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30 October 2019

Dear Emma

I am writing in response to your letter to Peter Simpson of 16 September 2019. As you know, Anglian Water supports Ofwat's on-going work to develop and improve markets in the water sector and we agree that markets can play an important role in driving innovation and dynamic efficiency to the benefit of customers. This is a key theme of our Strategic Direction Statement and our business plan.

We take our responsibilities under competition law very seriously. We go beyond our legal duties to facilitate and help markets work well. In fact, we have taken a leading role in establishing frameworks for new markets in water, such as, our role as part of the Open Water Programme in the creation of the non-household retail market and as Wholesale representative on the Open Water Market Limited board.

In our region, we have been successful in fostering the development of markets. This is demonstrated by our consistently strong performance against the market performance framework in the retail market, and high levels of activity from competitive providers in the developer services market. For example, in the Non-household retail market, we are a consistently strong performer across the Market Performance Framework metrics. In 2018/19 we were the third highest performing wholesaler under MPS (90.0% performance) and fifth under OPS (96.7%). We were the only water and sewerage company (WaSC) to rank in the top 5 wholesalers across both of these metrics. In terms of the market for development services, self-lay providers (SLPs) completed 41% of the connections in our region 2018-19. Their market share has grown steadily since 2011-12 when they did 11.5% of connections.

Our region is the driest and fastest growing outside of the South East of England, and those challenges cannot be met by Anglian Water working alone. We actively collaborate, with a range of stakeholders to develop markets wherever it is in the long term interests of our customers and the environment.

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We see a real opportunity for greater flexibility in abstraction and water resources trading to support resilience in the long term, particularly in a water-scarce region like ours. We will work with Ofwat to develop markets for water resources to ensure they deliver for customers and the environment.

There are many examples of the water industry embracing innovative ideas and markets. The industry is let down by poor performance from a limited number of companies in certain markets. Ofwat should target its interventions in these areas in addition to longer term reforms to deliver the best outcomes for customers.

In the annexes to this letter, we answer each of the questions raised in your letter in turn. We have also considered what actions could be taken to further develop these markets so that they work well for customers. These are referenced in the annex but also summarised here:

- In the market for new developments:
 - For full service NAVs we intend to offer an income offset against the infrastructure charge.
 - D-MeX represents an opportunity to give a strong voice to competitive providers. Some of the latest proposals on de-duplicating self-lay and NAV survey respondents and prioritising them as survey respondents for smaller water companies will weaken their prevalence in D-MeX. Similarly reducing the focus on the quantitative element of D-MeX will also reduce the weighting towards competitive providers.
 - Ofwat and Defra could consider, over time, removing the requirements that charges for developers reflect a historic balance of contributions. This would result in greater transparency over charges and send clearer price signals to those wishing to connect to water and wastewater networks.
- In the non-household retail market:
 - A key issue in the market remains the lack of awareness among customers. Cross industry solutions to this issue could include reflecting end-user awareness in the Market Performance Framework or using funds from MPS and OPS charges to support an awareness campaigns rather than redistributing these charges back to trading parties.
 - Water saving figures from the competitive non-household market suggests that the current market operation is not enough to reduce demand by pre-market opening ambitions. The industry should consider how this could be remedied through the market. For example, could MPS and OPS fines be used to help support a national non-household water saving campaign?
 - Two and a half years into the market, this may be an appropriate juncture at which to consider the structure of the market as a whole. For example, an analysis of whether meter reading is best considered a retail service within the market and subject to competition, or whether such a service is better delivered through regional wholesalers. Such a review could also consider other areas of the

market, including whether the Market Performance Framework appropriately covers those aspects of the market which are most important for customers.

We hope these responses are useful, and we look forward to hosting Ofwat staff at our offices on 4 November.

If there are any queries in the meantime, please do not hesitate to get in touch.

Yours sincerely



Alex Plant
Director of Strategy and Regulation

Our on-going contribution to markets in the water sector

Markets can play an important role in driving innovation and dynamic efficiency to the benefit of customers. We consistently take a leading role in shaping new markets with this goal in mind. Maximising the use of markets is an important part of our business plan, as described in the markets chapter.¹ In the annexes to this letter, we answer each of the questions raised in your letter in turn.

We embraced the development of the non-household retail market, acting as the Wholesaler board member on the Open Water programme, being one of three companies that initially established Open Water Market Limited, which later went on to become MOSL, the market operator. We also provided support through secondments, expertise and funding far beyond the scale envisioned or recognised in the PR14 final determination.

We recognise our responsibility as an incumbent to help markets work well in areas such as non-household retail and development services. This is why we have developed innovative digital platforms, such as In-your-area, In-Flow and Gro-sight, to facilitate these markets.

We have also led the development of markets in other areas, including:

- leading the development of the Non-household retail market and building new tools to help retailers;
- innovating in water trading and leading the work on priority catchments;
- pioneering multi-sector approaches to new water supply assets;
- improving existing markets for providing services to developers, new appointments and variations (NAVs) and self-lay providers (SLPs);
- led on charging reform for new connections and exploring alternative water;
- supported the growth of sludge trading and creating the Biosolids Assurance Scheme and;
- used markets and third parties to develop solar capacity at our sites, increasing the proportion of our energy generated from renewable sources.

Where we operate in competitive markets, equivalence is of paramount importance. We monitor compliance and equivalence through our Wholesale Board. This includes monthly monitoring of levels of service to our different types of customers and annual equivalence audits.

¹ <https://www.anglianwater.co.uk/about-us/our-strategies-and-plans/2020-2025/>

List of annexes

Responses to Ofwat questions – contained within this document

- A. Question relating to your Board's support for the development of effective markets
- B. Questions relating to the Business Retail Market
- C. Questions relating to the Market for Developer Services
- D. Question relating to the effective support and development of new markets

Additional annexes – attached as separate documents

- 1. Wholesale Board paper – business retail market engagement strategy
- 2. MPS3 performance improvement plan report
- 3. Delivery partner rates cost model
- 4. Charges workshop presentation 2019

Annex A: Question relating to your Board's support for the development of effective markets

Please provide a description of how your Board engages in and discusses plans for the company's work to support the development of markets. For example, is there a designated Board Committee, is there a designated part of the agenda for regular Board meetings dedicated to discuss this?

The Board of Anglian Water (the "Board") meets, on average, eight times each year. In common with most companies, there is a list of matters reserved to the Board which includes approving the Company's strategic aims and objectives and overseeing the Company's operations in order to ensure (amongst other things) the maintenance of sound management and internal control systems and compliance with statutory and regulatory obligations. Therefore, any discussion by the Board of "plans to support the development of markets" must be understood in the context of these overarching objectives. It follows that the development of markets is not a routine agenda item.

However, where the development of markets involves a change in strategy or risk, the Board will be (and had been) closely involved. A good example of this was the liberalisation of the market for the supply of retail services to non-household customers. In this instance, the Board was keen to understand the approach to the separation of the non-household retail business, the risks associated with separation and the on-going responsibilities of Anglian Water as a wholesaler. The Board was also extremely concerned to ensure that the migration of non-household customer data took place as smoothly as possible given the potential implications for the retailer (Anglian Water Business National) and on the end customer of receiving inaccurate data. The project to bring about retail separation was both time consuming and expensive. However, the Board supported the allocation of the necessary financial resources.

The Board supports the development of markets where there are clear benefits for customers. Following the separation of the non-household retail business, the Board has been keen to understand Ofwat's analysis on the benefits and costs related to the potential separation of the household retail market.

The Board has also received presentations regarding the potential opportunities associated with the market for Bioresources and, in September 2017, it signed a statement confirming its support for the approach to the valuation of the RCV associated with Bioresources.

As regards Water Resources, the Board has tracked the development of the Water Resources Management Plan and has received regular updates from the Chief Executive regarding opportunities to trade water with adjoining

companies ([REDACTED]). The Board has also discussed the potential benefits of a bulk transfer of water from Severn Trent.

The Board is also concerned to ensure that there are appropriate controls in place to mitigate the risk of actions which could impede the proper functioning of markets. The risk of failure to comply with the Competition Act 1998 appears on Anglian Water's "Top Tier" risk register which is reviewed by the Board on a six monthly basis. We report on our approach to managing this risk in our Annual Integrated Report.

The Board has endorsed the approach to competition law compliance set out by the OFT in its 2011 guidance note entitled "How your business can achieve compliance with competition law". This approach contemplates four key steps (Step 1: risk identification, Step 2: risk assessment, Step 3: risk mitigation and Step 4: review). The OFT also stressed the importance of Commitment to Compliance (from the top down) noting that "Senior management, especially the board, must demonstrate a clear and unambiguous commitment to competition law compliance." All directors receive a presentation on Competition Act risk on joining the company as part of their induction.

The process of identifying potential competition law risks, understanding the potential impact of those risks and identifying mitigating actions is undertaken at a more granular level by the Company's Wholesale Board which meets monthly. This Board was established in 2012, setting the right culture for business well before recent market developments. The Wholesale Board is chaired by the Director of Customer and Wholesale Services and attended by the Regulation Director and the Group Legal Director. A detailed Competition Act risk register (which identifies just under 30 individual risks) is reviewed by the Wholesale Board on a six monthly basis. The Wholesale Board also receives an "Equivalence Update" each month. This captures the level of service provided to all commercial customers (including developers, NAVs, SLOs and to retailers). The September 2019 report notes that for Development Services, the overall level of service was 99.63% (99.82% for self-lay providers and 100% for NAVs). For the Wholesale Service Centre (providing services to retailers) performance was 94.66%, and 93.62% when services to Wave are excluded. The Wholesale Board also considers market changes, consultations and policy consultations.

Given the limited time available at Board meetings, the Board necessarily places reliance upon a range of controls to ensure that Competition Act risk is managed effectively. These include assurance that internal controls relating to the management of Competition Act risk (such as training of staff undertaking higher risk activities) are operating effectively together with annual reports from the Company's "internal" auditors (PwC) on the effectiveness of the Company's equivalence processes referred to above. The findings of these internal audit reports are presented to the Audit Committee. In addition, the

Board relies on management to monitor developments in markets which have the potential to increase risk. Any such developments are reported to the Board by either the Regulation Director or the Chief Executive Officer.

How does the Board ensure that staff have the time they need to be able to raise any issues, get the support and resources they need for work concerning the development of markets?

As stated above, the Board committed a significant sum to ensure that appropriate preparations were made for the opening of the non-household retail market. The progress of this project was closely monitored and progress in relation to key miles sites (such as data migration to the retailer) was reported to the Board.

As noted above, the Board necessarily focuses on issues which pose a risk to the delivery of key objectives. If management took the view that the absence of resources put the delivery of an important outcome in jeopardy, the Board would be asked to consider the case for re-prioritising expenditure.

Employees are encouraged to raise all concerns with their line manager. If employees feel that they are unable to raise a concern directly with their line manager, they can raise it via the Company's whistleblowing hotline. Our whistleblowing policy is also published on the AWS website (<https://www.anglianwater.co.uk/siteassets/household/about-us/whistleblowing-policy-and-procedure.pdf>). The whistleblowing hotline is staffed by members of our Internal Audit function (employed by PwC) so that employees can have complete confidence that their call will be dealt with impartially and in confidence. The AWS Audit Committee regularly reviews whistleblowing calls together with the issues raised by whistleblowing and actions taken in response.

We report on our whistleblowing programme in our Annual Integrated Report (AIR) – see page 112 of the 2019 report for more information.

Annex B: Questions relating to the Business Retail Market

General

1. As the provider of wholesale services in the business retail market, what action do you take to understand the experiences of end customers in consuming these services? (For example, concerning the ease and speed with which end customers may - including via their retailer - request and receive meter installation, meter repairs, data logging services, decisions on leakage allowances, non-return to sewer allowances, permissions and permits concerning water supply and trade effluent services, disconnection or change of tenancy notification).

We engage closely with the retailer community operating in our region to understand their experience and the experience of their customers. In general, we seek feedback on end-user customer experience through retailers. This respects the principle of the market whereby the retailer owns the relationship with its customer, and reduces the risk of customers being confused as to who their supplier is, particularly given the low awareness of the market amongst customers at present.

Each retailer operating in our region has a technical account manager. This provides a key avenue through which retailers provide feedback regarding their experience and that of their customers. In addition, we have weekly conference calls with the retailer community during which retailers can feedback or escalate any service related issues. We also offer a monthly call to all retailers, specifically to discover end user complaints. We run retailer satisfaction surveys which enable us to derive a net promoter score ("NPS"). We believe that NPS is an important measure as it allows greater comparability with service orientated organisations inside and importantly outside the sector.

We publish our continuous improvement programme (CIP) where we have two improvement sprint cycles per year. These cycles are built around regular input from retailers and are reviewed periodically to ensure we are making the improvements to service which will have the most positive impact on customers. More on our CIP including our delivered improvements and future pipeline improvements can be found on our wholesale website at <https://wholesale.anglianwater.co.uk/performance/continuous-improvement/>.

In addition, our Retailer Notification service provides regular updates to retailers and their non-household customers regarding operational work and incidents. This goes beyond the minimum code requirements at postcode level and instead provides a customised retail view at SPID level.

We regularly review our performance against the market codes, industry peer levels and customer feedback. We seek to outperform the minimum code service levels in relation to areas of particular importance to retailers (based on

their feedback). Currently our performance is 5 days for tariff changes compared to a 20 day service level, and 5 days for complaints compared with an 8 day service level. By outperforming the service levels in the codes, we aim to better support retailers in delivering better services. We review CCWater's research into customers' experience of the retail market and work directly with CCWater and the retailers to resolve complaints where the customer has an issue with the wholesale service it has received. We are pleased that our wholesale complaint volumes have continued to fall as the market has evolved.

We also work closely with end-user customers and their retailers whose wholesale requirements are of strategic importance. A key example of this is the South Humber bank, a highly industrialised area which contains some of our [REDACTED] customers. This includes a number of oil refineries and power stations - the area is designated as nationally significant infrastructure. We work with retailers and their end users in the Humber Bank area to understand how their site operates, and how we can work together to mitigate any potential future issues.

Industry governance

2. Please outline and provide relevant evidence on the extent to which you monitor, contribute to and participate in the work of the Industry Panel (including relevant Committees and working groups).

We have provided resources to support multiple industry groups. We recognise the significant market expertise we hold within our organisation, and the benefit that we can provide to the market through industry panels, and working groups. Therefore our people have a significant level of direct involvement in industry working groups and committees, through which the business receives feedback on developments taking place in the industry. Since market opening, we have had representation on the following industry Panel committees and working groups:

- Market Performance Committee
- Market Incident Management Plan Committee
- GDPR Issues Committee
- Credit Committee
- Operational Performance Standards Working Group
- Digital Strategy Committee
- Wholesale Market Interface Group
- Operations & Release Working Group
- User forum
- Accredited Entity Group
- Wholesale Interface Group (Anglian Water were one of the founding members)
- East of England Working Group (established by Anglian Water)
- Northern Hub

- Self-supply forum
- Vacancy group/ MPOP
- SPID pairing working session (set up by Anglian Water)
- Retail Wholesale Working Groups, including planned/unplanned group, RMEX group and Gap site incentives standardisation group.

We also provide senior resource to drive the strategic direction of the market. Acting in an independent capacity, our Head of Wholesale Market Services is an alternative member of the MAC Panel and has recently been appointed as the wholesale non-executive director of MOSL.

We monitor and review code changes that the Industry Panel considers for recommendation to Ofwat and have a process in place by which we respond. Each consultation response is coordinated by our regulation team with materials and input provided from teams across the business as appropriate, particularly our Wholesale Market Services team. We aim to respond to every industry consultation that is shared by the Panel and its sub-committees.

In addition to the above, our Wholesale Board receives a monthly update on key developments in the market as part of a monthly 'Non-household market performance, compliance and settlement report', with key developments being discussed at a more granular level at the Non-household Performance Group (a sub-committee of Wholesale Board established to drive performance improvement across our business).

3. Please explain how, in making decisions about how to respond to relevant industry consultations on code change proposals, you balance or reconcile your commercial interests with those of the market as a whole, where possible, citing examples.

Our primary consideration in responding to consultations is the impact that the change would have on the market as a whole. Naturally, we respond to consultation using the expertise we have developed in our position as a wholesaler in the market and from our experience in other markets. Each consultation includes questions relating to the costs and benefits that the change will have on our business, and set out what (if any) commercial impact a change will have on our business in our responses to these questions.

We take this approach to all of our consultation responses, regardless as to whether we believe the right solution for the market will be commercially beneficial or not to Anglian Water. This is illustrated by our response to consultations on the market performance framework, in which we have explained our reasons for disagreeing with the proposed approach to the redistribution of Operational Performance Standard charges back to wholesalers. In our view it is unfair that the constituency of trading party responsible for the failure (wholesalers in this instance) should be reimbursed

these fines at the end of the year. We proposed a system whereby the affected party (retailer) directly receives the OPS fines paid by the wholesaler, giving a stronger incentive for wholesalers, and a compensatory payment to retailers. We believe that this is the right approach to take for the development of the market as a whole notwithstanding the fact that our proposal would mean that we would no longer financially benefit from the redistribution of OPS charges.

4. How have you developed your company's strategic approach to participation at the Industry Panel (including relevant Committees and working groups)? To what extent has it been discussed or approved by your Board? Please provide relevant evidence to support your response (such as Board papers).

Our strategic approach to participation in the Industry Panel is developed by our Wholesale Board. The board most recently discussed the strategic approach in December 2018, ahead of the nominations process for the Industry Panel. The Board considered a number of potential approaches to participation on industry groups balancing the benefits of providing input and expertise to the industry against the cost of providing this resource.

This steer from our Wholesale Board is taken into account by our Regulation and Wholesale Market Services teams when considering whether or not to propose representatives for Industry Panel Committees and Working Groups as positions come available. Nominations are determined based on a number of factors including the availability of relevant expertise in the business and materiality of the issue that the group is concerned with. A list of committees and working groups to which we have provided resources are highlighted in our response to question 2.

We have also used this direction from Wholesale Board to take forward our approach in responding to industry consultations. We have responded to over 40 industry consultations and requests for information since market opening. We also apply a similar principle to non-market coded groups such as RWG, providing input where there is greatest value to the group. For example, an AWS member chairs the WIRSAE Group which seeks to bring additional choice for retailers through the Accredited Entity scheme.

Further materials: Annex 1 – Wholesale Board paper: Business retail market engagement strategy

Wholesaler performance

5. Have you been subject to an Initial Performance Rectification Plan (IPRP) at any point since they were initiated? If so, what measures did you take to understand the root causes for your underperformance, what activities did you undertake to address this and how has your performance changed since going on the IPRP?

6. Where an IPRP has been put in place for your company, has your Board discussed your IPRP? Please provide relevant extracts of Board papers that document any such discussions.

We have not been subject to an IPRP, and we have taken a number of steps to monitor our performance internally to ensure that this remains the case.

Our performance in the market is monitored monthly by Wholesale Board, and the Board has also established a sub-group (the Non-Household Market Performance group) to monitor, review and take steps to improve our MPS and OPS performance at a granular level. The group also monitors industry performance on MPS and OPS measures to understand overall trends in performance at a market level, and monitors market change to understand what developments are on the horizon for the market.

Through undertaking this work, the group identifies where there are any potential issues that could lead to an IPRP, understanding the root cause of any performance issues and taking steps to rectify them. Where this process is in place for any particular measure, Wholesale Board is kept informed of progress and makes a judgement on whether any extra resource is required to tackle the issue. For example, we recently undertook an internal performance improvement plan when the business deemed that performance was not acceptable for MPS3. Through undertaking this root cause analysis and taking actions to improve our performance, keeping Wholesale Board informed throughout, we were able to ensure that we continued to meet our obligations under the market codes.

Further materials: Annex 2 – MPS3 Performance Improvement Plan report

7. Please set out what safeguards and/or monitoring you have in place to monitor your Operational Performance Standards (OPS) performance for your associated retailer in relation to other retailers?

As part of our Market Reform Programme we undertook an extensive market awareness campaign along with competition compliance training across all of our operational teams. We also identified high risk teams within the business who received additional training to ensure that there was no preferential treatment of our associated retailer.

Our Wholesale Board receives a Non-Household Performance and Settlement report each month. This includes performance against each OPS standard separated out into the level of service provided to the associated retailer (Wave) and the level of service provided to all retailers except for the associated retailer. This gives Wholesale Board both an overview of the percentage of tasks completed for Wave compared to other retailers, and also shows the average level of service retailers experience for each task. This

allows the Board to query any differential in performance between Wave and other retailers.

8. Please set out what processes you have in place to assure yourself that OPS performance data is accurate and valid before it is submitted to MOSL.

We engage at a market level and monitor changes to the Market Performance Framework to ensure alignment with market changes and new requirements.

We monitor OPS performance on a daily basis, and our Wholesale Service Centre management monitors performance in real time through an automated analytical tool, allowing the team to have constant awareness of performance, and that the quality of data and all tasks are tracked and reviewed through our Customer Relationship Management system (CRM) which includes our customer portal for retailers. Each request is time stamped at each reportable stage, providing an audit trail of each task. Progress on service requests is visible allowing a retailer to track its service request. We also have a live chat function with automated email updates, allowing retailers to stay informed of progress. For complete transparency we also publish our OPS and MPS performance on our wholesale website, and we agree with Ofwat's view that this should be more visible in the market. We specifically review exceptions as part of our business-as-usual activity. In addition, we also undertake additional quality checks on OPS tasks including checking dates are correct, checking that we respond to retailer, as well as a review of how we responded and whether we responded in a manner that put the customer first. We also have a dedicated performance specialist whose role is to review performance including automation of report to remove the need for manual intervention. We look forward to demonstrating the above to Ofwat, during its visit on 4 November.

Our NHH Performance Group reviews market reported data each month and reviews individual failures along with root cause analysis. Any performance data issues are identified and actioned as appropriate. Our performance management routine includes a weekly performance call to review performance and any customer issues that need escalation. We have also included OPS and MPS in our internal audit programme to provide further assurance of our process.

Data quality

9. Please explain any collaborative work you have initiated with retailers to improve the quality of market data in relation to: long unread meters; faulty meters; and vacancy.

We have provided over 100,000 meter reads to retailers to support the long unread meter reading position in the market. These reads have been obtained for leakage management purposes. We have also provided additional meter reading information and previous walk routes to retailers to help optimise meter

reading operations. We proactively review settlement and highlight at SPID level where there are meter read discrepancies. We share this with all retailers to address impacts on upcoming settlements.

We run a proactive meter replacement programme, through which we have assessed the appropriate replacement rate for our meters to offer customers best value for money and prevent meters from becoming faulty, limiting the number of meters that retailers report to us as being faulty. In addition to this, we have set out in our PR19 business plan, a 10-year plan to roll out smart meters across our region on an area-by-area basis from 2020. These will provide multiple meter reads every day and therefore have the capacity to provide almost immediate notification when the meter is faulty.

We have conducted two significant third-party desktop exercises on vacancy which looked at the market vacancy position at premise level, showing which premises were occupied/ vacant. We shared the results of this survey with retailers to help improve the market dataset and support accurate settlement, and ultimately identifying chargeable accounts that retailers can bill. We have continued to work with retailers on the results returned from the vacancy exercise to make improvements to the completeness and quality of the results. This is in addition to the business as usual undertaking of our leakage team who regularly undertake site visits to identify vacant properties. In addition to the insight this provided on vacant sites, where the study flagged potential data quality issues (e.g. address data or meter location data isn't right), we took actions to make improvements.

At an industry level we have provided resource to the vacancy group through our Market Interface Manager. As part of this group, we have volunteered to be a test example of a wholesaler-retailer pair with Wave (we are also working with other retailers on vacancy), and will be sharing results with the group and making recommendations on the Market Performance Operation Plan (MPOP) following this work. We are continuing to identify opportunities to work more collaboratively with retailers on vacant properties and we are also working to improve the vacancy challenge process as part of vacancy group to streamline and make the process more effective.

10. Please describe any processes you have in place to improve the quality or coverage of data in CMOS that relates to your activities and responsibilities as a wholesaler (for example, to ensure meter location data is complete and accurate). How long have any such processes been in place?

Since the market opened, we have regularly reviewed and improved the accuracy of the data submitted at initial upload. These actions have included reviewing GIS data relating to meter locations - making this a mandatory requirement and quality measure for our metering teams - updating CMOS where necessary. We also undertake regular audits of new supply points and

changes to existing market meters when new meters are added to the market. We have system controls in place to provide validation to the data being entered into CMOS, reducing data quality inaccuracies. We also conducted an extensive data capture exercise in advance of market opening; this has since become a BAU process.

Since market opening we have actively collaborated with our neighbouring wholesalers to resolve unpaired SPID issues including hosting a SPID pairing workshop. As a result, we have made a reduction in our unpaired numbers across our area and also across other pairings. We have shared best practice in this process through the East of England Working Group.

As described in response to question nine, from market opening we have worked with a third party to evaluate vacant premises and provide leads to retailers to help with vacancy. We have now funded two complete reviews and work with retailers to ensure the market has the correct vacancy status. We have taken the view that we need to support retailers around vacancy, particularly pre-market opening vacancy, and are therefore considering an additional review in future. To date we have spent circa £80k on this initiative. We have also put forward an SME to support the MPOP vacancy group.

11. Please describe any processes you have in place to take into account information received from retailers or end customers concerning incomplete or inaccurate data held in your systems or in CMOS. (For example this could relate to: meter location; customer or retailer meter readings; change of tenancy; or disconnection). Please also set out the process that a retailer would need to follow in order to inform you about incomplete or inaccurate data and your process and timetable for responding to this.

Our retailer portal is used as the central hub of communication between ourselves and the retailers operating in our area. Processing requests in this way provides simplicity for retailers as they can manage all communication with us through the portal including through providing additional comments, live chat functionality and easy tracking of task progress. This applies to any instances where a retailer provides us with information that either they, or their end user customers report in relation to incomplete or inaccurate data. Retailers will contact us through the portal as part of BAU, and we will undertake verification visits where necessary and update CMOS accordingly in accordance with the market codes. We have not received any feedback from retailers to suggest that additional processes outside of this are necessary.

Wholesaler retailer interactions

12. Please outline and provide evidence on the extent to which you monitor and contribute to the work of the Retailer Wholesaler Group (RWG) or other similar discussion and action groups. Have you fully implemented published RWG guidance? If not, please explain why.

The Retailer Wholesaler Group is regularly attended by our Wholesale Service Centre Manager or another nominated relevant expert. As part of this group we have used our experience in the market to contribute to developments in the group. Examples of this include planned and unplanned incidents, where we have shared our best practice with the group and highlighted the retailer notification system that we developed. This provides retailers with information on where we are undertaking repairs and dealing with incidents in our region, and allows them to see which of their customers will be affected. This is a product which has been incorporated in other wholesale areas as a result of retailer advocacy. We have also used knowledge and learning from our retailer satisfaction performance commitment in our PR19 business plan, to support the development of the RWG industry-wide R-MeX measure. As the only wholesaler to promote a gap site incentive scheme from market opening we have supported the RWG in developing a standardised gap site incentive scheme at an industry level.

Beyond the RWG we have also established the East of England Working Group to allow closer collaboration on key issues between those operating in the region. We have also set up sub-groups from this to tackle specific issues, such as SPID pairing workshops to provide an opportunity to work with border companies to reduce the number of unpaired SPIDs. We have seen a noticeable fall in the number of unpaired SPIDs as a result of this. As wholesaler for the Hartlepool region, we are also a member of the Northern Hub regional group.

We have fully implemented the published RWG guidance.

13. What actions have you undertaken to support the development and implementation of a bi-laterals solution? Has your Board discussed your approach to the bi-laterals solution? Please provide relevant extracts of Board papers that document any such discussions.

Since market opening we have sought to make our own bilateral solution as simple as possible for retailers to use. For example, through the use of smart forms a retailer can submit a 15 page market form in 7 clicks. We have used the market dataset to support this operating on the principle that the retailer shouldn't have the re-enter data that is already in the market. This has reduced the level of rejection and helped to maintain high quality data. More recently, as part of our CIP, we have created an innovative PDF solution, allowing retailers to submit requests in this electronic format. We are currently working with other suppliers of services to retailers to consider how we can help to allow retailers to operate more efficiently.

We have also supported the development of the bilaterals solution at an industry level through our Chief Information Officer's (CIO) membership of the Digital Strategy Committee, and through the RWG group.

We discuss the role of our Board in relation to the development of effective markets in Annex A.

14. Wholesaler policies: Please set out (and where appropriate provide relevant supporting evidence):

- *what action you take to help ensure your wholesaler policies (including: i) the charges /charging structure; and ii) any SLAs or KPIs; associated with the provision of wholesaler services to retailers) are readily accessible and understood by all relevant retailers?*

We want to ensure transparency in the provision of wholesale service, our wholesale policies, charges and performance information. So we have published our wholesaler policies, charges and tariffs, and our OPS and MPS performance on our dedicated wholesale website.

<https://wholesale.anglianwater.co.uk/resources/policies/>

<https://wholesale.anglianwater.co.uk/charges-and-billing/current-charges/>

<https://wholesale.anglianwater.co.uk/performance/>

In addition to making information accessible to retailers, we have also gone further to help ensure that retailers understand a number of areas of our wholesale service through a series of webinars. These also help to explain the context behind policies and focus on specific areas of interest for retailers. Conducting these by webinar also makes them more accessible to retailers based across the country and reduces the time and cost of travelling to events. So far we have hosted webinars covering:

- Water resources and drought
- Trade effluent growth enquiries
- Trade effluent consents
- Trade effluent monitoring, compliance and enforcement
- Public Interest Commitment and social contract.

The webinars are all recorded and made available on our website after the event.

<https://wholesale.anglianwater.co.uk/resources/webinars/>

In the past we have held engagement events for Retailers including one-to-ones with our Director of Wholesale Services and open days at our Operational Management Centre. Listening to feedback from Retailers we believe that a

digital first approach through webinars strikes a good balance of Retailers costs and time along with the ability to share videos across companies.

In our scheduled account management meetings we discuss performance and also provide infographic style reports to allow Retailers to easily see our performance. Additionally, we have made self-serve reporting available to Retailers in our portal so they have sight of each of their requests, their status and our performance.

Finally, based on feedback from Retailers more broadly at a market level, for the first time we produced our charges scheme table in excel format to make it easier for Retailers to incorporate and update their own systems.

(b) what, if any, unilateral action you have taken since 1st April 2017 to simplify or otherwise refine your wholesaler policies to the benefit of retailers?

We regularly keep our wholesale policies under review to ensure they are both fit for purpose and provide clarity to retailers. Since market opening, we have updated our leakage allowance policy to extend the timescales for submission and length of time the allowance covers based on retailer feedback. We have clarified our logger installation policy, setting out that retailers can install their own equipment on our wholesale assets.

(c) what - if any - changes have you made since 1st April 2017 to the services you provide, the charges / charging structure for these, and/or any associated SLAs or KPIs associated with the provision of these services? If you made changes, what were the reasons for these changes?

We set out the improvements we have made to our services on our wholesale website. The table below is has been extracted from our website and it shows the significant improvement that we have identified and delivered since market opening to provide benefits to our retailer customers.

Figure 1: Improvements identified and delivered since market opening

Data Quality		Service	
Vacant SPID's	Two third party exercises completed on vacancy which the results shared with Retailers supporting better market data and for accuracy of settlement	NHH Performance Group	A dedicated group, reporting to our Wholesale Board accountable for delivery of NHH performance
East of England Wholesale working group established	Better collaboration to ensure the right outcomes for operational activities, such as the un-paired workshop	Incident Management	Retailer Notification system implemented to support Retailers and NAV's on operational matters
Unpaired SPID's	Improved un-paired position in the market (over 30k reduction)	AWS Meter Reading Service	A meter reading service is available for Retailers, further details of the service agreement and how to sign up are located on the https://wholesale.anglianwater.co.uk/WholesaleResources
Long Unread Meters	Shared available read information to improve Long Un Read Meter Reading position in the Market	AWS Accredited Entity Scheme	An Accredited Entity Scheme is available for Retailers. Further details of the scheme are located on the https://wholesale.anglianwater.co.uk/WholesaleResources
Meter Reading Data	Additional meter reading information and walk routes provided to help Retailers optimise their meter reading operations.	Feedback	Following feedback from our customers we made it easier to navigate our charges scheme. (Quick Links)
Charges		Strategic	
Alternative Credit Terms	Wider range of alternative credit terms available	Water Resource Management Plan	Consulted with Retailers on what was important to them and their customer to help shape the plan.
AWS GAP Site Incentive Scheme	Gap Site Incentive Scheme as been in operation since the Market opened in April 17	Retailer Satisfaction	PR19 Engagement with Retail Customers including development of specific Outcome Delivery Incentive on Retailer satisfaction
Optimisation Scheme Support	Site optimisation arrangement for Retailers to "opt in" under contract and support AWS in its design for large or complex sites.	Emergency Contact Change proposal	Code change proposal accepted to better share contact details that can be used in an emergency

If you have any further questions, please contact the Wholesale Service Centre on wsc@anglianwater.co.uk

15. Charging: Please set out (and where appropriate provide relevant supporting evidence):

- *what - if any - unilateral actions have you taken since 1st April 2017 to simplify your wholesaler tariff structure with a view to facilitating retailers' ability to make price and service offers to end customers.*

Our approach to the development of charging policy for the wholesale tariffs payable by retailers is best considered within the wider historical and regulatory context within which they have evolved.

The responsibility for fixing standard charges falls to wholesalers in the first instance, and it is one that we take very seriously. The principal legal and regulatory requirements to which we are subject are:

- We must prepare our charges schemes in accordance with the provisions of the Water Industry Act 1991, and in particular the rules that are made by Ofwat, and modified from time to time;
- Under our Instrument of Appointment we are required not to show undue preference or discrimination in the setting of charges; and
- Our pricing conduct must not breach the 1998 Competition Act.

In addition, we have to have regard to various ancillary legal and regulatory requirements, such as domestic customers' right to a free meter.

Since privatisation, the development of charging policy has commanded a high priority for us. We have a dedicated team that is wholly focused on tariff development, especially the implementation of the annual cycle of evidence-gathering, policy analysis, and the preparation of charges proposals for consideration by the executive team and, ultimately, the Board. In recent years the process that is attached to and the focus given to this area has been evidenced through the Board Assurance Statements that accompany our charges publications.

The development of charging policy, and the derivation of the actual tariff proposals that are formulated each year, rely on a degree of judgement as well as objective analysis. We have to consider the trade-off between opportunities to align tariffs more closely with underlying costs, and a desire for simplicity of the final tariff schedules. During the 20 years or so following privatisation we implemented a number of changes to our tariff structures, many of which added a little more complexity but offered considerable benefit in the form of better cost reflectivity, and therefore reductions in cross-subsidies between customers. Notwithstanding this process, it is worth pointing out that in many respects our tariffs structures remain highly simplified.

Our ongoing consideration of whether our tariffs meet our obligations and responsibilities, and whether or not there is a case for incremental change

(whether to increase or reduce complexity) has continued through the period of market opening. We are aware that many retailers would value more simplicity and have expressed support for a degree of “harmonisation”. Indeed, when we were members of the “Charging Working Group” that was convened by Ofwat and met on occasion during 2014, we volunteered to prepare a “standardisation template” that would provide a common basis for all wholesalers to present their standard charges. Consequently, since that time, we have increased the weight that we give to tariff structure simplicity in the course of our internal deliberations.

So far, however, this has not shifted the trade-offs that we consider to a sufficient degree to warrant taking steps that would further simplify our tariff structures. Although, as noted above, the interpretation and application of our legal and regulatory obligations requires us to exercise a degree of judgement, at present there are no steps towards simplification that we could take that would not put us at risk of non-compliance with one or other of our obligations.

A good illustration of these competing issues was provided by the development of our NAV tariffs, following the guidance that was issued by Ofwat in May 2018. As our consultation paper explains (“Bulk Charges for NAVs Operating in the Anglian Water Region”, 22nd October 2018), in many instances we were faced with choices between more granularity – which would enable us better to meet the requirements of the Ofwat guidance and other legal obligations – and simplicity, which is what many of the NAVs themselves had told us was, for them, a high priority.

Indeed, at a general level, we observe that there is an inherent conflict between compliance with competition law requirements (which drive us towards cost reflectivity) and excessive simplicity in tariff structures. And with the prospect of a greater role for markets in the industry over the coming years, it would appear that there will be pressure for tariffs to evolve in a way that is more, not less, complex.

And it is because of this pressure, we acknowledge our responsibility to improve the user-friendliness and overall accessibility of the charging information that we publish (although given the subject matter, there will always be a degree of concentration required by the user of such information). To this end we have, since the non-household retail market opened, provided to retailers downloadable excel tariff tables, and sought to make it easier to navigate our charges scheme following feedback from our retailer customers.

However, this pressure also demonstrates what we think is the most important point in the debate over the complexity of wholesale tariffs. As undertakers that have to comply with our obligations as best we can, it is not in our gift to bring about significant changes in wholesale tariffs without an appropriate overhaul of the legal and regulatory framework. In other words, it is for Ofwat to consider whether there are outcomes that it wishes to see in the form of

tariff simplification, and then to set about making the necessary changes, e.g. to conditions of appointment and its own charging rules.

(b) What is your expected charging policy in respect of vacant sites and premises from 1 April 2020? How, if at all, has this changed since: i) 1 April 2017; and ii) prior to 1 April 2017?

Prior to 1 April 2017, where we identified consumption at a vacant premise we would initiate our vacancy management process and seek to recover such costs from the occupier. Since 1 April 2017, we have applied the same logic in CMOS (i.e. charging based on consumption).

We are engaging closely with the vacancy working group to ensure our approach from 1 April 2020 dovetails with any industry-wide approach or code change which is developed.

16. How do you consult or engage with retailers on the following issues (where appropriate provide relevant supporting evidence):

- *Measuring or gauging the quality of service you provide to retailers? What actions have you taken here?*

As noted above, each of the retailers in our region has a technical account manager and an account management meeting every month (or at a frequency requested by the retailer). At these meetings and through our account managers, we receive direct feedback on the quality of service we provide to retailers.

In addition to this direct feedback, we also undertake regular surveys of all our retailers to understand our service provision. This includes a net promoter score which allows us to compare our performance with the net promoter score of other service companies outside our sector.

- *maintaining and improving your working relationship with retailers (e.g. do you host retailer engagement days, portfolio meetings, onboarding processes for new entrant retailers etc.)?*

We have an extensive on-boarding process to engage with retailers on a one-to-one basis which we have had in place since before market opening to understand the needs of retailers operating in our region. This engagement directly informs the development of our own service provision to retailers including our retailer portal which uses the market dataset and smart forms to support retailers efficiently and keeps rejection rates low. We also support new retailers, including self-supply retailers and have been invited to share our experience of this at an industry forum hosted by Waterscan.

We also engage with retailers regularly on key strategic aspects of our services. For example, we consulted with retailers during the development of our Water Resources Management Plan to understand what was important to them and their customers to help shape our WRMP. We also engaged with retail customers in the development of our PR19 business plan, including specific engagement on our retailer satisfaction performance commitment. As highlighted in our response to question 14a, we also host and share webinars on a variety of different focus areas.

- *Understanding causes for, and improving levels of rejected, deferred or late OPS tasks?*

Our systems were originally developed to promote efficiency for retailers, track performance and allow a granular level of understanding, including in relation to rejections and deferrals. From market opening, we have recorded and reported our rejection rates across different retailers. For the first two years of market operation, our rejection rate bottomed out at circa 3%, and has subsequently increased due to changes to OPS definitions and the acceptance of PDFs, which have resulted in more incorrect data coming through.

We review rejects daily, provide early notice to Retailers on issues with forms and feed back formally via account management. Reports are available for retailers on all deferred tasks to give clear visibility all individual service request updated with reasons for deferral. All OPS tasks are measured live on a transactional level and late tasks are reported and reviewed at board level. Where there are improvements needed against specific measures, we put internal improvement plans put in place that are monitored via our Non-household Performance Group.

- *changes or updates to the form or scope of your wholesaler services, the charges or charging structure for these, and/or any associated SLAs or KPIs associated with the provision of these services? How formal is this consultation?*

We use feedback from all our engagements with retailers, be it face-to-face, through our retailer portal, customer surveys or any other avenue, to inform our continuous improvement programme. Our continuous improvement process, delivered improvements and future improvements are all available on our wholesale website.

<https://wholesale.anglianwater.co.uk/performance/continuous-improvement/>

17. Concerning credit and payment terms, do you offer:

- *alternative credit arrangements under Schedule 3 of the Business Terms of the Wholesale-Retail Code? If you have, what have you agreed and*

why? If not, or if you have refused a request for Schedule 3 terms, why not / why refused?

Yes. We have agreed two forms of alternative credit arrangement. The first is based on good payment performance history. We have credit terms in place under this arrangement with the following retailers:

- Greene King
- Marstons
- SES
- TWRC
- First Business Water.

Our second alternative credit arrangement is based on credit ratings. We have credit terms in place under this arrangement with the following retailers:

- Stonegate pub company
- Coca Cola European partners
- Berendsen.

All of the alternative credit support arrangements that we have in place with retailers are available on our wholesale website.

<https://wholesale.anglianwater.co.uk/charges-and-billing/alternative-credit-arrangements/>

- *alternative payment arrangements, under Section 9.2.4 and Schedule 3A of the Business Terms of the Wholesale-Retail Code Please describe. If not, why not?*

Yes, we have agreed alternative payment arrangements and have an arrangement in place with Coca Cola European Partners Limited. We are also, currently holding discussions with two other retailers on potential alternative payment arrangements. In addition, to help retailers and set expectations we publish a process map and timescale for turning around proposals. All of the alternative payment arrangements that we have in place are published on our wholesale website.

<https://wholesale.anglianwater.co.uk/charges-and-billing/alternative-payment-arrangements/>

- *tailored offerings under (a) or (b) above to reflect specific characteristics of retailers (for example, self-supply retailers)? If not, please explain why this is the case.*

Our alternative credit arrangement for good credit ratings was aimed at new Retailers who had no payment performance history with AWS. We have offered payment arrangements to one retailer to align our invoicing with their central payment system.

18. There is currently a gap in the protections available to customers under the Alternative Dispute Resolution (ADR) provisions insofar as non-household customers cannot get a remedy which is binding on the wholesaler. What, if any, unilateral actions have you taken to address the ADR gap in relation to compensation from wholesalers?

We undertake a monthly review of complaints with Retailers and welcome the opportunity to feed in to the ADR process wherever it is made available to us. We review all CCW/Watrs adjudications individually to ensure the end user customers get the correct outcome in line with the advice given and take ownership for any wholesale related actions.

19. In 2018/19, how many requests did you receive from, and how many separate payments did you make to, retailers under the Guaranteed Standards Scheme? How many, if any, of the requests were subject to dispute between you and the relevant retailer(s)? How many, if any, of the payments made were subject to dispute between you and the relevant retailer(s)?

We received 433 GSS requests from retailers. None of the requests were subject to dispute and none of the payments made have been subject to dispute. The table below shows the total value of GSS and penalty payments made.

	GSS payments made	Penalty payments made
Grand Total	£51,908.63	£4,945.00

Annex C: Questions relating to the Market for Developer Services

Developer services and new connections market overview

1. Please explain how your developer services teams manage their competition law obligations in delivering services to developers, New Appointments and Variations (NAVs) and self-lay providers (SLPs) and in-house operations?

Our Development Services (DS)² teams do not have a commercial incentive as to which delivery route is chosen by the developer (i.e. us, self-lay or NAV). We do not make commercial offers to developers – we only provide infrastructure where we have a duty to do so under the Water Industry Act (e.g. a requisition).

Where we operate in competitive markets, equivalence is of paramount importance. We monitor compliance and equivalence through our Wholesale Board. This includes monthly monitoring of levels of service to our different types of customers and annual audits of equivalence. We maintain a risk register of key risks, and crucially mitigations, regarding our competition law obligations. This register is owned by the Wholesale Board.

Our InFlow portal helps us manage equivalence. This portal tracks offers provided for each development, allowing us to ensure that if we are approached regarding a development, all customers receive an equivalent offer. Through it we manage confidential flows of information.

We have clear internal compliance policies and procedures to ensure we treat all of our customers equivalently.³ Colleagues across the business are trained in Competition Act compliance and in providing an equivalent service to NAVs and developers. Our NAV Growth Liaison Manager, and our regulatory and legal teams, work with all parts of our business to ensure these policies are understood and adhered to. We are currently undertaking a face to face refresher exercise with certain teams and are rolling out update training through our online training portal. While legal and regulatory compliance is of course critical, we go beyond this.

² Our Developer Services team was renamed Development Services in 2018. This is to acknowledge the structural changes within Anglian Water and reflects the fact that developers, SLPs and NAVs are customers of this part of our business – not just developers.

³ This includes our Compliance Code.

2. Please describe what actions you take to promote a vibrant and effective developer services market on an ongoing basis.

We have a strong track record in improving existing markets for providing services to developers, NAVs and SLPs.

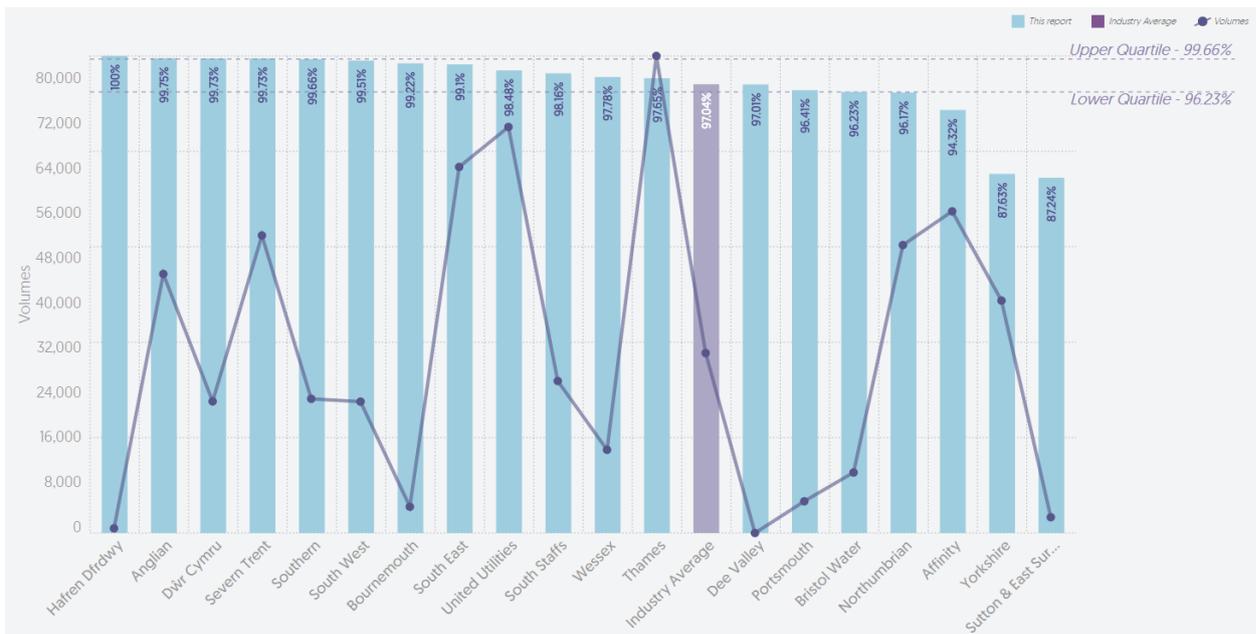
We have engaged over a number of years with a wide range of stakeholders, including Defra, Ofwat and Water UK on the development of new connections charging. For example, by sharing our proposed zonal and infrastructure charges with Ofwat at an early stage.

We are taking an active role in the industry's work to improve conditions across the market. For example:

- our Regulation Solicitor played a leading role in the development and drafting of the model adoption agreements
- our Head of Development Services was part of the interview panel for the chair of the panel for the model adoption agreements
- our Senior Competition Economist is part of the industry group seeking to address behavioural barriers in the NAV market. We are leading the workstream on bulk agreements. Our Regulation Solicitor is drafting a model bulk agreement on behalf of that group.

We provide an excellent level of service. This is reflected in our Water UK levels of service (LOS) performance 2018/19 in which we achieved 99.75% adherence in respect of Water LOS (second highest in the industry) and 99.72% for Sewerage LOS.

Figure 2: Developer Services levels of service performance - % within target and activity levels water supply for April 2018 to March 2019, source Water UK



In the outcomes of our customer satisfaction (NPS) surveys, our customers rated us with a score of 57.38 (within an NPS range of between -100-+100). This outperforms retail sector benchmarks such as Nationwide, John Lewis and Aldi who were the top 3 in 2017 in the UK on NPS scores at 45, 42 and 41 respectively.

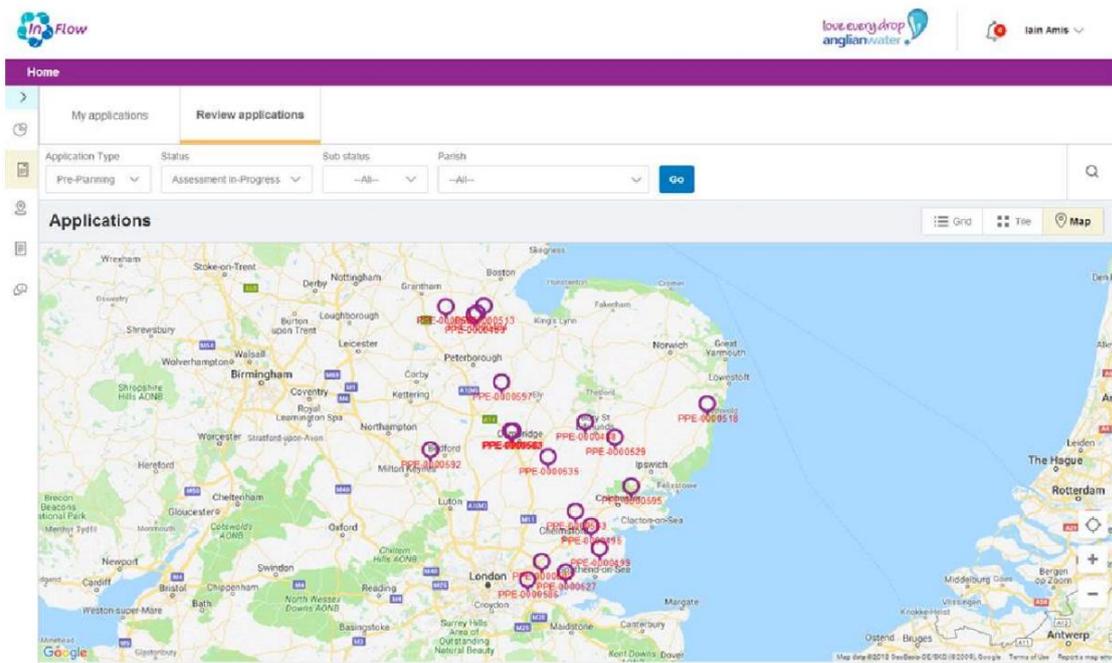
Digital platforms

Providing frictionless service is imperative to facilitate the level of sustainable growth anticipated in our region which links back to one of our Strategic Direction Statement (SDS) ambitions.

Our customers have told us that they want to be able to apply, monitor and contact us digitally when accessing Development Services. This expectation is similar to the views of our wider customer base during our SDS consultation. Digital services are an expectation, not an ambition. During 2018, we launched "Inflow", our new customer portal for all customer functions. This allows customers to take control of their own sites, from full pre-planning to post plot visibility. InFlow allows self-service, and also provides a single point of contact through chat on the system to ensure that questions are answered instantly, so providing an industry leading customer service.

Using planning data presented in Gro-sight, our growth and development visualisation platform, we now have the visibility to plan infrastructure before the development customer purchases the site. This reduces timeframes for development and with the new charging system removes Water and Sewerage network reinforcement from their customer's critical path.

Figure 3: Gro-sight within our InFlow portal



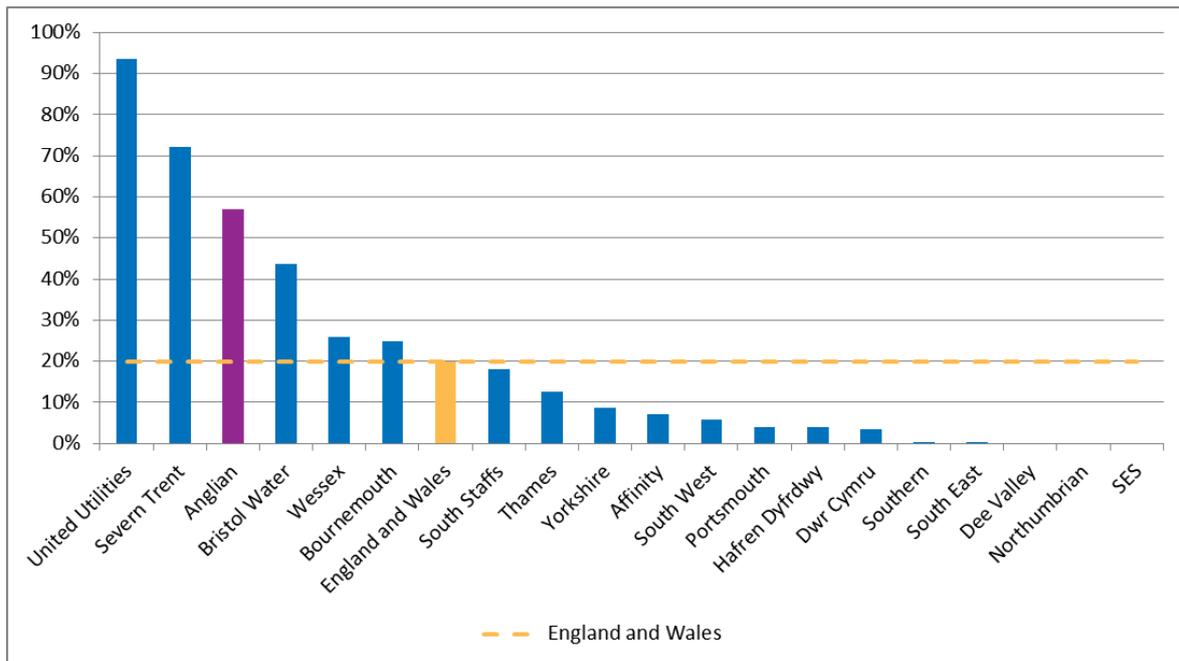
Self-lay providers

We see SLPs as customers, rather than competitors and seek to provide them with an excellent service. We were the first company to remove upfront fees and bonds for SLPs and we believe the only company that provides SLP's a credit facility. Our quotes for new mains makes it clear that developers have other options, such as SLPs. Our online portal, InFlow, is further supporting customers and helping us ensure equivalence. The same portal is used by Developers, SLPs and NAVs.

The success of our approach is demonstrated by high levels of SLP penetration in our region. In 2018/19 for water more than half of contestable service connections and 40% of connections were done by SLPs in our region.

While there is no definitive data on market penetration by SLPs in England and Wales, we have analysed Water UK data for the total number of Section 45 quotations (Water UK ref W3.1) and the total number of self-lay plot references and costing details (Water UK ref 30.1) shown in the figure below. This data is caveated that there may be inconsistent reporting across the industry and that in our own area, the proportion of connections completed by SLPs is just above 40% (contrasting to the 50% suggested in the figure). However this data does provide some insight into regional SLP activity.

Figure 4: SLP connections by area as a % of total s45 applications, source Water UK data, Anglian Water analysis



We have chosen to, as a voluntary arrangement, extend the redress scheme required by the Sector Guidance and Model Adoption Agreements to all our developers, NAV's and self-lay providers, for the metrics reported through the Water UK Level of Service League Table.

We will continue to work with the SLP providers in our region to ensure they receive an excellent and equivalent service. The introduction of D-MeX provides additional reputational and financial incentives to support the thriving market in our region. Some of the latest proposals on de-duplicating self-lay and NAV survey respondents and prioritising smaller companies will weaken their prevalence in D-MeX for larger companies. Similarly reducing the focus on the quantitative element of D-MeX will also reduce the weighting towards competitive providers. We encourage Ofwat to reconsider these proposals to ensure D-MeX has the greatest positive affect on competitive providers.

NAV's

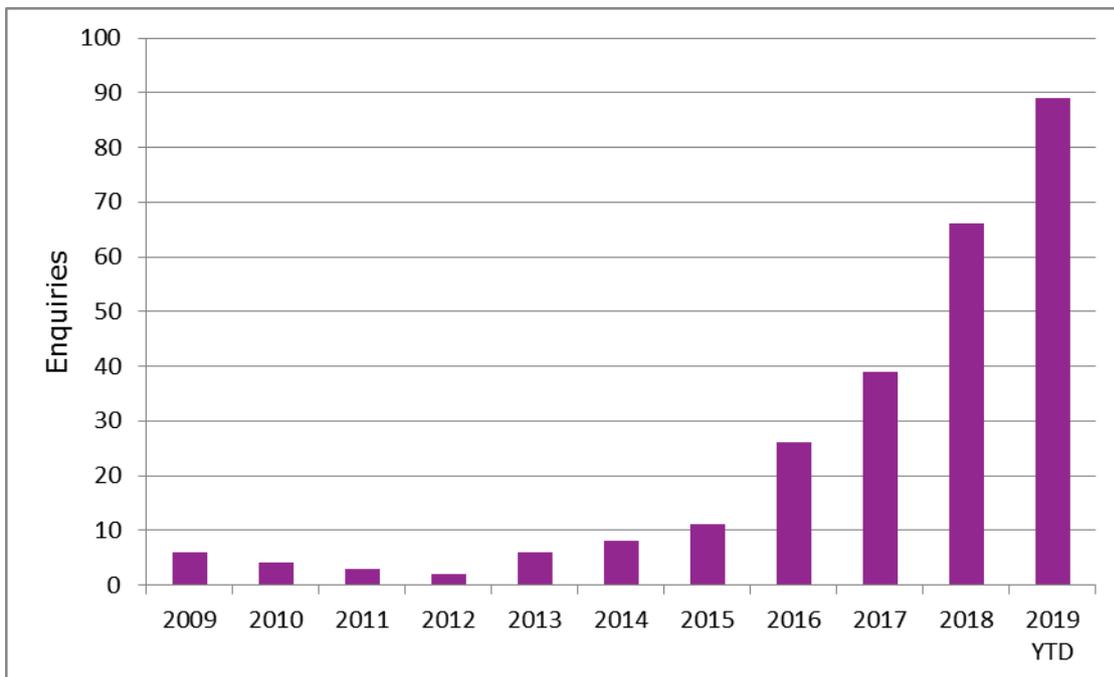
Our approach includes viewing NAV companies as customers, framing our relationship with them on that basis rather than the basis of competitors. We seek to maintain open, constructive relationships with our NAV customers. We manage our interactions with them through a single point, our NAV Growth Liaison Manager.

Specific details of our approach to supporting NAVs are outlined below.

- We have a web portal for NAV enquiries, InFlow. This allows NAV customers to submit enquiries and track their progress. They can also use this to access reports.
- The portal is supported by a guide and we carried out sessions with our NAV customers taking them through our portal and how to submit enquiries.
- We produce a detailed report for every NAV enquiry explaining capacity, the need for any offsite works and relevant costs. We aim to complete this within 15 business days. More generally, we aim to provide NAV agreements within 15 days.
- We offer six monthly face-to-face meetings and monthly calls to our NAV customers to discuss any on-going work on NAVs within region and also progress of sites they are currently working on.
- We keep track of all our correspondence with NAVs on a communication log and our InFlow portal. We use this system to manage equivalence.
- We monitor levels of service we provide to our NAV customers and benchmark them against similar services provided to Developers. Service performance is reported on a monthly basis and monitored by our Wholesale Board.

We are continuing to see increasing levels of NAV activity in our region.

Figure 5: NAV applications over time in our region, source Anglian Water



We have worked hard to engage with our NAV customers our new charges, developed in line with Ofwat’s guidance and our legal obligations. This included a formal consultation and the offer of bilateral engagement with active NAVs in our region. We will continue to engage bilaterally and constructively with our NAV customers on this topic.

During the Autumn of 2019, we have been actively engaging with a 'full service' NAV. The outcome of these discussions is that we will in future offer these types of NAVs the same income offset as we provide to other types of customers. We will also look at new development sites where the most efficient solution might be on-site treatment. For these sites we will look to trial a tendering model which may represent an attractive proposition for full service NAVs.

We will continue to play a leading role in sharing our experiences and best practice with the wider industry, particularly through our involvement with the Water UK cross industry group looking at behavioural barriers. We will look to comply fully with the best practice principles and recommendations of that group.

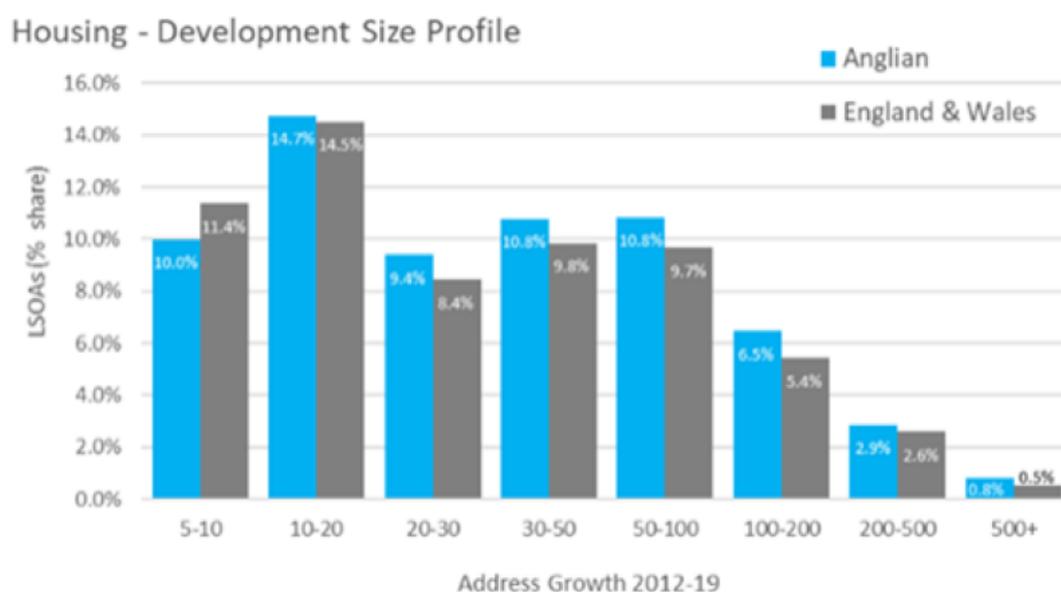
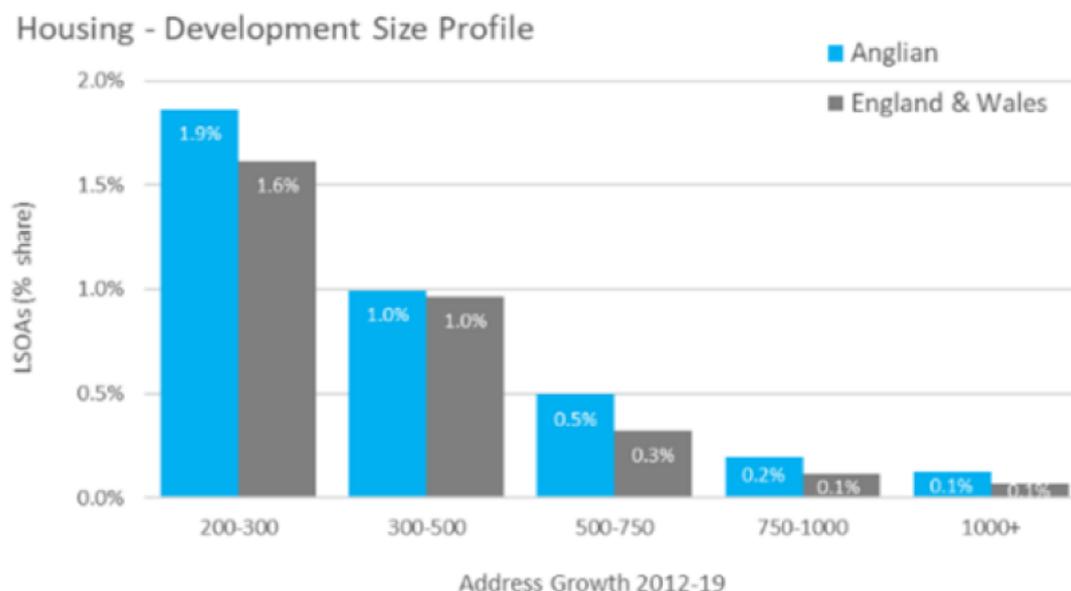
3. To enable a better understanding of the market, at a high level please describe the following points. Note that no supporting data is required to be submitted for this question, if it is not easily obtainable:

(a) What is the breakdown in size of developments you are seeing each year (e.g. of new connections, the % of single properties, % small developments <20 properties, % medium >20 and <100 properties, % of large developments >100 properties)?

Historically, development in our region has taken place on larger sites than the average across England and Wales, with 60% more than average in the largest 500+ house category. This is shown in the figure below for Lower Layer Super Output Areas (LSOAs) comparing Anglian to the average in England and Wales.⁴

⁴ A LSOA is a geographic area. LSOAs are defined by the Office of National Statistics. On average they have a population of ~1,500. Both population and areas of LSOAs are updated regularly.

Figure 6: Historic development size profiles, Anglian and England & Wales



We do not record connections by size of development. However we do record the size of developments which begin construction each year. In 2018/19, 482 new developments started in our region. We have shown these developments, and the number of planned dwellings in the table below.

Development Size	Number of started	%	Planned dwellings	%
1-20	142	29%	1,615	4%
21-100	235	49%	11,972	33%
101+	105	22%	22,752	63%
Total	482		36,339	

(b) What is the breakdown in developer customers (i.e. customers who are not SLPs or NAVs) you are seeing, e.g. what proportion of new connections is for your five largest developer customers? How many developer customers might you have in one year?

We have reproduced the following data that we provided recently as part of the D-MeX data request. We recorded 15% of connections from our top five developer customers. We have recorded 6,028 unique customers. The largest five were:

Developer	Total Number of new connections
1	744
2	700
3	350
4	321
5	289

(c) What proportions of new connections are brownfield vs. greenfield?

We have reviewed the availability of data to respond to this question. However we do not record this information on connection and are unable to provide accurate or even approximate figures.

4. Please provide information on SLPs in your area:

- (a) How many SLPs have carried out new connections in your area (number of SLP companies as opposed to number of SLP connections)?*
- (b) What services do SLPs tend to provide (e.g. do they do the design themselves; are they multi-utility or water only)?*

We provide our response to 4a) and 4b) together in the table below. We observe 12 main SLPs operating in our region. They provide a mixture of services, with some providing only water and others providing multi-utility. Our experience is that SLPs usually ask us to do the design.

SLP	Services
1	Water/Gas
2	Water/Gas/Electricity/Telecommunications
3	Water
4	Water/Gas/Electricity/Fibre
5	Water/Drainage/Telecommunications
6	Water/Gas
7	Water
8	Water/Gas/Electricity/Telecommunications
9	Water/Gas/Electricity/Telecommunications
10	Water

SLP	Services
11	Water/Gas/Electricity
12	Water/Gas/Electricity

(c) Do they tend to compete for a particular size or type of development? Please describe the size/type of development.

This can vary and is a commercial decision for SLP and developer. We have seen a trend of smaller and smaller sites being taken on by SLPs and NAVs. We do see examples of sites with fewer than 90 properties being undertaken by SLPs and NAVs.

5. Please note any other aspects of the market that are helpful context for your area.

We are proud of the high-levels of SLP and NAV activity in our region. The high-levels of growth we have experienced, and expect to accelerate during AMP7, means that there are healthy opportunities for SLPs and NAVs to continue to thrive.

As we have been demonstrating to Ofwat through the PR19 process, growth in our region is different to that in other parts of the country.⁵ We experience higher incidence of very large developments, our growth tends to be remote from existing infrastructure and intense relative to existing populations and capacity. We also have higher proportions of houses compared to flats (increasing on-site costs). This consequently has an impact on the market in our region.

Charges for new connections and developer services

6. Emma Kelso's letter of 29 April 2019 requested that you urgently review your new connection charges to ensure that they are cost reflective, transparent and do not prevent, restrict or distort competition.

(a) Please provide details of what work you have carried out in response to this letter. If a review was carried out, please send us the conclusions of the review and explain how this has been communicated internally.

We have carefully considered the points highlighted in the letter of 29 April 2019. We are confident that our approach to charging for these services is equivalent for all types of customer. Below we provide our views on the issues raised. We will consider transparency and ease of use of our charging arrangements as part of the update for 2020-21.

⁵ <https://www.anqlianwater.co.uk/siteassets/household/about-us/dd-growth-expenditure-deep-dive.pdf>

Methodology for asset payment and income offset

The calculation of the income offset or asset payment is undertaken in our development services customer portal (known as InFlow). Our approach to costing is based a schedule of rates and not assumptions about who does work on site. This means that the full value of the work, including excavation, is taken into account when calculating the asset payment. This ensures that there is equivalence between a requisition and the total cost used for an Asset Payment.

Our charges and approach are outlined in our charging arrangements document. Part I – Water Self-Lay charges describes how we calculate the asset payment, and refers to the table of costs within Section E – Water mains requisition charges as was of showing parity in costs. All of our requisition estimates have the detailed self-lay information along side for ease of comparison.

Clarity of charges and when they apply

The schedule of rates, design deposits and design vetting deposits are outlined within our charging arrangements document. Customers who request us to undertake the design pay a design deposit. Customers who choose to do their own design work pay the design vetting deposit. Our charging arrangements set out the application of design deposits in detail.

The deposit is only retained if the site does not proceed and the works are aborted. The cost of the work to that point is calculated and the balance is returned or billed as appropriate to either the self-lay provider (SLP) or Developer. Where works proceed, the outturn cost of the design or vetting is added to the overall costs of the scheme and included within the calculation for the asset payment.

We acknowledge that we can continually improve the information we give to our customers. We will consider this further, particularly the worked examples, as part of the consultation and update our developer services charging arrangements for 2020-21.

Cost reflectivity

We are mindful of the need to balance rules and obligations around cost reflectivity and not restricting competition. We are confident that our approach balances these requirements for design charges.

The design or vetting deposits are fixed and vary by the size of the development. The deposits protect us and our customers from the cost of aborted work. However the ultimate charges levied for design or vetting work are based on the actual costs that we incur in providing that service, namely staff time recorded through timesheets and materials records. This means our design charges are cost reflective.

Margin

We charge a margin on contestable activity, such as design work. We also quality assure our designs. The charges levied for this work are linked to the actual costs that we incur in providing that service. We do not charge a margin on design vetting services, as these are non-contestable. This means that an equally efficient operator can compete with us.

(b) What changes have you made to your charging arrangements since the letter?

We have not made any updates to our published charging arrangements since your letter of 29 April 2019.

(c) What changes are you planning to make, and what are the timings for the implementation of change?

We are considering updates to our charging arrangements in relation to accessibility for the update for 2020-21. We are also considering developing a simple charge calculator for straightforward and one off connections.

7. Please explain how your charges reflect costs:

(a) How did you calculate the charges? What were your data inputs?

(b) For requisition charges and infrastructure charges (and other charges if applicable), explain what you consider to be relevant drivers of costs and how these have been used to determine relevant charges.

(c) Do cost drivers vary across your region? If so, how are, or will, these differences be reflected in charges?

We review and calculate our charges annually. Key data inputs include:

- Contractor and sub-contractor rates – as shown in Annex 3, a wide range of cost inputs were considered when procuring our delivery partners such as depth of excavations, time taken to complete specific tasks etc,
- Staff costs and overheads,
- Material costs.

Requisition charges, post 2018, are derived from the cost of site specific infrastructure. Pre 2018 s43/43a of the Water Industry Act (WIA) detailed how an income offset was applied through a “relevant deficit” or “discounted aggregate deficit” calculation, the average result of the application of that calculation was a 12% contribution from a developer. During 2017 we consulted with our customers about the removal of the RD / DADs in favour of a straight 12% recovery.

Cost drivers for site specific requisitions are: size of site (larger sites require spine infrastructure to move water between parcels of homes); mix of site (domestic / commercial / industrial usage can alter the size of pipes required); And layout and building type of a site (larger detached houses need more linear meters of water pipe to take water from one side of their boundary to the next). Prior to April 2018, network reinforcements were recovered as part of the site specific RD / DADs calculation as detailed in s43 (4), where pipes, tanks, pumps are required in consequence of new development.

As sites are brought forward through the planning process an assessment of their impact on the existing network is completed. Where this modelling demonstrates a negative impact on low pressure (DG2), or flooding (DG5) a no detriment solution is proposed to rectify the network and ensure a neutral impact for the development. From April 2018, we have used 21% of the total costs of network reinforcements as a "zonal charge" to recover the value equivalent to the RD/DADs recovery, the infrastructure charge makes up some of the difference between costs and contribution. Cost drivers range from location of development (proximity to existing infrastructure of a suitable capacity), size of development, rural development normally has a larger impact on network reinforcements than an expansion to an urban conurbation. It is likely, but not always the case, that larger developments will have a greater impact on existing network.

Cost drivers can vary on a site by site basis (e.g. geographic remoteness or contaminated land), however regional variation is more limited. We have one set of charges across our region and our infrastructure charges are fixed per connection. We are still considering whether to introduce zonal infrastructure charging. However consultation with our customers on infrastructure and other charges highlighted that predictability and transparency are important factors.

8. Where you rely on contractor rates to determine cost, please provide more information about those rates:

(a) How are costs structured or formulated (e.g. are they based on a schedule of rates)?

Our approach to contracting is based on the Alliance model. Alliances are more than contracts – they are agreements between organisations to achieve a common goal. Our experience with alliances has delivered cost savings and better service. When we formed our first alliance of engineering companies in 2004 it was a new approach within the construction and water sectors. The @One Alliance took us away from the traditional project-by-project client and supplier relationships found in the rest of our industry, to true, decade-long partnerships with collaboration at their heart.

We have a number of Alliances that support the operation of our businesses. Where these influence developer charges, contractor costs are based on

schedules of rates. These are structured similar to the NEC3 style of Engineering and Construction Contract.

(b) What services do contractor rates apply to?

Contractor rates apply to a variety of our services. This includes:

- Connections & metering (i.e. connection costs)
- Mainlaying (e.g. requisition costs)
- Diversions.

*(c) What assurance can you provide that these rates are cost reflective?
Please provide supporting documentation.*

These rates are efficient and market tested. We undertook an extensive and robust procurement exercise to procure our Alliance partners for connections, metering and mainlaying. This opportunity was presented to the market through OJEU (the Official Journal of the European Union). This involved a number of bidders, with four bidders shortlisted as part of the process. Each short-listed bidder produced a pricing model, listing rates by item accounting for a variety of factors such as for travel time, works time, excavation depth etc. We have provided Ofwat with an example of this pricing sheet for information as an attachment to this response (see Annex 3). This allowed us to compare costs between bidders comparison and also our historic costs. This granularity gives us confidence that the unit rates are cost reflective.

As part of our PR19 Draft Determination representation we presented an analysis of our costs for growth in AMP7 to provide further evidence to Ofwat that our costs are efficient. This included reviewing these costs at the business plan level and accounting for factors that influence these costs, such as the types of properties. This is relevant as our costs for connections and mainlaying are linked to contractor costs. Our analysis can be viewed as part of our representation.⁶ For both connections and mainlaying we concluded that our costs are efficient and therefore charges cost reflective.

Further materials: Annex 3 – Delivery partner rates cost model

9. Do you have any of the following instances:

(a) Do you have any similar services for which you levy a charge on one customer type (developer, NAV, SLP, etc.) and not another? If so, please describe the service and the reason for the difference.

⁶ Section 1.5.2, Growth Expenditure Deep Dive

<https://www.anglianwater.co.uk/siteassets/household/about-us/dd-growth-expenditure-deep-dive.pdf>

Generally we levy the same charges on different customer types. One area where this isn't the case is pre-planning enquiries where we do not charge NAVs for these enquiries. These charges are typically between £500-700.

(b) What charges do you levy on SLPs, NAVs (directly, through a developer, or through a third party) or developers, that are not published in your charging arrangements, charges scheme, or bulk charges (for NAVs)? Please explain the activities to which they relate, and the circumstances in which they apply.

We do not levy any charges that are not covered by those three documents.

*10. When agreeing a bulk service agreement with a NAV do you:
(a) Publish a standard agreement; or*

We use a standard agreement.⁷ This has been developed through the years working with our NAV customers. These agreements can vary where the NAV has a specific request, for example notice periods for operational works or site specific details. We are leading the development of a standard agreement to be used across the industry.

*(b) Provide bespoke agreements for each new site?
i. If you publish a standard agreement, please set out in what circumstances it would not apply and you would seek to agree a bespoke agreement.*

While the agreements we use are standard, each agreement includes site specific information, such as connection points, flow rates, build out rates etc which must be finalised and agreed as part of the bulk agreement.

ii. Please give supporting evidence of this by providing information on the forms of bulk service agreements proposed and / or prepared for different NAV licences, over the last two years.

We do not vary our standard terms unless at the request of the NAV. As noted above, each agreement includes site specific detail.

Culture, customer experience and quality of service

11. Please explain how your developer services teams are organised:

⁷ Our template agreement can be seen on our NAV webpage:

<https://www.anglianwater.co.uk/developers/development-services/new-appointments-and-variations/>

(a) Please provide an organogram, staff numbers and the scope of responsibility for the different teams involved in delivering services for developers/NAV/SLPs.

(b) Please indicate which SLP and NAV activities are covered by which teams, and whether those teams cover equivalent activities (if applicable) when the developer is the customer.

We provide a summary table below. This table identifies where teams provide services to SLPs and NAVs. Many of our teams provide equivalent activities for SLPs, NAVs and developers. Equivalence and levels of service are monitored by the NAV and SLP Growth Liaison Manager with oversight from our Wholesale Board.

Team	Staff (FTE)	Function	Provide services to SLP or NAVs?
Leadership	<ul style="list-style-type: none"> • Head of developer services x1 • Assurance manager x1 • Personal assistant x1 	Leadership	N/a
Strategy	<ul style="list-style-type: none"> • Strategy manager x1 • Customer experience manager x1 • Continuous improvement manager x1 • Process manager x1 • Marketing co-ordinator x1 • SAP analyst x1 • Legal and telemetry x2 • Continuous improvement manager x1 • Contribution assurance manager x1 • Income team member x8.5 • Process improvement analyst x1 	Strategy and process improvement, setting charges, measurement of performance and equivalence, collection of charges.	Yes – collection of payments and payment of asset payments.
Growth delivery	<ul style="list-style-type: none"> • Growth delivery manager x1 • Pre-development senior engineers x4 • Pre-development planning manager x1 • Growth Liaison Managers x4 • NAV growth liaison manager x1 • Market insight manager x1 • Pre-development advisors x2 • Pre-development engineers x2 • Market insight analyst x1 • Market insight advisor x1 	Planning and pre-development support, including identifying network reinforcement needs and point of connection.	Point of connection for NAVs and SLPs.

Team	Staff (FTE)	Function	Provide services to SLP or NAVs?
Connections team	<ul style="list-style-type: none"> • Connections manager x1 • Connections team leader x1 • Desk top surveyors x6 • Self-lay co-ordinator x1 • Senior customer advisor x1 • Customer advisor x15.5 • Water regulation manager x1 • Engineer x3 • Administrator x2 	Facilitate requests for connection of domestic and non-domestic properties.	Administer connection process of plots for SLPs (e.g. chlorination and address completion).
Scheme delivery team	<ul style="list-style-type: none"> • Scheme delivery manager x1 • Programme manager x3 • Project engineer x19 • Construction support x3 • Designers x11 • CAD technician x1 • DS technician x1 	This team oversees the activity of our delivery partners in laying mains. They also design schemes and provide vetting of designs.	Facilitate bulk connection and associated mainlaying for NAVs. This team does design work for SLPs, vets SLP designs and do the final connection for SLP schemes.
Drainage team	<ul style="list-style-type: none"> • Drainage and strategy manager x1 • Drainage manager x1 • Drainage support manager x1 • Senior drainage engineer x3 • Drainage engineer x12.5 • Drainage technicians x12 • Support technicians x11 • Surface water engineer x1 	Approval, vetting and adoption of sewer connections and onsite sewer infrastructure that is self laid by developers and their contractors.	

12. Please provide a description of your approach to engaging with developers, SLPs and NAVs over the last year, including:

(a) the groups that you have engaged with, the form of engagement and how the engagement was communicated to potentially interested stakeholders;

(b) the topics covered by the engagement (e.g. whether it included information about the proposed levels of charges for the upcoming charging year); and

We work hard to ensure that the culture of our organisation is customer focused. In 2018 we launched 'Make Today Great', our customer experience cultural transformation programme. This was designed to fully capture business to business (B2B) customer interactions, as well as business to household customer (B2C) interactions. The programme focuses on the behaviours that are required to put the customer at the centre of our peoples thinking, and has been delivered to around 2,000 employees. The strength and success of the programme has been recognised externally, most recently winning awards at the UK Customer Experience Awards 2019.⁸ For development services and retailer customers, this involves dedicated account management and points of contact for all retailers, large developers, SLPs and NAVs. We track customer satisfaction and net promoter score for these customers on a monthly basis.

We regularly engage with our customers and talk to them on a daily basis. Our customers have told us that they want to be able to apply, monitor and contact us digitally when accessing Development Services. This expectation is similar to the views of our wider customer base during our SDS consultation. Digital services are an expectation, not an ambition. During 2018, we have launched "InFlow", our new customer portal for all customer functions. The InFlow portal is available to all customers.

This allows customers to take control of their own sites, from full pre-planning to post plot visibility. InFlow allows self service, but also provides a single point of contact through chat on the system to ensure that questions are answered instantly, so providing an industry leading customer service.

For large projects or customers, we operate an account management service through our Growth Liaison Managers. These provide dedicated points of contact for complex projects. It allows our expert staff to discuss specific customer requirements, delivery and future planning with customers.

Our NAV customers have a dedicated point of contact, our NAV Growth Liaison Manager. The NAV Growth Liaison Manager provides a specific point of contact for NAVs, and helps resolve queries and issues. We hold a general monthly catch up with NAV customers individually to discuss general and site specific matters. We also visit our NAV customer offices (outside of our area of appointment) on a six monthly basis.

The most significant engagement we are doing at the moment relates to the updates to our charges for 2020-21. Existing customers and interested parties were sent a mailshot questionnaire in June. We then hosted three charging

⁸ <https://cxa.co.uk/winners-and-finalists-2019>

workshops in July and August 2019 with customers. This is being followed up by a written consultation that is currently live.

We undertook a significant programme of engagement with stakeholders in 2017 for our updated charges in 2018-19 when the current rules came into force. This involved written consultations in February and October, with workshops during the summer. Links to these documents are provided in response to question 12b.

(c) the process by which contributions from stakeholders are taken into consideration and progress is communicated back to stakeholders.

These inputs are considered as part of our internal policy decision making process. We included a summary of stakeholder feedback, and how we responded to it, as part of our consultation documents in on new charges in 2017. We intend to follow a similar process as we update our charges for 2020-21.

(d) Please provide supporting evidence, including emails issued, agendas used, papers or consultations prepared.

February 2017 consultation

<https://www.anglianwater.co.uk/siteassets/developers/development-services/developer-consultation.pdf>

October 2017 consultation

<https://www.anglianwater.co.uk/siteassets/developers/development-services/charging-consultation.pdf>

October 2019 consultation

<https://www.anglianwater.co.uk/siteassets/developers/development-services/charging-consultation---2019.pdf>

We have attached the slides for our charging workshops from summer 2019 as an annex 4 to this letter.

Further materials: Annex 4 – Summer Developer Charges customer workshop slides

13. With respect to information and services provided to NAVs, SLPs and developers:

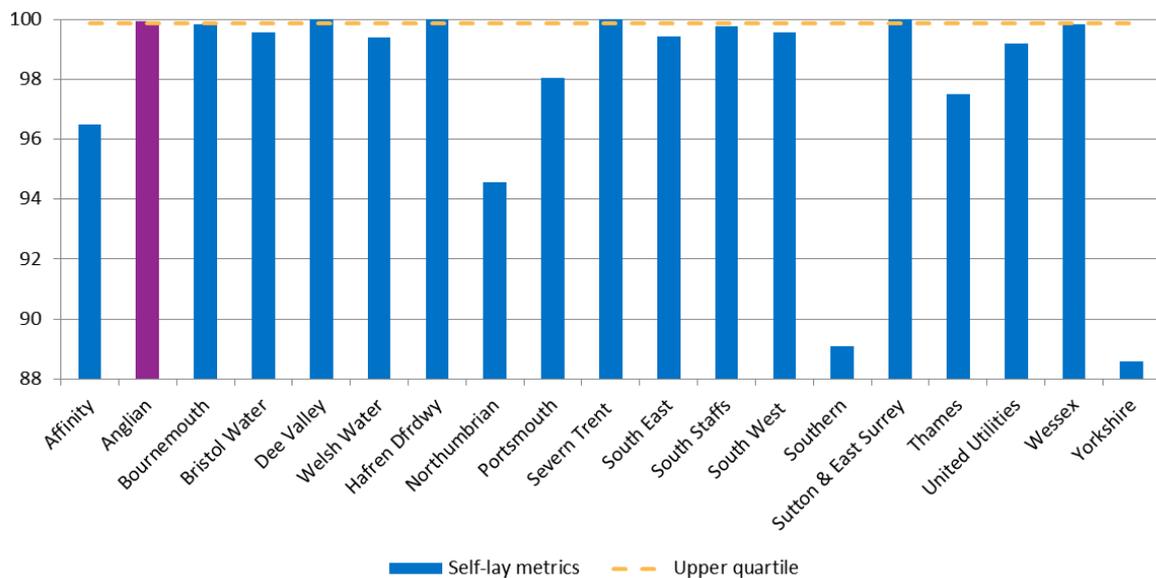
(a) Do you offer any similar services with operational service levels that differ depending on the customer type (developer, NAV, SLP)? If so, please list the services and explain the reasons for the differences.

We provide equivalent levels of service to all customer types. We monitor levels of service to developers, SLPs and NAVs, reporting equivalence in service to the Wholesale Board on a monthly basis.

(b) There are a number of published Water UK developer service metrics that relate specifically to SLPs. Please provide commentary on your performance with respect to those metrics, including an explanation if any measures are blank.

Anglian Water was the leading Water and Sewerage Company for the Water UK water metrics throughout 2018-19. We completed 9,839 self-lay jobs with a level of service of 99.92%. This is ahead of the upper quartile for the industry as a whole (99.88%). This is shown in the figure below.

Figure 7: Performance against the Water UK metrics for SLPs



Section 41 applications are where we do the design and SLPs construct the infrastructure. These are captured within the Water UK metrics instances where we design and delivered the solutions. Our performance for this is metric was 100%.

Of our total reporting through Water UK, around 20% of jobs were in relation to self-lay schemes and connections. We continue to perform in the upper quartile in 2019-20, with LOS of 99.92%.

We work very hard to ensure that all our developers, NAVs SLPs receive a consistently high level of service and we monitor our performance very carefully.

Our redress scheme has been designed in line with Ofwat's recent new Adoption Code, which requires redress for works completed by self-lay providers and adopted by Anglian Water.

We have chosen to, as a voluntary arrangement, extend this redress scheme to all our developers, NAVs and self-lay providers, for those metrics reported through the Water UK Level of Service League Table.

(c) Water UK has a draft report on Behavioural Improvements relating to interactions with NAVs. It sets out several SLAs relating to NAVs, please describe your performance against those metrics over the past year.

We are an active member of the Water UK group on behavioural improvements (we are leading the workstream developing common Bulk Agreements). We observe that these metrics are not yet finalised and for the majority monitoring systems are not in place.

However as part of our equivalence work, we do monitor some levels of service (LOS) for NAVs. We monitor our NAV services closely with clear performance indicators captured for our NAV enquiry services reported through our Development Services Inflow Portal, which include:

1. Confirmation that the proposed development meets the unserved criterion
2. Asset impacts
3. Water & Water Recycling connection points
4. Capacity information
5. Asset drawings
6. Indicative costs
7. Infrastructure (Zonal) costs
8. Income offset
9. Useful information/ next steps.

We have received 129 NAV enquiries since July 2018 and our LOS has remained at 100% since January 2019 based on 89 NAV reports to date this year.

In regards to our served status and offer letters, these are issued within a couple of days of request and although there is not currently a monitoring mechanism in place, these are added to the NAV enquiry once complete to demonstrate our compliance within efficient timescales and ease for the NAV. This is also the same with the bulk agreement, although slightly more complex given the internal consultation and sign off.

(d) Are there any examples of instances where you have provided information to NAVs or SLPs at the same time as, or after, providing a quote/offer to the developer of the same site?

Our InFlow system allows us to monitor the offers that have been made for specific sites. Where applications are the same for a specific site, we will issue the point of connection information as soon as practicable – we do not wait until the level of service is reached if the information is already available.

14. With respect to asset adoption, please set out:

(a) How you are ensuring you will be ready for implementation of the new sector guidance and model adoption agreements, once we have approved them and they form part of the Code for Adoption Agreements.

We have played a key role with Water UK on the development of the Sector Guidance and the Model Adoption Agreement. Our Regulation Solicitor was one of the key drafters of the model agreement.

We welcome the opportunity to open up contestability and provide our customers, current and future, with improved choice and bespoke services to drive and support continued growth in our region.

We have already staged internal stakeholder meetings to discuss the implementation of the Code. We are happy with the content of the documentation and proposed service metrics. We have provided a number of technical enquiries which have been raised with Water UK for comment.

We have established an internal working group to implement the new approaches and are confident that we will be in a suitable position to implement and deliver within the timescales set out.

(b) How you have engaged with customers around codes for adoption.

We have already engaged with some SLPs around these codes, particularly regarding sampling. The topic of codes for adoption agreements was discussed at our SLP charging workshop in August 2019. We plan to host additional engagement events with our customers, to discuss the upcoming changes and how we can develop our working relationships to drive enhancements in the current market to the satisfaction of our customers. We are still considering the exact form of this.

Annex D: Question relating to the effective support and development of new markets (optional)

1. What are you doing to effectively support the development of new markets (e.g. bio resources)?

We are actively supporting the development of markets for both Bioresources and Water Resources.

Water resources

We fully support the focus from Government, the Environment Agency and Ofwat on continuing to build resilient water supplies. Our water resources management plan (WRMP) is ambitious, pushing further the frontier on leakage reduction, whilst building on the regional collaboration developed through Water Resources East (WRE) to deliver cross-sector approaches to managing water resources across our region.

We have a history of shaping the future of market-based solutions for water resources. We have made significant contributions to the sectorial discussion on water trading through our Trading Theory for Practice paper⁹ and our research into water allocation through effective water trading paper¹⁰. Our contribution on abstraction reform and the role of markets was formed through our report 'Markets, water shares and drought: Lessons from Australia'¹¹.

Ours is one of the driest and fastest growing regions in England. We see greater flexibility in abstraction and water resources trading as a real opportunity to support resilience in the long term. We have received our first bid through the Ofwat Market information platform which we are now assessing. We will work with Ofwat to develop the bilateral market for water resources to ensure it delivers for customers and the environment. We have also looked beyond public water supply to collaborate with a wider group of water users through WRE. This is a long-term region-wide multi-sector approach to how water resource planning should be shared across all users across the region and we have also assessed how multi-sector water supply assets to deal with future demands could be financed.

These actions show our commitment to the longer term actions required by a range of multi-sector stakeholders so that resources are effectively and

⁹ <https://www.anglianwater.co.uk/about-us/our-strategies-and-plans/future-challenges/trading-theory-for-practice/>

¹⁰ <https://www.anglianwater.co.uk/about-us/our-strategies-and-plans/future-challenges/water-allocation-through-effective-water-trading/>

¹¹ <https://www.anglianwater.co.uk/about-us/our-strategies-and-plans/future-challenges/markets-water-shares-and-drought---lessons-from-australia/>

efficiently allocated. This will help to achieve the aim of long term supply meeting demand against a backdrop of sustained significant growth in our region. The publication of our Draft Trading and Procurement Code further demonstrates we are welcoming of all opportunities for water trading. We have played an active role in supporting the ambitions set out in the EA and Defra's Abstraction plan launched in December 2017, which sets out how the Government plans to reform abstraction in future. The priorities to increase catchment focus, and deliver sustainable abstraction using existing powers are in line with our previous work. Our priorities remain to improve the ecology of catchments and sustainably manage growth, two of our four long term ambitions agreed with our customers as part of our SDS.

The Abstraction plan will trial a suite of abstraction reform tools in a number of initial priority catchments. Three of the first four initial priority catchments fall within our region:

- Cam & Ely Ouse
- East Suffolk
- The South Forty Foot

Our previous work, developing partnerships across our region with a targeted focus on joint-working, means that we are well placed to work with catchment partnerships and abstractor groups. We will develop a model that can be repeated across all priority catchments and build the strong collaboration required to deliver the desired outcomes.

Our WRMP

We are committed to the development of third party options, and will continue to collaborate with others as we move into the delivery phase of our final WRMP. We will do this through WRE and engagement with regional stakeholders. We will also continue to assess bidding activity through the Market Information Platform.

In developing our final WRMP, we included a number of third party options in our feasible option set. These are based around detailed discussions with our neighbouring water companies (Affinity Water, Severn Trent Water, Cambridge Water, Essex and Suffolk Water), as well as water management organisations in our region such as the Environment Agency and the Canal and Rivers Trust. We have also held discussions with third party suppliers such as [REDACTED] and other large industrial users in our region to explore trading opportunities. Our WRMP sets out, in detail, the identification process we have undertaken to assess the range of these options which include unconstrained options workshops, collaborative water resource planning projects/groups and any third party bids to provide water received through our market information platform. A number of third party options were identified as a result of these three streams. The bidding party provided details of the option to ensure we could assess it fairly against the rest of the feasible option set. The option detail

requirements for third party options are set out in our Interim Bid Assessment Framework (Annex 11e) published with our Final WRMP. We have received our first bid through the Ofwat Market information platform which we are now assessing.

Licence trading

In the shorter term, we have actively traded with farmers to enable them to increase their abstractions. Our continued focus on leakage and demand management means we can minimise our abstractions. This both minimises our impact of the environment but also allows others to make use of this resource should they need it.

During summer 2018, the UK experienced a prolonged period of above average temperatures and significantly below average rainfall. This placed acute pressure on the agricultural community in our region, with agricultural demand for water during the growing season outstripping available supply under existing agricultural abstraction licences.

In response, in addition to a number of longer term trades we have with stakeholders in the region, we agreed to a series of short term trades with irrigators and the wider farming sector to allow increased abstractions. For example, we agreed to a two-week deal with the Environment Agency and local drainage board, under which we will take less water from the River Nene for public supply purposes, so farmers around Peterborough and Cambridge have access to an extra 20 million litres a day, equivalent to the domestic use of 150,000 customers.

A similar arrangement has been put in place for 2019 but with greater flexibility in timing and volumes; this is enabling enhanced opportunities for trading between sectors.

In addition to these licence trades, we have found innovative ways of deploying available water resources for the benefit of our customers.

We did this by approaching the EA to work together to create a low risk regulatory position statement (RPS) to cover the use of final effluent instead of potable water to irrigate land such as golf courses and race tracks during the dry period. This risk-based position statement avoided irrigation within ground water protected zones. We required prior confirmation from the EA that deploying final effluent for these alternative uses would not cause a detriment to the receiving watercourse.

This resulted in the identification and selection of 12 suitable WRC sites which discharge to a tidal or coastal environment and are disinfected. In addition, the

final effluent from Thetford WRC is not disinfected but was identified as a potential fire fighting water source.

Bioresources

We have a Bioresources strategy that sets out how over the next 25 years we will innovate, invest and use markets to deliver against the four long term ambitions set out in SDS, specifically supporting our drive to carbon neutrality by 2050 and facilitating sustainable growth in our region.

A major part of this strategy is the role that future sludge markets have and the potential benefits to customers both now and in the longer term.

Current activity

We already have existing trading arrangements with neighbouring Water and Sewerage Companies and make use of short term capacity opportunities between neighbouring companies into two of our Sludge Treatment Centres. These trades are important for two reasons. First, they provide the opportunity for treating Bioresources at the lowest possible cost for customers. Secondly, they provide additional operational resilience across the sector.

We have led the sector in promoting an accredited assurance scheme; the Biosolids Assurance Scheme (BAS). BAS has the benefit of ensuring that as the market for bio-resources and wider organic wastes develops and new entry occurs, this happens within a level playing field in terms of the quality of Bioresources being traded.

We are a member of Assured Biosolids Limited, the company which operates and administers the Biosolids Assurance Scheme. We were also the first company to be accredited to the BAS standard. Further details of the scheme can be found on www.assuredbiosolids.co.uk. We continue to promote the implementation of BAS across the industry and work with regulators and cross sector stakeholders to review and reform regulations for the treatment of sludge, biosolids and other organic wastes.

We see full adoption of BAS across the industry as critical to maintain the compliance and quality of biosolids products used for agricultural recycling, and confidence of the food chain stakeholders which is critical to the long term sustainability of this approach.

Markets for high-quality Bioresource outputs already exist and we play an active role in their development. We have established a nationally recognised brand - Nutri-bio - for our treated biosolids products that we recycle. We actively engage with farmers and key agricultural and food industry stakeholders and this market provides a significant revenue stream. Maximising these opportunities delivers benefits to the environment and customers.

We use markets to ensure our operating costs remain efficient by actively market testing the operation costs of our tanker fleet operations with those of third party operators, who operate a third of our tanker operations.

We are actively involved in this market, exploring a number of trading opportunities. We expect trading to be at a number of sites in 2020/21. We are also at the heart of on-going industry work seeking to remove regulatory barriers to co-digestion.

Trading and long-term markets

The combination of our existing relationships, our investment in decision support tools and the publication of our Bioresources Market Information and our work on Bioresources RCV allocation lay the foundations for future trading. This is both between WaSCs and wider waste producers.

We remain in regular dialogue with our neighbouring WaSCs to explore opportunities. For example:

- potential trading opportunities where there is potential to reduce the end to end cost of transport, treatment and recycling where source works sites are located closer to a neighbouring WaSC's treatment facility or visa versa
- short term trades to utilise spare headroom or export sludge during times of reduced STC capacity
- longer term committed trades in lieu of constructing new capacity to deal with increasing levels of sludge resulting from growth and the WINEP quality programme, [REDACTED].

We have also appointed a dedicated Bioresources Trading Manager to ensure these opportunities are pursued.

From discussions to date we have identified a number of potential sites where we move sludge further to our sludge treatment centre (STC) than a neighbouring WaSC's facility. We have also identified several reverse opportunities. These have the potential to deliver both efficient treatment of our Bioresources and longer term resilience of our operations to the future pressures of an increasing population in the region.

Through this engagement with WaSCs, we have identified an opportunity to engage with two third parties contracted to remove and recycle sludge from Ministry of Defence (MOD) water recycling centres serving military bases from within our operational area. The agreements will allow the contractors to import this sludge onto our STC's for treatment and recycling. Contracts have been exchanged and we anticipate this will import 121.8 TDS per annum.

Short term non-committed trades to utilise headroom or to trade out when there is reduced capacity during planned or unplanned STC outage is an option with all our neighbouring WASCs. We anticipate this will be conducted, as now, on an ad-hoc basis along broadly similar terms that we have conducted previous trades.

In order to judge the merits of trading for both sludge imports and exports, we have undertaken modelling using our Bio-resource Decision Support Tool. This model looks at our Bioresources asset base as an interconnected network and helps us judge the viability of trades by assessing the end to end unit cost of treatment against a particular scenario. The model identifies what sites become available to trades at different unit costs. The model has shown that these viable unit costs are in the marginal operational cost range, supporting the view that long term trading in general is only an option where new capacity is required as an alternative to significant capital investment.

Third party trading – co-treatment

Beyond trading with WASCs, we are keen to explore options to progress co-treatment and will continue to promote the evolution of legal and regulatory frameworks to enable the opportunity for co-treatment in our region.

This exists in several forms:

- the import of organic wastes from third party suppliers to our Sludge Treatment Centres either for digestion and treatment either separate to, or combined with, existing processes
- the export of sludge to suitable third party treatment plants where it is geographically cost effective to do so
- the longer term potential for joint venture investment strategies between water companies at the boundaries of our regions to deliver the most cost effective Totex solutions for sludge treatment.

We are taking a leading role in the negotiations with Government, Defra, Ofwat and our quality regulators to explore future options, for example, by working with Ofwat to resolve the existing limitations of the Regulatory Accounting Guidelines (RAG5) as currently drafted, which inhibit longer term trading.

We are also proactively engaging with cross-sector work to explore potential for co-treatment of sewage sludge with other organic wastes. To date, this has included six meetings with policy makers and regulators including site visits to our sludge treatment centres.

We have also actively engaged and have held discussions with third-party service providers and conducted a market survey to seek interest in providing services across our Bioresources price control. We engaged with over eighty potential third party providers that have plants or operate plants within or close to our operating areas. We received six responses to the enquiry, four from

third party providers interested in treating sludge and two from neighbouring WASCs.