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

We are fully supportive of the key conclusions of Frontier Economics report.

The key principle to consider is the "user pays" principle, and so we agree with the lack of justification for the income offset and support the inclusion of strategic assets within the scope for infrastructure charges.

This should extend to the suite of incentives. Discounts, where the generality of customers pay for some of the improvements required should not be used. However, we are fully supportive of charging mechanisms that mean reduction in costs can be passed onto developers whose actions mean that less investment is required.

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

Inclusion of strategic assets

We do not agree with your proposal to retain the status quo in regard to strategic assets. The causality of investment should be the key decision in determining who pays. Although we accept that general population growth could require some investment into strategic assets, in most cases it is development that triggers that investment.

As you outline in your document, "developments affect population distribution within a locality". This means that local developments drive material investment where there is not a large interconnected network to pick up the slack – such as in multiple small sewage catchments. It is this redistribution of population rather than general growth that drives more investment – particularly in wastewater recycling centres.

We do not agree with your stated counterfactual that population would continue to grow within the existing properties if there was no new development. Firstly, there are not significant empty properties that can support ongoing population growth. The c.250k long-term empty homes are mostly second homes, and particularly focused in London and small holiday enclaves, and there is little prospect of them becoming available for primary occupation. We believe that in this counterfactual you would see migration to where there are properties, reducing the growth observed. The UK population is growing at 0.5% (c.330,000) per annum, and with occupancy rates at 2.3 per dwelling, the current housing development rate of c188,000 per annum would cater for c.430,000 extra population (more than the natural growth rate).

Therefore, where there is clear evidence that development is triggering investment, it is only appropriate that the developers pay. As the Frontier Economic report points out this creates the correct economic incentives and fully captures the cost of development. This will only be of benefit; providing more opportunities for NAV market entry, driving more innovative solutions, and ensuring the user pay principle is followed.

Income Offset & balance of charges

We are supportive of your proposal to remove the income offset and balance of charges rules. As previously mentioned, this ensures that the correct economic incentives exist.

We agree that it makes sense to align the implementation of this with the next price review.

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 strongly support the user pays principle. The key idea is that the causality of investment should determine who pays. Therefore, we are fully supportive that where a developer or NAV can take action that reduces the costs we need to incur, that there are charging mechanisms in place through which we can pass on that saving. We disagree strongly with requiring companies to discount their charges, shifting the bill to the generality of customers – this is the income offset by any other name and defeats the purpose of removing it.

To this end, any lower charge must tie in with action that removes the need for investment. This means that there needs to be a degree of certainty that the need does not and will not exist. We can see this relatively clearly on wastewater, when considering sustainable drainage solutions (a charging mechanism that we already employ). We cannot observe this kind of certainty on water efficiency. The final consumer can choose to remove water efficient fittings, and anecdotally they often do. This means that we need to ensure that the network has capacity for this eventuality and reduces the scope for savings to pass through to developers.

Therefore, we think it should be down to the company to determine what to offer, but that it should be explicitly tied to options that reduce costs – guidance to this effect would support the development of these incentives. As there could be multiple ways that costs could be reduced, we do not favour prescriptive guidance on the form that these incentives should take.

If strategic assets are included, we believe that there is more scope for these types of incentives.