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11 October 2023

Dear ██████,

**CONSULTATION UNDER SECTIONS 12A and 13 OF THE WATER INDUSTRY ACT 1991 ON PROPOSED MODIFICATIONS TO CONDITION B: CHARGES OF 16 WATER COMPANIES' LICENCES**

I welcome the opportunity to respond to Ofwat's consultation on licence modifications to remove wastewater site-specific developer services from the wastewater network plus price control in Wales.

The Hafren Dyfrdwy Board met on 3 October and accepted this licence modification.

We consider that removing wastewater site-specific developer services from the price control will correct market distortions caused by the inclusion of developer services revenue within the price control and improve competition in the developer services market.

We support removing water site-specific developer services from the water network plus price control for Hafren Dyfrdwy, as Ofwat is doing for English water companies. This is because our water site-specific developer services market is closely linked to the neighbouring English market and therefore subject to the same competitive conditions. We also consider that including water site-specific developer services in the water price control does not provide any additional protection for developers and causes distortions to bills for the generality of customers.

We suggest one change to the licence modification, which is to remove the time limit of 1 April 2025 to 31 March 2030. We consider it is more likely that contestability of the developer services market will increase during 2025-30 and therefore Ofwat's rationale for excluding site-specific developer services charges from the price control will be even stronger by then. Removing the time limit avoids Ofwat having to make another licence modification in 2028 to exclude site-specific developer services charges from the price control for another five years.

We also suggest that Ofwat should extend the exclusion of non-section 185 diversions indefinitely, or for at least a further five years. Non-section 185 diversions are not related to the charges we make to developers or to regular customers and it is not clear how including this element of cost-recovery in the revenue control will help protect either group. Putting non-section 185 diversions back into the price control will create distortions for our customers' bills without delivering any clear benefits for them.

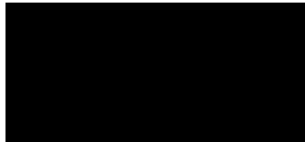
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We consider Ofwat could make a further improvement to the licence in the area of charges. We suggest that Licence Condition B should opt for a more principles-based approach and should therefore contain a list of what items are specifically included in the price control rather than a list of what is excluded. This would give more certainty to companies and customers about what charges are included in the price control. The current approach of having all charges subject to the price control unless explicitly excluded means that if an unexpected source of cost and revenue arrives a company has to pay the revenue it recovers to the generality of customers. The company still incurs the cost but with no revenue to cover it. The lack of funding for unexpected services creates an unintended incentive for companies to minimise the scope of the work or delay the work to the next price control, thereby creating distortions for the customer requesting the service.

Yours sincerely



Managing Director  
Hafren Dyfrdwy