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27 October 2014

*Dear Richard*

**Re: New appointments and variations – a consultation on Ofwat’s  
policy relating to highway drainage**

We welcome the opportunity to respond to this consultation.

This letter, at Annex 1, sets out our views on the proposed policy as set out in the consultation document.

If you wish to discuss any points raised in this response please do not hesitate to contact us.

Yours sincerely,

**Jean Spencer  
Regulation Director**

## **Annex one – Response to proposed policy**

It is useful to have confirmation that as sewerage companies are prohibited from charging highway authorities for the drainage of public roads, the sewerage companies therefore bear the costs of highway drainage, and this burden is as a result shared by all customers who pay sewerage bills, who are thus liable for highway drainage charges.

We believe that as highway drainage is effectively a service to the community at large relating to the drainage of all highways and public spaces, the correct approach to cost recovery in relation to highway drainage is to levy a fixed charge on all sewerage customers i.e. the charge does not relate to the drainage outside a specific property or of a specific area, it relates to all highways and public spaces which are accessible to all. As set out in the consultation document, the charge paid by each customer is unrelated to their use of the highways, but then neither is there a link between the fair recovery of highway drainage costs and either customer's individual consumption (i.e. foul water discharged) or to their site area.

We currently recover the costs of highway drainage through the foul water sewerage fixed charge, the highway element of which for 2014-15 is £30 pa, applied equally to households and non-households. Although highway drainage has many physical similarities with surface water and, where there are separate sewers for foul and surface water, will be connected to the surface water sewerage system, for charging purposes we think it is more appropriate to collect it with the foul water sewerage charge. The reason for this is that the surface water charge is not payable by an individual customer if their property has no surface water drainage connection to a public sewer. However, such a person will still receive the same benefit as any other customer in terms of highway drainage.

In addition, although not specifically covered by this consultation, we note the legal restriction (set out in section 144(1)(b)) which only allows us to recover sewerage charges from occupiers of premises that are connected with, or communicate with, a public sewer. This prevents the recovery of any highway drainage charge from premises which drain to a septic tank, cesspool, or private package treatment works, even though they clearly share the same benefits from the drainage of highways and public spaces.

1. If a new appointee's site contains public roads (roads which have been or may be adopted) and those roads drain to the sewers of the existing appointee, we are likely to consider that it is reasonable for the bulk discharge price to include a contribution to the existing appointee's highway drainage costs.

We think it is reasonable for a new appointee to be charged a bulk discharge price that includes a contribution to the existing appointee's highway drainage costs.

All of our bulk discharges from new appointees include highway drainage. Their charges are based on our standard published large user tariffs, and therefore the sewerage fixed charges include the highway drainage element of £30 pa irrespective of the size of the site or whether the site contains public roads that drain or do not drain to the public sewers.

This is consistent with our view expressed above that the highway drainage service does not solely relate to the drainage outside a specific property or specific area or for a specific Inset. As such a bulk supply price should include a contribution to the existing appointee's wider drainage costs for the region as a whole, the benefit of which the new appointee's customers also enjoy.

2. If a new appointee's site contains public roads that do not drain to the public sewers of the existing appointee, or there are no public roads on the site, we are likely to consider that it is reasonable for the new appointee not to contribute to the highway drainage costs of the existing appointee.

As stated above, it is our view that the highway drainage service does not solely relate to the drainage outside a specific property or specific area or for a specific Inset. As such a bulk supply price should include a contribution to the existing appointee's wider drainage costs for the region as a whole, the benefit of which the new appointee's customers also enjoy.

We agree that as a general principle highway drainage charges should be broadly cost reflective. However, where a new appointee provides a local drainage service the impact on the volumes entering the public sewer are likely to be minor and the associated cost saving to the existing appointee as a proportion of their overall highway drainage costs immaterial, so any potential discount would be offset by the associated transaction costs resulting from a more complex charge structure.

3. The amount of highway drainage charges payable should be a matter for commercial negotiation between new appointees and existing appointees, on a case-by-case basis.

Where possible, commercial negotiation and policy setting on a case by case basis should be avoided and replaced by clear guidance and consistent charging principles. Ideally, the existing appointee's wholesale Charges Scheme would explicitly list the highway drainage charge which would apply to all properties that benefit from the wider service provided. By including them in the Charges Scheme, the highway drainage charges would be subject to the same principles and guidelines applicable to all charges.

4. A bulk discharge price should as far as possible be cost reflective, which should include taking into account the existence of efficient and sustainable drainage solutions which may result in less highway drainage entering the public sewers of the existing appointee.

As stated above, we agree that as a general principle highway drainage charges should be broadly cost reflective. However, where a new appointee provides a local drainage service the impact on the volumes entering the public sewer are likely to be minor and the associated cost saving to the existing appointee as a proportion of their overall highway drainage costs immaterial, so any potential discount would be offset by the associated transaction costs resulting from a more complex charge structure.

It could be argued that the single charge we currently levy does not reflect the correct proportion of highway drainage costs that should be recovered from the new appointee, given the fact that each development site will include multiple domestic and non-domestic premises, all of which will benefit from the highway drainage in the wider area as well as on the development site itself. So, even if the new appointee provides a local highway drainage service, we feel that an appropriate contribution should still be made by each household/premise in the NAV to the wider drainage service provided across the region.

This suggests that a separate highway drainage charge should be levied rather than recovering these costs through the sewerage fixed charge. A mechanism would be needed to charge the NAVs according to the number of premises connected in their site. This is an important consideration for the future given the likely increase in the number of Insets and therefore the proportion of customers served by new appointees. Charging mechanisms are required to ensure that highway drainage charges are evenly recovered across all customers and not disproportionately loaded on to those customers served by existing appointees or from non-household large users (in order to recover sufficient revenue from new appointees).