



Fair Water Connections

An association seeking a fair deal in water supply provision

Response to consultation on the scope and balance of developer charges and incentives

3 June 2021

This response is from Fair Water Connections which represents SLPs from across the self-lay community. Although our members will be impacted by the removal of subsidies on connections we are leaving whether subsidies continue as an issue for developers to take up with Ofwat. Our emphasis being to use the envisaged change as an opportunity to get the resetting, at the start of each financial year, of Infrastructure Charges altered such that our members can confidently agree terms with their developer customers without the risk of substantial, mid project, changes.

Whilst SLPs, by referencing their own costs, have strong views about whether company's site specific charges are reasonable they cannot determine whether Infrastructure Charges and/or Income Offset balances have been fairly determined. We therefore consider that these elements of company charges should be set (by Ofwat) on a regulatory basis with the charges held for 5 years, and preferably much longer. This would surely better clearly position Ofwat as the body for reviewing that companies are only recovering the network enhancement costs to which they are entitled.

By way of background SLPs (when appointed) invariably act as a developers agent on all matters relating to new water connections and Infrastructure Charges (water supply and often wastewater). However decisions on water saving fittings, and the installation of SUDs features are very much a matter for developers themselves. Hence our view, as some companies currently do, is to make developers directly responsible for Network Enhancement works with Infrastructure Charges, and any discount adjustments, always being directly billed to developers (rather than via SLPs).

So our view is that the proposal to remove provision subsidies need to be accompanied by de-linking Infrastructure Charges being set on the basis that allows annual (financial year) adjustments. Instead our members are looking to get all charging terms (so for both Site Specific works and Network Enhancements) fixed for the whole development build-out at the 'terms offer' stage. This would allow developers, and (where appointed) the SLPs who serve them, to fully know the charges in advance and be able to concentrate on works delivery without having, mid project, to revisit charges and budgets. In addition Infrastructure Charge levels should be set for at least the duration of each Regulatory Review period.

Q1. Do you have any comments on key conclusions from the Frontier Economics report?

To us it is disappointing that the Frontier Economics reports has not picked up consideration of the historic context about why subsidies were originally introduced to defray the costs of the mains needed to provide properties, both existing and new, with new water supplies.

We also feel that the Frontier Economics rigour in analysing the operating savings which derive from reduced maintenance costs and leakage on new networks, plus the longer time until renewal occurs, is much weaker than on the options they favour.

Another aspect that we cannot see has been considered by Frontier Economics is how lower operating costs on new systems can be used to lever retail competition benefits. So, assuming that Ofwat has aspirations in this area, it may be worth evaluating whether there are genuine ongoing cost savings during early years on new networks which could be utilised to stimulate retail competition.

Q2. What are your views on our reasoning and proposals with respect to charges for strategic assets, income offset and the balance of charges rule?

Our view is that it is for developers to make the case for the continuation of provision discounts, in whatever form, on new connection provision. This is because, when they are paid by SLPs, these charges are simply passed onto developers.

The issue SLPs have with the envisaged change is how the loss of subsidy gets factored into charges, particularly as companies set both Infrastructure Charges and Income Offset balances on an annual basis with adjustments at the start of each financial year. This invariably means that these charging elements change mid-way through development projects and thereby cause SLPs to have to re-open charging discussions with their developer customers.

To avoid this situation occurring, and being heightened during any transition to remove subsidies, SLPs want Ofwat to change their Connection Charging Rules such that Infrastructure Charges, when provided as part of a scheme terms offer, remain fixed for the duration of all the work covered in the offer.

We cannot over stress the need for this change to be made and thereby remove a significant tension for those working in the competitive water connections market.

Furthermore, whilst the setting of Site Specific against a set of Ofwat Rules has the potential (once unreasonable charges and distortions in company contractors rates are worked through) to be market regulated we cannot see that Infrastructure Charges and Income Offset balances can realistically be policed by customer scrutiny. We therefore urge Ofwat to fully bring these charging elements under Regulatory Control. This would fix these elements for a minimum of 5 years and, ideally, be tied for longer through linked into the 25 year planning horizon that companies currently apply in their water security strategies. Such a long term approach being aimed at removing the, sometimes very significant, annual changes that currently occur.

Another difficulties SLPs face with Infrastructure Charges is that these are, effectively, pass-through costs (to their developer customers) on which they are unable to make a return. Also it is developers themselves who determine whether the fittings, or drainage works they install qualify them for any discounts. Our members are therefore strongly of the view that connection charges should be structured in ways which mean that companies always directly charge Infrastructure Charges and Income Offset balances to developers/those building the new premises.

As a final comment in this section we are perturbed to recently find a water company seeking to recover network assessment modelling costs as additional site specific charges. Whilst the company concerned has backed away from this proposal it looks to us as though the Ofwat Connection Charging Rules need to be strengthened to remove any potential for companies to charge for work, including assessment work, on their existing networks in any way other than through Infrastructure Charges.

**Q3. What environmental incentives should water companies be offering developers and NAVs?
We are interested in examples of good practice. How can we better support this?**

As covered above we view environmental incentives as a matter for developers, as it is their actions (rather than anything SLPs do) which will drive discounts. The probable extension of such discounts also further drives us to the view that these should always be a matter dealt with between developers and companies.

This situation would slightly change if companies were to accept that the pipe sizes on site specific mains and services could be reduced to align with demand reductions. This however is not something that SLPs have yet seen companies being willing to do (and is not a provision incorporated in the new adoption arrangement design guidance).

An additional observation we make on matters which, in our opinion, require addressing in any removal of subsidy changes are clarifying whether environmental incentives are to be funded by companies themselves (after all they gain by having to install less treatment capacity) or by higher charges paid by those developer customers who are doing nothing to restrict demand.

Finally, whilst recognising that the actual incentives will need to be set by each company, it would be administratively much easier if a common cross company framework, including definitions, was now established. This should include when incentives can be applied for (as some companies, unreasonably in our view, only permit applications prior to scheme terms issue which prevents developers refining their proposals as they work through the detailed design of their development).

The response has been submitted on behalf of Fair Water Connection members by:-

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Martyn should be contacted over any queries which arise from this response.