

Ofwat response to issues raised in consultation responses to ‘New appointments and variations – a consultation on Ofwat’s policy relating to highway drainage’

Issue raised	Raised by	Ofwat response
Principle 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.		
Any increase in an existing appointee’s bulk discharge price will have a negative impact on competition as it will reduce the margin available to new appointees.	Independent Water Networks	It is important to note that if a new appointee receives a highway drainage service, then it should pay for it on a cost-reflective basis.
The size of the area which drains to the existing appointee’s network is the relevant basis for highway drainage charges, and the existence of roads is irrelevant.	United Utilities	We disagree that the size of a site is the only relevant basis for highway drainage charges and re-iterate that if a new appointee receives a highway drainage service, then it should pay for it on a cost-reflective basis.
There is an argument that charging for highway drainage is not relevant as the new appointee is only discharging surface water from its area to the existing appointee’s public sewer. The source of this surface water is not relevant to the existing appointee.	Peel Water Networks	We consider that if a new appointee’s site contains public roads which drain to the public sewer, then the new appointee is receiving a highway drainage service from the existing appointee and should pay for it.

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<p>Principle 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.</p>		
<p>Customers of new appointees benefit from the drainage of all highways in the existing appointee’s area, irrespective of whether highways are linked to their premises. If customers of new appointees do not contribute towards the total highway drainage costs of an existing appointee, such costs will fall disproportionately on customers of the existing appointee.</p>	<p>Seven sewerage companies</p>	<p>It is important to note that once we grant a new appointment or variation at a site, customers on that site become the customers of the new appointee and are no longer customers of the existing appointee. The new appointee’s site is no longer part of the area of the previous appointee. The application of the previous appointee’s highway drainage charges is no more relevant than it would be for any other adjoining appointee. Further, charges must be cost reflective wherever possible and the new appointee should therefore be receiving a highway drainage service from the existing appointee if it is being asked to pay for it.</p>

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Principle 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.		
Commercial negotiation should be replaced by clear guidance and consistent charging principles.	Anglian Water	We consider that the onus is on existing appointees to develop guidance and principles which they can apply to their negotiations with new appointees.
Negotiations between a new appointee and an existing appointee are not undertaken on a fair footing.	Independent Water Networks	The principles we will take into account in determining a bulk discharge price should assist in ensuring that the negotiating parties are on an equal footing.
There should be an onus on both parties to disclose all relevant information and be transparent.	Peel Water Networks	We agree, and have amended the policy to reflect the fact that we expect disclosure and transparency in the negotiations.
Principle 4: A bulk discharge price should, as far as possible, be cost reflective. This 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.		
An existing appointee should not be able to charge a new appointee more for highway drainage than it would be able to recover if it served each property on a new appointee’s site itself.	SSE Water	We agree, and would consider such behaviour to be potentially anticompetitive.