

## Introduction

UWU welcomes the opportunity to comment on the consultation on updating Ofwat's charging rules.

UWU broadly supports the proposed clarifications and minor updates to the charging rules to ensure they reflect feedback received from stakeholders and commitments made by Ofwat in the May 2020 consultation document and November 2020 conclusions document.

We have an ongoing engagement plan with our developer customers which is delivered through a number of channels including our Developer Relationship Manager, regular technical forums, information sessions on charges, regular planned stakeholder meetings and our annual developer conference which has been very well attended for a number of years. Due to Covid-19 restrictions we were unable to hold such an event in 2020, however our other engagement events continued on-line with positive attendance and interaction.

We are proactive in making our developer customers aware of consultations that might impact them, including providing a hyperlink to the consultations on our developer services website<sup>1</sup> as well as direct email and/or newsletter updates. For example, we wrote to over 2,000 stakeholders to notify them of the last two consultations with an update to the news section of our website. We also highlighted Ofwat's April 2021 consultation on the scope and balance of developer charges and incentives to stakeholders at the Home Builders Federation Water Matters meeting in May.

We continue our engagement in 2021 and to date have held six group stakeholder sessions in 2021, including three technical forums. The technical forums include topical updates on our charging arrangements. There have also been two charges panel meetings. The charges panel consists of a small number of developer and SLP volunteers, and provides a platform for us to gain specific feedback on charges as well as test ideas and promote healthy debate for future charges development. We also invited some attendees (large developers and SLPs) from our last water technical forum in June to join us immediately afterwards for a line by line review and discussion of the appendices within the current rules consultation. The feedback from this session has been used to inform our response here.

We have responded to each of the questions set out in the consultation in more detail below.

## Consultation questions

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

We are broadly supportive of the proposed rules changes and we provide our response to each of the proposed rules changes in more detail below.

We agree with the following proposed changes:

- to fix publication dates with reference to a specific date. This makes the publication deadline date clearer for all stakeholders. We note that this change only refers to the final charges publication requirements in January/February of each year. We consider that it would be helpful if a fixed publication deadline date is also included for the earlier publication requirements for the statement of significant change to primary wholesale charges and indicative wholesale charges (rather than a

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<sup>1</sup> <https://www.unitedutilities.com/builders-developers/developer-services-news/>

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reference to “no later than six months before” and “no later than three months before” publication of the final Wholesale charges).

- to allow simultaneous publication of the statement of significant changes and the charges scheme relating to end-user charges. We welcome this change as we consider that this provides companies with greater flexibility in managing the charges publication requirements.
- to include a new rule that "Charging structures must reflect the long run costs associated with providing the relevant service". This new rule requirement is consistent with the charging rule requirement in the Wholesale Charging Rules (Rule 15) and Charges Scheme Rules (Rule 13). We assume that what Ofwat means by “long run” is that companies should not use marginal costs but should be using appropriate allocations of fixed costs, capital costs, return, etc.
- to move the rules relating to English companies' Infrastructure charges from the Charges Scheme Rules to the English New Connection Rules. This means the charging rules relating to the provision of new connection services are referenced in full in one document.
- to amend the definition of "income offset" to be clear that it applies to new connections to both existing mains and new mains. This is consistent with the expectation set in the 2017 Ofwat decision document<sup>2</sup> and consistent with our current methodology to provide an income offset where a new connection is made either directly or indirectly into our existing water network.
- to amend the definition of "network reinforcement" to include costs relating to network reinforcement required as a result of new premises connected to a NAV that the company serves or proposes to serve by a bulk supply or bulk discharge agreement. This is consistent with the Regulatory Accounting Guidelines<sup>3</sup> definition of infrastructure charge receipts in the Annual Performance Report. The definition includes infrastructure charges collected by NAVs and passed through to incumbents.
- to include a new rule requiring companies to explain how they treat quotes that cross into a new charging year. We agree that this would promote clarity across companies charging arrangements.

We agree in principle with the proposal to amend the glossary to reflect outputs from the Water UK industry working group on developing standard terminology. We have been actively involved in this group. Standardising terminology - where appropriate - should lead to an improved experience for developer customers, particularly those that deal with multiple water companies.

However, Ofwat's proposals for standardising terminology could, in some cases, extend beyond the words and impact the structure of charges. Not only is our existing charges structure supported by customers but our charges are the responsibility of our board. Standard terminology which also impacts charges could impair this responsibility, though there may be some scope to use voluntary measures to create more standardisation. We also note that, in response to ongoing stakeholder engagement, we have amended terminology to adopt more commonly used language where possible - some of the proposed definitions would reverse these changes and therefore make the charges scheme less accessible to users. We provide our feedback to the proposed terminology in our response to question 2 below.

We agree with the new information requirements on using worked examples to illustrate charges for new connections scheme. We consider clear worked examples will help customers understand the charges and

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<sup>2</sup> [New connections charges rules from April 2020 – England: Decision Document](#) 02 November 2017, page 9 and 10

<sup>3</sup> RAG 4.09 [“Guideline for the table definitions in the annual performance report”](#) table 2.E line 10 and line 23

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how they apply and also provide consistency and transparency across companies’ charging arrangements. We provide our feedback to the proposed worked examples in our response to question 2 below.

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

We have set out our views to the proposed changes given in the consultation document Appendices 1,2 and 3 below:

### Appendix 1 Proposed changes to Ofwat’s charging rules

We agree with Ofwat’s proposed changes to the charging rules but have some minor points of feedback on the wording in Appendix 1 table 2 in relation to four of the new rule changes:

New Rule	Proposed wording	Reference	UUW comment
1	<p>Wholesale Charges must be published <b>by 13 January in the year immediately preceding the Charging Year in relation to which they have effect</b> <del>at least eleven weeks before the start of the period for which the charges will be imposed.</del></p> <p>The Charging Arrangements must be published no later than <b>1 February in the year immediately preceding the Charging Year in relation to which they have effect.</b> <del>two months before the period in relation to which they have effect.</del></p>	<p>ENCR para 10</p> <p>WCR rule 10</p>	<p>Reference should be “WCR para 10”</p> <p>Reference should be “ENCR rule 10”</p>
6	<p>These rules are issued by the Water Services Regulation Authority under sections 142(6A) and 143B of the Water Industry Act. <b>Further rules issued under s143B relating to Infrastructure Charges are published in the <a href="#">Charging Rules for New Connection Services</a>.</b></p>	<p>CSR para 1</p>	<p>Should state section 143 (6A) not section 142 (6A)</p>
7	<p>“Income Offset” means a sum of money, <b>that may be offered by the Undertaker,</b> <del>offset</del> against <b>the</b> 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"> <li>i. supplies of water to the premises connected to a the new Water Main; or</li> <li>ii. sewerage services to the premises connected to a the new Sewer,</li> </ul> <p>and “Income Offsetting” shall be construed accordingly.</p>	<p>CSR para 5</p>	<p>Agree with amended wording but suggest the reference needs to be “ENCR para 5”. Consistent with the rules moving from CSR to ENCR. Suggest income offset definition in CSR para 5 should cross reference the definition in ENCR para 5 as follows:</p> <p>““Income Offset” has the meaning given in the Charging Rules for New Connection Services”.</p> <p>A similar cross reference should apply to the definition</p>

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			of infrastructure charges. This means the definition and the rules are in one document.
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### Appendix 2 Proposed new and amended terms

We support the introduction of common terminology and have been actively involved in the Water UK industry working group reviewing the New Connections and Developer Services charges terminology.

Standardising terminology, where appropriate, could lead to an improved experience for developer customers, particularly those that deal with multiple water companies. However, care needs to be taken in adopting standardised terminology if this impacts the actual structure of charges. We do not believe that developers would support this, in light of their feedback to us on the value they place on fairness of costs.

We continue to actively engage with developers to develop our charging arrangements and in June 2021 we met with a number of stakeholders to discuss the draft terminology included in Appendix 2. We fed back the outputs of our stakeholder engagement to the Water UK industry working group so that they could be incorporated into the response from Water UK on behalf of its members.

Overall we broadly support the proposed definitions and the Water UK industry working group response in relation to the new and amended terms in Appendix 2. However there are two terms where we consider the terminology is unhelpful or confusing and open for misinterpretation. We consider the points we raise will help to reduce the ambiguity in relation to charges terminology which make it difficult for a lay person to understand and interpret. We provide alternative proposals in the table below along with an explanation:

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Term	Proposed definition	Reason and UU proposal
<b>Alternative point of connection</b>	means the practical location indicated by the Undertaker which is neither i) a practical location indicated by the Developer Customer nor ii) the nearest practical location where the existing water main or sewer is the same size or larger than the new connecting main or sewer.	<p><b>Reason for disagreement:</b></p> <p>We agree with the Water UK response on the proposed definitions but consider that it would be helpful if the terms “Alternative point of connection” and “Point of connection” were amended, as they are confusing to a lay person.</p> <p>It seems counter intuitive to refer to the actual place the connection is made as the “alternative” point of connection, and to refer to the theoretical point of connection (that is used for setting charges and defining site boundaries) as being the point of connection. We suggest using the term “Actual point of connection” (in preference to alternative point of connection) and using the term “Assumed point of connection” (in preference to “Point of connection”).</p> <p><b>proposal:</b></p> <p><b>Term:</b> “Actual point of connection”</p> <p><b>Proposed definition:</b> means another location indicated by the Water Company which is neither i) a practical location indicated by the Developer Customer, nor ii) the nearest practical location where the existing Water Main or Sewer is the same size or larger than the new connecting Water Main or Sewer. The alternative point indicated may require network reinforcement which would be funded by the Water Company. The chargeable element for the Developer Customer remains as per the original point of connection.</p> <p><b>UU proposal:</b></p> <p><b>Term:</b> “Assumed point of connection”</p>
<b>Point of connection</b>	means a location which is either i) a practical location indicated by a Developer customer where the existing water main or sewer is the same size or larger than the new connecting main or sewer or, where they have not indicated a location, ii) the nearest practical location where the existing water main or sewer is the same size or larger than the new connecting main or sewer.	

### Appendix 3 Proposed information requirements

We are supportive of Ofwat’s proposal to incorporate information requirements for using worked examples into a new section A2 of the English New Connection Rules.

We consider clear worked examples will help customers understand the charges and how they apply and also provide consistency and transparency across companies’ charging arrangements.

We support the proposal to present worked examples disaggregated by service and unit cost to provide the appropriate level of detail for transparency.

We continue to actively engage with our customers on suitable worked examples and how best to update, present and publish these, to make them most user-friendly. Following the publication of the charging rules

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consultation on 8 June 2021 we held a meeting with a number of stakeholders on 15 June 2021 to specifically discuss and seek feedback on the proposed terminology and worked examples. In addition we also actively participated in the Water UK industry working group stakeholder engagement sessions on this consultation.

We support the Water UK industry working group response in relation to the proposed information requirements in Appendix 3 and do not have any specific feedback points to raise relating to the individual scenarios.

**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 welcome clarification of the five-year rule. This is in relation to companies setting their infrastructure charges each year on the basis of their forecast of likely costs and likely number of connections over the following five years' network reinforcement expenditure.

We agree in principle that setting infrastructure charges on a wholly forward-looking basis can support stable, predictable and cost-reflective charges with a view to minimising year on year variability.

We consider that a strict five year window in assessing infrastructure network reinforcement expenditure and setting associated infrastructure charges may not always be conducive to carrying out the capital programmes to upgrade the network on an efficient basis. Attention needs to be given to the availability of both internal and external resources in relation to construction capability in the North West.

We would also welcome the opportunity to develop further guidance on what type of expenditure should be included as network reinforcement. Our understanding is that currently only capital expenditure can be classed as network reinforcement and not operating expenditure. As companies continue to deliver innovative ways of working, there may be more cost effective operating expenditure solutions.