



South Staffs Water

Green Lane, Walsall WS2 7PD
www.south-staffs-water.co.uk

Owat,
Centre City Tower,
7 Hill Street,
Birmingham,
B5 4UA

By email to: charging@ofwat.gov.uk

20 October 2023

Dear Sir/Madam,

South Staffs Water inc. Cambridge Water response to consultation on Changing Ofwat's charging rules to support the new developer services framework

Thank you for the opportunity to respond to the consultation noted above. Our responses to the specific questions are attached.

Please let me know if you have any questions.

Yours faithfully,

[Redacted signature]

[Redacted name]

Developer Services and Metering Manager
South Staffordshire Water PLC

Q1 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?

Within the options outlined we can see the benefit of selecting this approach rather than limiting increases to inflation and within this approach we would support the proposal of opting for the maximum ratios. Also within this approach, worked examples are best way to set industry ratios rather than comparing individual charge rates as each water company bundles charges differently.

We believe that the ratios should be used in a similar fashion to the current 10% threshold whereby companies have the ability to exceed the maximum ratios but further requirements are in place where they do i.e. explaining handling strategies. It is possible that unavoidable cost increases are experienced by the water company for activities, materials etc that apply more to one particular scenario than another and to ensure we remain cost-reflective it may be necessary to breach a ratio. It is also worth noting that whilst we have a limited appetite from SLPs to carry out individual highway connections (where no main is required) today this may change and if this does the tether approach will need revisiting/may be less critical.

Q2 What are your views on option 5 that companies should individually charge for separate activities involved in making service connections? Do you agree with our proposal to implement via changes to the wording of the CTWE?

We are comfortable with the level of bundling within our charges. Our charges are granular for both mains laying and service connections in terms of reflecting individual activities (connections, pipework, traffic management etc) however we have a simplistic approach to recovering administrative costs whereby we have one application fee for each process which covers the upfront administrative activities and then any other administrative activities are baked into our construction charges.

Each year we ask our customers if they would like to see this structure change and we have not received any feedback to ask for administrative charges to become more granular. Our belief is that developer customers (including self lay providers and small builders working on uncontested sites) wish to have the least amount of administrative charges to keep as simple a set of steps as possible with least burden on them.

We believe that:

- small builders working on uncontested sites are most interested in the total value of their bill and the simplicity of charge structures, not the granularity of individual rates nor the ability to compare between companies,
- SLPs and NAVs are most interested in understanding the value of individual non-contestable charges which are made up of main laying construction charges rather than service connections and
- larger developers are most interested in the predictability and stability of charges to enable them to forecast and maintain scheme costs rather than the granularity.

We therefore think that unbundling service connection charges and unbundling administrative charges would not make a significant difference.

Q3 Do you have views on our proposals to add two new worked examples with the aim of providing additional protection for developments with limited choice? What are your views on suitable new scenarios?

We are comfortable in adding worked examples which provide confidence to stakeholders within the market however our belief is that very few customers working on uncontested sites/sites where mains are not required are likely to read the worked examples. We would support adding the example with 5 properties however it is unlikely that a scheme with 25 properties would not have a new main unless it is for a block of flats, if these new scenarios are based on individual properties then we believe 10 properties would be a more realistic example.

Q4 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?

We agree with this proposal.

Q5 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 do not believe that RAG2 should specify methods of overhead recovery for developer services as it may be difficult to do so without specifying how charges should be structured for example.

It may be helpful to specify which types of costs are expected to be recovered within developer services charges.

Q6 Do you agree that RAG2 could be extended to cover the recovery and allocation of overhead costs between developments with and without a mains requirement? Do you have any suggestions as to how this should be done?

Aside from the direct costs captured within our application fees our overheads are recovered as a flat uplift across our other charges. This ensures that we apply a consistent approach across sites which require new mains and those which do not. We would warn against taking too granular an approach here as this could result in annual fluctuations based on swings in work mixes for example. Equally, within each work type (those which require mains and those which do not) there will be some jobs which occupy more time and resources and some which require less and therefore splitting the overhead by work type may not be the most appropriate approach.

Q7 What are your views on our proposal to carry out a market review prior to PR29?

We believe that it would be prudent to review prior to PR29.

Q8 What are your views on our proposal that companies include historical variances between expenditure and revenues in setting infrastructure charges?

We support this approach.

Q9 Do you agree with our proposal to enable companies to take account of upsized infrastructure when setting infrastructure charges?

We support this approach.

Q10 What are your views on our proposals relating to how we accommodate changes to the provision of income offset?

With reference to the point “we would not expect companies to enter into any new agreements in the remainder of AMP7 that would require them to make any payments in connection with income offset after April 2025” we have reviewed a number of other water company charging arrangements and we believe a number of companies continue to offer income offset on schemes in this AMP as we do. Some schemes entered into in AMP7 will continue into the AMP8 including both larger schemes which require new mains which have many hundreds of properties as well as individual connections which do not require a new main where the small builder has delays in their project. It is not possible for water companies to know for certain when a scheme will be completed.

When the decision was made to remove income offset one of the mitigating factors was that developer customers had the remainder of this AMP to transition and prepare before the change is implemented. Equally, water companies had the remainder of this AMP to introduce environmental discounts and rebates which enabled developer customers to mitigate against overall bill increases.

As noted in the case studies in the Ofwat consultation on environmental initiatives the take up of these initiatives has been poor and therefore companies cannot expect to replace offset with environmental discounts in a meaningful way at this stage. Water companies have a requirement to maintain the balance of charges until the end of this AMP and equally have a requirement to meet a revenue cap which will be exceeded unless offset is maintained for new schemes until March 2025.

In reference to the changes to the ENCR, we are comfortable with the proposals.