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Subject: Proposed charging consultation response
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Proposed charging consultation response

From Bill Jones; Water Technical Advisor to BGS Utilities and several other SLPs

We are a small-to-medium sized SLP who is actively engaged in self-lay work across England. Whilst encouraged by the changes Ofwat is proposing to make to their (English) Connection Charging Rules, and associated documents, we are of the view that there are some terminology issues, and other matters, that need to be addressed for the Ofwat Rules to move towards facilitating fair and open water connection competition. We note these below and ask that our requested changes get made before the connection charging changes take effect.

1. We welcome that Ofwat is introducing a requirement that charges covered by the Connection Rules should reflect costs of the relevant service. This is because we encounter competition challenges both in companies whose non-contestable charges are much higher than others and where company provision rates are much lower than our own costs. However although the accompanying consultation document says that this new principle highlights the importance of striking the right balance between cost-reflectivity and the other charging principles are not actually stated in the Rules. Also we can see no mention of a need for charges to be linked with "reasonable costs". Hence we fear that those companies whose contractors already recover rates which are well above the cross-company norm will continue to do so (with companies just claiming that these are the costs). So, for the Rule changes to start to make companies look at the impact of their charges, we are now looking to Ofwat to make their new general principal have meaning by stating in the Connection Rules that "charges should reflect the reasonable costs of the relevant services" (or other equivalent wording which links with the other principles).

2. We view it as confusing that Ofwat is proposing 2 separate sets of terms. These are the "Interpretation" set under Section 5 of the Connection Charging Rules and the "Common Terms" associated with the Worked Examples. To aid customer understanding and usability we ask that these are combined in a general use set (even if Ofwat is minded just to use a subset in the Rules themselves).

3. We do not recognise the concept of the "Alternative Point of Connection" proposed in the set of Common Terms. This is because the defined (chargeable) Point of Connection itself cannot move (so there can be no 'alternative' to it). There can however clearly be a need to go deeper, with reinforcement, into a company's network to get to a place where there is capacity to supply (or drain) a site. We recognise that it would be helpful for this to be formally defined but not as an "Alternative Point of Connection". Instead we suggest that a "Network Connection Point" is defined as "the point, determined by the water company, where their network has the capacity to supply (or drain) a development".

4. Further to clarifying the Point of Connection terminology customers are exposed to companies applying "Source of Water" connection costs at the "Network Connection Point" when customers are only responsible for paying for what it would cost to make the "Point of Connection" (regardless of whether work is actually done here). To us this is not clear in the Ofwat Rules and we therefore ask that this is rectified.

5. An issue we, as a SLP, routinely encounter is trying to clarify how companies intend to fund any "upsizing" they require us to construct. In this regard it is good to see that "upsizing" is to be defined but we believe that this should be accompanied by recognition of associated "Enhancement Payments". These being defined as "payments to the installer when the water company requires the installed works to be upsized". Furthermore to aid the promotion of connection competition we are strongly of the view that companies should be required to demonstrate how they operate such "Enhancement Payments" (so that we can understand the situation well in advance of requesting scheme specific terms). Hence we ask that Ofwat adds an illustration with "upsizing" elements into the worked 9 example scenarios or, alternatively, extends the requirements in Rule 37 for companies to set-out how any "additional works" are to be funded.

6. Whilst a definition against "Branch Connection" is included in the Common Terms the wording describes all generic types of connections rather than what would be recognised as a "Branch Connection". To rectify this we propose:-

- a) that a "Routine/In-Line Mains Connection" be added. This meaning a connection made to a newly laid main that does not supply customers and where the supplying main can be controlled by a valve, or can be squeezed off, without affecting existing customers; and,
- b) that the "Branch Connection" gets replaced by a "Source of Water Connection" which means a connection of new mains to the existing mains network, usually through a branch connection, into a 'parent' main which supplies customers.

These changes would then align with the terminology already in use in the Water Adoption Arrangements.

7. We welcome the move of Infrastructure Charging requirements into the Connection Charging Rules. However many companies are now offering Infrastructure Charge discounts based on either water efficiency or sustainable drainage incentives. The issue we have is that these look, and continue to do so, to sit outside the general charging requirements and we urge Ofwat to make it clear that the requirements of Rule 11, namely that the Charging Arrangements must explain how each charge has been calculated or derived, apply to such discounts. Also that, as we know has happened, they cannot be terminated or amended mid-way through a charging year.

8. We are confused by the way that Ofwat is now proposing to define "Site Specific" (and cannot, in relation to the way that the Connection Charging Rules work, see why defining 'On' and 'Off' Site is necessary). Clearly "Site Specific" extends to the Point of Connection (which may be either 'On' or 'Off' site for all types of connections; i.e. mains, services, sewers and drains). So our view is that the "Site

Specific" definition would be much more understandable if the wording was left unchanged. Given that we sense Ofwat wishes to quickly move to introducing Connection Charging Rule changes we have restricted our feedback to the points listed above. To us, as an active SLP, all the changes would improve our ability to provide the service we know our developer customers are seeking so we urge Ofwat to make the changes we have requested.

However, there are two further issues which continue to undermine the unequal 'playing field' and restrict competition in the market. These are;

- a. The continued discrepancy between the level of training and qualification required by SLP personnel and that required by Water Company term contractors. Not only does this grossly distort the overheads and ongoing costs of any SLP, it restricts the free movement of water operatives between such term contractors and SLPs, creates a lower skills base generally in the water sector and risks the quality of installations on the network where we regularly observe practices which would be audit failures for SLPs.
- b. The need for SLPs to apply and pay for Highway Opening Notices for any contestable works 'off site'. In both the gas and electric sectors, where the new network is to be adopted by an independent utility operator, we can utilise their own Streetworks Symology system to minimise the cost of any Opening Notices. But this is not the case with Water Companies and it makes working in certain areas (where the HON costs are very high) untenable – and hence uncompetitive. It cannot be right that SLPs can incur several thousands of pounds of additional costs for carrying out the same activity as Water Companies (as statutory undertakers) and who allow their term contractors to work under this 'umbrella' carrying out the same activity.

I would urge you to consider these factors in the next round of charging reviews.

Best Regards

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