

incorporating

The logo for South Staffs Water, consisting of a stylized blue and white graphic of a water drop or wave, set against a light blue circular background.

South Staffs Water

Charging Reform Consultation

October 2017

Housekeeping



No smoking



Hang up
jackets and
coats



Health and
wellbeing



Fire alarms
& exits



Toilets



Phones

Further points

**Audio
recording**

**We will be
circulating
a summary of
the workshop
findings**

**We will listen
to your
views!**

The session will include a mix of presentations to help provide some context and then we will breakout into groups for the discussions



Agenda

- Guidelines for today
- Background
- Charges we are discussing – historic charges
- How are things going to change?
- What guidance has been provided by DEFRA and OFWAT?
- South Staffs Water's approach
- Considering variations in cost
- Transition arrangements
- Conclusion

Why are we here?

**The way
Developers are
charged by
water companies
is changing***

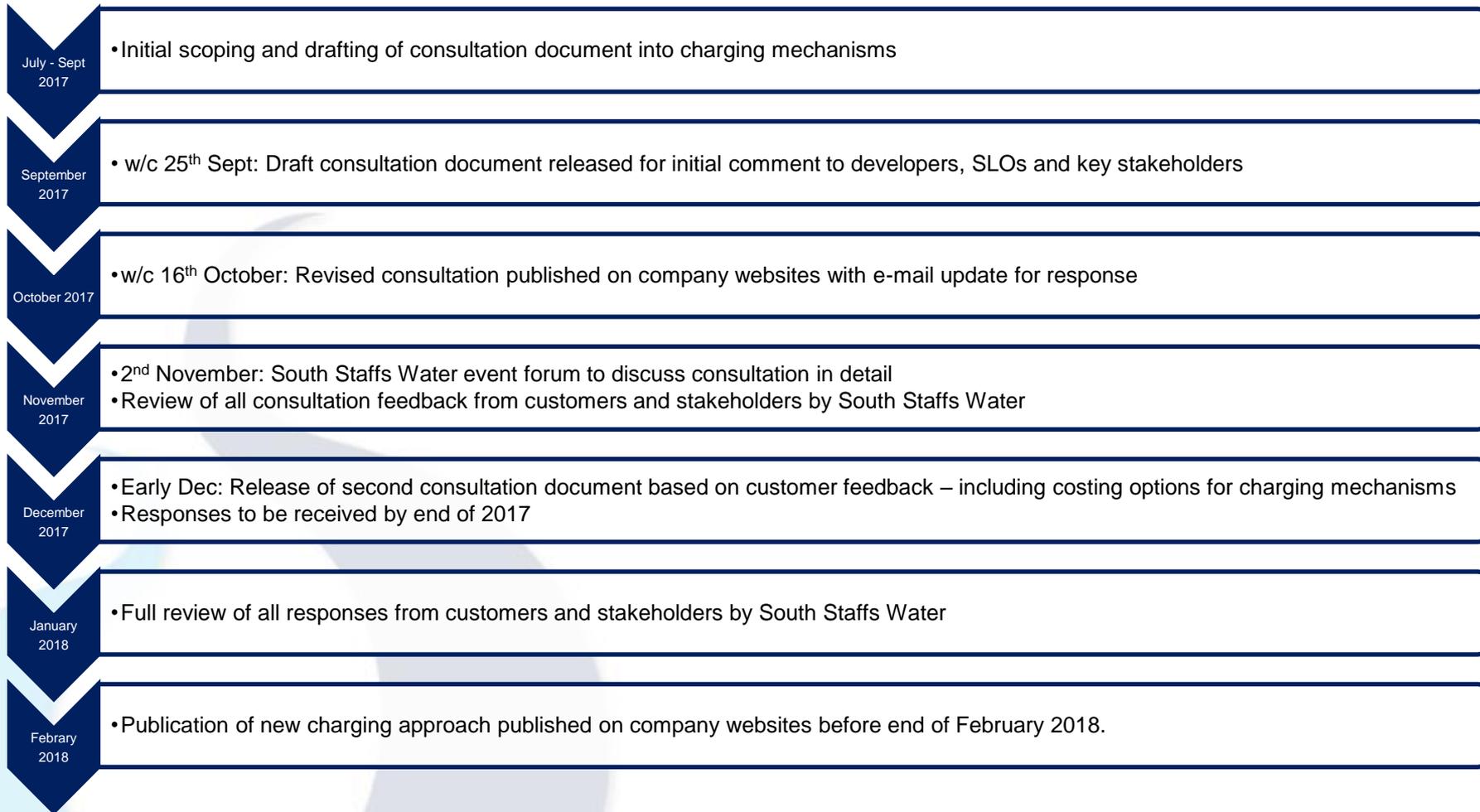
***for new connections**

**We're
committed to
keeping you
informed**

**We want
your
feedback**

**We may not have all the answers today – we may have to think
carefully about some of your questions**

Proposed consultation timeline





Charges we
are
discussing –
Historic
Charges

Which charges are we discussing today?



In scope

Connection Charges

Requisition Charges

Infrastructure Charges

How have our charges been set historically?

Connections Charges



This charge is cost reflective, and covers the cost of connecting premises to water mains.

Requisition Charges



This is a contribution to water main installed by us which is intended to provide water or sewerage services for new developments.

The contribution relates to both on-site and off-site infrastructure and is determined through the Discounted Aggregate Deficit (DAD) calculation, which offsets the costs by the income received from the newly connected properties over a 12 year period.

Infrastructure Charges



These charges are payable when premises become connected for the first time to a water supply for domestic purposes. This is a standard charge, across the Water Industry, for Water and Wastewater and for 2017-18 stands at £365, increasing by RPI each year.

How have our charges been set historically?

Self-lay charges

By electing to self-lay, a developer is able to either build the required infrastructure itself or enter into a contract with a third party, such as a self-lay organisation (SLO) to install it. The developer pays the SLO the costs of building these self-lay assets. Either the developer or the SLO pays the water company for any additional infrastructure needed (a portion of which only the water company may be able to build depending on the works). The water company then 'adopts' these assets and, where appropriate, pays the developer an asset payment when it takes ownership.

On developments where an asset payment is made, the water company sends these to a developer/SLO once it has adopted the assets owned by the developer.



Discussion point

Do you have any concerns about our current charges for new developments?





Understanding
perceptions of
the 'rules'
around
charging

What guidance has been provided for the changes?

Defra set out four main equally weighted principles, which Ofwat has subsequently used to develop rules for charging.

Ofwat's rules can be found across two charging rule-sets:

Charging Rules for New Connection Services;

48 rules covering all aspects of new connection services including charges, requisitions, asset payments and diversions.

Charges Scheme Rules;

Includes 7 rules covering infrastructure charges



Key charging rules: Charges Rules for New Connection Services

Rule 7

Changes to charges should only be made after **proportionate, timely and effective consultation** with groups of persons likely to be significantly affected.

Rule 14

The charges must be published in such a way that a developer or other customer can confidently **work out a reasonable estimate of the charges payable** if they know the relevant parameters of a development.

Rule 19

Broadly **maintain the present balance** of charges between developers and other customers.

Rule 21

Charges must be set in accordance with the principle that they should **promote effective competition** for Contestable Work.

Rule 25

In relation to requisition charges, an undertaker:

- Must provide for the option of **upfront fixed charges**;
- May provide **alternative methods** for calculating charges

Rules 26 & 27

Requisition charges must only relate to **site specific work** and should not include any amount for network reinforcement cost.

Rules 29 & 34

Income offset may be applied to requisition charges (but is not required to), offsetting is only allowed against requisitions.

Rules 35 to 41

Relate to the charges and the requirements concerning asset payments.

Key infrastructure rules

Rule 28

Infrastructure charges must cover costs of **network reinforcement** over a **rolling 5 year** period. Infrastructure charges must not reflect costs to address **pre-existing deficiencies** in capacity or in capability unrelated to a requisition.

Rule 32

Infrastructure charges must take due account of any previous site usage in last 5 years.

This includes previous supplies of water that were not for domestic purposes and drainage that was not for domestic sewerage purposes. Charge should be discounted accordingly.

Definitions of site-specific and non-site specific

Site specific:

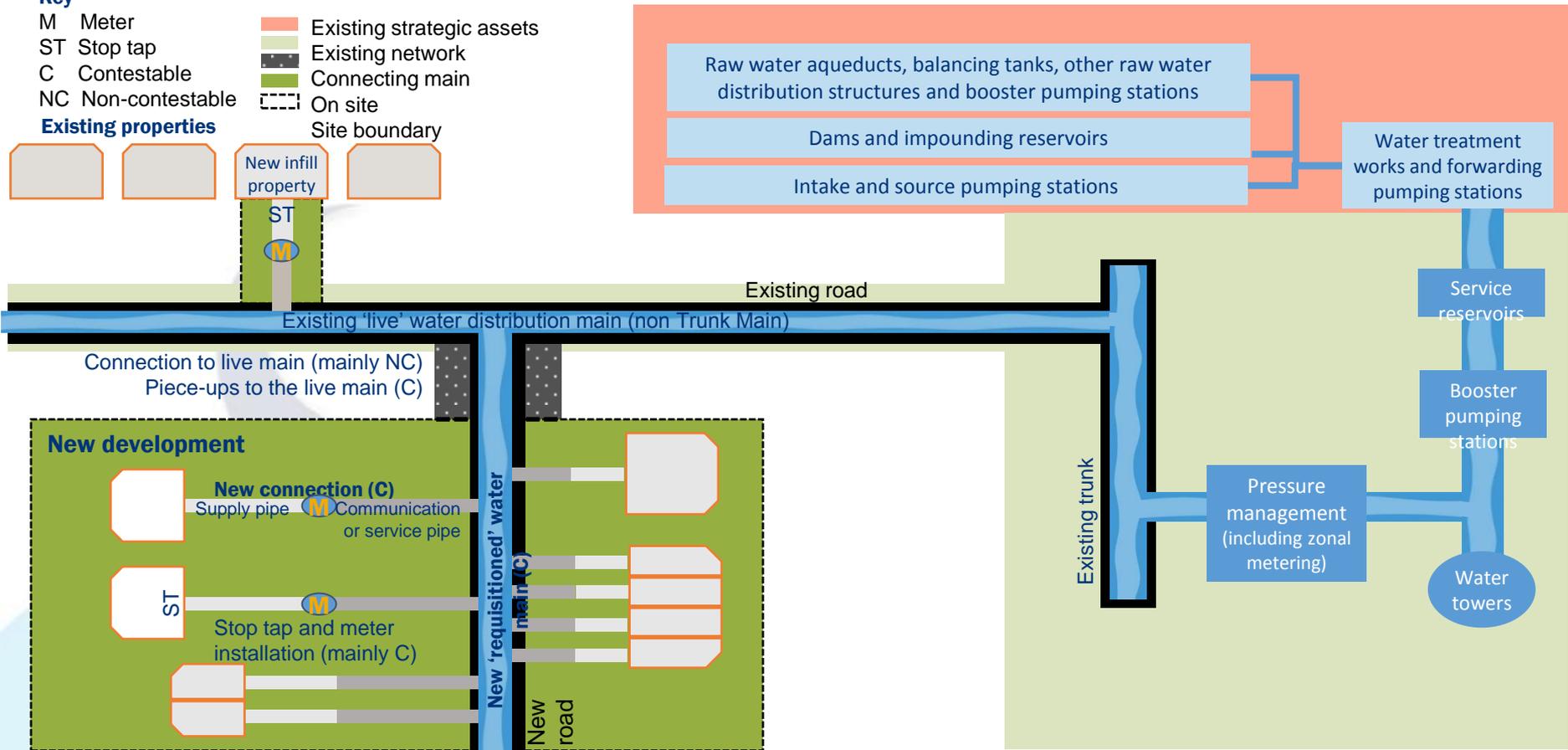
New water mains within the area highlighted in green within the site boundary (on the diagram in the following slide) and the connecting pipework to the nearest water main of the same or larger diameter.

Non-site specific:

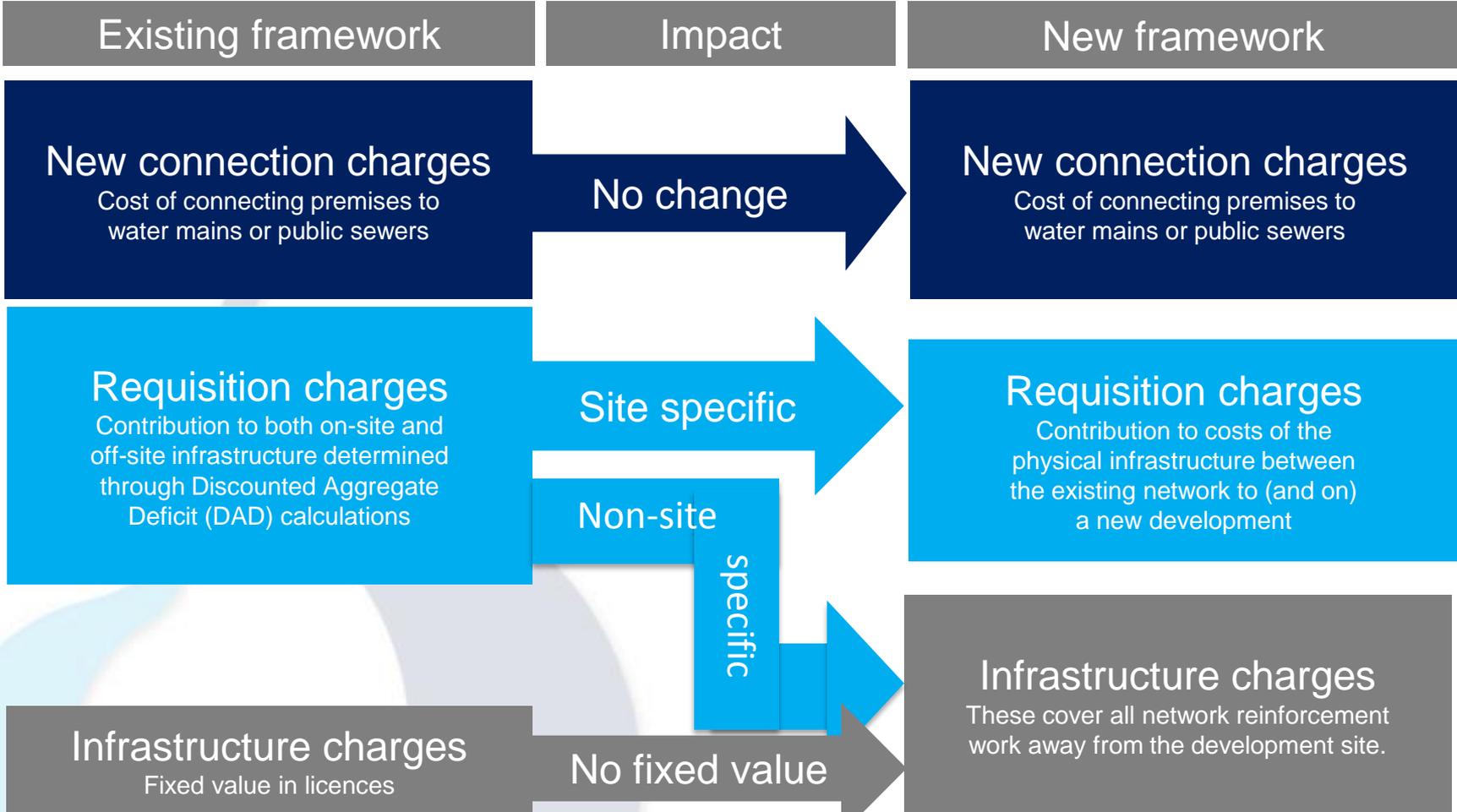
This may include water mains, reservoirs, pumping stations, on-line & offline tanks, water towers that are required as a result of new development driven demand.

Water

- Key**
- M Meter
 - ST Stop tap
 - C Contestable
 - NC Non-contestable
 - Existing strategic assets
 - Existing network
 - Connecting main
 - On site
 - Site boundary



How are things going to change?



Discussion points

What are your views on how charges are going to change?

Advantages/disadvantages of the new charges

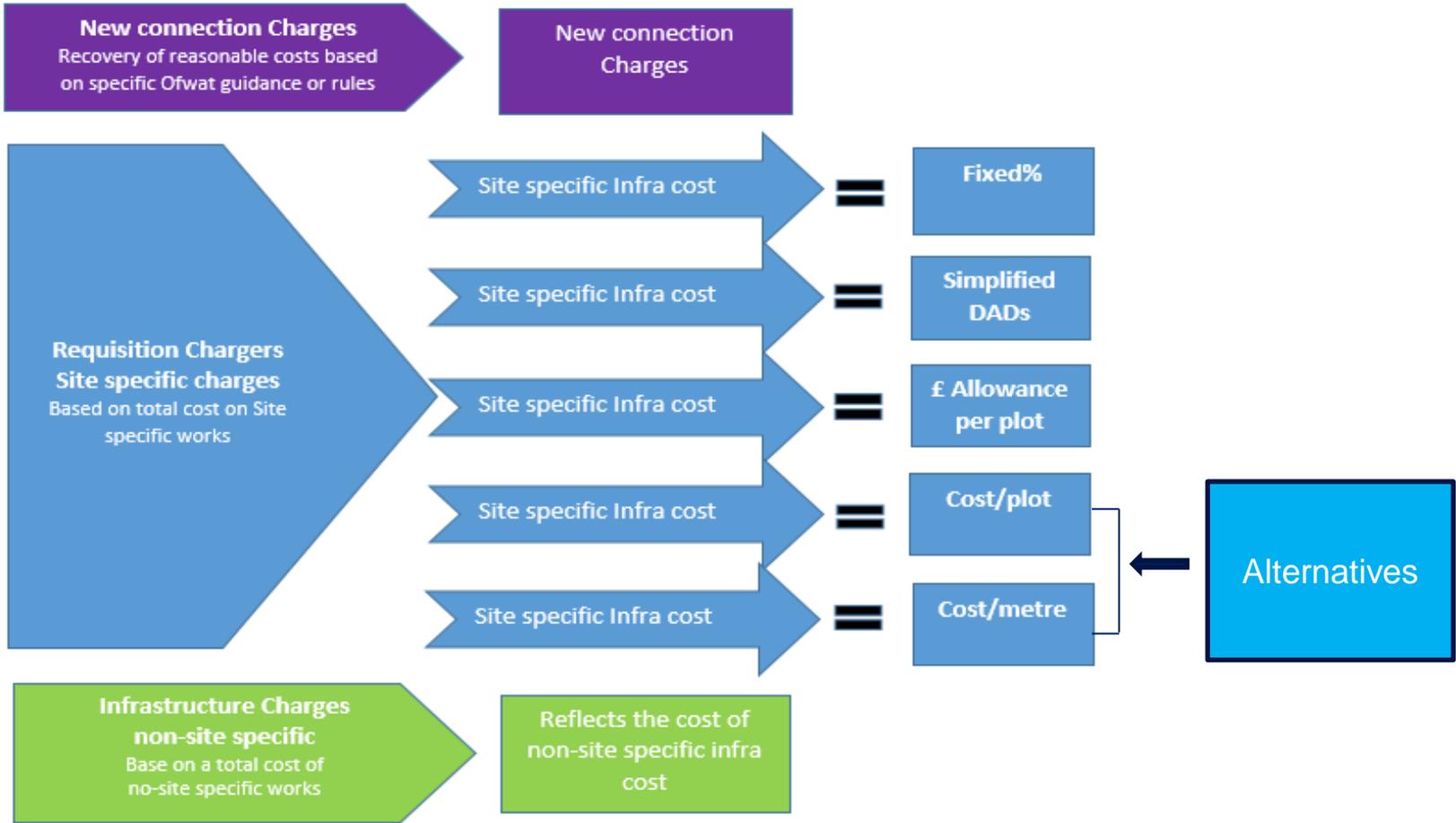
Do you agree with the definitions of site specific and non-site specific?





Our approach
and options
being
considered

Our proposal for New Charging Framework



Discussion points

What do you think of our preferred approach to charging?

Do you agree that we should continue with a standard fixed charge for connections?



Do you agree that infrastructure charges should be standardised?

Discussion points

On the income offset/asset payment do you prefer:

1. A fixed % income offset
2. A simplified DADs model type calculation
3. A fixed £ amount income offset, applied on a per plot basis

We are also considering alternative options including:

1. Cost per plot
2. Cost per metre

What do you think of these?





Considering
variations in
cost and
managing risk

Considering variations in cost

Under Rule 25 of Ofwat's Charging Rules for New Connection Services for requisition charges we must:

- Provide the option of upfront fixed charges.
- Provide alternative methods for calculating charges.

We propose to provide a method of calculating charges and recognise the requirement of Rule 14 to provide sufficient information to work out a reasonable estimate of charges payable.

We are currently developing this element of our methodology. Options being considered include publishing our methodology for calculating costs, or providing fixed charges (with charge modifiers for areas such as contaminated land, de-watering, major rail lines or canal water).

There is also a government proposal being discussed that allows councils to charge for lane maintenance closures to reduce traffic congestion).

Discussion points

Do you have any views on how risk should be treated in quotations where exceptional costs could materialise?

What information do you consider reasonable for companies to provide in their published changes in order to work out a reasonable estimate of charges payable?





Transition arrangements

Transition arrangements

The new charging rules are due to come in to effect on 1 April 2018. We are aware that transitioning between rulesets may introduce uncertainty for developers with regards to purchasing land or developing a site. We are interested in what you think is required to provide a smooth transition to the new charging regime.



Discussion points

Is there anything you think CW/SSW should consider when transitioning to the new charging?

Are you in favour of a common approach to charging cross England, or do you see benefits in individual water companies taking different approaches?





Competition

Discussion points

Rule 21 of the Charging Rules for New Connection Services document establishes that charges, asset payments and arrangements should promote effective competition for Contestable Work. We are keen that our proposed approach meets these objectives and clearly need to understand the views of organisations such as SLOs in assessing whether we have been successful.

Do you think that the changes we have proposed will promote effective competition, and if not, why not and how could they be improved in this area?





Feedback and Q&A

Your opportunity to ask us any questions



Next steps

Next steps - reminder

- We will review the feedback we have heard today and review the detailed report from DJS Research
- We will revise our proposal and let you know any changes
- We will then ask for your final feedback by the end of the year – this will include costed examples to allow further assessments

We will be publishing the new charges in Feb 2018



Future events....

We are thinking of holding developer days on a regular basis to discuss topics in detail that are important to you.

How often should we hold these types of events?

Are there any topics you would like to discuss with us at the next event?



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A large, stylized graphic of a water drop or wave, rendered in shades of blue and grey, serving as a background for the main text.

South Staffs Water

Thankyou for coming