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Date: 28 October 2014

Dear Richard

**Response to Ofwat's consultation on:  
New appointments and variations – Ofwat's policy relating to highway drainage**

This response to the recent consultation on the above topic is on behalf of SSE Water Ltd (SSEW). As you know, SSEW is a new or 'NAV' appointee, and we welcome Ofwat's consultation to clarify its policy on new appointments and variations, originally issued in February 2011, in respect of highway drainage charges.

We support the 4 proposed principles on this matter that are set out in section 3 of the consultation as we believe that they correctly set an expectation that, where a new appointee's site does not add to the load on the existing appointee's surface water drainage network, the new appointee should not be asked to contribute to the existing appointee's highway drainage costs. Against this background, we have a few comments that we hope will help to add clarity to the proposed principles.

Detailed Comments

1. Principles 1, 2 and 4 refer to 'the sewers' or 'the public sewers' of the existing appointee. We suggest that this reference be amended to the 'surface water drainage network' as it is this sort of drainage that the new appointee can sometimes design their network to reduce or avoid, as discussed in the consultation. Where it can be demonstrated that no roads in the inset appointee's area drain to this network, we agree that the new appointee should not be expected to contribute to the existing appointee's highway drainage costs. Where a new appointee provides sewerage services to end customers, however, it is unlikely to be able to avoid connection to the main sewerage network of the existing appointee. We want to avoid the situation where an existing appointee can point to the existence of the main bulk sewerage connection and use this fact to justify charging highway drainage inappropriately to the new appointee.
2. We suggest it would be helpful if Principles 3 and 4 were amended to clarify an expectation that the existing incumbent should not charge a new appointee more for



highway drainage than it would be able to recover directly if it were serving the end user properties on the new appointee's site. Such anomalies could arise in various situations:

- distinctions between how retail and wholesale charges are applied;
- differences between the charges applicable under different retail tariffs e.g. between the large user tariff commonly used by existing appointees as the basis of a bulk supply charge to new appointees and the applicable household tariffs; and
- where new appointees are classed as 'commercial properties' attracting a different scale of highway drainage charge compared with what would apply to the household properties making up the bulk of the new appointee's site.

We have made similar comments in response to other Ofwat consultations on wholesale and retail charges. Since NAV appointees are constrained by their licences to charge no more than the existing appointee at the retail level, we wish to avoid any form of wholesale or bulk supply charging that imposes additional costs on the new appointee that they cannot pass on – this would, in our view, would lead to a competitive distortion in the market.

3. With regard to Principle 4, we support its intention to allow any residual charges for highway drainage to reflect works that the new appointee may have undertaken to reduce the highway drainage flows that enter the surface water drainage network of the existing appointee. On the general matter of 'cost reflectivity', we would caution against the sort of mis-matches discussed above developing in situations where wholesale charges become more 'cost-reflective' than generally applicable retail charges.

We hope these comments are helpful and would be happy to discuss any point further if required.

Yours sincerely

Aileen Boyd  
Regulation Manager