



Consultation on changing Ofwat's charging rules to support the new developer services framework– September 2023

Southern Water Response

Thank you for the opportunity to respond to your consultation on Ofwat's proposal for changes to the charging rules to support the new developer services framework. In general, we support all of the proposed rule changes. Where we have comments or minor proposed amendments, we have included this in the specific consultation questions below.

Consultation

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?

We support additional protections for customers. The tether ratios provide an additional element of protection for smaller customers.

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 strongly opposed to this. We have carefully agreed an appropriate level of bundling with our customers and stakeholders including SLPs over a number of years. The bundling offers ease of use benefits for both customers and our suppliers. Unbundling these charges would be detrimental to the customer experience and create excessive administrative overhead and cost.

A more efficient solution would be for the industry to agree a common definition of a standard service connection. This would facilitate better comparison between competing water companies and new entrants by comparing a like-for-like product while maintaining the ease-of-use benefits for customers and suppliers of bundled services. This standard service connection product should include all the necessary components of a new connection including the meter, administrative fees and water regulations. The product should also allow for a blend of surface categories. This would reduce the unwanted need to reconcile the charge for each job. It may be that a number of different standard service connections are required to reflect the site-specific circumstances. For example, industry norms currently provide provisions for near-side and far-side connections, and connections on a greenfield or brownfield site.

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?

Yes, we support creating the two new scenarios.

Q4: Should RAG2 specify methods of overhead recovery for developer services? Are there any disadvantages to doing so?

We support the development of new rules to specify how we should best recover overheads. Developer Services remains a statutory function and therefore an unavoidable cost for incumbents. Costs should therefore be shared fairly between all customer groups and allow for investment in the service create issues around fairness.

Q5: Are there any methods that you think would be appropriate to use across the industry that would drive consistency?

We are not aware of any methods that would be appropriate.

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?

We would support the extension of RAG2 to allocate and recover overhead costs equally between customer groups. In practical terms this will be a difficult administrative overhead due to the complexities and phasing of sites where service connections are sometimes called off independently of the mains requisition.

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

We anticipate the removal of the Developer Services revenue from the combined till will drive competition in the sector. We would support the review of the market prior to PR29 should it be required.

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

We fully support the proposed changes to the rules.

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

We fully support the proposed change to the rules. We believe that taking into account future growth and upsizing infrastructure benefits customers in the long run through a reduction in cost per unit of capacity provided.

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

We support the proposed change. It would allow existing agreements to be honoured while ending the issuing of new agreements including the income offset in 2025.

Thank you for the opportunity to reply to the consultation. If you have any further questions, please get in touch.

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