



Anglian Water Services Ltd
Lancaster House
Lancaster Way
Ermine Business Park
Huntingdon
PE29 6XU

Ofwat
Centre City Tower
7 Hill Street
Birmingham
B5 4UA

Tel: 01480 323226

www.anglianwater.co.uk

15 September 2020

Dear Ofwat

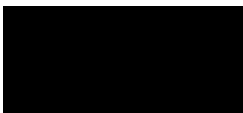
I am writing in response to the Ofwat 'Charging arrangements for new connection services for English companies: comparative analysis and consultation' document, May 2020. This letter and associated annexes represent our response.

We seek to deliver our development services customers an excellent service. An exemplar of this is our leading customer portal InFlow, which helps customers manage their applications and interactions with us. We regularly engage with our customers, recently holding focus groups where terminology is a popular subject. We have recently incorporated changes to our terminology as a result. We are also in the process of finalising a web-based charges calculator to support customers estimating charges.

The key beneficiaries of harmonisation of charging terminology and approach will be larger developers, self-lay providers (SLPs) and new appointment and variation (NAV) companies that operate across water company regions. It is possible that changes that benefit this group could lead to disbenefits to smaller organisations that are familiar with how the incumbent company in their area sets out its charges. It may be worth Ofwat engaging directly with smaller developers, SLPs and NAVs on the proposed changes to test this.

We support the principle of harmonisation where practical, but consider that some of Ofwat's proposals, particularly a common charging methodology could be costly to establish and maintain, and may be of limited benefit. It would be desirable for Ofwat to undertake a regulatory impact assessment to assess the proposals.

Yours sincerely



Alex Plant
Director of Strategy and Regulation

Summary

In this document, we aim to respond to each of the questions raised by Ofwat regarding the 'Charging arrangements for new connection services for English companies: comparative analysis and consultation' document, May 2020.

In the document, we focus on our views to the proposals and glossary, further suggestions & other areas that can be explored and specific highlights within Anglian Water current practices that are applicable to this topic.

List of annexes

Responses to Ofwat questions

- A. Consistent Terminology
 - 1. Views on common terminology & impact of harmonising terminology
 - 2. Comments on glossary definitions
- B. Presentation of Charges
 - 3. Views on explicit explanations on the presentation of worked examples
- C. Analysis of Charges
 - 4. Comments on areas of analysis
 - 5. Views on reasons for variances in charging levels
- D. Cost Reflectivity Principle
 - 6. Views & proposals on cost-reflectivity
- E. Industry Collaboration
 - 7. Benefits & disbenefits of common charging methodologies
 - 8. View on New Connection Charges working group

List of appendices

- Appendix 1. Glossary
- Appendix 2. AW Comments on Glossary
- Appendix 3. AW Charges Calc Example

Annex A: Consistent Terminology

1) Do you agree with our proposal on common terminology and the way we propose to implement it? What do you think would be the impact of harmonizing terminology for charges for new connection services?

We are supportive of the proposal to implement common terminology across the industry to help customers to estimate costs.

To deliver the greatest benefit, it is important to establish who the consistent terminology is aimed at benefitting in order to select the most appropriate terminology. When reading the consultation document, there is a common theme to address the need for customers to have the ability to estimate their requirements clearly from the information provided by company websites, in addition for Self-lay Providers (SLP's) & New Appointment and Variation (NAV's) to interpret the terminology so they can understand charges specific to their organisations and the part they play in the industry. Anglian Water is supportive to charges being transparent to aid the successful estimating of water and waste-water services, including SLP's & NAV's.

The customers and organisations that will benefit the most from the harmonised terminology would be Developers, SLP's & NAV's that work across regions and boundaries. Domestic customers are less likely to be returning customers, which raises questions on the benefits of harmonising between companies for this target customer group. In addition, local customers may be familiar with the current terminology for current development services. Changing this may unnecessarily lead to confusion. Many national companies have regional offices which are likely to be familiar with the local terminology rather than a national reference. Similarly, customers who are familiar with the local company on a larger scale will be used to the terminology used in other services, for example consistent terminology used throughout the website for billpaying customers and homeowners. Likewise, companies, partners, consultants and contractors will also be familiar with the existing terminology and this may pose significant change and inconsistency with the wider local industry.

We would like to note that the consultation document addresses only a very specific element of terminology, charging for new connections. We have considered that there is a large amount of variation and inconsistency across water companies on broader, more high-level terms, not just relating to development services. One such example is the number of terms used to reference 'Drainage'. The Ofwat glossary (Appendix 1) uses the term 'Sewer', however there are many terms used on the main websites of companies. Notably, the use of 'Drainage', 'Drains', 'Waste-Water', 'Sewage', 'Drainage Pipe', 'Sewage Pipe', 'Foul Water', 'Surface Water', etc. This area of terminology seems to have many references across the industry, and if a harmonised terminology was accepted, this high-level consistency should be included in the next phase.

It should also be noted, that harmonising only one specific area of company's literature, new connection charges, may lead to inconsistencies within the company and its residual literature relating to all it's other services and core business. This could not only cause confusion for the

customer, but also result in a huge amount of imposed work for companies to standardise all their references and terminology across the whole business.

We also queried, what is the most appropriate terminology, and should we consider high level 'industry standard' terminology, such as Building Cost Information Services (BCIS) or New Rules of Measurement (NRM), which use common elemental definitions and cost breakdown structure¹. However, if the industry adopts a consistent terminology within their literature & guidance, this is likely to replace all literature regardless of customer type, and therefore, simply selecting 'industry standard' terminology could alienate domestic customers who may be unfamiliar with more technical terms. We believe that as a result, terminology needs to be simple and transparent to be applicable to all customer types.

In addressing the impact of harmonised terminology for charges for new connection services, we feel it would be beneficial for Ofwat to test the proposed terminology amongst the broad range of customer types in order to ascertain that the terminology is both relevant and meaningful.

Within Anglian Water, the majority of our first communication with a customer is achieved via our online portal InFlow, along with our company website. Therefore, the harmonised terminology needs to reflect the digital literature environment for customers, in particular, the lack of bespoke 'human' explanations to literature or processes. Anglian Water regularly surveys, communicates and uses customer feedback to better understand customer frustrations and issues with digital services & literature. We make continuous improvements to our literature to ensure that we pitch our wording and terminology at the appropriate level for our various audience and the use of pictures & diagrams has been beneficial for customers to self-serve on our digital platform without bespoke explanations or guidance. We would suggest that harmonising terminology also considers the ability for companies to produce a diagram to benefit the range of customer types where appropriate.

Finally, we would like to consider the extent of the benefits of harmonising the terminology for new connections charges if these are only applied to English water companies. It would be good to understand if there was any further consultation across national borders as well as regional. Similarly, we considered if the consultation should extend to include SLP's and NAV's. If the intention is to benefit customers' ability to understand charges and estimate accordingly, it would be worthwhile including the wider industry to promote longer term harmonisation and consistency in the industry.

¹ See link to website for further details

<https://www.rics.org/uk/products/data-products/bcis-construction/forms-documents/>

2) Do you agree with the definitions in the glossary (Appendix 1)? Please tell us what definitions you would amend, remove or add.

Our specific comments to the Ofwat Consultation Glossary (Appendix 1) can be found in AW Comments on Glossary (Appendix 2), however a summary of some of the highlighted references can be found below.

Largely the glossary is representative to Anglian Water's existing terminology used throughout our literature & charges. However, there are a few examples where the Ofwat Consultation Glossary defines terms that Anglian Water currently do not explicitly relate to within its literature, notably the distinction between communication pipe and service pipe.

One notable difference was the reference to 'Domestic Premises'. Anglian Water currently relate to this as 'Household' or 'Non-household'. We believe that using the terms household and non-household helps delineate between premises that are within the Non-household market. Using this example, we strongly believe that Ofwat should consider consulting directly with a broad range of customers to test the terminology, before imposing any changes to companies. This is to assess how identifiable of each term that is best used by the various customer types. It may also be necessary to target specific groups for consultation to be included, for example, the Consumer Council for Water (CCW).

Similarly, the Ofwat Consultation Glossary term 'house' states that this is to include a 'flat', we would want to assess whether all our customers would understand that 'house' is to include a 'flat', rather than, for example, 'dwelling' which is what we currently use. The term 'dwelling' covers various residential property types. In addition, we are currently using Ordinance Survey Address Base Premium (OS ABP) within our business, to cleanse our core business billing system. OS ABP uses the term 'dwelling' as standard. Noting that the literature is largely digitally based, the agreed terminology needs to be transparent to avoid the customer unnecessarily phoning our call centre for terminology advice.

The Ofwat Consultation Glossary makes reference to 'short length' and 'long length', with the definitions 'up to... & under 4m...'. We don't support these definitions as we use a fixed price arrangement based on 'near side' and 'far side' logic which references up to 5m, over 5m but no more than 18m and over 18m (which is priced per meter for every meter over the 18m fixed price arrangement). We believe that providing fixed price options based on average parameters encourages simplification within the charging methodology and therefore better transparency, and prediction of cost, to our customers.

Further to holding focus groups with our customers, and listened to their feedback, we have made recent changes to our terminology, notably, 'Mains Water' has been replaced by 'Mains Engineering' and 'Pre-development' has been replaced by 'Planning & Capacity'. The main reason for this change was following the identification that customers were misinterpreting our previous terminology for other services. This was identified across customer types, including domestic infrequent customers, small businesses & developers. 'Mains Water' was commonly misinterpreted to mean 'Water Connection' as customers identified with being connected from their dwelling, to a mains supply. Similarly, 'Pre-development' was also

misinterpreted to mean 'Water Connection' as customers saw themselves in being in a 'pre-development' stage in their works, when applying to get their development connected. We are currently evaluating the success these changes have made and are looking at the reduction in cancelled applications and reduction in misdirected phone calls.

Annex B: Presentation of Charges

3. Do you agree with the proposal to set out explicit expectations on the presentation of worked examples? What do you think would be the right level of detail required?

We are supportive of the principle of transparency of charges to our customers and are in the process of launching a charges calculator (Appendix 3) on our Development Services website. This charges calculator will enable customers to input relevant criteria to their proposed project and a projected final charge will be displayed to give the customer an estimation of their likely costs, prior to making an application.

We agree that clear worked examples do help customers understand their charges as they enable customers to estimate and forecast the cost of their works within their business. However, we note that there are requirements for examples to show how bills are changing year on year and encourage Ofwat to consider whether two sets of examples are required.

We are in agreement that some harmonisation across the industry would enable customers to better interpret and apply the correct charges to their scenarios. However, there is a balance to be struck between providing helpful detail and increasing complexity, this should stop short of revealing commercially sensitive information.

We agree that transparency is beneficial for the customer, however the focus should be on the consistency in terminology so the customer can clearly identify the correct service and the corresponding charge for that service. We would highlight that regional factors can influence charges and that scenarios should be suitably caveated that they are not intended to facilitate regional comparison.

Annex C: Analysis of Charges

4) Please highlight any substantive areas of our analysis you think are missing or could be improved.

We welcome the comparative analysis and note that this is something that could have usefully formed part of Ofwat's assessment of PR19 business plans.

We believe that the analysis that was carried out was logical and the scenarios were a fair representative of the types of projects carried out by the various companies. We note, in relation to 'Figure 3.1: Comparison of SLP market share and water companies' on-site charges', and the Ofwat Consultation comments to the graph, that there is no clear pattern or correlation between the charges of incumbent water companies and the market share of SLPs.

We considered that if further analysis were undertaken it could include adjusting each companies' charges in relation to their regional, density, topographical factors.

In addition, the analysis on charges has only been compared to what is identifiable from digital literature and applied to a particular scenario, rather than the comparison of actual costs (at quoting stage or final cost reconciliation) between companies. This may display different results for actual costs and highlight, less the differences in charging levels, but more the inability for a customer or organisation to accurately estimate their likely costs for a project.

5) What do you think are the reasons for the differences in charging levels? Do you think these differences are a problem? Please provide evidence to support your views where possible.

There can be a variety of factors that affect efficient costs for accommodating growth and ultimately charges. As we have highlighted during the PR19 process, simple comparison of costs and charges for a volume of connections can miss fundamental drivers of cost, for example on-site conditions, length of service pipes and on-site mains, requirements to reinforce the existing network. We would point Ofwat to our submission in support of our representation at the PR19 draft determination by way of evidence on factors that can affect costs.²

We do not believe that varying levels of charges of themselves indicate there is a problem. What is critical is that charges are reflective of costs, in-line with the charging rules and the Competition Act 1998.

As mentioned above, one reason for the differences, may be the lack of transparency of actual cost information within the published digital literature. These differences may show more of a disparity between companies' ability to allow customers and organisations to accurately estimate their likely cost of a project.

Annex D: Cost Reflectivity Principle

6) Do you agree with our proposal to modify the Charging Rules for New Connection Services to explicitly include cost-reflectivity in the general principles? What other measure, if any, could be put in place to provide greater assurance that water companies' charges are cost reflective?

We believe that cost reflectivity is already a requirement under the Water Industry Act 1991. Cost reflectivity ensures companies balance both competitive requirements and fairness to customers. While it is important to allow cost reflectivity, it is also important to consider the level of granularity at which cost reflectivity is required, and this should be considered carefully. We would propose that at the most granular cost reflectivity should be on type of charges e.g. requisitions at a company level. Any granularity below this level would mean that fixed charges are no longer viable, reducing transparency and predictability for customers.

² See the Deep Dive on growth expenditure,

<https://www.anglianwater.co.uk/siteassets/household/about-us/pr19-dd-deep-dive-republication-nov-19.pdf>

Moving away from averaged charges could increase costs (and ultimately charges) by increasing admin burden of developing and checking charges for individual jobs.

There is a tension between maintaining the broad balance of charges, as required by the charging rules, and cost reflectivity. The rules should clarify how companies should manage these requirements, and which takes priority.

The apportionment of Overheads & Profit (OH&P) can also vary drastically, either consolidated into unit rates or as separate fees or charges for overheads. While OH&P should be cost reflective, we believe there should be flexibility in the application of a cost reflectivity principle in this area.

One further consideration would be the inclusion of SLP's and NAV's requirement to publish their charging arrangements. This would ensure that there is transparency to customers for all options within the market, not just water company options.

Annex E: Industry Collaboration

7) What do you think are the benefits and disbenefits of having common charging methodologies? Do you think companies should adopt common methodologies?

We agree that collaboration and consistent approaches to charging is beneficial for the customer and aids competition within the industry. However, we do not believe a common charging methodology delivers sufficient additional benefits beyond the other harmonisation proposals put forward by Ofwat. To further test the benefits of the proposal, it would be desirable for Ofwat to undertake a regulatory impact assessment to assess the proposals.

A common charging methodology would involve significant admin cost for the industry and customers to set-up and then maintain. The DCUSA code referenced by Ofwat is extremely complex and requires significant input from companies and ElectraLink to maintain.

A common methodology could stifle innovation. We have taken an approach to charging differently for near side/far side connections, reducing the cost of some connections. Losing this flexibility could increase costs for some customers.

We note the key beneficiaries from a common charging methodology are likely to be national organisation. However, many developers and SLPs operate regional offices and the degree to which a common methodology is beneficial to this sub-set of the wider customer base is unclear.

8) Do you agree with the high-level scope of the proposed New Connection Charges working group? Please tell us your views on the proposed working group, including whether Ofwat should make the work mandatory, for example through a change to our new connection rules.

We are supportive of working within with the industry to further enhance customer service and experience, including providing greater harmonisation of terminology and transparency of charges.

However, we do have concerns over a setting up a working group and whether further consideration as to the scope of the working group, the participants, and motivation for change has been fully addressed. Consideration should also be made to understand whether the working group was to be regulatory and how agreement is met; for example, would an enforced change require unanimous support. In addition, we also question the timescales are realistic to deliver the intended scope.

If a working group were to be assembled, we would be willing to participate in regular meetings to agree a suitable way forward to enable greater transparency and consistency in charges for customers and believe the success of the Water UK NAV working group should act as an exemplar for this new working group.

We question the degree to which contractor rates should be in scope of the working group. Allocation of overheads and the treatment of cost reflectivity would also apply to contractor rates and we believe it is for companies individually to manage how these requirements are translated into their commercial agreements.

Finally, we would like to consider the inclusion of SLP's and NAV's to the working group. To aid the longer- term consistency in terminology across the industry in the future, it would seem sensible, given increasing market share, that these two groups are included, so they can also adopt a harmonised approach to their terminology and charging methodology.