

Our Ref: [REDACTED]

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Dear Emma

Incumbent water companies and the development of effective markets

Thank you for your letter dated 16 September 2019 on the above matters, requesting more detail on the issues related to the development of effective markets as detailed in Rachel Fletcher's letter in May 2019.

SES Water agree that incumbent water companies have a key responsibility in the development of effective markets and the delivery of better outcomes for customers and society.

We have made significant strides in recent months to enhance engagement and support for the business retail markets, which has included active attendance at various working groups, face to face meetings with key retailers and participation in R-Mex trials.

In addition, we have focused on the improvement of the developer services department within SES Water. Following a structural change in late 2018, a larger, dedicated internal developer services team was created, focused on providing more transparent and effective lines of sight for customers journeys, centralisation of planning and an overhaul of our service level agreements that manage our developer service relationships. We have been particularly keen to develop our relationship with self-lay providers and respond to our specific customers' needs. Through proactive engagement last year, we have developed our form of agreement, specification and processes with the support of these self-lay providers.

As you will note from this response letter, while we have made significant progress in the above areas in the past year, there is still work to be done to ensure we fully play our role in the development of effective markets. Ofwat's recent interventions have been useful in prompting our focus in such areas, specifically a greater focus at future Board discussions and to consider how we may improve collaborative opportunities with developers and retailers.

We are now keen to develop our communications channels to provide clarity to all participants within the various retail markets, ensuring that they understand the choices they have and that such entities will be fully supported regardless of the route of delivery. We are also focusing on improvements to the quality, reliability and value for money of proposed solutions whilst reducing



the impact on the environment. For this we are keen to develop stakeholder relationships to support and encourage the market to thrive.

We acknowledge that you will publish this written response on your website, and do not object to such disclosure. In terms of requested contacts, please contact [REDACTED] in the first instance with any questions on this response.

Your sincerely

[REDACTED]

Paul Kerr
Finance and Regulation Director

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? 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?

Historically, the Board has engaged in the development of market discussions as part of their review and approval of market-based tariffs, more recently during the publication of our latest Developer Services tariffs and our plans for the publication of New Appointments and Variations (NAV) tariffs. In addition, as part of SES Water's monthly performance reporting to the Board, metrics and commentary associated with the internal levels of service for retailers in such markets is provided. Development of markets is also a topic that the Board discuss in their annual Board Strategy days and are scheduled to have the next discussion of this matter in February 2020. Designated time is set aside in the relevant Board and associated Committees' agendas to review these matters, but no separate designated Board Committee has been utilised.

As with all business matters reviewed and discussed at Board level, the opportunity is provided for management to raise any concerns around resource and support for development of such markets, and the Board are made aware of any key resource concerns in the monthly Board performance reports.

Going forward, in light of the growing levels of service being provided in such markets, we will be expanding the time designated for Board's discussion, to focus further on the support and development of such markets beyond tariff-setting matters.

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).

Our understanding of the experience of end customers in consuming such wholesale services is conducted primarily through monitoring of key Service Level Agreement (SLA) metrics, and understanding the reasons – and the consequent actions – if we have failed to deliver within the set timing or requirements of the SLA. Through direct contact with our retailers, we receive feedback of customer experience and review how we can continuously improve services that we provide. With respect specifically to leakage allowances, we understand that leakage can cause concern to the customer and - even though we do not have a leakage allowance policy in place - we will look at each on a case by case basis.

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 are actively involved in the following groups, in which we actively participate and contribute:

- Attendance to all CEO forums
- WIG – Wholesale Interface Group – meet every 2-3 months when called
- RWG – Retail Wholesale Group – Quarterly
- Attendance at the R-Mex Working Group
- ORWG – Operational Retail Wholesale Group – 2 months
- MOSL User forum – monthly
- Others – CCWater complaints review forum

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

With respect to any consultations regarding code changes, these are handled in the first instance by our central regulations team, who will work with the relevant business functions to ensure that an objective and balanced view is provided that does not unduly bias any response to potential code or tariff changes for any set of customers. Being a small company, we may not respond to every consultation or code change proposal that is issued. Instead, we would tend to prioritise our responses to those that aim to address the bigger issues in the efficient operation of the market.

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).

We aim to participate as widely as possible in the Industry Panel, given our relative size and competing priorities for business input at an industry level. Any relevant matters arising from

our participation in the Industry wide groups (noted in Q2 above) are escalated via our monthly Board reporting as required, but we have not discussed our company's strategic approach to such participation at Board level in the wider sense. This will now be incorporated into our on-going Board strategic discussions

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?

We have not been subject to an Initial Performance Rectification Plan (IPRP). In the event that we are subject to such an arrangement, we have an internal process to undertake a formal Root Cause Analysis (RCA) for any underperformance and have trained RCA facilitators to chair the proceedings.

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.

Whilst no IPRP has been issued to the business since market opening, should an IPRP to be received, this would be raised through our monthly Board performance reporting, and briefing papers would be prepared including the results from the RCA and recommendations for improvements.

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?

Upon market opening, we developed an initial spreadsheet-based solution in order to test and understand objectives and performance for our associated retailer. Since then, we have developed an automated reporting solution through our job management system which has further improved our confidence in performance monitoring accuracy. Our performance is reviewed on a weekly basis, inclusive of all retailers. Having a short interval control enables us to identify any corrective action to avoid missing SLA's. We have monthly senior manager steering group meetings where performance is presented and market engagement is discussed. From these meetings, improvement initiatives are developed where required.

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.

Using the actual data within our job management system, this avoids any manual data errors as we report on actual jobs within the system which are time-tracked. Data is extracted by our Network Advisors and information is approved for issuance via our Wholesale Service Desk team leader in order to ensure that information is accurate prior to submission. We are in direct telephone contact with MOSL on a monthly basis as required in order to receive assistance in reporting where clarification is required on any matters. Since market opening, our wholesale service team processes have been adopted into and recognised as part of our ISO 9001 compliance systems and as such has been subject to two internal audits since market opening. Minor non conformities have been recorded and actioned as a direct result of the audit.

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 a pro-active approach to sharing information with retailers where we identify an issue. By way of example:

- Long unread meters - we have a specific focus on meter reads where we are reviewing a long unread meter read data set and checking / comparing all data that was submitted at pre-market opening. This information is shared with the retailers as appropriate. Where the retailer has approached and reported they have been unable to read the meter, we visit, read the meter and share this information in order to support with reducing the volume of any long unread meters.
 - Vacant properties - we continue to review vacant properties where consumption has been recorded and visit these properties to obtain as much information as we can. We then provide this information to retailers so that they are able to get the premise occupied in CMOS.
 - Location – if we find the location has changed or the location in CMOS is not accurate we update the retailer. Unfortunately, as a wholesaler we do not have the option in CMOS to update this information and it is reliant on the retailer to do so.
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?

As discussed in question 9, such processes have been developed over the last 18 months.

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.

In addition to the aforementioned exchanges of information, retailers would be required to complete appropriate forms with the associated market codes via email. We are currently improving our digital platform to improve transactions through online access to the requisite forms to improve the transaction process.

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.

Our operational team continuously attend User Forums, ORWG, WIG and recently have commenced attendance at the RWG. The team find the groups a positive experience and an opportunity to recognise the work undertaken in both wholesalers and retailers to continuously and positively improve the market experience for all. Information and feedback from all groups are shared internally and key issues discussed at monthly senior manager steering group meetings.

We have recently volunteered to support with the R-Mex trial survey and as such attend the sub group meetings accordingly.

We recognise the importance of the adoption of the best practice guides published by the RWG and are currently reviewing the implications for our operation in order to ensure that where the approaches are adopted, that we can maintain full compliance.

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.

Whilst such matters have not been discussed recently at Board meetings, we are active in responding positively to any requests for information and are supportive of the bi-lateral solution.

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?
 - 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?
 - 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 have not taken any direct action to simplify, refine or alter our charges, SLA's or KPI's since market opening.

Our policies are currently in development and we are in the process of reviewing the content of the RWG best practice guides in order to incorporate therein. This includes but is not limited to policies for:

- Customer site specific contingency plans
- Planned works
- Unplanned works
- Leakage
- Bi-laterals
- Loggers

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.
 - 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?
- a) We have not undertaken any exercise to simplify or modify our tariff structure since market opening

- b) We currently do not charge for any consumption for vacant properties and have no plans to change this policy.

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

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

We have regular monthly meetings with our single highest volume retailer and have engaged face to face with other key retailers in order to discuss how we can improve our service. We are otherwise in telephone communication with other retailers where we discuss performance and resolve issues to ensure that we can understand any bespoke challenges. We consider that this model of engagement is suitable and sufficient and have received positive indicative feedback through early R-Mex trials in which we have participated. Many of our retailers have a very low number of SPIDs and therefore difficult for them to gauge our performance where we do not have the transactions. We believe that the development of B-Mex would support and improve further understanding of market performance and compliment the R-Mex approach.

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

- a) 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?
- b) 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?
- c) 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.

We currently do not offer any of the above credit or payment terms, although we are in the process of reviewing possible alternative credit arrangements for retailers.

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?

This matter has not been raised as an issue or concern to date to us, and therefore we have not taken any unilateral action to address to date.

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 paid a total of 19 GSS payments of £60, totaling £1,140. 18 of these payments were attributable to a single incident in May 2018 where we had a prolonged supply interruption caused by a complex burst repair in Merstham.

We received no specific requests for payment and no payments were associated with a dispute

Annex C: Questions relating to the Market for Developer Services

Please provide a concise commentary and supporting evidence on the market for new connections and developer services in your area of appointment including the questions in this section.

Developer services and new connections market overview

Aim: To better understand the market context and what actions you are taking to promote an effective market.

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

We take our competition law obligations very seriously in the delivery of services to developers, NAV's and SLPs, and have developed a strong governance model to ensuring transparency of our arrangements for such entities, including service and market-based cost options.

General services to Developers

We have created access arrangements for developers that have been through a process of consultation with stakeholders, consideration of market and WaterUK guidance and then Board approval. Our arrangements are published on our website identifying the options available to developers, which are re-iterated in our charging documentation, also published on our website, together with a repeat of the options explained during the quotation application process. Our Charging Arrangements documentation summarises the options available to developers explain the different approaches.

NAV's

To date we have not received any enquires from NAV's. While we do not currently have any NAV bulk service agreements we are developing a policy framework and guidance for NAV's to ensure that any future NAV applicants are treated consistently and in line with legal and regulatory requirements. This will include the policy for bulk supply agreements based on the latest Ofwat guidance which will be published in the near future for transparency.

SLPs

Where a developer does opt to have services delivered by a Self Lay Provider (SLP), we support by publishing materials that will be of use to both developer and SLP in order to ensure that they are fully aware of compliance expectations. As a water only company operating a smaller geographical area, we have also endeavoured to standardise our approach in order that developers should be familiar with our procedures and expectations. Examples of this include:

- Publication of our standard SLP Agreement – by publishing this agreement ahead of any communication with the Company, the documentation may be reviewed ahead of any decision on appointment made by a developer, fully informing them of their choices.
- Our SLP agreement has been developed in accordance with the WaterUK National Model Self Lay Agreement.
- Our SLP procedures has been developed in accordance with the WaterUK Code of Practice for Self Laying of Mains (Edition 3.1.).
- Our Specification has been developed in accordance with the Civil Engineering Specification for the Water Industry – 7th Edition (CESWI). This specification has been adopted from our own Infrastructure Term Service Contract. Our specification is identical

for service delivery from a SLP as it is for our own Term Service Contractor and so direct appointment or SLP are required to install mains and services.

The standards and specification required of an SLP are identical to those required of our own Infrastructure Term Service Contractor. We believe that this is a vital component to ensuring that we maintain consistent standards in our Network and that we have transparent arrangements in place to create a level playing field for competition.

In-house operations

With respect to our in-house operations, our processes have been developed in parallel with the requirements of our SLP arrangements. For both non-contestable and contestable works, our service is delivered through our Infrastructure Term Service Contractor. The Term Service Contract has been competitively tendered and developed under the NEC3 Framework Contract and has been subject to appropriate and detailed EU Procurement legislation. External assurance and governance were provided and signed off by our Board.

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

Promoting a vibrant and effective developer services markets – on a sustainable basis - is being driven through a dedicated team with a primary focus on new connections and mains delivery, regardless of the route taken by a developer. This dedicated developer services team also work with SLP's and direct applicants in order to guide and advise on a successful outcome for the customer. We also anticipate that through the publication of our further support literature, together with regular direct engagement with SLP's in particular, we can learn about their needs and concerns and can adapt our processes on an annual basis in order to improve our service offering.

We are meeting with other water only companies to discuss best practice service improvement opportunities for our customers. With comparatively smaller scale interactions with developers, we recognise the need to innovate in the way we can pro-actively communicate with our customers.

We are considering how we can potentially develop a periodic e-newsletter that can communicate our ongoing performance, improvement initiatives, collaborative opportunities and seek feedback on our own performance in an informal way.

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)?

Our estimated breakdown of connections by size of development is as follows:

- Single connections and developments <20 properties: 40%
- >20 and <100 properties: 30%
- >100 properties: 30%

For additional information, we identify that the level of application activity is generated by the following size of developments:

- single connections and developments <20 properties: 60%

- >20 and <100 properties: 30%
- >100 properties: 10%

By far the most transactions take place working with individual property developers requiring a new, single connection, or for the installation of a small number of dwellings.

- 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 undertaken transactions with approximately 50 developers in the last 12 months. Our total number of new connections for the year is approximately 1800. SLP's have accounted for approximately 40% of this activity or 720 connections.

Of the remaining 1080 connections undertaken by the Company, the top 5 developers have accounted for around 30% of the activity, or 324 connections. Around 70% of the company delivered activity (around 756 new connections) are working with smaller enterprises or individual property developers and conversions.

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

The largest proportion of development activity is on smaller brownfield sites. We experience a high number of land owners looking to 'downsize', sale of gardens, or demolish and rebuild to create additional dwellings in the same grounds. For the purposes of the response we have included these types of development as a 'brownfield' development. We receive around 75% of enquiries as brownfield sites and around 25% of activity on greenfield.

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)?

We have three SLP organisations currently operating within our region.

- b. What services do SLPs tend to provide (e.g. do they do the design themselves; are they multi-utility or water only)?

The three SLP's provide all non-contestable installation works for both new mains and new service connections on sites. SES Water undertake the design work but closely collaborate with the SLP's in order to ensure that designs can be delivered effectively.

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

We have not identified any SLP activity in terms of enquiries for the delivery of individual or small-scale developments. All activity undertaken is of medium to larger size developments i.e. >20 properties.

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

The topography of SES area of operation ranges from densely populated London boroughs to the north, through to larger affluent properties along the M25 southern corridor, to suburban and rural land to the south. We find that by far the majority of development is brownfield sites converting to develop and install multiple new dwellings (e.g. a large property with land

converted to flats). A significant number of larger properties are enquiring to demolish a single, large dwelling to accommodate a number of new dwellings, taking advantage of the large gardens and plot areas.

Given that the surrounding areas are generally protected greenbelt, we receive very few enquiries for large scale new housing developments, which is probably why we have no NAV's operating in our area. Where larger developments have been identified, these have been successfully attracting SLP appointments.

Charges for new connections and developer services

Aim: To understand what progress has been made since Emma Kelso's letter earlier this year, to better understand how each company goes about setting its charges and to understand why there may be differences between companies.

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.
 - b. What changes have you made to your charging arrangements since the letter?
 - c. What changes are you planning to make, and what are the timings for the implementation of change?

Prior to the letter of 29 April 2019 from Emma Kelso, we had just undertaken a complete review of our charges scheme. This included a significant number of improvements. Key items that were completely reviewed are as follows:

- Developed and published a model Agreement for SLP's
- Developed and published our SLP procedures
- Developed and published our specification for SLP's
- Providing clarity surrounding the interaction between key documents (Agreement/specification/procedures/code of practice).
- Within the charges document, we provided further clarity over:
 - Developer choices (SLP/NAV/Incumbent)
 - Diagrams to support clear definitions of ownership and responsibility
 - More description and definition of non-contestable and contestable services and delivery paths
- Our website content was rationalized with all of the above and improved to provide all items in one place together with revised and updated:
 - Specific factsheets
 - Process for redress
 - Application forms
 - Self-serve estimating tool to provide indicative costs before formal application for a quotation.
 - Links to supportive websites (Ofwat, WaterUK, WIAPS, Watersafe etc)

A central theme of change to our revised charges scheme was to ensure documentation clearly identified that developers had a choice of service delivery for contestable works. The complete redraft of our charges scheme and accompanying documentation provided opportunity for us to ensure that we complied with latest industry guidance whilst taking into consideration the views gathered from discussions with the three SLP's operating in our area.

We standardised our specification in order to ensure that anyone working to develop our network, complies with the same standards of commissioning and installation practices regardless of SES contractor, NAV or SLP.

We are currently reviewing our digital platform in order to further improve the interaction and transactions that can take place within our website. This will involve more self-serve opportunities to obtain a generic estimate for a new connection, complete application forms online, upon instruction, receive clearer updates of status of enquiries and scheduled start dates for work.

We are currently reviewing our charges scheme for 2020/21 prior to the publication of Charges in January 2020. We intend to consult with incumbent developers and SLPs together with adoption of advice and guidance published through the regulator and WaterUK in order to ensure that we maintain industry standards and best practice where available. This next programme of review, improve and change has commenced and we are in the discovery phase, timed in light of the recent publication of the WaterUK draft Code of Adoption, and Charging Rules for April 2020. We anticipate stakeholder engagement, with draft documentation completed in December and external assurance in January for publication by 31 January 2020.

7. Please explain how your charges reflect costs:

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

We charge a range of scalable fees for the processing of enquiries, depending on the size of the development. All enquiries receive a site survey in order to identify and scope works correctly, which can and does include meeting the developer where appropriate.

Site survey information is turned into a design using our developer service team.

Charges are priced using the fixed schedule of rates from our current Infrastructure Term Services Contract. These fixed prices are the same schedule of rates regardless of SES maintenance, investment or indeed development requirements. The rates are built based on re-measure and not time-based activity. The activities are based on the apparatus installed (excavation, pipe installed to a depth, etc.; the materials used (pipe and ancillaries); and the reinstatement of the surface (Soft verge, footway and carriageway by type). Standard traffic management (signing, lighting and guarding using two-way lights) is generally inclusive of prices. Additional costs are identified from the survey in terms of more complex 3 or 4-way lights, road closures, bus stop suspensions, parking bay suspensions, or increased employee costs applied where works were required to undertaken either at night or at weekends due to stakeholder proximity (School, Hospital etc.) or complexity of the scheme (traffic density or Highway Authority instruction).

In order to address any uncertainty, a nominal contingency is also applied to the charge in order to protect the customer from cost shock associated with any unknown variable such as unforeseen ground conditions, third party underground utilities etc. The contingency is derived from our extensive experience of potential variance between estimated out turn cost and is consistent with our wider network investment programme of similar activities (such as mains replacement schemes). This is also reviewed with our supply chain and in-house experienced team during survey, design and estimate drafting. Upon completion of service delivery on site, we review the actual costs of delivery and where there is any variance through onsite efficiencies such as trenchless excavation or indeed where the job has not required us to call off on the nominal contingency, any such difference is credited back to the customer.

A fixed overhead incorporated in the Charges to take into consideration the direct costs associated with the Developer Services Team managing the customer experience from commercial transaction, planning, coordinating and supervising the installation of the works.

As part of the review of our charges scheme this year, the calculation of our charges and the above costs will be reviewed to ensure our charges reflect the most up to date and relevant costs.

- 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.

We agree that drivers of infrastructure and requisition charges should be fair and equally apportioned to all new connections regardless of size of development. A fair charge must be levied to take into consideration current and future supply / demand balance in order to maintain the serviceability of our network for customers now and in the future. Whilst we operate a smaller region to the other water companies, we are not exempt from hydraulic variance in the network's ability to transport and supply adequate capacity of product.

Whilst the business identifies total growth of demand and total new connections, it is important to identify the precise locations for such development in order to consider localized or regional hydraulic challenges. Where developments are identified for the immediate future, their impact is assessed and appropriate reinforcement of the network identified in order to protect existing customers and be prepared for the new development. Where capital investment is required to maintain the supply demand balance, these costs are recovered equally from new customer connections over a five-year period. Where development accelerates, this could give rise to a gradual increase in infrastructure charges levied to customers but over a fair and proportionate means.

As well as demand growth and requisite investment to sustain service as a key cost driver for infrastructure, the specific cost drivers for service delivery are associated predominantly with:

- Infrastructure Term Service Contract: labour, plant, fuel and coated roadstone all predominant drivers for service costs. These are reviewed annually using the BCIS (Building and Construction Industry Scheme) ratios.
- Stakeholder charges: lane rental and permit schemes have a significant influence which where practicable to do so, we mitigate through timing and trenchless interventions to expedite the works on site. Where site specific factors for safety need to be addressed, this can in turn lead to full road closures which again command significant charges from the local Highway Authority.
- Engineering difficulty: where location requires additional costs to mitigate against third-party infrastructure, proximity to water courses, railways, or even Transport for London Red Routes. This can include for instruction from the Highway Authority in terms of enhanced reinstatement requirements in order to protect their own road network infrastructure.

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

We are not currently considering regional variances in infrastructure charges due to the scale of activity and size of our network. We would not rule out a change to this approach in the event that we received a significant enquiry (e.g. a garden village development on greenbelt) which could require significant expansion in a location deficient of

infrastructure. Such a development would be subject to a long-lead time (planning and consultation) and would therefore provide us with opportunity to review our annual charges scheme and apply regional variances based on supply area if so required to provide a fair response for all of our customers. Developers would therefore be made aware of regional changes to Infrastructure charges through consultation and annual review of our charges arrangements if required.

We operate with eight regional Highway Authorities and as such, each has alternative approaches to Streetworks Charges in Accordance with the New Roads and Streetworks Act as amended by the Traffic Management Act. These enforceable charges vary between each Highway Authority and are levied for such items as Work Permits, Lane Rental, Bus Stop suspensions, parking bay suspensions, road crossing suspensions and full road closures. Any such charges are explained to our customers.

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 contractor rates are based on a fixed schedule of measurable items. Priced schedules are produced by the contractor and contract awarded as a component of the competitively tendered priced schedules. When pricing the schedules, the Contractor takes into consideration labour costs, excavated material/waste, fuel, plant, fittings/materials and safety considerations (signing, basic lighting and guarding) when pricing the schedules. The schedules are developed under the following broad headings and are presented in pipe diameter bandings:

- Mains laying rate (cost per linear meter)
 - Diameter size
 - Material (polyethylene, barrier pipe, ductile iron)
 - Installation technique (open trench, directional drilling, lay in third party trench)
- Service pipe laying rate (cost per linear meter)
 - Diameter size
 - Material (polyethylene, barrier pipe)
 - Installation technique (open trench, moleing, lay in third party trench)
- Installation of pipe bends, tees, valves and other ancillary apparatus.
 - Includes chambers, covers etc
- Mains connections
 - Connecting new pipe to existing network
 - Includes flushing and testing
 - Technique (cut into existing pipe, under pressure tee, cap off old pipe)
- Reinstatement applied to all of the above items:
 - Soft excavation: verge / private lawn / arable / pasture
 - Footpath: flexible / modular / rigid
 - Highway: flexible / composite / rigid construction / specialist surface.
- Further variables:
 - More complex traffic management (3 and 4 way junctions)
 - Labour rates for working out of hours and weekends
 - Extra depth of excavation
 - Specialist materials
 - Cancellation and remobilization fees due to third party instruction.

b. What services do contractor rates apply to?

Contractor rates apply to all construction works associated with the variation and extension of the network including new connections and mains installation for contestable activities. Whilst design is largely undertaken in house with our dedicated direct team, for larger developments and diversions, we would also consider the use of our framework engineering consultancy partners in order to dedicate a suitable and appropriate response for larger or more technical enquiries.

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

Our contract rates are derived from our infrastructure term services contract (ITSC). This framework contract is competitively tendered in accordance with European procurement regulations via the Achilles procurement portal. We are assisted by external specialist consultants in order to review our existing arrangements, consult with our own expertise in management and delivery of service, to consider application of industry best practice in terms of our procurement strategy to appoint a cost-effective service solution. The contract is tendered and negotiated following a lengthy and detailed process ahead of award. The process is scrutinized by the executive management team and Board in order to ensure that the outcome is right for our customer.

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.

All costs are derived from the process associated in the same set of schedules within the term services contract. Service costs are comprised of schedules of prices that are directly associated with our own direct service delivery proposals.

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 identify from time to time external Stakeholder charges that we pass through to developers or indeed SLP's whereas there is a requirement to suspend a bus stop, parking bay or completely close the road. These charges have regional variances due to the eight Highway Authorities that we cover each having its own charging arrangements that we have no control over. As there is a non-exhaustive list of such charges that can be incurred, we do not directly publish these charges. These costs would be made clear in any quotation.

10. When agreeing a bulk service agreement with a NAV do you:

a. Publish a standard agreement; or

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.

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

While we do not currently have any NAV bulk service agreements we are developing a policy framework and guidance for NAVs to ensure that any future NAV applicants are treated consistently and in line with legal and regulatory requirements. This will include the policy for bulk supply agreements based on the latest Ofwat guidance which will be published in the near future for transparency.

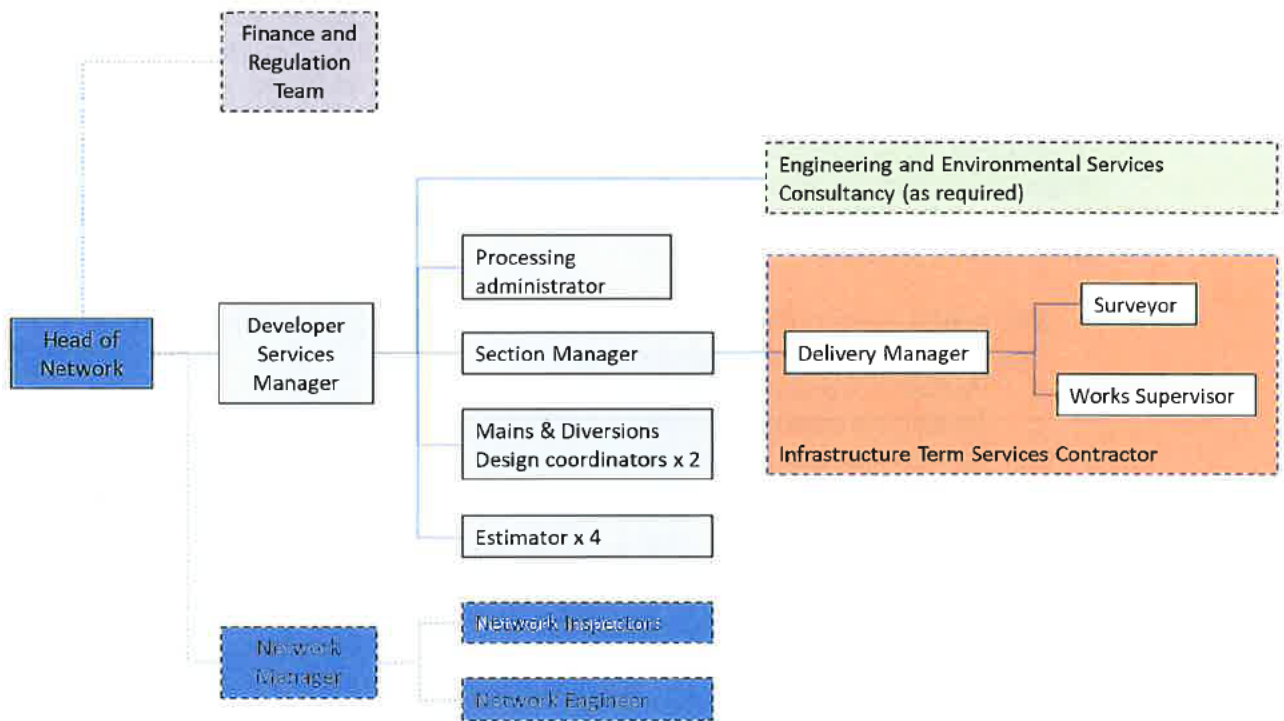
Culture, customer experience and quality of service

Aim: To understand how each incumbent water company operates to provide high quality services that meet the needs of their customers.

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

- 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.

Reporting into the Head of Network, our direct team comprises a total of 9 employees with a further dedicated resource of 3 employees co-locating from the Infrastructure Term Services Contractor.



Scope of responsibilities is summarized as follows:

- The dedicated team engage directly with customers to guide them through the application process. They coordinate surveys and generate quotations for individual customer connections. They engage with developers to understand site layout, design and issue quotations for mains works. They arrange for regulations inspections and coordinate with the term service contractor to schedule works within SLAs. They will work with developers in order to ensure that commercial transactions for income offset, infrastructure charges and asset payments are calculated fairly and commercial transactions are closed out.

- The dedicated team will also support SLPs in order to interpret design and coordinate the installation of contestable works and ensure asset payments and infrastructure charge commercial activity is closed out.
- Our section manager meets and engages face-to-face with customers in order to ensure quality and compliance is maintained on site, and to discuss any individual design change and variance in order ensure service delivery is maintained.
- Further support is required from our engineering and environmental framework Consultancy for scheme specific engineering design input and outline communications with larger stakeholders.
- Operational support via the network manager is engaged where required to observe and sign off on water regulations checks for new customer premises as part of a wider Network management remit.
- The developer services manager and head of network review strategy, publication of charges, engagement with industry stakeholders, interpret standards, codes and policies in order to ensure that we maintain and develop our service offering directly to customers and support entrants to market. Where required, our finance and regulations team will also coordinate, support and advise on policy.

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
- b. how the engagement was communicated to potentially interested stakeholders;
- c. the topics covered by the engagement (e.g. whether it included information about the proposed levels of charges for the upcoming charging year); and
- d. the process by which contributions from stakeholders are taken into consideration and progress is communicated back to stakeholders.
- e. Please provide supporting evidence, including emails issued, agendas used, papers or consultations prepared.

- We visited Aquamain at their head office [REDACTED]
This meeting was to engage them on:
 - Performance and challenges to date
 - To discuss openly how we could improve our relationship
 - To discuss our approach to the coming years charges scheme, the level of charges and our publications to advise customers on routes for delivery.

As the meeting was held with their operations director and our head of network, feedback and guidance was fed directly into the proposed charges scheme in order to incorporate and clarify issues raised.

- We have met with Tri-connect on site to regularly review and advise on our standards and again to obtain feedback as to how we can improve communications and support with their progress particularly around regulations inspections, coordination of commissioning works, and cooperate with timing of non-contestable activities such as mains connections.
- We engaged with industry body Fair Water Connections when approached for clarification of our policy and practice.

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 do not provide differing operational service levels depending on customer type. We offer a balanced service to all of our customers to meet their needs. In order to prioritise and schedule works efficiently using a finite resource, we have a simple schedule of Service Level Agreements that are used for all Network Activity that requires site-based support. Resources are scheduled based on priority:

- Quotations: 7 Calendar Days
- PE: Priority – Emergency
- P2: 2 Calendar Days
- P5: 5 Calendar Days
- P10: 10 Calendar Days
- P20: 20 Calendar Days
- P40: 40 Calendar Days

All network activity is subject to assessment to identify the appropriate level of response. Our term service contractor is co-located within our head office and are also held accountable to the same SLAs.

- 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.

We submit our metrics on a monthly basis. We have very little activity associated with SLP metrics due to the scale of activity in our area. However, where works are carried out, 100% of all non-contestable connections have been undertaken within the SLA.

- 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 have had no interaction with NAV's in our area in the past year, and therefore no basis for measurement of performance against such metrics.

- 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?

We are not aware of any parallel activity and have either engaged directly with a developer or directly with a SLP.

When providing a quotation to a developer, we always identify in each individual communication of our quotation that the developer can of course opt to engage a SLP as an alternative route for delivery.

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

We are currently reviewing the content of the WaterUK Draft Code of Adoption dated 7 October 2019. In autumn last year we engaged specifically with Aquamain as one of three SLP's operating in our area, [REDACTED]. We developed our current agreements, specification and guidance in accordance with WaterUK guidance available at the time. We have awaited for the current sector guidance prior to further engagement with the market to refine our approach ahead of April 2020.

We are very keen to where practicable to do so, standardise our offering in order to ensure that we maintain a fair approach which should be familiar with customers operating in our area and indeed regionally. We are therefore keen to take the draft code and progress with the development of our approach in line with this.

We have appointed an external specialist consultant to review and advise on the development of our approach and this will link with the adoption code, the development of our charges scheme for 2020-21 and all changes necessary to prepare for this leading to our internal Board governance and approval process in January 2020.

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)?

Outside of the support for development of new entrants, NAVs and SLPs as noted in this response, we are not currently focused on the development of any other retail markets within SES Water.

