

13 November 2020

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

By email: charging@ofwat.gov.uk

Dear colleagues

CHARGING ARRANGEMENTS FOR NEW CONNECTION SERVICES FOR ENGLISH COMPANIES: COMPARATIVE ANALYSIS AND CONSULTATION

We welcome the opportunity to comment on the findings of the comparative analysis and contribute to the ongoing development of the charging regime for new connections services. As recognised in the consultation, companies' cost drivers vary and consequently we are supportive of the flexibility the principles-based rules offer. We agree that it is important to review the evolution of the regime, companies' interpretation of the rules as currently written, and the final impact on customers.

We are fully committed to doing our part to improve consistency and clarity of developer services charges. Understanding that a collaborative approach could support market development, we are supportive of the intention behind the proposal for an industry working group.

Finally, we are mindful that amendments arising from this review may create changes to customers' charges. We believe that the frequency and extent of changes since the introduction of the Charging Rules for New Connections Services may have created incidence impacts for some customers. As an industry, care must be taken to ensure that the rate and pace of change is proportionate, and that customers' views on how further revisions to charging rules should be implemented are taken into account. We would suggest that it is for companies and Ofwat to work together to ensure that this is done.

Appendix 1 contains our responses to the questions raised. We hope you find them helpful.

If you have any questions please do not hesitate to contact me.

Yours faithfully



Sally Mills
Regulatory Director

D: 

E: 

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?

New Connections Charging Arrangements should be as clear as possible for users. We agree that it would be in customers' best interests for the industry to address the current wide variation of terminology across companies' Charging Agreements, and for a more consistent approach to be adopted. The consistency a common terminology provides would, we believe, particularly benefit those customers who operate across company boundaries.

The proposed timescale for implementation by April 2022 is achievable providing that the final terminology is agreed in good time to allow companies to ensure that a) their charges are aligned with the definitions, and b) where changes to charges are required, that engagement with customers regarding any potential impacts can be conducted in time to enable their views to be fully incorporated into the process. To allow for this we believe that the industry will need to finalise definitions by early summer 2021.

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

Terms in the glossary should be clear and customer-friendly, particularly supporting small or first-time developers to understand and navigate processes.

While we recognise that some terms link to the charging rules definitions and therefore have a legal or regulatory basis, as they stand the proposals contain a mixture of customer-friendly and more formal language. We are supportive of the link to the charging rules but in our view, it would be helpful if the tone of the language was more consistent. In some of the proposed definitions this has been achieved by adding supplementary text, for example the text added to the charging rule definition of 'communication pipe' is clear and concise, but other definitions, for example 'connection charges' have not been extended and are not as customer-friendly. We believe further work is needed to ensure consistency of approach to the definitions and we would be pleased to contribute to any further discussion either with Ofwat or with any industry-led group to achieve this.

Further to this, we have not made any suggestions in terms of amendments, removals or additions to the proposed definitions. We believe an industry-led discussions would be more effective in this regard.

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 fully support the use of worked examples to assist customers, however we agree with Ofwat's findings from its 'Review of incumbent company support for effective markets' that there is scope to make them clearer. Readers should be in no doubt what charges will apply and worked examples should provide customers with confidence when interpreting them. Setting out explicit expectations will help to achieve this.

What is to be included and excluded should be explicit, and where company-specific policies and offerings differ from the template data, the process should provide for companies to clarify this. We believe this will provide greater transparency and comparability for customers.

To further support customers we would favour the use of standard graphics that all companies could use to illustrate the various components of their charges. We would be happy to contribute to the timely development of these graphics as we believe that a visual aid will be effective in assisting customers.

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

If considered in the context of water-only charges, we do not believe that anything has been missed. However, consideration of wastewater may increase transparency.

We would like to see company-specific policies taken into account. For example, we offer developers the option to make their own arrangements to excavate and backfill trenches, saving them both time and cost by enabling them to co-ordinate work in a way that works best for them. In 2019/20 this policy saved developers over £1.5m and we believe that it supports markets by offering developers choice. Compared with other companies who do not offer a similar policy our modelled costs may appear significantly different. We feel it is helpful if these are recognised when making comparisons.

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.

We recognise the difficulty in comparing each companies' charges across multiple Charging Arrangements, difference in companies' policies and potential for inconsistent application of the principles-based rules. For this reason, and for the reasons we discuss in our response to question 4, we are not confident that the comparisons are wholly like-for-like.

We would also suggest that due to incumbents' geographic location there can be differences in the ability as some companies to engage as widely with national contractors than other companies who are located more centrally. We experience this issue and consequentially find that there is a more limited number of potential market suppliers expressing interest in work in the South West. This in turn could impact contractor rates, and where companies have based charges on these rates this will be reflected in 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?

We agree with the principle of amending the charging rules to be more cost-reflective. However, if a rule is presented as a general principle it will remain open to interpretation, therefore we suggest it needs to be unambiguous in its intent and provide clarity and certainty over what is required.

The consultation makes references to ways in which cost reflectiveness might be considered, for example through disaggregation of contractor costs, and while further consultation and discussion on the proposals will take place before the charging rules are amended, if total consistency is required this is the type of detail likely to be needed.

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

A common methodology will save developer customers time and effort interpreting companies' charging arrangements and enable direct comparison of the opportunities and potential disadvantages related to differing incumbents' areas of supply.

Care should be taken not to stifle innovation, where companies may otherwise develop policies or practices which support developer choice, time and cost efficiencies.

Striking the balance between market forces and regulatory requirements is also a potential issue. The adoption of a common methodology may increase transparency but at the same time create a

greater reporting burden, for example where systems must be changed to accommodate a change to the collation of data.

The potential impact on customers' bills of transitioning to an alternative approach should also be a consideration.

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 intention behind the proposal for an industry working group and understand that a collaborative approach could support market development.

We suggest that a review of how this can best be achieved whilst eliminating any potential legal risks or concerns around price harmonisation needs to be considered further.

In principle we agree with the proposed scope of the work but are cautious that the target completion date will be achievable. We note that it took some time to finalise the Adoption Codes, as such we would recommend a common methodology group which would include SLP, NAV and developer-customer representation.