

By email

6 July 2021

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A consultation on updating the charging rules

This is Anglian Water's response to Ofwat's consultation on updating the charging rules.

Anglian Water's purpose is to bring environmental and social prosperity to the region we serve. One of the ways we do this is by seeking to deliver the long-term goal from our Strategic Direction Statement to facilitate sustainable economic and housing growth. As such we have supported Defra's, and more recently Ofwat's, work on reforming developer charging.

We understand Ofwat's aim in introducing a charging rule relating to cost reflectivity and are supportive of principles-based regulation. We believe the proposed charging rule could helpfully provide additional clarity on what is represented by the 'relevant service'. This would aid consistency across the industry, facilitate assurance processes within companies and increase transparency for customers. We have proposed some additional text to achieve this in our response to question one.

We welcome Ofwat's clarification regarding infrastructure charges recovery. We believe that further thought should be given to the time-horizon over which the requirement to balance cost and revenues applies for network reinforcement. A five-year time horizon does not align with the life-cycle of larger developments, the asset management periods or our planning horizons. As such the proposed time-frame is at odds with the rules requiring charging structures to reflect long-run costs. We would suggest a longer period, of at least 10 years.

For the remainder of AMP7, the interaction between the legacy rules around the balance of charges, new rules relating to cost reflectivity and potentially an additional set of rules relating to environmental incentives must be clarified. To enable charges to be set in a timely manner for 2022/23 the relevant charging rules must be established quickly. We reiterate our suggestion that any charging rules relating to environmental incentives should be introduced for 2023/24 to allow appropriate time for effective implementation.

We provide our views against each consultation question in the annex to this letter. If you have any questions in relation to the above responses, please do not hesitate to contact us.

Yours sincerely,



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Annex 1 – question responses

1. Do you agree with our proposed rule changes? Please offer alternatives if you think they would better achieve our intentions.

We generally support the proposed rule changes and clarifications.

We are supportive of principles-based approaches, as proposed with the new rule relating to cost reflectivity. If Ofwat does introduce the proposed rule relating to cost reflectivity, we believe it would be helpful to define each relevant service where charges are expected to be cost reflective. We would propose that the requirement is based on the following services individually, representing most of the activities for which the charging rules apply:

- Water main requisitions under section 41(1)
- Sewer requisitions under section 98(1), possibly aggregated with lateral drain requisitions under section 98(1A)
- Agreements for water main and communication pipe adoption under section 51A
- Agreements for sewer and lateral drain adoption under section 104
- Agreements for the provision of water infrastructure to a retailer under section 66D
- Agreements for the provision of sewerage infrastructure to a retailer under section 117E
- Diversion of pipes (water or sewerage) under section 185.

For the remainder of AMP7 the interaction between the rules around the balance of charges, new rules relating to cost reflectivity and potentially an additional set of rules relating to environmental incentives must be clarified.

The New Connections charging rules include charges under 'Section 101B Power to construct lateral drains following provision of public sewer' of the Water Act 1991. These are lateral connections sewers are laid to address environmental harm from properties not connected to the sewerage system (under Section 101A). Higher uptake of connections to these new sewers delivers a greater environmental benefit by reducing the reliance on septic tanks and other systems in a local area, but also improves the efficacy of the new water recycling system (e.g. sufficient load for pumping stations to operate). We currently discount charges to connect to new Section 101A sewers to maximise uptake and deliver the greatest environmental benefit from each investment. As such we propose that charges made under Section 101B are exempt from the new rule relating to cost reflectivity.

2. Do you agree with our proposed changes in Appendices 1, 2 and 3?

Charging rules

We support requirements for transition arrangements. This is something that we have provided in our charging arrangements since 2018/19.

We believe that providing a statement of significant change for developer services charges alongside the charging arrangements themselves gives stakeholders sufficient notice of two months before the charges come into effect.

Information requirements

We believe greater guidance from Ofwat would help to reduce ambiguity in the creation of the worked examples. We note that while more consistency will be achieved, the worked examples would not be illustrative for cross company comparison purposes. We believe there should be greater consistency between examples three and four, e.g. example four specifies the required fittings (e.g. washouts) but example three does not.

3. We seek your views on our clarification of the five-year rule. In particular, we would like to know of any potential implications for charges and customers' bills from companies following our interpretation.

We believe this is a welcome clarification, subject to our views on time-horizons.

We interpret the guidance for table 2K as suggesting that companies should consider historic imbalance in costs of network reinforcement and revenues when setting infrastructure charges. We believe this is fairer, and in line with the cost causation principle discussed in Ofwat's balance of charges consultation, than the imbalance being absorbed by wholesale revenues. We believe Ofwat should explicitly clarify the inputs to be considered, including historic imbalances when setting infrastructure charges.

We do however believe that further thought should be given to the time-horizon over which the requirement to balance cost and revenues applies. A five-year time horizon does not align closely with the life-cycle of larger developments, or our planning horizons. We believe this should be extended to at least 10 years with both a forward and historic view considered. We note that the rolling five-year period under the rules does not align to the asset management periods (AMPs) in any event so the rationale for a five-year period is unclear.