



Consultation on charging arrangements for new connection services

Southern Water Response

September 2020

Please find Southern Water's responses to the consultation on charging arrangements for new connections services.

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 with the proposal to align terminology. Whilst we believe this will benefit customers, we do not believe it will necessarily harmonise charges i.e. some companies may still wish to aggregate certain services.

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

In general we agree with the majority of the proposed definitions. We do have specific comments on several of the definitions, as set out below:

Carriageway, footway and unmade ground (verge) – each of these definitions appear to relate to surface covering rather than usage which may be misleading i.e. concrete roads. We would prefer the definition to specifically relate to the highways category (road, footways, unmade ground/verge).

Income offset - this definition refers to a 'sum of money offset against the charges that would otherwise be applied for the provision of a Sewer or Water Main'. This appears inaccurate now that the income offset is applied against the Infrastructure Charge for each connection, rather than the provision of mains.

Long length / Short length – Southern Water work off a 3m short side maximum length (rather than 4m) which is sufficient to cross modern footpaths even with service strips.

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 specific expectations on the presentation of examples. Whilst we agree that further disaggregation of charges has merit, this should be at a reasonable level of granularity. For instance, for S41 requisitions we do not have separate application and administration fees.

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

We do not have any comments on the analysis.

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 do not consider the variation in charges a problem, and which are likely to reflect geographical and regional differences.

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 that charges should be cost reflective and believe that this should principally be based on the costs faced by a water company. We have concerns regarding the proposal to explicitly include cost reflectivity of contractor rates within the Charging Rules. We would suggest that other measures such as a form of assurance statement that charges are not materially out of line with the costs of providing the service would be sufficient to provide greater assurance that water companies' charges are cost reflective and guard against the risk of cross-subsidisation within contracts.

We are concerned that a rule on absolute cost reflectivity for each component of a contract would result in the need to unbundle our current arrangements, with a loss of both economies of scale and scope. Our supply chain arrangements are designed to maximise value from the market to directly benefit our customers, both developers and wider customer base. A wide and diverse basket of activities is key to securing value from the market. Potentially separating our developer services activities as a discrete basket of work will be disruptive, costly in terms of procurement and may have the effect of increasing charges to customers through limiting scope and opportunities for management efficiencies from our suppliers.

In our case, these arrangements were originally sourced ahead of the start of AMP6, before the new rules came into place. Should we need to disaggregate these activities from the wider basket of activities within the R&M framework, this could have significant impact on those existing contracts, with the potential need for additional procurement and new supplier relations. This could be challenging to deliver by 2022, and is only likely to increase costs to customers.

We, therefore, do not agree with the proposal to modify the Charging Rules for New Connection Services to explicitly include cost-reflectivity of contractor rates within the general principles. We believe that the tendering process provides a good, although not perfect, proxy for cost reflectivity and we would support the introduction of an assurance requirement to state that charges are not materially out of line with the costs of providing the service.

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

Common terminology and presentation would certainly benefit new connection customers. Common charging methodologies may restrict innovation and any such harmonisation needs to ensure that methodologies do not become prescriptive and allows room for markets to flourish (which needs competitive incumbents).

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.

In general, the scope seems reasonable. However, as described in question 6, we do not agree that the working group should consider whether contractors' rates reflect actual costs incurred by them in the provision of each service.