

WONDERFUL ON TAP

SEVERN

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Sent via email

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; and
- remove water site-specific developer services from the water network plus price control (for English water companies).

We support these changes. In our response to Ofwat's draft PR24 methodology consultation in September 2022 we said that removing site-specific developer services from the price control would correct market distortions caused by their inclusion and would improve competition in the developer services market.

We suggest one change to the licence modifications, 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. For example, if the diversions associated with HS2 turn out to be different from the best forecast we can currently make this will lead to changes in our customers' bills in 2025-30 and 2030-35 through the operation of the price control. Continuing to exclude non-section 185 diversions will protect customers from these

bill swings and allow for the much simpler process in which we carry out the diversion for HS2 and recover the costs directly from them.

We consider Ofwat could make a further improvement to the licence in the area of charges. We suggest that Licence Condition B should 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. This has happened to Severn Trent in the 2020-25 period with a large unexpected industrial site requiring connection to our network. The lack of funding for unexpected services creates an incentive for companies to minimise the scope of the work or delay the work to the next price control, creating distortions for the customer requesting the service. These effects could be avoided by changing Licence Condition B so that it contains a list of what items are specifically included in the price control rather than a list of what is excluded.

Yours sincerely,





Director of Strategy and Regulation
Severn Trent Water