Consultation on updating Ofwat's charging rules – Wessex Water Response

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

In general, we are supportive of your proposed changes to the charging rules. They increase the clarity of what is expected and when.

Regarding amendment 3, although we are supportive of this as a principle, we need to carefully consider how cost reflectivity works in practice, we outlined our concerns around this in response to the prior consultation on new connection charging last year. Where we offer a fixed up-front price for a type of activity, we are accepting some trade-offs over similar jobs. We worry that this could be interpreted in a way that forces a move away from up front pricing to the detriment of customers, who value the certainty that the current regime provides, where we offer up front prices for new connections and requisitions. Additionally, we would welcome explicit clarity on “long run costs”, as the SLP and NAV market develops we may see these materially changing and would welcome explicit clarity on what to consider.

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

Regarding appendix 1 we agree with your proposed changes, with the caveats around cost reflectivity above.

Regarding appendix 2 we note that these are the outcome of discussions through Water UK and have no concerns with these and support the Water UK response.

Regarding appendix 3 we note that the additional detailed definitions of what to include will aid in comparisons across the industry. However, we have concerns that making these more prescriptive may reduce the examples usefulness to customers if local conditions mean slight alternative specifications are more common. If the purpose of these are to assist customers in understanding the charges and arrangements (which in our opinion should be the purpose), then we would favour less prescriptive guidance here, specifically around traffic management, pipe materials and excavation options where some of the prescribed scenarios do not relate to what we see in practice.

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 have serious concerns around the position set out in this consultation. It completely removes that company’s ability to manage bill profiles for customers by forcing charges to match investment £ for £. This is to customers detriment, as lumpy investment cycles will cause large bill volatility and is at odds with their desire for stability and predictability in this area. To be able to smooth a bill profile it is a necessity to be able to look backwards as well as forwards. Further by considering past recovery we ensure that the correct customers are paying for the services they are receiving. If we cannot account for past variances within the infrastructure charges, this recovery is shifted to tariff paying customers through the RFI.

For example, if a company was making a significant investment in a strategic sewer it may plan to recover these costs over a number of years, in a constant manner, rather than £ for £ as investment occurs. By not being able to consider previous under / over recovery this smoothing is no longer possible, once you are past the investment peak, you cannot maintain a higher charge if you are confined to looking forwards only.

This makes no sense to us, and further works to the detriment of all customers.

- Developers will be stuck with yo-yoing bills
- Tariff paying customers will then end up picking up any remaining variance

We urge you to reconsider the position on this, allowing both forward and backward looking when setting cost reflective infrastructure charges. By allowing this we can ensure that the correct customers pay for the services we provide.