

Effective markets - annexes

These annexes covers our response to the detailed questions included in Emma Kelso's following letter of 16 September 2019.

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

1. *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?*

The Severn Trent Plc Board sets the strategic direction for the company and the Severn Trent Executive Committee (STEC) oversees the development and execution of Severn Trent's strategy, including accountability for business results. STEC's duties include periodic review of business unit performance reports in light of the Group's strategy and to approve policy guidelines for business units based on the approved strategy and budgets.

One of the five strategic objectives that our Board has set since 2015 is *Change the market for the better*. As our Board has consistently set out (including in our Annual Reports), that means: *'We'll embrace market opening in the UK and explore opportunities for growth in new water markets'*. In line with this, our commitment to promoting markets is longstanding and firmly embedded:

- we supported the proposed licence changes in 2007 to give Ofwat more flexibility to create separate price caps and introduce competition, when the majority of the sector opposed it;
- our Changing Course publication series, which commenced in 2010, has long advocated water trading as a feasible way to introduce greater competition and market forces to the sector;
- we championed the commercialisation of the Bioresources value chain through deregulation and competition and we've already started test trades with both United Utilities and Yorkshire Water; and
- we were active in supporting the establishment of the non-household retail market opening in 2017 by forming the Water Plus joint venture with United Utilities in 2016.

The Board meet at least eight times per year, with a dedicated Board Strategy day held outside of the routine Board calendar. Each Board meeting provides standard agenda items to consider reports from Customer and Business Services directorates. The Customer report considers services in the business retail market. The Business Services report provides for discussions in respect of developer services, new connections and bioresources markets. Additionally, there are separate Audit Committee and Board discussions in respect of charging (including new connections charges) on an annual basis.

The Board takes its responsibilities under Competition Law very seriously and considers the company's interactions within competitive markets very carefully. In doing so it is guided by the advice it receives from the Audit Committee which has oversight of Company systems and processes for assurance. For example, it provides specific assurance that our charges comply with our legal and regulatory obligations, including Competition Law, which is supported by independent external assurance.

Our Wholesale Market Unit (WMU) was established in 2016 in response to the opening of the new NHH retail market and to provide a primary focus for Retailer and MOSL interactions and to proactively support development of the new market. In addition to weekly and monthly performance management reviews by the Head of WMU, our performance is reviewed at an Executive level via a number of routes to ensure alignment to the company strategy in support of effective markets with corrective actions instigated where necessary.

- Monthly reviews with the Director of Customer Delivery (the Directorate the WMU sits within) as a more in-depth performance and strategy review, providing a forum that ensures policy issues are raised, strategy remains on track and appropriate resources are provided;
- Quarterly reviews with the ST Plc Disclosure Committee attended by the Finance Director, Group Company Secretary and Director of Strategy & Regulation with a focus on MPS and OPS performance (including progress against rectification plans);
- Periodic review with the STEC on key issues, e.g. review and approval of Schedule 3 Credit provisions, designed to support the new retail market including new entrant retailers;
- Periodic updates for the ST Plc Board.

We have sought to adopt a similarly proactive approach in relation to developer services. Severn Trent was the first company to introduce a bespoke tariff for NAVs, published in October 2016 - this was before Ofwat launched its most recent review of policy in this area. We had engaged with Frontier Economics before they brought forward their report for Ofwat, and this recommended a wholesale-minus tariff along the lines that we had already implemented. This year we have undertaken a full review of our bulk supply charges to ensure that they are compliant with Ofwat guidance and to take account of feedback from NAVs. Frontier Economics provided assurance of our model and approach to charging.

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).*

Across Severn Trent we obtain insight on customers experience from a range of tools. This includes:

- TapChat – our online community of 5,000 customers;
- Qualtrix – our in-house engagement tool for insight after every contact;
- Sprinklr – our social media scraping;
- Contact data – which is particularly relevant for reviewing trends and identifying issues across our customer base; and
- Bespoke research – in 2018 we conducted in-depth interviews with developers and business retailers to understand their needs from us and how to improve satisfaction and experience as part of our plans for PR19

These tools help provide insight about all our services, including wholesale services to end customers. The insight we gather from these tools is used to inform our future plans. Of particular relevance to the business market is the use of insight from qualtrix (pipe-up) which is effectively satisfaction surveys. These survey monitors and trends satisfaction scores for water and wastewater service interactions and data is used to monitor and help improve our wholesale service.

Pipe Up covers both household and non-household customers, which are reported separately. For bilateral market transactions, where the Market Codes require interactions to be via the Retailer, we work closely with our contracted Retailers and with the Retailer Wholesaler Group (RWG) to understand Retailer and customer feedback and to develop our policies and service provision in response.

Below, we have set out two examples of where we have changed our services in response:

- **Trade Effluent Forward Fix:** In direct response to feedback from our Retailer community, in June 2019 we implemented a new forward fixing methodology for trade effluent strengths based on detailed statistic profiling/ modelling which allows customers to receive accurate monthly bills; and
- **Data Loggers:** In 2018, we introduced a new Wholesale service to provide data from our own data loggers to Retailers where available. We also published standard charges for installation of pulse units on meters, simplifying the process that allows Customers and Retailers to connect their own logging devices.

In terms of our bespoke research, to inform the design of our wholesale plan, we conducted research with retailers. This was done through an independent research agency, where we conducted a series of in-depth interviews with business retailers. Our audience for this was diverse in terms of number of customers in our region, ranging from Water Plus, with up to 180,000 customers, to retailers focusing on providing a bespoke service to a smaller number of customers. Most of those we spoke to are satisfied with the service they receive, however some would prefer more personal contact and communication.

The research revealed that the top priorities for retailers are:

- good account management;
- the provision of accurate data; and
- improvements to the portal, the information hub between retailer and wholesaler.

Further details on this research our set out in our PR19 Plan Appendix A – Engaging Customers. In the subsequent questions, for example question 9 - , we detail specific actions we are taking to address this feedback.

Importantly our efforts to improve our understanding of customers evolving priorities is increasing. We are currently designing our insight and engagement strategy for 2020 onwards. As part of this work we are reviewing best practice across not just other water companies, but also other sectors. The aim of this work is to identify improvements to how we collect and disseminate information so that we can better meet customers needs.

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 been active participants in the various Market Committees and Working Groups both before and since opening of the Business Retail Market. In terms of current representation:

1. **Panel:** Our Head of WMU was voted on to the Panel in April 2019 and has actively promoted and supported recent market governance changes to facilitate quicker market change via Panel voting arrangements and support for a Customer voting Panel member, along with support for a greater level of industry self-Governance (which is due to come back to the Panel in the Autumn).
2. **Market Performance Committee (MPC):** Our WMU Retailer Contracts Manager is a member of the MPC, which is driving and shaping the market performance agenda. They are also a member of the OPS working group (OPSWG), a sub-group of the MPC established to review and promote changes to the OPS performance framework.
3. **GDPR Issues Committee:** Our Group Data Protection Officer is a member of this Committee.
4. **Credit Committee:** Our Accounts Receivables Manager has been a member of the Credit Committee since inception following the Ofwat / KPMG review of Credit Terms in 2018.
5. **Trade Effluent Issues Committee (TEIC):** our Commercial Waste Manager is a member of this Committee.
6. **User Forum:** a number of members of our WMU team are regular attendees and contributors at the User Forum. We look to match specific attendance to the agenda topics for maximum benefit/ contribution.
7. **Retailer Wholesaler Group (RWG):** we are regular attendees and contributors to the RWG agenda, and have provided a lead on the Eligibility Working Group as well as members of Working Groups considering Gap Site Incentive, Meter Reading, RMEX, Complaints, Disconnections, Bilaterals and the Accredited Entity scheme.

8. **Wholesaler Groups:** we were a founding member of the Wholesale Interface Group that includes all wholesalers, and we also participate in regional Northern and East of England Groups. These have terms of reference and provide an excellent forum for sharing best practice and resolving issues in furtherance of development of an effective market.
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.*

In respect of consultations, we consciously undertake a review/ challenger approach via a separate member of the team as part of finalising our response, as well as consulting with other internal and external stakeholders. This ensures that we are inputting in a balanced way. We have team members who sit on the Panel and the MPC and other Committees / Groups who play this review/ challenger role, ensuring that this mindset is embedded.

A recent example of this was change proposal CPW067 relating to Bulk Submissions of Service Requests. Whilst this change has potential to put cost and risk onto wholesale operations, we were supportive of the change as it could support the Objectives of the Wholesale Retail Codes, particularly in respect to efficiency (if executed in the right timescales and with appropriate guidance / rules).

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).*

In our approach to participation in Committees and Working Groups, our aim is to bring a range of experience from across the business that's relevant to the issues being considered, with a view to improving the efficient and effective working of the market to deliver better customer outcomes. We look to provide input where we believe we have the most to contribute or the most to learn.

In respect of our participation at the Industry Panel, Market Performance Committee, GDPR Committee and Credit Committee, we have provided Employer Release letters and specific affirmations to act independently through all aspects of the decision-making processes.

As explained in question A1, the Board discusses and sets the strategic direction of the Company. *Change the market for the better*' is one our five Strategic Objectives, and as our Board has consistently set out (including in our Annual Reports), that means: *'We'll embrace market opening in the UK and explore opportunities for growth in new water markets'*. The company's position at industry groups is guided by that strategy. Our representatives on committees and working groups will update our Executive on the matters discussed and where these require further direction or approval from the Board these will be raised through the company's governance structure.

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?*

In February 2019, we were placed on an IPRP for three measures: MPS 7 (Meter Installs/ Exchanges), MPS 9 (TE Meter Exchanges), and MPS 12 (NMM reads). We produce daily/ weekly/ monthly reports to highlight issues and understand where interventions are required. We also undertake root cause analysis on all failures to understand where we need to focus our improvement activity. To aid improvements in this area, we have instigated weekly performance reviews with the New Connections team to monitor performance and understand if we could prevent further failures in the period. As a result, our MPS 7 failures reduced from 20% to 9% and whilst there were some fluctuations during this period, these were as a result of the meetings identifying backlogs that would not have been identified had this intervention not been in place.

In August 2019, we were advised by MOSL that we have now had our plan for MPS 9 and MPS 12 closed. Although MPS 7 is to be extended for a further six months, for the month of September 2019 we hit our target of 80%.

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.*

Progress against the IPRP is reported via the Severn Trent Plc Disclosure Committee which is responsible for oversight of compliance with the Group's disclosure obligations, assurance, and anything for external publication (including our MPS and OPS performance as well as other market performance data). The Committee membership includes three members of the Executive Team along with external audit and other advisors. The WMU report performance to the Disclosure Committee on a quarterly basis unless there is anything that needs to be declared as an exception, with an additional focus on in-month performance via a Director-led WMU performance review. We have included an example Disclosure Committee paper, submitted February 2019.

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?*

Our bilateral job management system, SWIMpool, is available to all contracted Retailers, ensuring we have a consistent approach to bilateral job management. SWIMpool is integrated with our central systems (e.g. SAP) where jobs are created and workflow is managed 'blind' to the identity of the Retailer, ensuring that jobs are progressed systematically in line with when they were raised and without any undue preference. The WMU meets or talks regularly with

Retailers to review individual OPS performance and, where necessary, to agree corrective actions on both sides to improve performance and reduce rejection rates. In respect of comparative performance it has been difficult to establish any issues or trends during the first two years after market opening where job volumes are very low and even as they have increased no obvious issues or trends have emerged. We are not concerned that undue preference is shown to any particular Retailers, particularly given the safeguards of the 'blind' approach to workflow management within our central systems.

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*

Our bilateral job management system, SWIMpool, produces OPS reports configured to the latest market code processes and SLAs. The reportable numbers are validated against raw data extracts at bilateral level. The exception to this is for G4s (TE samples), which are tracked separately from SWIMpool and added to the final OPS report submission.

Our assurance framework has three levels of assurance, with Level 1 being undertaken locally on a sample of 5 - 10% of reportable jobs each month, across a mixture of Retailers, processes and across the full range of different job statuses (i.e. rejected, closed, failed etc). Level 2 checks are undertaken by a separate team, in a separate Directorate, scrutinising each other's findings. Level 3 assurance is undertaken with our Internal Audit Manager on a quarterly basis (undertaken monthly during the early stages after market opening).

Each assurance meeting follows an agenda that covers the reported numbers, sample checks, performance at process level, themes, trends and issues arising. Next steps are captured and acted on. Feedback from the checks is provided to the teams and necessary corrective actions taken to improve processes, systems and people performance. The reportable data is reviewed and signed off by a member of the WMU management team prior to submission to MOSL.

OPS performance is regularly reported on from SWIMpool throughout the month, ensuring that performance is understood and that root cause and corrective actions are taken early if performance is off track.

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.*

Shortly after market opening, we revisited a pot of c7,000 supply points (SPIDS) where it had been difficult to be certain of their eligibility for the market (e.g. allotments). These were all subject to manual review and validation. We subsequently manually migrated c4,000 properties to the market; while impacting our MPS significantly it meant that we had prevented incorrect migration of c2,500 SPIDs to the market that were in fact not eligible. We additionally undertook

joint work with Retailers on market discrepancies, such as meter data that was different in core systems compared to CMOS.

Over the last 12 months, we have focused on the data items that were highlighted by the industry as most important and which formed the basis of the MPOP as a result. These include meter locations as well as SPIDs not settling. As part of our joint plan, we undertook a commitment to visit all of our SPIDs that had not received a reading since market opening and as part of this we obtained X-Y co-ordinates for updating. We also obtained meter readings and provided these to Retailers to enable them to update the market systems. In October 2019, our address management project will be completed. The project has been looking at all of our address data to see if we can improve the quality using Address Based Premium as the source data. We will provide all of this data to our Retailers to review to get some feedback prior to updating to ensure that any independent systems can receive the changes. There are c91,000 core SPIDs that we have identified which could benefit from this update.

More recently we have been working with retailers to address vacant properties with consumption. For example we are sending one retailer a list of 80 customers per week that have high actual consumption despite not being in charge. We have also identified issues where some customers have switched retailers but are then being set as vacant despite consuming water (no reasons are given for these errors). We are looking at how we can address these issues through a combination of more data interrogation and working closely with retailers to ensure these are brought to attention.

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?*

Within the WMU, our dedicated Data team routinely analyses market data against core data to identify discrepancies and improvement opportunities. All identified items are triaged with the Retailers (and other Wholesalers in respect of any cross-border issues) to understand benefits and / or implications prior to a prioritised plan of updates being made. As the market has evolved, we have progressively moved into a proactive data management process and away from a reactive position, as would be expected in a maturing situation.

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 WMU Data team responds to data queries relating to inaccurate or incomplete data and resolves accordingly. For example, early on with the market, we responded to a Meter X-Y issue through identification of correct location and making corrections through CMOS (where our item

to correct) or passing the data to Retailers (where their item to correct). In relation to bulk data issues, specific timetables for resolution are mutually agreed with Retailers in advance, and take into account overall operational workflow.

For individual requests for meter locates, supply checks etc, we also respond through the standard bilateral route against market SLAs.

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 WMU's Market Operator Manager has been part of MOSL's GAP site Incentive scheme working group which has recently published its scheme and is now out to the market as a CFI. As part of the group, our objective was to define a standard scheme, accepting that this would not include the standardising of incentives at this stage; the costs for this scheme were part of the PR19 business plans of each company and in most cases already approved. Whilst we appreciate that there is more scope for standardisation, working together to define the scheme gives us all more flexibility to reach a more harmonised offering with more pace. As a group, we are now working on the VOID incentive scheme using many of the same principles. Our Market Operator Manager is also part of the Accredited Entity (AE) working group who are looking at standardising the AE scheme. As a team, we also have representatives, on the following RWG working groups: Policies, Incident Management, R-Mex and OPS measures.

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.*

The bilateral solution has been presented by MOSL in the form of a functional specification requiring business approval. We are fully supportive of this improvement and in September 2019 we supplied the following quote to be used by the then Digital Strategy Committee regarding our commitment to this initiative: "*we are supportive of exploring the options as we recognise the need seeing the challenges 18 different interfaces must have for retailers, especially for new entrants but we do need to understand the full cost and resource implications for wholesalers as well*".

We have also recently met with the new MOSL Bilaterals project team offering our support and reiterating our commitment to the implementation of this solution. We are considering nominations for the working sub-groups to support implementation of the chosen solution.

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

(a) 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?

As part of our onboarding process, all Retailers are allocated a Retail Account Manager who takes them through a standard induction pack containing details of the services we provide, the systems we use, relevant points of contact and the location where further details of our policies, charges and other retailer relevant documentation can be found. Our preference is to onboard face-to-face at the Retailer's offices where possible, to establish good early relationships and points of contact and ensure maximum exposure in the Retailer's business, along with a good opportunity for Q&A.

All of our policies and documentation are published on a Retailer specific section of our website (<https://www.stwater.co.uk/businesses/retailers/>). The relevant nominated WMU Retailer Account Manager provides a point of contact for any queries about policies, escalations etc. Where necessary, we will provide bespoke communications to ensure that policies are understood and to help Retailers explain any changes to their customers. A recent example of this was in June 2019 when we implemented a change to our methodology for calculating Trade Effluent sample strengths (moving to a 'forward fix' approach based on a statistically relevant modelling of historical data) and we issued a bespoke information pack providing detail of the changes and FAQs. Similarly, when we introduced our Schedule 3 Credit proposal in April 2018, we contacted all of our contracted Retailers alerting them to the new scheme and providing details. All agreements were then published to our website.

(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?

Since 1 April 2017, we have changed or introduced the following policies:

- **Introduction of Schedule 3 Credit Arrangements:** entitling all Retailers to an additional £125k of unsecured credit, over and above code requirements;
- **Trade Effluent charging:** we have moved to a forward fixed approach for TE strengths, allowing retailers to issue accurate monthly bills;
- **Tariffs:** we have reduced the number of tariffs by 37% and have announced further measures to simplify charges, for example by phasing out seasonal charging;
- **Meter Access Policy:** we introduced a new meter access policy, clarifying issues around access for meter reading purposes; and
- **Leakage and Non Return to Sewer (NRTS) Policy:** we are currently reviewing these against RWG guidance and will look to align where possible. Our leakage allowance policy remains one of the most generous in the industry, giving allowances on both water and waste.

(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?

Please refer to our response to the previous question. Any SLAs that are not set out in the market codes are detailed in our policies published on our website.

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

(a) 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.

We entered the market with over 300 tariff offerings. Since market opening, we have reduced this to c190 but due to a MOSL defect we are unable to formally retire these from the tariff table in CMOS. Our expectation is that we will be able to retire them during the next tariff update in February 2020. We are currently working to understand if any more tariffs can be removed or merged without impacting customer charging as a part of the annual tariff review process.

We've embarked on a significant programme of simplification within the revised Severn Trent area of appointment, which currently includes all the charges that were previously used by Dee Valley. We are mindful of the impact that this could have on customers and will phase in changes that could have incidence effects, but wherever there are "quick wins" we will align charges within our area. For example, we will harmonise the standing charges for different sizes of meters with a view to reducing the number of different rates as soon as we can.

At present there are three standard volumetric rates for non-households for different parts of the Severn Trent area, another legacy of the Dee Valley acquisition. While this is not something that can be addressed quickly we will deal with it in time. In the short run, we can make our large and intermediate tariffs available to customers in the Chester area that could benefit from them (Dee Valley had no effective large user rates).

In July, we announced that we would be phasing out seasonal charging which will simplify our charges for water (this was published in the July statement on our [website](#)). We are also switching from the falling block approach that we have historically used for waste water charges and bringing this in line with the method used for water charging. This will remove the need for a reconciliation between charges based on an equated rate applied within CMOS and the actual volume, once known. It will also make it easier for retailers to make comparisons between the different charges available from Severn Trent or from other wholesalers.

(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?

We do not currently charge vacant sites and are not intending to start doing so in April 2020 as we are keen to understand if there is a more industry harmonised approach that can be devised. On market opening, we did charge for all components on vacant sites in line with our charging policy prior to market opening. This policy was rescinded in 2017, since it was apparent that there were some gaps in the communication of the policy leading up to market opening and it was out of sync with the rest of the market at the time.

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 consult regularly with our Retailers on both a structured and informal basis (e.g. when undertaking visits to each other's offices or via routine service meetings / calls) and we actively seek to take feedback on board to help improve our service. In addition, we attend numerous industry group meetings with Retailers (RWG, User Forum etc), which are a good environment for obtaining Retailer views on key market issues.

As part of our longer term planning for PR19 we undertook depth interviews with a number of retailers (we tried to secure interviews with all retailers in the region and ultimately 9 took part). This research was designed to:

- To understand retailers' perceptions of current service provision from Severn Trent
- To identify current and future challenges for retailers, and what Severn Trent can do to help
- To understand retailers' plans for future growth and investment in the Severn Trent region
- To explore how Severn Trent can support retailers in providing the best service to their customers
- To understand the extent to which retailers are supporting customers with water efficiency initiatives
- To understand retailers' thoughts on which areas Severn Trent should be investing in for AMP7

This research revealed the key priorities were good account management and quality of data (see above questions for what we are doing to address customer needs in these areas).

We also participated in the recent R-MEX pilot survey and have since engaged with participating retailers via our WMU Retailer Account Managers to better understand the R-MEX pilot scores to support development of our improvement plans.

Finally our engagement with retailers is not static. As discussed earlier, we are developing our customer insight and engagement strategy for 2020. As part of this work we are reviewing best practice across the water sector and other sectors to identify improvements to what we collect (and how) and how that insight is disseminated across the business.

(b) 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.)?

All Retailers are assigned an Account Manager, along with a secondary point of contact, to ensure that they have avenues to raise questions and concerns. As part of the onboarding process, all Retailers receive an induction, preferably undertaken face-to-face at their offices. Regular service review meetings are undertaken with all Retailers at an agreed frequency in line with the volume of work. We have also supported the Retailer community with attendance at their own events where invited to do so (e.g. invitations from Castle Water and Waterscan) and we have found that these provide a great opportunity to get rich feedback directly from end customers.

(c) Understanding causes for, and improving levels of rejected, deferred or late OPS tasks?

Root causes are reviewed with Retailers as part of the service review meetings and / or on an ad hoc basis for specific cases.

(d) 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?

Feedback is generally obtained through our routine contact with Retailers via service review meetings, routine visits and industry events. For specific changes (e.g. for the change to forward fix TE charging), we will consult to ensure considered views are obtained on either the proposal or method/ approach for implementation. We have included a copy of Retailer communications regarding the change to TE charging.

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?

In April 2018, we introduced a new Schedule 3 Alternative Credit offer, which gives up to £125k of additional unsecured credit to all retailers without the need for a qualifying credit rating or score. Our objective was to support the new market by removing the cost of credit provision for a fixed value, and to support all retailers, including new entrants, to establish themselves in the market. The agreement is simple, transparent and available to all, and has been very well received by the community, allowing several Retailers to move to post-payment for the first time and at no additional cost. We currently have 16 contracted Retailers under this agreement. Whilst our Schedule 3 arrangement is not sufficient for all Retailers, it is simple and low cost to administer, does not require ongoing monitoring of credit scores and other metrics and gives us a quantifiable, manageable risk exposure.

Since 1 April 2017, we have rejected several requests for Schedule 3 agreements, on the grounds that they do not have an equivalent risk profile to the Schedule 2 standard credit options and therefore could transfer more risk to our other customers. The alternative proposals often request additional unsecured credit based on less secure measures than those set out in the codes or are not immediately accessible on demand, in the same way as cash, bond, letter of credit or guarantee (e.g. guarantees from entities who do not hold a minimum credit rating). In all instances, we nevertheless give due and proper consideration to these proposals and clear reasons for the rejection.

We closely monitor all industry developments in this area and our approach is constantly under review. We believe that it is preferable that changes to credit terms are made through code changes, to provide consistency for all retailers and to allow wholesalers to properly consider the costs and risks and build into business plans.

(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?

We have recently received one request for extended payment terms which we are currently considering. We do not have a standard offer but we are aware of developments in this area and this is under review.

(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 treat all retailers the same and apply codes and policies equally, irrespective of the type of retailer. This ensures a level playing field with equivalence of inputs and avoids skewing the market towards a particular retailer model.

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 have participated in the ADR working groups with CCW and understand the issues. We are supportive of a change provided that the Wholesaler has equal representation in the process and the opportunity to make their case. In the interim, we are happy to work with Retailers on specific cases and to consider cost apportionment, provided all relevant information is made available to understand Wholesaler fault.

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)?

GSS payments for 18/19 are summarised below. GSS payments are assessed, processed and assured as close as possible to the event / service failure and automatically paid to retailers, who in turn credit to customers. We have very few (< 10) instances where Retailers approach us to claim GSS, although on the very small number of occasions this has happened, we have investigated and rectified accordingly. These payments are included in the numbers below.

No.of Retailers	15
Date	April 2018/March 2019
Total Number of payments	3185
Amount payable	£372,884.75

Type of GSS	No.Payments made	Total amount
Discoloration	193	£469.48
Do not Drink	25	£625.00
External Flooding	19	£5,948.06
External Flooding + penalty	80	£21,875.02
Failure to warn	2	£220.00
Internal Flooding	29	£14,004.28
Internal Flooding + penalty	155	£71,112.91
Missed Appointments	128	£2,945.00
Missed Appointments +penalty	72	£2,755.00
Poor Pressure	757	£19,330.00
Supply Interruptions	308	£30,825.00
Supply Interruptions + penalty	1417	£202,775.00

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 (NAV)s and self-lay providers (SLPs) and in-house operations?

Across Severn Trent we have a number of processes in place to ensure that we manage our competition law obligations. Of particular relevance is our:

- Licence to Operate framework
- Mandatory training courses
- Enterprise Risk Management (ERM) register
- Targeted independent reviews on constable activities to ensure prices are cost reflective

Below we discuss each of these key areas.

Licence to operate

Over the past five years we have used our internal compliance framework 'Licence to Operate' to assess our compliance with our statutory and regulatory duties as an appointed business. We monitor over 500 obligations including developer services obligations and over 900 lines of Annual Performance Report data reporting lines.

Licence to operate is a two stage process that operates through the mid and year-end of the annual regulatory cycle.

- Mid-year risk assessment
 - In September, we ask our responsible managers to complete a risk assessment of their regulatory and statutory obligations. This mid year assessment allows us to understand the areas of compliance risk that require either management action or our assurance plan needs to target. This allows us the opportunity to put action plans in place prior to our year-end reporting of performance. For further verification, we also review these risks against our ERM register to ensure there has been a consistent assessment of risk across the two processes.
- Year-end declarations
 - Prior to publication of our annual regulatory reporting we ask our responsible managers to declare whether they have been compliant or non-compliant with their obligations. If they have been non-compliant, we ask them to complete a 'departures' form, which details what issue has occurred during the reporting year and what action will be taken to prevent it in future.

Departures that are assessed to have a material impact are included in our annual Compliance Statement, which is published in July within our regulatory reporting. This document is reviewed and scrutinised by Disclosure Committee and Audit Committee before it is endorsed

by our Board prior to publication ensuring that all levels of the business are made aware of any significant risks or issues. More information on licence to operate can be found with our company monitoring framework publications on our website (<https://www.stwater.co.uk/regulatory-library/regulatory-library-documents/>)

Training

Our code of conduct, 'Doing the Right Thing', sets out the clearly defined values and standards of behaviour that we expect from everyone who works for, and with, Severn Trent Water. These values embody the principles by which the Company operates, and provide a consistent framework for responsible business practices. The supporting policies codify how to identify and deal with suspected wrongdoing, fraud or malpractice; how to ensure that the highest standards of safety are maintained; and how to apply good ethics and sound judgment.

All front facing customer staff are required to undertake mandatory e-learning training, which is refreshed every two years. The topics in our e-learning packages include, our code of conduct 'doing the right thing', an overview of the competitive markets we operate in, competition law and maintaining a level playing field. At a senior level, this e-learning is again mandatory with additional more detailed packages on competition law included. Our developer services team is also required to complete e-learning on competition law. Finally, the Group Compliance and Assurance team have delivered tailored training packages to senior managers and executives whose roles may require them to deal with both appointed and non appointed activity.

Board members are also made aware of our 'conflicts of interest' policy as published on our website and are regularly asked to declare any potential conflicts. This year we have expanded our conflicts of interest policy by asking all senior managers below Board level to consider whether they have any conflicts of interest declarations to make as part of our licence to operate process noted above.

Enterprise Risk Management Register

We take our competition law obligations very seriously and it is for this reason that competition law features as a risk on our ERM register. Our ERM register is a sophisticated tool which has been developed to allow us to identify and manage risks within our business by using a variety of controls (for which responsibility is assigned to control owners). As discussed above, this is complemented by our licence to operate compliance framework.

Charging

An important feature of our approach to setting charges is the use of targeted independent economic assurance. This is particularly relevant in the context of the market for developer services.

For example in relation to our NAV charges, we most recently obtained independent assurance from Frontier Economics. The purpose of this assurance was to identify any potential improvements both from a methodological perspective but also documentation and other aspects that would support the market. We obtained assurance from Economic Insight regarding the structure of our developer charges. As a result of their feedback we made adjustments to the range of sites covered by our standard charges; more expensive schemes were separated out to ensure that charges reflected those higher costs. Finally, our developer charges are subject to annual assurance – through our internal processes and Jacobs, our external assurance partner.

We also think that the transparency of our charging is important. For example a result of consultation with self-lay customers, we have published specific barrier pipe (Puriton) charges to further increase the predictability of our non-standard mains requisition charges. We have worked with our self-lay providers to deliver a self-service estimator tool so that they can easily and accurately predict their costs without the need to contact us. We are currently trialling this with a SLP customer with a view to publishing on 1 November 2019.

This transparency is underpinned by the predictability of our charges. For example asset payments paid by Severn Trent are set at 90% of total mains construction costs for all sites. This contributes to the predictability of our charges and mirrors the approach we have for calculating income offset. This maintains a level playing field and meets the requirements of New Connections charging rule 30b.

In relation to self lay market - mains requisition charges and asset payments are the main focus. Our mains requisition charges have been structured on a 'per plot' approach for the majority of our schemes – an approach adopted as a direct response to customer feedback. Whilst we believe that most of our customers prefer the predictable per plot approach we are mindful that charges that are more predictable and simplified won't always be exactly cost reflective of each scheme. Therefore, in FY20/21, we will be moving towards a menu of rates approach for our requisition charges driven primarily by pipework meterage. This will enable all stakeholders to compare across the market more easily.

We do not charge when vetting self-lay designs because the cost we incur over the year is negligible. We do this to encourage and support a vibrant, contestable market.

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

We have reorganised around our customers (we have attached an organogram as an appendix to this response) to build a service offering that explicitly takes account of the needs of our different customer groups. In addition, we have moved from a predominantly outsourced to insourced operating model meaning that our people now have full ownership of our core capability; connecting customers to our network with better control over our customers' experience.

Proactive engagement with key stakeholders including Government bodies, our developer customers and their representative bodies (such as Home Builders Federation and Fair Water Connections), has enabled us to listen, influence and respond accordingly to support housing growth, environmental sustainability, innovation and regulatory change. We have helped shape the Codes and D-MeX through our engagement and support of working groups. We hold biannual self-lay forums along with developer days and face to face meetings with developers and their representatives.

We've worked with our customers and stakeholders to simplify our tariff structures. We believe that we offer stable, predictable and transparent charges. We introduced new environmental incentives which offer discounts for measures that promote greater water efficiency or reduce surface water drainage from new developments. We also provide the option of a cheaper self-lay admin charge should self-lay providers choose to have a bulk supply of meters delivered to site to reflect one delivery versus many based on each connection.

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)?*

We see the following profile of size of developments:

Size	Percentage of Total
Large	46%
Medium	27%
Small	13%
Single	13%

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?*

Our top five 5 developer customers deliver approximately 10.5% of all developer customer connections. There are approximately 3.5K developer customers who engage with us annually.

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

Whilst we do have sight of this information through the application and quotation process, we do not specifically store this information within our systems and are therefore unable to exactly report on the requested proportional split of brownfield versus greenfield connections. What we can say is that approximately 15% of our schemes require barrier (protective) pipework which is needed for contaminated land (insight gathered from our scheme data going back to 2014/2015).

It is reasonable to assume that the percentage of brownfield sites will grow as the number of greenfield sites available to build on reduce.

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)?*

There are 28 SLPs who have carried out new connections in our area. Six SLPs carry out approximately 80% of all connections made by SLPs. Collectively they make approximately 13-14k connections annually, with approximately 120 agreements entered into and 180km of mains adopted.

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

The self-lay providers that have carried out new connections in our area have mostly operated within the new mains requisitions market. They have commanded a (minimum) 50% share of this market for the past few years within the STW region. By number of new connections, our top customers are all self-lay providers, who collectively delivered over 13K of our connections last year. One SLP alone delivered over 10% of our annual new connection volumes.

SLPs also offer consultancy, are term contractors for wholesalers and some are NAVs. In terms of design, SLPs choose to do the design work for around 40% of their applications. The majority of the SLPs that operate in our area have multi-utility business models.

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

Our experience is that SLPs tend to compete for new developments (not renovations) that require new mains and services (i.e. other utilities) to be laid. In terms of the size of a development it is a mixture.

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

We are also very conscious about how different regulatory mechanisms can impact competition. This was most evident in relation to our representations on PR19 on developer services, where the combination of the challenge on capital income and design of the Revenue Forecasting Incentive could have had unintended consequences.

In our response to the methodology for PR19 we expressed the view that it would be best to regulate income from developers through Charging Rules rather than through the wholesale revenue cap. There is effective competition within this area – certainly within the Severn Trent region – since SLPs command more than 50% of the market within which they operate. In our representations on Ofwat’s draft determination, we highlighted the significant problems that are caused by including capital income within the wholesale revenue control:

- Variations in capital income are the result of us doing more activity and incurring more cost. For example, if a greater proportion of new connections require a main, we spend more and are obliged to recover this cost from developers. There is no net gain to Severn Trent from doing so.
- Inclusion within the wholesale control means that where we have recovered more costs from developers we should return this through lower charges in future. But we cannot lower charges to developers, because setting charges below cost would raise concerns under competition law.
- The alternative is for a revenue imbalance to be adjusted through other charges. But where this is caused by developer income, it is not obvious to us why bills for regular customers should be adjusted. For example, if we have fewer connections (and incur less cost) it is not clear why customer bills should go up to compensate.

Our representations and subsequent engagement have emphasised the need to carefully consider the interactions between the competition, cost-reflectivity and the revenue control carefully. If a correction for differences in capital costs and income is necessary, we have advocated doing this through a different mechanism at the end of each AMP rather than in-period adjustments.

We will continue to support the evolution of the developer services market through the provision of the following activity:

- Fully supporting the introduction of the Codes for Adoption, where we also hold a seat on the Codes Panel so as to effectively facilitate future change post April 2020.
- Chairing WIRSAP which is the panel that runs self-lay accreditation.
- Contributing significantly to the industry development of training material for Sewerage Codes, and the adoption of SUDs as sewers, to the value of approximately £18K to ensure that our colleagues, customers and key stakeholders are well informed and supported in readiness for the April 2020 change.
- Further supporting the evolution of the D-MeX methodology during shadow year to help ensure that they meet the Ofwat principles and will be a trusted industry comparative measure of customer service experience that is reflective of the developer customer market we serve.

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 considered the letter of 29 April 2019 and reviewed our approach carefully. As we outlined in C1, we consider that we already had robust procedures in place to monitor compliance with our legal and regulatory responsibilities, determine the level of charges and assure that they were compliant. We also have regular engagement with developers, SLPs and NAVs regarding our charges, which informs our overall approach as we discuss in C12.

Where our charges are presented on a "per plot" basis, this reflects our average cost for the vast majority of work; we have bespoke charging for schemes where costs would lie outside of the normal bounds (such as barrier pipe schemes). As explained above, we published separate calculators for these to further improve transparency and will publish a self-service tool.

- b. *What changes have you made to your charging arrangements since the letter?*

As outlined in C6a, we have not made any changes as a direct result of the letter because we considered that we already had a robust framework for developing and assuring our charges.

- c. *What changes are you planning to make, and what are the timings for the implementation of change?*

We look to review and improve our charges each year based on our experience and that of our stakeholders. Based on that experience, we are planning to move from our "per plot" approach to a menu of rates; this is mainly to reduce the number of exceptions where we need to provide a bespoke price and make them more comparable with other companies. There is a trade-off between the simplicity and of our existing approach and the granular charges provided by a menu. While we believe that our existing approach was compliant with the Ofwat principles and rules, we continuously engage with our self-lay providers, listen to their feedback and respond accordingly wherever possible. The new approach will mean that there are fewer instances where standard charges cannot be applied.

In connection with our move to a menu of rates approach, we have already commenced engagement with a number of sessions/workshops being held with CCW, HBF, FWC, developer customers and Self Lay Providers. Ofwat were also in attendance at a recent charges workshop. We are planning to share our indicative charges for FY2020-21 as far in advance as possible, with a target publication date of December 2019.

7. *Please explain how your charges reflect costs:*

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

Our charges are based on known incurred costs for discrete activities (application fees and specific on-site charges). The data inputs are based on a mixture of incurred costs of ST employees carrying out specific activities and payments to contract partners and suppliers for agreed services acquired through a formal tender processes.

For less discrete charges, such as the infrastructure charge, our charges are based on a five year rolling forecast of investment of network reinforcement schemes associated solely to new development along with associated property volumes. These forecasts are built on known historic and projected profiles linked to our water resources plan. For income offset (i.e. not site specific construction charges) we use five years of historic records of providing income offset across mains schemes.

Our charges recover the direct administrative costs relating to the delivery of developer services activity but do not include an allowance for 'corporate overhead'. We believe this is in line with Ofwat policy from our reading of published decisions on developer complaints against companies across the industry.

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.*

Our current mains requisition charges are structured in a 'per-plot' approach, where the primary cost driver is the number of plots on a given site. We are able to clearly make the link between plots per site and total construction costs. From 2021 onwards, we will be using a menu of rates approach that allows for a more granular set of cost drivers to be taken into account that relate to the pipe meterage and required vales etc. Given these cost drivers, relevant charges are determined primarily based on our contracted rates with our business partners who undertake our mains requisition work. These rates are agreed through a competitive tender process.

For infrastructure charges, the main cost drivers are on a macro level i.e. the number and location of new development schemes, with our asset management strategy highlighting areas requiring network reinforcement to cater for growth. As noted in our

response to (a) above, charges are set based on a rolling forecast of the costs of local reinforcement requirements given the forecast volume of schemes and the contract rates with our contract partners for this capital work.

For application fees, the primary cost drivers are the volume of applications we receive . Charge levels are determined by the size, skill and associated cost of the workforce we employ to manage these applications effectively and efficiently.

From a waste perspective, our primary charges are adoption charges and our sewer adoption inspection, and bond charges are based on the SfA guidance where the main cost driver is the total construction costs on each site, driven by factors such as length of sewers.

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

We do not apply a zonal element in our charges. Whether through our internal operating model or through our contracted rates, for most relevant activities there is no difference in our costs across the region we are serving.

For network reinforcement – as reflected through the infrastructure charge - there will be different costs in some zones depending on the capacity available and the timeframe over which the assessment is made. This is a matter of timing and the way in which the area is defined. A very tightly-defined zonal charging approach could lead to developers being charged very high marginal costs simply because they happened to connect at a time when there was limited capacity in a small area; conversely the majority of developers would be charged nothing because they were fortunate enough to connect at times or in areas where there was spare capacity.

We take a longer run view through the application of a regional average approach.

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)?*

For service connection, mains requisition, sewer requisition and mains and sewer diversion work, all our rates are based on a contracted schedule of rates agreed through formal and competitive tender processes.

- b. *What services do contractor rates apply to?*

Noted above.

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

Through our company contract and procurement teams, each schedule of rates are agreed through a formal and competitive tender process to achieve value for money for our customers. All rates are agreed through negotiation and are benchmarked across the industry at agreement stage. Our Board provides a statement of assurance on the charges. In doing so they rely on the systems and processes that we have in place to ensure that charges are cost-reflective, compliant with all relevant rules, regulations and legislation. This includes internal and external assurance from Jacobs and we have attached our Board assurance statement on 2019/20 charges as an appendix. This makes reference to Jacobs' opinion: *'the company complies with its legal obligations relating to these Charging Rules; and the Company has appropriate systems and processes in place (including up to date models and data) to make sure that the information published contained in the charges scheme, and the additional information covered by the assurance statement annex is accurate'*.

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.*

Where we are providing specific services to customers, the charges for these services are consistent, regardless of the customer type, e.g. mains requisition charges, whether being applied for by self-lay providers, developers or NAVs. A new scheme application is the same whether you use a STW or self-lay process and the methodology to arrive at the income offset or the AVP is equivalent.

By their nature, NAVs can incur charges for bulk supplies and bulk discharges that would not apply to developers or SLPs. In respect of charges to the end of AMP6 – where a NAV operator would be required to finance its own infrastructure - the bulk supply discount is calculated so as to provide an amount equivalent to the income offset that developers would receive. From AMP7 onwards NAVs will receive the income offset in the same way as other customers; in line with Ofwat guidance the bulk supply discount will provide for continuing operating and maintenance costs.

In its new approach to developer charges and guidance on charges for NAVs, Ofwat acknowledged that its decisions did not necessarily provide a solution for full service NAVs. Note, where we do not provide a bulk supply or any other service to a NAV, we have no relationship with them other than defining a maximum price (since Ofwat's relative price control regime requires them to have prices no higher than the

incumbent). This has relevance in the context of some questions which have been raised by Albion Water in relation to the income offset and regional infrastructure charges.

The income offset (which will now be tied to the infrastructure charge) would not be provided to a full service NAV because it would not be making a connection to our network. We think that to resolve this further change in the rules might need to be implemented, either through Ofwat rules or primary legislation. However, if the income offset was removed it would alter the balance between developers and customers, which would not be in line with Government guidance.

We also have no power to charge developers the incremental cost of treatment associated with the properties on their site, which a full service NAV would need to do if developing its own works. Developers have a right to connect to the sewerage network, and offsite reinforcements are covered by infrastructure charges - this was the effect of the ruling in Barratt Homes vs Welsh Water (2009).

We do not think that charging for reinforcement based on short run incremental costs in small zones is the right way to address this issue and set out the problems that could be caused by this approach in our response to question C7(c).

A potential way forward could be something similar to the outline approach for future bilateral trades in water resources. That is, the incumbent would calculate the difference between the average costs it would charge to a developer and the Average Incremental Cost (AIC) of the assets that we would need to construct if we were to serve the site directly. It would then offer an equalisation payment; if a full service NAV could serve the site at a lower cost than the incumbent's AIC it would be able to do so. This is a potential solution to both the issue of treatment and the income offset.

- 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.*

The only activities which we do not publish specific charges for are sewer requisitions (s98) and mains and sewers diversion site/construction costs (we do publish the application charge for each of these processes). This is in line with Water UK guidance below.

“Due to the nature of connections work, there are circumstances where the cost incurred by companies is affected by external factors. These external factors may be outside of the immediate knowledge or control of the water company and, in a limited set of exceptional circumstances, could lead to significant cost variance. For this reason, Ofwat has agreed that companies are not required to provide fixed upfront charges in respect of the following:

1. *Diversion works (see s185 of the Water Industry Act), and;*
2. *Water and sewerage infrastructure work requested by the developer (see S41 and S98 of the Water Industry Act) where “it would be unreasonable to expect an undertaker (i.e., Water Company) to do so”.*

In principle, having consulted stakeholders, water companies consider that in the following circumstances, it may not be reasonable for them to provide an upfront fixed charge for the work:

- a. The technical complexity of the work is high or the type of work required is bespoke or carried out infrequently, or;
- b. Third parties can legitimately recover their costs from companies and there is not a reasonable level of certainty of those costs in advance of connection work being undertaken, or;
- c. Third parties have rights to protect their assets or interests in a way that affects the construction method. The third parties’ requirements are unknown upfront, or;
- d. The work is to be carried out on or close to land with particular environmental, historical or archaeological characteristics. These characteristics mean that specific measures are required during construction or reinstatement. The details of these measures may not be fully defined in advance of construction.”

In respect of NAVs, we charge based on incurred costs in line with other developer services charging structures.

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 / or prepared for different NAV licences, over the last two years.*

While we have not historically published a standard template agreement, we have started from the same document each time (with the exception of individual site details) which we find NAV companies then wish to amend. We have then considered amendments on the basis of the reasoning behind the change and will agree to amendments where they can be practically accommodated and do not represent any undue risk to our network, operations, or place any additional risk on other customers. We are also monitoring the current work being done in the Water UK working group to develop a draft, industry standard, bulk services agreement which would cover both

Supply and Discharge agreements. We hope to be able to sign up to the agreement of an industry standard document when it is finalised.

Based on consultation with our NAV customers, we have committed to publish a standard template agreement which will be available on our website from 1 November 2019.

Our existing bulk supply agreements with NAVs are commercial contracts. While we would be content to provide these to Ofwat as evidence of our approach, we don't think that it would be appropriate for them to be published. We would also need the consent of the other party in each case (i.e. the NAV operator). However, we have provided the standard form of bulk supply agreement which is the starting point for the agreement.

Culture, customer experience and quality of service

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.

We have reorganised around our customer segments and tailored our service to meet the needs of a diverse customer base. Our propositions over the next few years will build on our new, segmented service model.

We want all customers to feel that they pay a fair price for the products and services they receive. They should always expect our promises to them to be met and trust that we will support their build schedule. We provide relevant information that is easy to understand about our charges, the choices available, the process we'll follow and the time it will take. All our customers – no matter what their size, should have confidence that relevant help is at hand when needed, through a channel of their choosing. They'll be supported by a highly skilled, conscientious and caring team of people.

We have provided an organogram for developer service responsibilities as an appendix.

- 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.

As can be seen in the organogram, NAV activity and SLP activity are currently managed by specific teams. This arrangement allows for a more dedicated account management service to NAV organisations as the market is still developing, ensuring we are providing the service that our NAV customers require. It also allows more specialised knowledge about NAV processes, Ofwat guidance and Water UK draft reports on the subject to be accessible when dealing directly with NAV organisations, otherwise the volume of NAV applications set against the wider backdrop of developer services enquiries would not enable dedicated knowledge building within the wider Developer Services team.

In addition to providing a more tailored service, the above reduces the risk of a conflict of interest, as we discuss in C13(d). Feedback from NAV organisations on this approach is positive, indicating they appreciate the level of knowledge available at first point of contact and at an account management level.

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*
- c. the process by which contributions from stakeholders are taken into consideration and progress is communicated back to stakeholders.*
- d. Please provide supporting evidence, including emails issued, agendas used, papers or consultations prepared*

We take a proactive and inclusive approach to engagement, particularly in relation to our SLPs and large developer customers with whom we have built long lasting relationships.

SLPs were our first (segmented) customer group to have their own Severn Trent team to work with and engage with directly. We meet face-to-face with each individual SLP working in our area throughout the year to discuss our performance and seek feedback on opportunities to continuously improve and tailor our service offering to meet their needs. We have a bi-annual self-lay forum which we have hosted for a number of years and have used this to discuss and consult on many topics from day-to-day practices and relationships through to key items such as the code of practice and notably our new connections charges.

We host a comprehensive consultation programme to share our plans for the coming year, discuss rule changes and seek feedback on our charging proposals. We also host a number of informal meetings each year with Fair Water Connections to cover key topics, seek guidance and maintain a two-way conversation. In relation to charges, we discuss year-on-year changes, explaining what is changing and why the changes have occurred, e.g. in response to customer feedback or because charging rules have changed; importantly, we talk through what this means for customers so they can understand and prepare.

We also support nationally, e.g. acting as chair for WIRSAP which is the panel that runs self-lay accreditation, co-chairing the drafting group for the water adoption codes, being a panel member on the new adoption code governing panel, and supporting the interview process to secure an independent chair for the Water Adoption Code Panel. We have been both supportive of and extensively involved with the development and consultation process regarding Codes for Adoption since inception.

In relation to large developers, we adopt a similar approach to engagement including proactive meetings with the HBF and meeting face-to-face with individual developers who are key contributors to delivering housing growth in our region. We discuss our performance and seek feedback on opportunities to continuously improve and tailor our service offering to meet their needs. Earlier this year, we also created a 'Developer Pack', both in hard copy and on-line format which provides clear points of contact for our customers as well as guidance on our processes, standards and the customer journey they can expect. The pack was created in response to questions received about

timescales and construction standards through our customer survey feedback. It also helped us to be clearer with our customers in regards to the specification we require to avoid aborted connections or re-work.

We engage with NAV companies through working groups and through direct account management activity. We regularly meet with individual NAV organisations to discuss service provision, levels of satisfaction, areas of potential improvement and ways to work more effectively together. We have recently published a NAV policy framework to set out our detailed service provision for NAVs along with reference to relevant charges in our Scheme of Charges document and the SLAs we will operate to. We are also running specific engagement groups where there are changes to current charging methodologies, to ensure that we can assist NAV organisations to understand the implications of the changes.

Customer feedback is discussed with the senior leadership team and at programme management meetings where, in response, we prioritise business improvement change activity. Business plans and progress against these are regularly shared with the Executive team.

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; all of the NAV SLA's are in line with an equivalent SLA for Developers or SLPs.

- 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.*

Severn Trent Developer Services SLP performance is consistently upper quartile. There are a small number of metrics that can often be reported as blank:

- Point of Connection (POC) > 500 are minimal in occurrence and can therefore result into a zero return
- Design and Terms >500 are minimal in occurrence and can therefore result into a zero return
- 26.1 Form 1s are not received from SLPs and technically day 0 starts from here.

- 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 routinely monitor our performance against the SLA's relating to NAVs in the draft report. The most common stream of work we see which is included in this report is the provision of Point of Connection/Discharge information upon initial enquiry. Performance against this metric was not initially what we would like, with average response times to Point of Connection/Discharge enquiries at 28 days across the year against a target of 21, but we have been steadily improving over that period. The most recent quarter's performance is much stronger at 75% compliance with the 21 day SLA. Work continues to ensure this trajectory continues and that we are able to deliver improved service to our NAV customers as a result. One of the factors which has been key to improving this performance is having a greater understanding of the requirements of NAV organisations, which are beyond the basic information requested by other organisations such as developers or SLPs.

Other SLAs which are contained in the report include the provision of a draft Bulk Agreement within 20 days; we have always met this SLA although there have been a limited number of requests.

- 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?*

There are sites that share the same name which are in process with both the developer services process and the NAV process at the same time. Developers are entitled to test the market and pursue different options in order to secure the lowest cost for their site. In these instances we follow the same process as we would for any other application – we provide the same quotations and information to all parties who request it, no matter the source. We do not make use of information provided to us by SLPs or NAVs when putting together any quotation for a developer. As can be seen from the organogram, different teams within Developer Services and the Wholesale Market Unit deal with these segments, reducing any risk of conflict.

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 been actively engaged in both the Water and Sewerage Codes through working groups and consultations. We have shared the proposed changes with key stakeholders (HBF, CCWater, FWC, SLPs & developers via drop in sessions) and we have also reflected on the requirements internally to aid our readiness with plans developed from a people, process and technology perspective.

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

We have undertaken Code drop in sessions for our customers with more planned. The most recent was held in Birmingham on Friday 4th October 2019 where we also met with [REDACTED].

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)?*

Practical steps in water trading

We are open to third party supplies where they are more cost effective than solutions we could develop ourselves. We have purchased or signed contracts for a total of 98Ml/day of water since 2016 and are in negotiations to purchase a further 27Ml/day. We're also working collaboratively with United Utilities and Thames Water to develop a major supply scheme for the water stressed south east of England (the Severn to Thames transfer). In developing our Water Resources Plan we think we gave proper consideration to the alternatives, but we acknowledge Ofwat's feedback on our Bid Assessment Framework and have revised this in line the recommendations.

Trading in the bioresources market

Imports from UU and Yorkshire are already being treated at some of our works. At present these are spot trades, but we're hopeful that other companies will enter into a longer-term framework in the near future.

We were early advocates of sludge trading in our *Changing course* publications and we see this as a potential win for both the exporting and importing companies. The key will be to ensure that excess capacity can be used to reduce costs, while ensuring that pricing remains compliant with our obligations under RAG5 and Competition Law. As this is a new area, we are keen to work with Ofwat to make sure that the evolving approach in bioresources works for the long-term benefit of customers.

Appendices

Annex B: Questions relating the Business Retail Market

B6: Example Board paper discussing IPRP.

B16(d): Retailer communications regarding changes to Trade Effluent measurement and charging

Annex C: Questions relating the Market for Developer Services

C2: Organogram of Severn Trent Developer Services

C8(c): Board assurance statement on 2019-20 charges

C10: Bulk supply agreement (standard).

C12(b): Topics for engagement – HBF slide deck

C12(d): Evidence of engagement with SLPs(plus FWC), Developers(plus HBF) and CCW