

Date: 8/6/21

Item: Consultation response

Re: Ofwat April 2021 'A Consultation on the scope and balance of developer charges and incentives'

Respondent: Patrick J Daly, Director, P N Daly Ltd.

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

The key conclusions are weak and lack understanding;

Eg.

1 'Zonal charging recognising local constraints more effectively.'

For clarity Zonal charging is understood in this report to refer to charging different levels of infrastructure charge within a single water company licenced distribution area.

Mechanisms are already in place which require the developer to pay the cost of bringing new mains to the point on the network where a suitably sized existing main is available to connect into, of itself this a zonal charge as the developer is already paying for developing the network where network supply is inadequate.

In the first place the proposed measure fails to take account of the fact that significant developments do not arise in the blinking of an eye but tend to fall out of the Development Authority's 10 Year Strategic development plan. It is incumbent on the Water Companies to take account of the relevant Development Authority Plans when presenting their price control submissions to Ofwat every 5 years and ensuring their proposed Capital expenditures on Network Development align to the outline plans. The proposal for Zonal charging appears to be a means by which the repeated failure of Regulated Companies to do this (both electric and water) can mitigate any failures on the part of the Water Companies to make proper provision in this regard.

In the second place why should Developers pay the cost of years of historical underinvestment by Water Companies who have paid dividends to shareholders yet failed to invest in the development of their networks

We do not support the concept of zonal charging and would suggest instead that the Regulator needs to review how it is enforcing compliance with Network development obligations on the part of the water companies.

2 'Water Efficiency Discounts'

There are good systems in place for Water efficiency discounts (see UU) however they lack any regulation or rules as they are voluntary. This is problematic for developers as these systems may be changed at any time and the award of discount is ultimately on a discretionary basis.

In conclusion there are good models in place but they need to be supported by Regulatory rules on application and interpretation to ensure that there is consistency and a degree of certainty as to outcomes. A provision for an appeals/escalation procedure is also required.

3 'Offering an income offset where there is more capacity on the network'

As it stands the proposal does not clarify how it would protect from 'Second Comers' obtaining benefit from reinforcement and connection costs paid by first comer developers into an area. Secondly relating the income offset to the availability of capacity may serve to neutralise inefficient water installation designs within properties and serve as a disincentive to water economy.

We find this conclusion ill conceived and do not support it.

Q2 We seek views on our reasoning and proposals with respects to charges for strategic assets, income offset and the balance eof charges rule.

We support the idea that the cost of strategic assets should not be paid by the developer (please refer to comments in Q1 (1)).

We support the idea of removing the infrastructure charge and income offset payment and replacing those with a single per property connection charge made by the licenced statutory water company. The payment of income offset should be confined to NAVs to promote growth of the Competitive market as is the case in the electrical and gas CIC markets.

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?

The market has many examples of good practice and initiatives relating to environmental incentives.

It should be the role of Ofwat to take the leading examples of best practice and make them requirements of the standard licence conditions with clear rules on application and dispute resolution and sanctions for any failures to comply with licence conditions.

Ofwats expectation that Water Companies can be allowed to self regulate is ill founded and has served to harm the Competitive Connections market in recent years.