

Charging policy
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Dear Ofwat

RE: Consultation on new connections charging rules for Welsh companies

I am writing to you on behalf of independent Water Networks Limited (“IWNL”), part of the BUUK Infrastructure Group of companies, in response to Ofwat’s February 2021 consultation regarding new connections charging rules for Welsh companies. I can confirm that this response is not confidential.

We welcome Ofwat’s review of the connections charging rules for Welsh companies. We see this consultation as a critical step toward meeting two important goals that will support the development of effective NAV market arrangements.

- Establishing a level playing field for NAVs, SLPs and incumbent water companies competing to offer services to developers in Wales; and
- Establishing a nationwide NAV market that operates under the same rules and procedures across the country.

At present, the differences between the Welsh and English charging arrangements for new connections effectively deters us from actively pursuing NAV opportunities in Wales as the competitive conditions are skewed towards incumbent water companies and SLPs. In particular, the legacy arrangements that apply the income offset to the requisition charge (rather than the infrastructure charge), confer more favourable commercial terms for incumbent water companies and SLPs as compared with NAVs. Additional differences that exist between the Welsh and English regimes, largely related to the transparency and clarity of arrangements in Wales, further deter our active participation in this market.

The unfavourable competitive conditions mean that we have not yet secured a NAV site in Wales. As a result, we have not fully tested the processes that have been established by Welsh companies to respond to requests for new connections from NAVs. We would note that, during our 12 years of operation in England, we have seen improvements in the NAV

service provided by incumbent water companies but that securing these service improvements from all companies has been time consuming. We are keen to ensure that the lessons we have learned regarding the effective development of incumbent NAV services can also be applied to the services in Wales as this will contribute to the development of an effective nationwide regime for new connections charging.

In addition to the general comments set out in this letter, we have provided responses to Ofwat's specific consultation questions in Appendix 1. Please do not hesitate to contact me if you have any further questions.

Yours Sincerely,



Keith Hutton
Regulation Director (Heat, Fibre and Water)



Appendix 1: Responses to specific consultation questions

Q1 Do you agree with our proposal to redefine what costs are recovered by infrastructure and requisition charges?

We agree with this proposal recognising that it aligns to the approach taken to new connections charging in England. It will contribute to the development of a common nationwide approach and help to streamline processes for NAVs, SLPs and developers.

Q2 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 this proposal recognising that it aligns to the approach taken to new connections charging in England. It will contribute to the development of a common nationwide approach and help to streamline processes for NAVs, SLPs and developers.

Q3 Do you agree with our proposal to use option 3 (or another approach) as the basis for setting the rate at which costs are calculated for the purpose of setting infrastructure charges?

We have a preference for option 2. Reinforcement allowances for the coming five-year period have been agreed during PR19 and therefore represent an objective measure upon which the company can base charges. Although we understand the potential benefits of using a longer rolling period for HDD given the lower level of reinforcement works that the company is likely to face over a five-year period, we note that there will be relatively less clarity around the reinforcement costs that HDD will face in the coming 10 years.

Q4 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 consider this to be a critical change that will allow NAVs to compete on a level playing field with incumbent water companies and SLPs in Wales. It will also align the approaches to new connections charging in Wales and England thereby contributing to the development of a common nationwide approach.

Q5 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?

Of the options presented, we would prefer option 2 as it would provide certainty regarding the charges that would be levied on NAVs / developers and therefore effectively inform the process of bidding for development sites. It will also align the approaches to new connections charging in Wales and England, thereby contributing to the development of a common nationwide approach.

Q6 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?

We have a preference for option 2 as it will align the approaches to new connections charging in Wales and England, thereby contributing to the development of a common nationwide approach.

Q7 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?

We note that the proposed charging rules for new connections in Wales largely reflect the provisions that already exist in England and we are keen that this approach is retained to ensure that the relevant standards set are consistent nationwide.

Q8 Are there additional charging rules that should be included under options 2 or 3?

We note that section 27 of the proposed charging rules, presented in Appendix A2 and A3 of the consultation, sets out the principles that infrastructure charges should reflect. In particular, section 27(i)(f) specifies that English undertakers charges' should be determined in accordance with the principle that the charges should reflect 'transparency and customer-focused service'. While the equivalent principles for Welsh undertakers include a reference to transparency, they do not refer to 'customer-focused service'. We believe there would be merit in including this principle within Section 27(ii) to ensure that Welsh companies have a similar objective to customer needs in determining infrastructure charges.

Q9 Which of the three proposed options? Which of the options do you prefer and why? Which approach?

We have a preference for option 2 overall. The establishment of more prescriptive rules will provide clarity about what the charges include and exclude as well as certainty regarding the charges that will be levied for water and wastewater services. Option 2 is also more aligned to the arrangements in place in England and will contribute to the development of a common nationwide approach, thereby helping to streamline processes for NAVs, SLPs and developers.

Q10 Are there any other issues we should consider as part of our assessment of the impacts of introducing the proposed charging rules?

For the reasons outlined above, we have a strong preference for the adoption of option 2 for the new connections charging arrangements in Wales. Recognising that this option is aligned to the approach taken to new connections charging in England, it will contribute to the development of a common nationwide approach and help to streamline processes for NAVs, SLPs and developers.

