



The voice for water consumers  
Llais defnyddwyr dŵr

# **CCW's response to Ofwat's consultation on new connections charging rules for Welsh companies**

**Date: February 2021**

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## **1. Introduction**

We welcome the proposals in this consultation as a necessary step in providing clarity for the water and sewerage companies in Wales and their new connections customers.

In general, we support the option 2 proposals because these are likely to provide the most clarity and transparency for developers. The previous regime in England, which is still in place in Wales, was beset by problems associated with a lack of clarity and transparency. The changes that have been implemented in England have helped to improve this. It is not clear to us whether option 3 would have the same effect.

However, we feel that the consultation did not provide enough information to enable us to reach a decision on the best method of calculating infrastructure charges.

## **2. Response to questions**

### **2.1. Question 1: Do you agree with our proposal to redefine what costs are recovered by infrastructure and requisition charges?**

**Question 2: Do you agree with our proposal that infrastructure charges should be calculated to recover costs incurred over a rolling period of years?**

We agree with these proposals on the basis that they are consistent with the current approach in England and will improve clarity for developers working in both countries.

### **2.2. Question 3: Do you prefer option 2 or option 3 (or another approach) as the basis for setting the relevant time period over which costs are calculated for the purpose of setting infrastructure charges?**

In general, we support the changes that will ensure the regime in Wales is as close as possible to the regime in England, as this will improve clarity as mentioned above. However, Hafren Dyfrdwy, as a small company with a very low level of development, says that there are times when it incurs no network reinforcement costs. As such, it suggests that it should be able to base its charges on Dŵr Cymru's (option 2) or calculate infrastructure charges on a 10-year rolling basis (option 3).

There is not enough information in the consultation to enable us to reach a view on this issue. In particular, we have the following questions:

- What evidence is there that Dŵr Cymru's infrastructure charges will be an accurate reflection of the costs that Hafren Dyfrdwy might incur for this work? This is especially pertinent as Dŵr Cymru may carry out more network reinforcement. It seems to us, therefore, that there is a risk that Hafren Dyfrdwy's customers could end up paying more than is reasonable for this work.

- The implication of the consultation is that the option of levying charges on a 10-year rolling basis is seen as a light-touch rule, in line with the other option 3 choices. However, it is not clear why. This could be the most sensible option, depending on the levels of network reinforcement in Hafren Dyfrdwy's area. We would like to understand more about the implications of calculating charges in this way. In particular, it would be useful to know where the financial risks lie and how customers and Hafren Dyfrdwy would be affected if this methodology is used.
- Do any other companies in England or Wales have periods where they carry out no network reinforcement? If so, how do they calculate their infrastructure charges?

**2.3. Question 4: Do you agree with our proposal to simplify the calculation of income offset and apply it to the infrastructure charge, instead of the requisition charge (thereby removing the need for asset payments)?**

We agree with this proposal, which is consistent with the approach in England and will therefore improve clarity for developers.

**2.4. Question 5: Do you think option 2 or option 3 is the better approach to setting upfront charges for site-specific developer services? Or would you prefer another approach?**

We support option 2, which continues to address the need for clarity but generally allows companies the flexibility to publish up-front charges for water and/or wastewater only where it is practicable to do so. This is more relevant for wastewater requisitions since companies are likely to have insufficient information for calculating a reasonable average charge.

However, the approach proposed for Wales is more flexible than the current rules applying to England, which still state that companies must provide fixed up-front charges for both water and sewerage requisition charges. It is CCW's understanding that some companies in England also have insufficient information on the costs of wastewater requisitions. This has led to them offering fixed up-front charges that may be unreasonable, in comparison to the wider market. It would make sense, therefore, for Ofwat to revise the rules that apply in England to ensure that the companies there can operate to a similar flexibility with regard to their wastewater charges.

**2.5. Question 6: Do you think option 2 or option 3 is the better approach to setting charges for requisitions and new connections? Or would you prefer another approach?**

Option 2 would improve clarity for all developers in Wales.

In our experience, larger-scale developers generally prefer to have greater transparency and clarity. They are less exercised by the level of cost, as long as this is clear up-front and does not change. For this reason, we favour the option 2 approach as this will ensure that companies have to focus on improving transparency and providing clear, up-front charges.

Smaller-scale and individual developers are likely to care more about costs because of the scale of their operations. Option 2 also seems the fairest way of ensuring that these customers pay charges that reflect, as closely as possible, the actual costs of the work that is necessary. Under option 2, there is less cross-subsidisation between developers as the charges would better reflect the actual costs of the main and sewer installations that they needed for their specific development sites.

**2.6. Question 7: Are there any charging rules that have been included under options 2 or 3 that are not required due to the general requirements of the charging principles?**

**Question 8: Are there any additional charging rules that should be included under options 2 or 3?**

We have no suggestions for these questions.

**2.7. Question 9: What are your views on the three proposed options? Which of the options do you prefer? Would you prefer another approach?**

Overall, we feel that option 2 is most appropriate mainly because it allows companies more flexibility in setting fair charges, where appropriate, while also being closest to the existing regime in England, which will ensure clarity for developers operating across the country borders. With option 2 there is also clear emphasis on the need for companies to consult their developer customers about their charges.

In addition to this, there are also more formal requirements for companies to provide transparent explanations of their schemes. It is unclear to us that option 3 will result in sufficient improved clarity for developers.

**2.8. Question 10: Are there any other issues we should consider as part of our assessment of the impacts of introducing the proposed charging rules?**

We have no suggestions for this.

## **Enquiries**

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