



Charging
Ofwat
21 Bloomsbury Street
London
WC1B 3HF

Severn Trent Centre
2 St John's Street
Coventry
CV1 2LZ

Tel 02477 715000
Fax 02477 715871

21 April 2016

New connections charging – Emerging thinking for discussion

Thank you for giving us the opportunity to voice our views on your emerging thinking on this matter.

At Severn Trent Water we are committed to delivering for our customers and providing greater clarity, transparency and accessibility to the information we provide.

We support the emphasis in this document on applying a flexible approach to New Connection charges within a set of rules set out by Ofwat. We believe this is imperative if we are truly looking to offer clear, predictable and comparable charges to our customer base. We would welcome the opportunity to discuss the details of this with you in the future.

We do, however, have concerns over the possibility of greater standardisation following the 2017/18 charging year. Any significant change to charging for new development could affect the balance between charges to developers and bills for the generality of customers. As such, it may be more appropriate to incorporate such changes into PR19 so that business plans can incorporate the effect of these changes. In the interim, we think the industry can agree subtle changes to the current charging mechanism to address the most prevalent issues.

Our detailed response to the information requested is attached in Annex A

If I can be any further assistance in this matter please do not hesitate in contacting me further.

Yours sincerely

A handwritten signature in blue ink, appearing to read "Steve Betteridge".

Steve Betteridge
Head of Developer Services

Annex A

Q1 Have we missed any key issues with the current framework?

We don't think any key issues have been missed

Q2 Do you agree with our emerging thinking to require work that is remote from the site to be recovered through infrastructure charges only, to increase transparency?

Yes, we agree a new charge which combines both remote from site work costs as well as the current infrastructure charge would increase transparency, but consideration should be given to potential impacts on all customer groups. We believe this charge should be non-deferrable and paid in advance of connections to minimise risk.

Q3 Do you agree with our emerging thinking to allow companies to develop new approaches to charging?

Yes we believe giving water companies the flexibility to design a new approach for charging around a set of standard rules is a good idea. Companies should have the ability to set charges that reflect their costs and which permit them to balance over or under recovery over a period of time. However the use of different charging mechanisms could make it harder to achieve the ambition of consistent comparable charges.

Q4 Do you agree with our emerging thinking to promote a level playing field through increased transparency?

Yes we agree with the approach of requiring water companies to set out their new connection charges in a single document subject to further clarification following consultation as to what each charge is expected to recover.

Q5 What would be the impact of requiring wastewater asset payments?

The cost of this would be significant in terms of capital investment, resource levels and Customer impact (higher bills). While there could be competitive benefits, this would represent a change to the obligations companies accepted when the Final Determination for AMP6 was agreed. As such, we do not think this measure should be introduced during in this control period. However in principle we would support the introduction of these payments if introduced as part of a future Periodic Review.

Q6 Do you agree with our emerging thinking regarding information provision from companies to improve transparency?

We agree with the thinking in principle; however the different customer groups involved can often have differing interests. The groups most concerned with connection charges will be developers, who have an interest in pushing for a high level of information and a reduction in the charges that they bear. A reduction in developer charges will be offset by increases for the generality of customers, who have little direct interest in this area of charging but who will be affected by the outcome. So it is important that rules and information requirements are balanced carefully to avoid unintended consequences.

Q7 What further information should Ofwat seek to collect from companies to aid transparency of charging in relation to new connections, as well as enabling ongoing monitoring and enforcement?

We believe it is important that all companies contribute and there should be evidence that the charging regimes are monitoring the same costs on the same basis.

Q8 Do you have any specific suggestions on the draft rules set out in appendix A1?

We need to consider these further and would be happy to have a discussion in the future.

Q9 Do you consider it to be appropriate for Ofwat to set requirements for companies to engage with their stakeholders as part of the charging rules?

In principle, we support customer engagement in forming a view on the charges to customers. For principal charges there is a requirement for us to consult with CCWater and this simply codified custom and practice (since we already consulted with CCWater on an annual basis). However, we are concerned that a rule which requires us to consult a prescribed list of stakeholders could have the effect of excluding some groups. There is no overarching representative body for developers that is

equivalent to CCWater. So we would not wish to see over-prescriptive guidance which requires us to obtain some form of sign-off from multiple groups who have differing views.

Q10 Do you consider that any additional actions will be required to ensure an effective transition?

Changing the overall balance between the amounts recovered from different sources will have an impact on company financeability. Therefore if a new approach drove a significant increase or reduction in charges to developers, it would be better to transition this change to coincide with a Periodic Review, so that the forecast level of capital income reflects the new arrangements. Companies should be able to develop proposals now, but if there is any Ofwat drive to standardisation this should not be implemented until 2020/21. It is also worth noting that a change in rules may also require a change in supplier contracts, so companies should be given time to adjust to any significant changes that are required.