
south east water

Consultation on updating
Ofwat's charging rules

South East Water response

July 2021

South East Water
Rocfort Road
Snodland
Kent
ME6 5AH



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Introduction

We welcome the opportunity to provide feedback on your document 'Consultation on updating Ofwat's Charging rules June 2021'. Any clarification on definitions, charging and publications dates are welcomed and provide transparency for all stakeholders.

South East Water has been part of the Water UK working group that were tasked with drafting the terminology and worked example paper, therefore any questions relating to this have been referred to the combine company response drafted by Water UK.

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

Please find below your table with a brief overview of our view in the right hand column.

	Wholesale Charging Rules (WCR)	Charges Scheme Rules (CSR)	English New Connection Rules (NCR)	South East Water Response
1	Change the publication deadlines to require publication of WCR "by 13 January", and for CSR and NCR "by 1 February"			No issue
2		Amend to allow simultaneous publication of statement of significant changes and charges scheme		No issue
3			New rule that "Charging structures must reflect the long run costs associated with providing the relevant service"	No issue with additional rule on cost reflectivity
4	Amend glossary to reflect outputs from industry working group on terminology			Please refer to response from Water UK
5			New information requirements on using worked examples to illustrate charges for new connections	Please refer to response form Water UK
6		Move rules relating to English companies' Infrastructure Charges so that they appear in the same document as the English New Connection Rules rather than in the Charges Scheme Rules document		No issue

7		Amend definition of "income offset" to be clear that it applies to new connections to both existing mains and new mains.		No issue – agree with clarification
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- Charging publication dates

We welcome fixed dates for the publication of documents, we think this provides a clear fixed timetable for all companies year on year. We hope that Ofwat will look at other publications and take a similar approach in the future.

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

- **Appendix 1** - Proposed changes to our charging rules

Please find below your table with a brief overview of our view in the right hand column.

New rule	Proposed wording	Reference	South East Water Comments
1	Wholesale Charges must be published by 13 January in the year immediately preceding the Charging Year in relation to which they have effect at least eleven weeks before the start of the period for which the charges will be imposed.	ENCR para 10	No issue
	paragraph 10 of these rules does not apply to a Small Company – instead, a Small Company must publish any Charging Arrangements no later than 1 March in the year immediately preceding the Charging Year five weeks before the period in relation to which they have effect;	ENCR para 17d	No comment
	The Charging Arrangements must be published no later than 1 February in the year immediately preceding the Charging Year in relation to which they have effect. two months before the period in relation to which they have effect.	WCR rule 10	No issue

	Charges schemes must be published no later than 1 the first working day of the February in the year immediately preceding the Charging Year in relation to which they have effect.	CSR rule 9	No issue
2	With the exception of new appointees, each undertaker should provide to the Water Services Regulation Authority a statement setting out any significant changes anticipated by the undertaker, and publish the statement, at least three weeks before the deadline for publication of the charges schemes.	CSR information requirement A2	No issue
3	Cost reflectivity Charging structures must reflect the long run costs associated with providing the relevant service.	ENCR new rule 30	No issue

4	Unless the context otherwise requires, in these rules and for the purposes of Charging Arrangements published by Undertakers under these Rules:	ENCR para 5	No issue
	The Charging Arrangements are to be written and presented in a clear and accessible manner, which takes due account of the varying levels of expertise of all Developers or other customers who may rely on the Charging Arrangements, and using the terms as defined at Rule 5 where appropriate. Undertakers should consider publishing worked examples where this could aid customers' understanding.	ENCR para 12	No issue
	See Appendix 2 of this consultation document for the amendments and additions proposed to the terms defined in Rule 5.		Please refer to Water UK response covering terminology and worked examples
5	The Charging Arrangements must explain how each charge has been calculated or derived, including through the use of worked examples. Where an undertaker determines the applicable charges other than by Fixed Charges, the methodology for the calculation of such charges must be explained clearly in the Charging Arrangements.	ENCR para 11	As above

6	<p>Infrastructure charges and Income Offsetting (English undertakers)</p> <p>The following section, comprising rules 50 to 60, is issued under section 143B of the Water Industry Act 1991. The rest of the rules under section 143B do not concern charges for new connections services and are published in the Charges Scheme Rules.</p>	ENCR new paras 50-60, using text currently at CSR paras 26-35	No issue
	<p>These rules are issued by the Water Services Regulation Authority under sections 142(6A) and 143B of the Water Industry Act. Further rules issued under s143B relating to Infrastructure Charges are published in the Charging Rules for New Connection Services.</p>	CSR para 1	No issue
	<p>Infrastructure charges and Income Offsetting (English undertakers)</p> <p>This section on infrastructure charges and income offsetting, comprising rules 26-35, is published in the Charging Rules for New Connection Services.</p>	New and amended text at CSR paras 26-35	No issue
7	<p>“Income Offset” means a sum of money, that may be offered by the Undertaker, offset against the Infrastructure Charges in recognition of revenue likely to be received by the relevant undertaker in future years for the provision of:</p> <ul style="list-style-type: none"> i. supplies of water to the premises connected to a thenew Water Main; or ii. sewerage services to the premises connected to a thenew Sewer, <p>and “Income Offsetting” shall be construed accordingly.</p>	CSR para 5	No issue

<p>8</p>	<p>“Network Reinforcement” refers to work other than Site Specific Work, as defined below, to provide or modify such other:</p> <ul style="list-style-type: none"> i. Water Mains and such tanks, service reservoirs and pumping stations, or ii. Sewers and such pumping stations <p>as is necessary in consequence of the Site Specific installation or connection of Water Mains, Service Pipes, Public Sewers and Lateral Drains pursuant to an agreement with, or a duty owed under the Water Industry Act 1991 to, a person other than a relevant undertaker, including a requisition (under sections 41(1), 98(1) or 98(1A)), under an agreement for adoption (under sections 51A or 104), under a section 66D of or a section 117E agreement, pursuant to section 45(1) (Duty to make connections with main) or in accordance with another duty imposed by the Act, or in consequence of the exercise of rights under section 106(1) (Right to communicate with public sewers), or pursuant to an agreement for bulk supplies of water or bulk discharge with a New Appointee. It also includes the additional capacity in any earlier Water Main or Sewer that falls to be used in consequence of the provision or connection of a new Water Main or Sewer.</p>	<p>ENCR para 5(o)</p>	<p>No issue</p>
<p>9</p>	<p>Where an Undertaker intends to provide quotations for charges set out in its Charging Arrangements, it must explain in its Charging Arrangements the length of time over which such quotations will be valid and explain the approach the Undertaker will take where the period over which a quotation is valid would cross into a new charging year.</p> <p>For the avoidance of doubt, provisions in Charging Arrangements relating to the validity of quotations across Charging Years may provide for charges covered by such quotations to be payable as set out in the quotation within the period so specified in the Charging Arrangements even if that charge would have been different if the quotation were provided at the time that the charges are in fact paid or payable.</p>	<p>ENCR new rule 49</p>	<p>No issue</p>

	<p>We also propose to make the following correction to paragraph A1(ii) of the annex to the English New Correction Rules.</p> <p>"confirming that the company has appropriate systems and processes in place to make sure that the information contained in the charges Charging Arrangements, and the additional information covered by this annex is accurate; and"</p>		<p>No issue</p>
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- Appendix 2 Consistent terminology

South East Water were part of the Water UK working group that drafted both the terminology and worked example documents, we would therefore refer you to Water UK’s response to these areas.

- Appendix 3 Worked examples

South East Water were part of the Water UK working group that drafted both the terminology and worked example documents, we would therefore refer you to Water UK’s response to these areas.

Question 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.

Thank you for clarifying the 5 year rule. With the quotations spanning different charging years, and therefore different charging rules, we would welcome a reporting requirement that split infrastructure by charges rule years (e.g. pre 2018, 2018 – 2020, post 2020). We have some schemes where developers have paid on old charging rules (pre 2018) and will continue with this until the scheme ends. We think this would bring some additional clarity around what has been paid in the year and what it relates to.

For companies that are currently using the 2 years back and 3 years forward/1 year back and 4 years forward approach, can you confirm that you expect them to move to the 5 year forward methodology from April 2022 without a period of transition? Obviously companies, and developer customers, will want to avoid any spikes or dips in cost, although we are aware that the income offset could be used to balance this if required.

Contact Us

South East Water
Rocfort Road
Snodland
Kent
ME6 5AH

southeastwater.co.uk

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