



A consultation on the scope and balance of developer charges and incentives

Southern Water Response

Thank you for the opportunity to respond to your consultation on the proposed scope and balance of developer charges and incentives. We fully support the proposal to remove the balance of charges rule and associated income offset from 2025, which is in line with the principle of cost causation. We also support the strengthening of environmental incentives.

Below we have provided feedback on the specific consultation questions.

Consultation

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

We agree with the majority of the key conclusions from the Frontier Economics report. Specifically we agree that it would be more cost reflective and in line with the principle of cost causation for developers to pay for the offsite costs of network reinforcement in full and that the economic rationale for the income offset is weak. We are less convinced with the argument that developers should pay for the cost of strategic assets, which includes investment for tighter environmental standards and which are less directly the consequence of growth.

We do not support the conclusion that infrastructure charges should be zonal. This is because the impact of developments on the network are highly localised and are not uniform across a water supply zone or drainage area. Therefore the economic incentive on developers would not be cost reflective of the costs of the specific development. The highly localised nature of network constraints means that to make them fully cost reflective would require bespoke charges for each site, losing the considerable benefits of simplicity and transparency for developer customers. And, as Frontier acknowledge, such an approach is likely to be costly to implement.

However, we do agree with the greater use of environmental incentives for water efficiency and sustainable drainage which would improve wider stakeholder outcomes.

Q2: We seek views on our reasoning and proposals with respect to charges for strategic assets, income offset and the balance of charges rule

We support the proposals regarding the strategic assets, income offset and balance of charges rule.

We support the proposal to retain the current framework that developers do not contribute to the costs of strategic assets, such as treatment works. We agree with Ofwat's assessment that investment in strategic assets is not wholly the result of developments and, as stated above, strategic investment can be required for environmental improvements and other factors and is therefore less directly the consequence of growth.

We agree with the proposal not to prevent companies from setting simple infrastructure charges, which is in line with developer preferences. Whilst we do not support zonal charges, we can see potential benefits of introducing bespoke infrastructure charges for remote developments requiring significant network investment.

We fully support the proposal to remove the income offset from April 2025. We agree that this is in line with the economic rational of cost reflectivity and cost causation, and ensures developers pay the full cost of a development.

The removal of the income offset would also benefit competition and entry from full service NAVs who, whilst receiving the full infrastructure charge from developers, are unable to fund the income offset through their materially smaller customer base in order to maintain the balance of charges. This is a barrier to entry for full service NAVs who may be able to provide a more cost efficient and environmentally effective solution in areas requiring large regional network investment.

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?

We support the strengthening of environmental incentives.

We believe that environmental incentives for water efficiency and sustainable drainage should be considered best practice. These incentives could be included within the charging guidance as mandatory and could easily be determined through definitive standards, such as compliance with water efficient building regulations and/or sewers for adoption design standards.

Other environmental incentives could also be of value, such as discounted infrastructure charges for grey water systems. These should be supported and could result in discounts for both water and wastewater infrastructure charges given the benefits to both services.

We support the use of the income offset mechanism to fund the environmental incentives until 2025. From 2025, with the proposed removal of the balance of charges, the funding of these environmental incentives will require redistribution of the infrastructure charges.

Should you have any queries on our response or would like to discuss further, please do not hesitate to contact me.

Yours sincerely,

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