipe, ground conditions and depth, specific surface reinstatement type, traffic management, site induction, disinfection and testing arrangements, supervision, design and administration costs including processing of payment. Failure to schedule and detail parameters can lead to significant variance in terms of out-turn cost to the design.

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.

Response: We agree with the high-level scope of the new connection charges working group. This could focus on the issues identified in Question 7 in order to ensure that scenarios and scope of works are clearly defined and that all companies identify and cost overheads correctly and clearly state any assumptions, inclusions or exclusions in their pricing.