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Dear Richard

Re New Appointments and Variations – a consultation on Ofwat’s policy relating to highways drainage.

Thank you for the opportunity to comment on the above consultation. We welcome Ofwat’s involvement in an area that has for some been complicating bulk discharge negotiations.

The current legislation enables highway authorities to use the public sewer system for drainage of roads repairable by them (public roads), and sewerage companies are prohibited from charging highway authorities for that service. Sewerage companies therefore bear the costs and it is ultimately customers who pay for highway drainage through their sewerage bills. It is different from other costs in that the charge paid by each customer is unrelated to the service they receive.

A study we have undertaken on the impact of highways drainage at seven of our locations has suggested that it may account for as much as 22% of the volumetric load in the sewerage network and therefore account for a significant proportion of the sewerage bill.

Ofwat advocate an approach based on the specific circumstances pertaining to the inset appointment and the principle that the enjoyment of this service is specific to how drainage is performed in a particular geographic location.

The consultation goes on to recommend that where highways drainage is dealt with within the curtilage of the inset area then the bulk supply should be discounted to reflect this arrangement and that it may be more appropriate to move to a localised pricing structure.

We disagree with this conclusion and would contend that:

- Such an approach disregards the fact that customers of the site enjoy the use of all the public highways in their region and it links customer charges to the road servicing its property;
- With most NAVs mirroring the incumbent’s scheme of charges, it may afford the NAV significant discounts on its bulk discharge price for highways solutions it may have had little or no involvement in;
- If savings on the bulk supply are passed onto the NAV’s customers it will afford those customers a discount not available to the incumbents own customers;
- In avoiding what is effectively a regional highways tax the inset appointment will have had an adverse impact on regional average charges and the generality of customers’ bills;

- Sewerage undertakers may be required to fundamentally change the way highways drainage costs are dealt within their business. A previously uncontrollable overhead will need to be translated into a charging policy utilising information not currently held by the undertaker. A localised price may need to have regard to rainfall figures, local topography, highway surface area and interconnectivity with other highway drainage systems; and
- Given the significant costs associated with highways drainage, inset appointments may become viable not as a result of the quality or cost efficiency of the NAV's sewerage provision but as a consequence of the local configuration of the highways network.

Ofwat's principle argument is that the NAV's appointed area is effectively a separate region and the NAV should have autonomy on how it charges for highways drainage. We believe that this overly simplifies a more complex policy argument.

Whilst we believe that a wider debate is required on highway drainage, and that more needs to be done to incentivise more sustainable solutions like Dwr Cymru's "Rainscape" programme, we are concerned that the current consultation does not seek to address the policy concerns highlighted above.

It is acknowledged that previous Governments have been reticent to change the current approach, the most recent review having been "Water charging in England and Wales" published in 1998. However we believe a fuller impact assessment is needed before the regulatory guidance is finalised.

A first priority would be to quantify the cost of dealing with highways drainage at an industry level, before considering a charging mechanism which is fair to all customers.

We await the outcome of the consultation and if in the meantime we can be of further assistance, please don't hesitate to contact us.

Yours Sincerely



Mike Davis
Director of Strategy and Regulation