

United Utilities response to Ofwat's Statutory consultation on changes to the charging rules

Introduction

UWU welcomes the opportunity to comment on the statutory consultation on changes to 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. This is consistent with our response to the June 2021 Consultation on updating Ofwat's charging rules.

In addition to the proposed changes UWU would also welcome Ofwat's charges scheme rules being more permissive of companies providing longer-term incentive commitments to customers. For example, the ability to provide multi-AMP assurances on charging incentives could give greater stimulus for behavioural change by customers and support their business case for investment in green infrastructure or water reuse schemes. This would better support long-term planning, and support better environmental outcomes (in line with Defra's charging guidance to Ofwat).

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

We also note in section 4.2 of the statutory consultation document (Next Steps) that, as part of the wider work on developer services, Ofwat will conclude on the April 2021 consultation on scope and balance of developer charges and incentives in Autumn 2021. Moving towards discontinuing the use of the income offset is a key proposal in the April 2021 consultation. As we noted in our response to the April 2021 consultation we were, and we remain, concerned regarding the need for reasonable transition arrangements to be in place over AMP8 for removal of the income offset. These concerns relate to the significant impact on developer customers' future charges, the consequent implications for growth and development in the North West region and the financial impact on UWU compared to the assumptions that were made in the PR19 final determination.

Proposed changes

We support the following proposed changes:

- **Fixing publication dates with reference to a specific date.** This makes the publication deadline dates clearer for all stakeholders. We also note the proposed removal of the requirement (A2) on companies to publish the scope of possible significant changes to primary Wholesale Charges. Whilst we welcome this change we will continue to assess the significance of any proposed changes we make to the wholesale charges as part of the annual charges review process. This includes proactive engagement and communication with Retailers and other key stakeholders as part of our ongoing stakeholder engagement.
- **Allowing 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.
- **Including cost-reflectivity as a new, general charging principle, but without reference to a specific timeframe.** We note the change in the cost-reflectivity requirement from that proposed in the June 2021 consultation from a separate rule (that charging structures must reflect the long run costs associated with providing the relevant service) to that of a general charging principle. We welcome this change. This allows companies to consider the interactions of different charging principles and

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strike the right balance between cost-reflectivity and other charging principles, such as stability and predictability, which are valued by stakeholders and bill payers.

- **Updated common terms and the proposed requirement to use the 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. We still consider the term "Alternative point of connection" confusing for customers, but as suggested we will provide additional information to further clarify what this refers to.
- **Moving 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.
- **Amending 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 document¹ 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.
- **Amending 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 Guidelines² definition of infrastructure charge receipts in the Annual Performance Report. The definition includes infrastructure charges collected by NAVs and passed through to incumbents.
- **Including 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.

In relation to the new information requirements on worked examples we agree with the new updated information requirements. We have three feedback points on the technical specifications included in the proposed examples, which we have outlined in the table below:

¹ [New connections charges rules from April 2020 – England: Decision Document](#) 02 November 2017, page 9 and 10

² 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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Scenario	Feedback	Additional comment/proposal
Scenario 3 (Medium Housing Development)	Does not state surface types in Technical Specification (Mains) for the following: 125mm diameter PE – 10m road type 3-4 road 125mm diameter PE – 190m 90mm diameter PE – 100m	Suggest the following: 125mm diameter PE – 10m road type 3-4 road surface 125mm diameter PE – 190m unmade ground 90mm diameter PE – 100m unmade ground
Scenario 5 (Medium Housing Development)	The itemised pipework does not add up to total of 1000m due to an omission of a zero on the 2 nd bullet: 180mm diameter PE – 10m pipework	Suggest the following: 180mm diameter PE – 100m pipework
Scenarios 3, 4,5 6	Does not state surface type in Technical Specification (Connection): 3m pipe laying (per communication pipe)	Suggest the following: 3m pipe laying (per communication pipe) – unmade ground

Wider work on developer services

We note that Ofwat sets out three aims in the wider programme of work on charges for, and the regulation of, developer services:

- charges that reflect costs, supporting fairness and affordability across companies' different sets of customers;
- charges that are transparent, benefit customers and, by supporting markets, offer developers greater choice; and
- companies incentivising developers and third party providers to help meet long-term challenges, particularly through developing water efficient new homes and sites with sustainable drainage.

In relation to the first aim, on charges that reflect costs, we acknowledge Ofwat's expectation for companies to use the information published in the report prepared by SIA partners³ in setting their new connection charges for 2022 and beyond, using the principle of cost-reflectivity, along with the other principles in the charging rules including those of stability and predictability. U UW will consider appropriate improvements that could be made to provide further assurance that charges for new connections services reflect the actual costs incurred to deliver them.

In relation to the second aim, on charges that are transparent and supporting markets, U UW welcomes the refined worked examples and consistent terminology. We consider that the proposed publication of standard worked examples with an alternative delivery method included in each provides greater transparency to developers in the choice of delivery route.

³ [Connection Charges for Developer Services in England –Root Cause Analysis](#)

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In relation to the third aim, on companies incentivising developers and third party providers to help meet long-term challenges, U UW will continue to review our approach to water efficient new homes and sustainable developments to align with our longer-term strategy.

As stated in our response to the April 2021 consultation (page 12), on the scope and balance of developer charges and incentives, we consider that developers would value a longer-term commitment to our environmental tariff incentives, as this would help them to support the case for investment which is over the long-term and does not match the time frame of the incentive that we are able to offer in the context of annual charges.

Whilst we are committed to continuing with environmental incentives, we are not in a position to provide any long-term guarantees to customers, as they will ultimately be subject to annual review against Ofwat's charges scheme rules. If we were able to provide certainty longer-term, it would be helpful in supporting environmental benefits, which should also be a longer-term benefit to customers.

U UW would welcome Ofwat being more permissive of companies providing longer-term incentive commitments to customers. For example, the ability to provide multi-AMP assurances on charging incentives could give greater stimulus for behavioural change by customers and support their business case for investment in green infrastructure or water reuse schemes. This would better support long-term planning, and support better environmental outcomes (in line with Defra's charging guidance to Ofwat).