



The voice for water consumers
Llais defnyddwyr dŵr

**CCW's response to:
Changing Ofwat's charging rules to
support the new developer services
framework**

25 October 2023

1. Introduction

The Consumer Council for Water (CCW) is the independent voice for water consumers in England and Wales. Since 2005, we have helped thousands of business and household consumers resolve complaints against their retailers, wholesaler or water company, while providing free advice and support. Our work is informed by extensive research, which we use to champion the interests of consumers and influence water companies, governments and regulators. CCW welcomes the opportunity to comment on the new developer services framework.

2. Executive Summary

In general, we agree that Ofwat's proposals are reasonable. We consider the proposals will meet the aims of ensuring that protection for customers is as strong as possible, while also allowing companies to retain ownership of their charges. Broadly speaking, we feel that the changes that Ofwat has put in place, since gaining the power to issue charging rules, have helped to create a fairer and more balanced market place. However, this consultation comes at a time when trust in the water sector is low and the COVID 19 pandemic caused the developer services market to slow down so these changes should encourage economic recovery.

With this in mind, we have a few more detailed comments, aimed at helping to ensure that the balance of customer protection and company ownership is as strong as possible.

3. Response to selected questions

Our response to this consultation focusses on the questions that we consider are most appropriate for CCW to respond to.

Question 1: What are your views on our proposal to link charges for different types of development through the use of tether ratios? What are your thoughts on the use of ratios based on industry maximum figures, not average or median figures?

In principle, we agree that, of the four options presented, using tether ratios seems the most reasonable but we feel that there is a risk in using ratios based on industry maximum figures. We appreciate that there are mechanisms in place to encourage companies to calculate their charges based on actual costs. However, applying the industry maximum universally may give some contractors offering mains installation, the opportunity to artificially inflate their charges.

An alternative mechanism may be to apply a tiered tether ratio, based on the actual costs in water companies' areas. Hence, if a customer is in an area where labour and excavation, for example, cost less, there is less of an opportunity for a contractor gold plate its costs.

Question 4: Do you agree with our proposed general guidance for RAG2 regarding a fair allocation of all relevant overheads across ALL expenditure areas, including developer services?

And:

Question 5: Should RAG2 specify methods of overhead recovery for developer services? Are there any disadvantages to doing so? Are there any methods that you think would be appropriate to use across the industry that would drive consistency?

We agree with these proposals. Our only comment is that any calculation of overheads should be transparent and reflect actual costs as closely as possible since anecdotal evidence suggests this is an area that can trigger complaints.

Question 7: What are your views on our proposal to carry out a market review prior to PR29?

We support this idea and would like the opportunity to contribute to a review. However, it might be beneficial to split it into separate stages, given the number of stakeholder organisations who might need to be involved. For example, Ofwat will need to contact water companies, developers, new appointee companies and self-lay organisations. Developers, in particular, will need to be considered according to the size of their developments since large-, medium- and small-scale developers all have different needs and priorities.

We also feel that it would be useful to understand how the market has changed since David Gray's review of Ofwat and Consumer Representation in the Water Sector. This report set out the main issues with the developer services market that market reform over the last 10 years has sought to address. It would also be useful to know how the customers in the market perceive those changes.

Question 9: Do you agree with our proposal to enable companies to take account of upsized infrastructure when setting infrastructure charges?

Broadly speaking we agree with Ofwat's proposals but we would reiterate the need for transparency about the way that these costs are calculated. It may not be sufficient to merely explain that costs are going to be added on to cover this element. David Gray's review noted concerns about transparency and consistency – concerns that are still relevant today. For companies to drive developer trust about the charges that they are raising, they will need to be transparent about the costs and location of any upsized infrastructure and how it relates to individual developer projects.

Enquiries

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