



South Staffs Water

Green Lane, Walsall WS2 7PD  
www.south-staffs-water.co.uk

Charging,  
Ofwat,  
Centre City Tower,  
7 Hill Street,  
Birmingham,  
B5 4UA

By email to: [charging@ofwat.gov.uk](mailto:charging@ofwat.gov.uk)

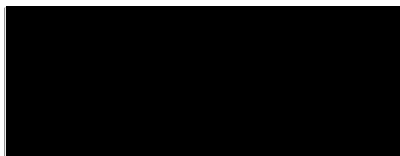
14 September 2020

Dear Sir/Madam,

**South Staffs Water response to consultation on charging arrangements for new connection services**

Thank you for the opportunity to respond to the above consultation. Our responses to the specific questions are attached. Please let me know if you have any questions.

Yours faithfully,



Adam Stevens,  
Senior Developer Services Manager  
South Staffordshire Water PLC

**Consistent terminology – we propose to add to the common terminology in the new connection rules, from April 2022 onwards, as set out in the glossary in Appendix 1 to this consultation.**

**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 largely agree with the proposal on common terminology however we note the points made in response to Question 2.

Regards harmonising terminology we would want to see further information about how a collaborative approach to harmonising terminology is intended to work and what this would look like prior to making any decisions on this front. At this stage we would query whether this can be achieved in isolation without addressing other charging points (that may have a more obvious risk of impinging competition law) at the same time.

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

We believe the following terms are also commonly referred to by different terms, and would therefore suggest the inclusion of both terms within the definitions:

- ‘Long length’ – this is often referred to as ‘far side’ ie a ‘far side connection’ which is a connection on the opposing side of the road. We would consider this to be where the connecting pipework crosses the middle of the carriageway (requiring either a road closure or two part closures to complete).
- ‘Short length’ – paired with the term above, this is often referred to as ‘near side’ ie ‘near side connection’ where the connection is in the nearest half of the carriageway (or footpath)
- ‘No excavation’ – this is often referred to as ‘lay only’.

We have clarifications for the following terms:

- ‘Carriageway’ – we feel this term is too vague and we would request that this needs to state that its predominant use is for vehicle movements rather than its material as this material may vary
- ‘Footpath’ – we feel this term is too vague and we would request that this needs to state that its predominant use is for pedestrian movements rather than its material as this material may vary.

We would propose the inclusion or clarification of the following terms:

- ‘Infrastructure credit’ – referring to a credit being applied to the infrastructure charge where there was usage on the site within the last five years – this predates the recent rule changes or introduction of environmental/water efficiency discounts.
- ‘Income offset rebate’ – income offsetting has different terms across the industry, some simply refer to it as offset or offsetting, others use rebate, discount or credit.
- ‘Infrastructure or environmental discount’ – a discount to the infrastructure charge to reward environmentally friendly home building.

We have noted the three terms above because we believe there is variability across the market in the use of the terms ‘credit’, ‘discount’, ‘rebate’ which refer to three different charging mechanisms but which are all applied against the infrastructure charge causing confusion to customers. Our preference would be that the term ‘credit’ is only used when referring to previous usage on the site and other terms are used for income offset and the environmental discount.

We would propose the inclusion of the following terms:

- ‘Non-standard work’ – work for which water companies are not required to provide for the option of upfront fixed charges as noted in rule 47 of ‘Charging Rules for New Connection Services (English Undertakers)’
- ‘Resilience’ – work which may be required on a development scheme to ensure the resilience of the network and the long-term operability of the assets but which cannot be recharged to developers
- ‘Application fee’ – fee paid when applying for a new scheme be that connection works, new mains works etc to cover the cost of the water company reviewing and processing the application and to receive information such as a quote, design (if applicable) and a network assessment
- ‘Developer or speculative enquiry’ – a preliminary enquiry submitted prior to submitting a full application whereby the water company will produce budget costs and headline information which will assist a developer customer in the early stages of development planning
- ‘Map or asset enquiry’ – a request from a developer customer for a map or asset plan of an area they wish to develop to view the existing infrastructure
- Bulk Supply – provision of a large supply of water between incumbent water companies or between an incumbent water company and a NAV
- Commercial premises – to counter the ‘domestic premises’ definition already within the terms
- Transitional arrangements – arrangements which incumbent water companies introduce or outline to support developer customers transition from one charging year to the next.

**Presentation of charges – clear worked examples help customers understand charges and how they apply in different scenarios, in particular by showing the services included in the calculation of the costs under each scenario and the**

unit costs of those service. We propose to improve practice in this area through our annual information notice “Expectations, assurance and information requirements for water company charges”. We have set out scenarios for typical service packages in the 2020/21 requirements and we propose to set out more explicit expectations on how companies present them, disaggregated by service and unit cost, for the 2021/22 charging arrangements.

**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?**

We agree with the proposal to set out explicit expectations on the presentation of worked examples.

We would propose the following level of detail is required to be included in the expectations:

Type	Package description	Detail explicitly required
Single connection	Water: <ul style="list-style-type: none"> <li>• Connection to existing mains - No new mains/sewer required;</li> <li>• 25-32mm PE11 pipe               <ul style="list-style-type: none"> <li>o Short connection – 4m road surface;</li> <li>o Long connection – 8m (4m road surface and 4m unmade ground);</li> </ul> </li> </ul> Wastewater – include relevant sewer connection costs, including sewer construction costs where applicable.	<ul style="list-style-type: none"> <li>• Specify either 25mm or 32mm service connection</li> <li>• Specify type of traffic management</li> <li>• Specify that the connection is being made in a non-sensitive road or a sensitive road</li> <li>• Example including the environmental discount</li> </ul>
New block of flats	Water: <ul style="list-style-type: none"> <li>• 10 new units connected to an existing main - No new mains/sewer required;</li> <li>• Large diameter (63mm) water connection – barrier pipe               <ul style="list-style-type: none"> <li>o Short connection – 4m road surface;</li> <li>o Long connection – 8m (4m road surface and 4m unmade ground);</li> </ul> </li> </ul> Wastewater – include relevant sewer connection costs, including sewer construction costs where applicable.	<ul style="list-style-type: none"> <li>• Specify type of traffic management</li> <li>• Specify whether manifolds should be used</li> <li>• Specify that the connection is being made in a non-sensitive road or a sensitive road</li> <li>• Example including the environmental discount</li> </ul>

<p>Small housing development</p>	<p>Water:</p> <ul style="list-style-type: none"> <li>• 10 new connections off new mains;</li> <li>• New mains required – total length 50m, consisting of <ul style="list-style-type: none"> <li>o 90mm PE – 10m road surface;</li> <li>o 90mm PE – 20m unmade surface;</li> <li>o 63mm PE – 20m unmade surface</li> </ul> </li> </ul> <p>Wastewater – include relevant sewer connection costs, including sewer construction costs where applicable.</p>	<ul style="list-style-type: none"> <li>• Specify type of traffic management</li> <li>• Specify that an under pressure connection to the existing main required</li> <li>• Specify that the mains connection is being made in a non-sensitive road or a sensitive road</li> <li>• Example including the environmental discount</li> </ul>
<p>Medium housing development</p>	<p>Water:</p> <ul style="list-style-type: none"> <li>• 50 new connections off new mains;</li> <li>• New mains required – total length 300m, consisting of <ul style="list-style-type: none"> <li>o 180mm PE – 10m road surface;</li> <li>o 180mm PE – 90m unmade surface;</li> <li>o 125mm PE – 100m unmade surface;</li> <li>o 90mm PE – 100m unmade surface</li> </ul> </li> </ul> <p>Wastewater – include relevant sewer connection costs, including sewer construction costs where applicable.</p>	<ul style="list-style-type: none"> <li>• Specify type of traffic management</li> <li>• Specify that an under pressure connection to the existing main required</li> <li>• Specify that the mains connection is being made in a non-sensitive road or a sensitive road</li> <li>• Example including the environmental discount</li> </ul>
<p>Large housing development</p>	<p>Water:</p> <ul style="list-style-type: none"> <li>• 200 new connections off new mains;</li> <li>• New mains required – total length 1000m <ul style="list-style-type: none"> <li>o 180mm PE – 10m road surface;</li> <li>o 180mm PE – 290m unmade surface;</li> <li>o 125mm PE – 300m unmade surface;</li> <li>o 90mm PE – 400m unmade surface</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Specify type of traffic management</li> <li>• Specify that an under pressure connection to the existing main required</li> <li>• Specify that the mains connection is being made in a</li> </ul>

	Wastewater – include relevant sewer connection costs, including sewer construction costs where applicable.	<p>non-sensitive road or a sensitive road</p> <ul style="list-style-type: none"> <li>• Example including the environmental discount</li> </ul>
Self-laid scenario	Total admin fees and any other relevant fees charged to SLPs (application, inspection, etc).	<ul style="list-style-type: none"> <li>• Specify that the self lay example should mirror the large housing development example</li> </ul>

We believe the outputs shown by water companies should reflect the most basic of arrangements ie not include specific activities such as ‘bagging’ traffic lights or requiring that there is other utility supervision (typically gas) on site which all add cost but are less common. We also believe that the following information should be presented:

- Connection costs (mains or service connection construction specific activities)
- Council charges eg permits
- Traffic management charges
- Meter charges

We would also support the inclusion of a mains laying worked example which includes an element of network reinforcement such that water companies can demonstrate which scenarios include site specific charges for offsite mains and which scenarios are classed as network reinforcement and are recovered through the infrastructure charge.

In addition, we would support the inclusion of a NAV worked example (relating specifically to the connecting infrastructure charges rather than bulk supply charges).

**Analysis of charges – we have found large variations in both the level of charges and the way in which companies have set out individual services.**

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

There are no substantive areas which we feel are missing or could be improved when focussing solely on site specific work. We note that income offset and infrastructure charges are not included in this analysis.

We would however note that the service connection charges do not appear to include traffic management, council charges or road closure charges which can be considerable (many thousands).

We would also note that without understanding the specific assumptions included in the build-up of mains costs for example, eg how many fittings included in a particular length of main, it is difficult to comment on these examples.

**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.**

There will be a number of reasons which could cause the variability, these include:

- Delivery model of each water company eg are construction activities delivered by direct labour or contract labour
- Whether labour, plant and equipment is devoted solely to developer services or shared across teams, devoted resources ensure greater service levels to developer customers but are less flexible so these costs are always carried regardless of work volumes
- Of those delivered through contract labour the contractual terms will vary depending on the procurement process carried out by each company and the delivery model used
- Regional variability which can impact salary levels, cost of materials, local council costs
- Size of the water company; bigger companies can often procure materials and equipment at lower rates due to the volume of orders, likewise it could be argued that larger companies can adjust to small fluctuations in work volumes whereas these small changes are much more material to smaller companies typically meaning standing costs are incurred or further resource needs to be sought at a cost
- Data quality and assurance of cost data used to calculate charges
- Structure of charges; greater 'bundling' of charges ensures that charges remain more stable and predictable but more granular charges could be argued as fairer as they reflect the specific costs incurred on a given scheme. For example, some water companies will include for traffic management or an allocation of fittings within their per metre mains charges, others will keep each element separate which will have an impact on the cost of individual schemes between regions
- Assumptions in bundling; where water companies do bundle charges the value of those charges depend on the accuracy of the assumptions eg number of fittings per length of main.

These differences are a problem for developer customers who work across multiple water company regions, this is mainly large self lay providers and NAVs. Large developers do not have as much of a problem with this variability as, although they are national, they have regional divisions which tend to work solely with a single water company. Smaller developers and smaller SLPs do not suffer from the variability however all developer customers clearly want to ensure they are paying a fair charge.



**Cost reflectivity principle – we consider that the differences in levels of charges are so marked that they are unlikely to be a function of cost alone. Such problems may undermine key principles of our rules, including that the charges are predictable, transparent and fair. While we expect charges to reflect costs, we feel our charging rules could have more explicit requirements to this effect. We propose to introduce a more explicit cost reflectivity principle in the charging rules, likely to be from 2022/23.**

**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 modify the rules to explicitly include cost-reflectivity in the general principles however we would expect that all water companies should be operating to this principle as a matter of course already. Developer Services charges should be set to recover reasonably incurred costs of delivering this activity (avoiding cross subsidy with other bill-paying customers and not set to make profit or loss) which is a principle the market has historically operated to. Consequently we do not expect that the introduction of this principle will change the trends presented in the market study.

The value of charges and even the structure of charges are not areas which easily lend themselves to harmonisation without impinging on competition law and innovation in the market. There is already a requirement for water companies to publish a Board Assurance statement and undertake suitable assurance on their charges which should give the necessary confidence that water company charges have been appropriately set to reflect their incurred costs.

Harmonising the structure of charges could stifle innovation as the structure of a charge may have been set as a result of customer feedback and may support the customer experience and ultimately D-MeX performance of a company.

**Industry collaboration can be an effective way to deliver more consistent and clear methodologies for the benefit of customers. We propose that a working group on New Connection Charges is established to improve consistency in terminology and presentation of charging arrangements and to develop common charging methodologies, to be led by Water UK.**

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

As described in the answer to question 6, we do not believe it is appropriate for companies to adopt a common methodology, primarily due to the inherent competition law risk.

In addition, water companies have consulted with their customers to understand their specific needs and have acted on their responses, and so to align



methodologies across the market would not demonstrate effective consultation. It is also likely to impact D-MeX performance which has a significant reward or penalty attached.

Likewise, a common methodology requires all water companies to have data available in a specific format. This is not simply a case of reformatting data but may require companies to start new cumbersome data recording and calculation processes, for example if contractual terms are set up in a particular way but changing the charging methodology requires information which cannot easily be extracted from those contractual terms then extra steps and potentially assumptions may need to be introduced. This is likely to have an impact on staff resources, IT infrastructure, financial processes and potentially assurance performance which is costly and yet further change for both developer customers and water companies after the two charging rule changes, the introduction of D-MeX and the Code for Adoption changes within recent years. Moreover costs are likely to be incurred in making changes to approaches which have been embedded over the past few years and these costs will be borne by developer customers through the charges.

Finally, there is a requirement within developer charges that the right balance is achieved across the principles ie acutely cost reflective charges are granular, whilst more predictable and stable charges are simplified and 'average' charges and each company will make their own judgments on the right balance. Also, year on year water companies have to strike the right balance regards annual increases to ensure stable charges are maintained. Both of these balancing points would be compromised by a common methodology and some customers in some regions would experience significant charge increases as a result.

**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 support the introduction of a working group in principle however, with the aforementioned concerns noted, we would need to understand how this might work in greater detail before being able to commit.

The parameters of the working group, the regulation which underpins it and the expertise and authority of the chair/facilitator would need particular focus in order to avoid the concerns outlined above.