

Changing Ofwat's charging rules to support the new developer services framework: Wessex Water Response

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 agree with the need to ensure adequate protections are in place for customers who participate in sections of the market where there is limited choice. In our view, the charging rules provide this. The duty to be cost reflective is key here. Imposing additional requirements creates the risk that there will be arbitrary distortions to the prices offered.

That is not to say that there is no value in understanding and monitoring the relative price for different activities through these tethering ratios. However, we do not agree that they should impose a "cap" on the level of charges. Particularly as they are based on current charges which will continue to evolve.

Instead, they should only be viewed as a guide, whilst being continually reviewed as charges continue to evolve. Movements beyond these ratios could then be explored through the statement of significant changes to ensure that the changes are well evidenced and reflect efficient delivery of those services.

If they are used in any way, we think that it would be important to exclude infrastructure charges from the analysis. These will vary by company, and by the scale of investment required. Therefore, particularly on small developments these could materially skew such ratios.

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 (Common Terms and Worked Examples)?

We went through an extensive programme of customer engagement to work out the most appropriate level at which to set charges. It is a trade-off between added items & complexity and usability. We found that with a large list, customers would be unclear of exactly what was required, and would be unable to get the clarity of upfront charging that was one of the key objectives of the charging rules.

We review the level of bundling each year, to ensure that it evolves to reflect what stakeholders want and supports efficient market participation.

Hence, we think that mandating an unbundling of these activities is not in the interest of most customers, it is best placed with companies to set charges at levels of aggregation supported by customer and stakeholder engagement.

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 do not see the benefit that the additional scenarios offer. Already a good range of scenarios are considered, with a range of delivery options for each one (delivery by incumbent, SLP (Self lay providers) & NAV (New appointments and variations) (New appointments and variations)). This ensures that the protections are in place for customers with limited choice.

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 would support in principle the proposed approach to updating the general guidance regarding a fair allocation of relevant overheads.

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?

By specifying which methods Companies could use it would ensure comparisons across the industry would become more readily available. However, by prescribing multiple methods there would continue to be disparity and the risk of applying methods differently.

It would also raise the question of whether different methodologies would be applicable to different activities by the same company.

Any prescriptive guidance in this area would require further thought and discussion.

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?

If the prescribed methods mentioned in question 5 above cover sufficiently the complexity of the work undertaken, then we would argue there would not be a requirement to further extend RAG2.

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

We agree with the proposal to carry out a market review prior to PR29. This will need to be timed to have the greatest possible impact, and so we think it is important that it is done early in the process to ensure that any changes can be fed through to the methodology and fully reflected by companies in their business plans.

In terms of scope, we think it should not just be limited to the services that an incumbent provides, and the SLP market, but also consider the impact that the NAV market is having on connections.

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

We are in full support of this, as it will ensure that the causality of costs is preserved and minimise the risk of cross subsidies for development from the existing wider customer base.

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

We are in full support of this, as it will ensure that the causality of costs is preserved and minimise the risk of cross subsidies for development from the existing wider customer base.

Both this and the changes proposed in Q8, will potentially create volatility in infrastructure charges. This should be acknowledged, with provisions for companies to prepare more streamlined statement of significant changes, if this is the sole reason, or to phase changes in over a few years to maintain stability.

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

We think the proposed changes deliver the desired outcome.