

Rachel Fletcher
Chief Executive Officer
By e-mail

31st July, 2019

Dear Rachel

Re: Incumbent water companies and the development of effective NAV markets

We welcome your recent letter to the CEO's of all incumbent water companies with regards to the development of effective markets by incumbent water companies. The NAV market has now been operating in the water industry for more than 20 years. Over this period, we have continued to experience poor customer service from incumbent water companies, slow response to clear market barriers and a continued reliance by incumbents on Ofwat to provide leadership in improving the overall market framework by introducing new, customer centric, approaches.

Over the last 20 years we have also raised a number of issues with the water industry generally and have been frustrated by a lack of clear leadership to address the issues raised, even when Ofwat have provided clear guidance on the required next steps. We thought it would be helpful if we, as a NAV community, clarify what areas we expect the industry to address. We are aware that there are also a number of bilateral issues that NAVs have with individual incumbent companies that are not covered by this letter but we expect to be addressed as part of the CEO's response to your letter by the end of October 2019.

The main issues are detailed below. The first two are of equal importance and top priority in establishing a sustainable NAV community, following this are issues raised in order of priority, based on market impact. We expect incumbent companies to address the highest priority issues first.

Incumbents implement acceptable NAV tariffs

NAVs are extremely concerned that the publication of incumbent Water companies' NAV bulk supply tariffs do not fully comply with Ofwat's guidance. This issue is compounded by a lack of clarity of the assumptions and cost data underpinning the development of the tariffs. We have identified five areas with tariffs that appear to raise significant licence compliance and/or competition act breach issues and therefore require further clarification.

- Application of and compliance with a common methodology in the Water Industry

- Compliance with competition law
- Non discrimination between different classes of customers
- Allocation of bad debt costs and regulatory allowances within the NAV tariffs
- The increased administrative burden of complying with some companies new requirements to provide monthly breakdown of site consumptions.

Next Steps. NAVs remain concerned that our questions will not result in the required revisions. We therefore expect incumbent water companies to engage positively with NAVs by providing sufficient clarity and any required changes to individual companies NAV tariff before the end of September 2019.

Assurance that incumbent water companies do not set charges that are anti-competitive in the full service market;

Whilst Ofwat and companies have made major changes recently to ensure that the bulk supply / bulk discharge NAV market is operating on a level playing field, no similar changes have been made to ensure that the full service market also operates on a level playing field and in compliance with the Competition Act. Matters have got worse since the 1 April 2018 changes. There are three main areas of concern.

- The provision of an income offset against the site-specific requisition costs (or the infrastructure charge from 1 April 2020).
- Regional infrastructure charges – these result in the charges being levied on developers not being cost reflective of the impact that particular developments have on the deeper network.
- Not charging developers for treatment works enhancements triggered by development.

Next steps: Full service NAVs will be writing to each of the companies over the next few weeks asking them to address these issues in their response to Ofwat due at the end of October, and more importantly in their new connection charging scheme from 1 April 2020.

Organisational behaviour – Incumbent NAV policy framework in place and adhered to.

Within NAVs' interactions with all incumbent water companies we observe a strong tendency for staff to continue to default to a licence compliance culture rather than a customer-centric culture that supports the development of effective markets. This in itself acts as significant barrier to competition as staff default to regulatory guidance rather than genuinely try to understand what the issues are and how to improve the experience of their customers. We recognise that this is not an easy issue to address but observe that the level of leadership from senior management to encourage the right behaviours within an organisation is often lacking.

Next Steps - we require a commitment from incumbent water companies to support the development of effective markets with the implementation of an

appropriate NAV market policy. We also require assurance that NAV policy will be completed and assurance that staff are trained in its application.

Incumbents provide additional services (emergency service cover etc) on equivalent terms.

We have previously raised with the incumbent Water companies that we would like to enter into discussions on the provision of additional services to NAVs. It is our view that the lack of the provision of these services is one of the barriers to effective and open competition in the water industry. Ofwat in their guidance on bulk supply charging arrangements recognise that incumbents may have a cost advantage for the provision of certain services, and they should consider the provision of these services.

Next steps – we require that incumbents commit in principle to the provision of additional services on equivalent terms as those offered to all other market participants by the end of September 2019.

Industry Standard Bulk Supply agreement in place

NAVs remain concerned with the lack of progress for the implementation of a standard Bulk Supply agreement across the water industry. We welcome the reformation of Water UK's working group in 2019 to look to address this issue but remain concerned by the lack of real progress made in recent months and are unsure of individual incumbent's intentions to follow through with full implementation.

Next Steps – we require incumbents to commit to the support of the development of an industry Standard Bulk Supply agreement by the end of October 2019 and a commitment to implement for all new developments.

New NAV service standards accepted and implement by the industry through D-MEX

Getting a common set of NAV service standards that covers the entire process accepted and implemented within the water industry is key to further improving the service that NAVs receive from incumbents. We recognise that there is an ongoing programme of work to introduce NAV service levels as part of the work with Water UK. We have worked with other NAVs to propose a common set of requirements and continue to provide clarification as required. However, this work is behind other work within the development of the D-Mex and it has not proved possible to include in the trial year for 2019. We remain concerned that without commitment from all incumbents this work could be further delayed.

Next steps – we require all incumbent water companies to commit to agreeing acceptable NAV service levels by the end of September 2019.

Incumbents provide self-service POC/POD application and approval

An important potential barrier to competition is an incumbent's ability to control the time taken to provide point of connection and discharge information to a NAV. Usually this process further includes a requirement to approve final designs before a point of connection or discharge is confirmed. For a NAV application this is not appropriate, and in 2016 we expressed a requirement for the industry to move to a self-assessment process similar to that which is now available in Gas and Electricity. Both gas and electricity moved to self-serve models following enforcement action by Ofgem.

Despite Water industry commitments to look further at the introduction of a Self-Serve point of connection (discharge) system we remain disappointed by the lack of any real progress made by incumbents. We recognise that the introduction of a full self-serve system does require longer-term changes to processes and IT systems but we are concerned by the lack of any real intention to change, demonstrated by the lack of action to implement quick wins such as the electronic sharing of network schematics.

Next Steps – we require incumbent water companies to commit, by the end of September 2019, to the development of a self-serve portal and to implement a staged development approach recognising quick wins.

In summary it remains our assessment that significant improvements can be made to incumbent water companies service to NAVs with the investment of sufficient time and resources. We remain concerned that incumbent water companies are not prepared to address these issues and we look forward to their confirmation of what they have achieved by the 31st October and what further steps they are prepared to commit to.

Your Sincerely



Keith Hutton	David Knaggs	Stephen Bradley	[REDACTED]
Regulation Director	Director	Chief Executive	[REDACTED] [REDACTED]
BUUK Infrastructure	Leep	Albian Water	ICOSA Water Services Ltd