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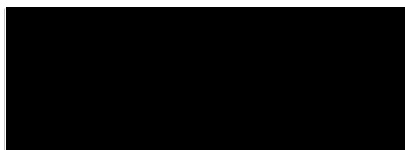
6 July 2021

Dear Sir/Madam,

South Staffs Water inc. Cambridge Water response to updating Ofwat's charging rules consultation

Thank you for the opportunity to respond to the above consultation. Our responses to the specific questions are attached. Please let me know if you have any questions.

Yours faithfully,



Adam Stevens,
Senior Developer Services Manager
South Staffordshire Water PLC

Q1: Do you agree with our proposed rule changes? Please offer alternatives if you think they would better achieve our intentions.

We have no objections to the rule changes.

Q2: Do you agree with our proposed changes in Appendices 1, 2 and 3?

We have been part of the industry working group which has been focussed on the development of the terminology and worked examples. The industry working group will provide a central response to these items through Water UK and our views to this question specifically are reflected in that central response.

Q3: 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 note that the consultation does not specifically state the methodology to be used however we infer that the five-year approach should specifically focus on the following five years from the point that the infrastructure charge is set (calculated) i.e. each year we should move the forecast period along a further year and be solely future looking.

We have no objections to this as this is the approach we have used since April 2018.

We would note however that the methodology should not be fully isolated from considering historic spend and revenue. Whilst there are mechanisms to address variances we do not believe that developer customers would be satisfied if we continued to set infrastructure charges without consideration for historic underspend in particular.

For example, if a water company forecasts for the delivery of network reinforcement scheme 'A' in 2021/22 it may be that scheme A is actually delivered in 2022/23 if the development which it is designed to serve is delayed. However, when calculating the infrastructure charge in 2020/21 the water company will have included for the cost of scheme A. If we do not consider previous under recovery in this example we will look to set a charge in 2021/22 which includes for scheme A again i.e. there is a risk of double counting or double recovering for this scheme.

We expect that developer customers will want to see any movements in reinforcement spend accounted for specifically within the infrastructure charge and would not be satisfied to see a pattern of over recovery in infrastructure revenues in particular.