



Consistent terminology – we propose to add to the common terminology in the new connection rules, from April 2022 onwards, as set out in the glossary in Appendix 1 to this consultation.

Q1: 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 harmonising terminology for charges for new connection services?

We agree that using common terminology will benefit those customers that work in different water company areas. Our NAV and SLP customers are customers of many water companies, however a significant proportion of our developer customers are regionally based and therefore we are the only water company they deal with.

We can envisage a period of time where the transition to new terminology will cause some confusion for some customers. However this could be mitigated by engaging with them in advance of the proposed implementation date.

Q2: Do you agree with the definitions in the glossary (Appendix 1)? Please tell us what definitions you would amend, remove or add.

We agree that the use of a glossary helps customers understand the meaning of the terms used in water companies' Charging Arrangements provided the terms are clearly and concisely defined. We are supportive of the use of a standard industrywide glossary of common terms for inclusion in all companies' Charging Arrangements. The definitions of the terms within the standard glossary should not be altered by any company. To compliment the list of definitions within the standard glossary, we would suggest that companies are able to include other definitions where this is deemed to be beneficial to customers in understanding their Charging Arrangements.

We have made some suggestions of changes to Ofwat's proposed definitions within an Appendix to this response.

Presentation of charges – clear worked examples help customers understand charges and how they apply in different scenarios, in particular by showing the services included in the calculation of the costs under each scenario and the unit costs of those service. We propose to improve practice in this area through our annual information notice “Expectations, assurance and information requirements for water company charges”. We have set out scenarios for typical service packages in the 2020/21 requirements and we propose to set out more explicit expectations on how companies present them, disaggregated by service and unit cost, for the 2021/22 charging arrangements.

Q3: 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 to be required?

We agree with Ofwat's proposal to set out explicit expectations on the presentation of worked examples. We believe that the level of detail expected by Ofwat is demonstrated in the worked examples we provided in our Charging Arrangements for 2020/21.

We have received some feedback from larger developer customers in particular that they are not particularly in favour of disaggregation of charges, preferring a simplified approach where some charges are aggregated.

Analysis of charges – we have found large variations in both the level of charges and the way in which companies have set out individual services.

Q4: Please highlight any substantive areas of our analysis you think are missing or could be improved.

It is not surprising to us that there is a wide variation in charges between companies, mainly for the reasons that Ofwat has suggested. We have no further comments to make on the analysis.

Q5: 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

Competition law prevents us from being familiar with how other water companies have calculated their charges, so our comments are limited in this area. However, without the knowledge of how others have calculated their charges, we concur with Ofwat's suggested reasons for differences, in particular the reasons relating to the construction element of new connection services.

In our opinion, differences between water companies are not an issue provided that each company can demonstrate it has met the principle that its charges are cost-reflective.

Many SLPs and NAVs operate in different water company areas and the difference in costs between water companies can influence their ability to win work with developers in one water company area compared to another. However, price is not the only factor that a developer considers when choosing their provider for connection services.

Our experience is that SLPs and NAVs are less likely to want to carry out work on smaller developments. Therefore it is important that customers who are involved in such developments, where there is less supplier choice, know they are paying charges to incumbent water companies that are cost-reflective of the services they receive.

Cost reflectivity principle – we consider that the differences in levels of charges are so marked that they are unlikely to be a function of cost alone. Such problems may undermine key principles of our rules, including that the charges are predictable, transparent and fair. While we expect charges to reflect costs, we feel our charging rules could have more explicit requirements to this effect. We propose to introduce a more explicit cost reflectivity principle in the charging rules, likely to be from 2022/23.

Q6: 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 measures, if any, could be put in place to provide greater assurance that water companies' charges are cost reflective?

We agree with Ofwat's proposal to explicitly include cost-reflectivity in the general principles.

In the consultation document Ofwat has highlighted its thoughts on why some charges may not be truly cost-reflective. Comments have been made about the extent to which some companies have averaged their costs compared to others, distorting cost reflectivity for particular services. Also, there is a view that the way some companies procure their contract work may also distort cost-reflectivity for Developer Services customers, whilst there is an acceptance that their contractual arrangements may be delivering overall value for money across a number of different services.

In preparation for the publication of our Charging Arrangements in 2018, we took the approach to de-average and disaggregate many of our charges to demonstrate more cost-reflectivity. On reflection, and following feedback from some customers, we feel that our approach went further than most customers desired. We can see that other companies have taken a different approach and provided simpler but, in our view less transparent and cost-reflective charges. We therefore believe that there needs to be some agreement between customers, stakeholders, companies and Ofwat as to the degree of averaging that is acceptable. We can see that this is something that is included in the scope of the proposed working group.

Disaggregation can add to complexity, which developers have said they have concerns over, so there is clearly a balance required.

One cross check we recommend for assurance is an overall comparison of development costs and income. For example, over a period of time, we would expect connection charges to broadly match connections costs and infrastructure charges income to broadly match infrastructure network reinforcement costs.

We are supportive of Ofwat's proposal that the proposed working group should consider a common approach to allocating overheads.

Industry collaboration can be an effective way to deliver more consistent and clear methodologies for the benefit of customers. We propose that a working group on New Connection Charges is established to improve consistency in terminology and presentation of charging arrangements and to develop common charging methodologies, to be led by Water UK.

Q7: What do you think are the benefits and disbenefits of having common charging methodologies? Do you think companies should adopt common methodologies?

Having common charging methodologies will have the benefit for some customers in knowing what is included in the charge for each service whichever water company area they work in. The number of customers who benefit will be limited but they are likely to be those customers who require a significant proportion of new connection services from water companies and operate across a number of water company areas.

A dis-benefit of having common charging methodologies could be to stifle innovation in the way companies derive their charges and adapt their service for the benefit of customers. For example, having a prescribed way of calculating charges could limit the scope in the way which water companies procure their new connections services from contractors.

We have no preference for whether companies should adopt common methodologies.



Q8: 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 agree with the high level scope of the proposed working group. We believe the most significant challenges will be to a) ensure common methodologies demonstrate clearly whether contractors' rates reflect actual costs incurred by them in the provision of each service and b) agree on a common approach to allocating overheads.

We understand the making the work mandatory would reassure companies about any Competition Act issues that might arise. We note that the examples of working groups Ofwat provides were all formally created by the regulators, which we would strongly recommend.

Northumbrian Water

11 September 2020

Appendix

It would be helpful if any words in defined terms were capitalised e.g. “Supply Pipe” rather than “Supply pipe” so that readers can easily identify capitalised words as being a defined term.

There needs to be consistency in using either first or third persons in the definitions. Also there is the use of “undertaker” and “Water Company” to represent the same thing presently and this should be consistent throughout.

We are supportive of the use of common terminology to describe what is required to be excavated when connection services are being provided. Ofwat has suggested the following relevant definitions for inclusion in the glossary:

“**Carriageway**” means tarmac covered ground.

“**Footpath (Footway)**” means a concrete covered surface.

“**Unmade ground (verge)**” refers to ground which does not have a surface. For example, unmade ground may feature grass and topsoil.

Our experience is that it is the ground material which is the differentiating factor affecting the cost of excavating, backfilling and reinstating the land in which a connection is constructed. The terms suggested by Ofwat are those used to designate the use of the land rather than the land’s surface material and, in our opinion, the use is less relevant. Both carriageways and footpaths can be surfaced with different materials, e.g. many footpaths are constructed of tarmac rather than concrete.

Some terms that are commonly used to describe road and pavement surface materials are asphalt, concrete, paved (including block paved) and gravelled (or metalled) and we would suggest that these could be options instead of “**Carriageway**” and “**Footpath (Footway)**”.

We are comfortable with the use of the term “**Unmade Ground**” and its proposed definition. We would remove the word “verge” from the description.

Where there is no excavation for the water company to undertake, we would suggest the following changes to the proposed definition:

“**No Excavation**” ~~These charges apply~~ means where we do not undertake any excavation, backfilling or reinstatement, ~~for example~~ that is, where the trench has been pre-excavated by you to our the required standards.

We suggest the rewording of the following definitions:

“**Long Length**” refers to the length of the new ~~water~~ Communication Pipe required between the ~~private supply pipe~~ Supply Pipe (at the property boundary) and the ~~point of connection~~ Point of Connection, where the length is 4 metres or more and can be in different surface types, e.g. 4 metres in ~~the road~~ Asphalt, 4 metres in ~~unmade ground~~ Unmade Ground.

“Short Length” refers to the length of the new water Communication Pipe required between the ~~private supply pipe~~ Supply Pipe (at the property boundary) and the ~~point of connection~~ Point of Connection, where the length is less than 4 metres and can be in different surface types, e.g. 2 metres in the ~~road~~ Asphalt, 1 metre in ~~unmade ground~~ Unmade Ground.

We understand that water companies have the right to recover infrastructure charges when redeveloped properties require a new or replacement connection to their networks. We would do this where there is evidence of increased demand as a consequence of the redevelopment happening and a new connection is requested. We therefore suggest the following alteration to the definition of **“Infrastructure Charge”**:

“Infrastructure Charge” means the charges described in section 146(2) of the Water Industry Act 1991. That is, a charge paid ~~by the developer~~ to the water company when a property is connected to the company’s water supply or sewer for the first time or redeveloped property requires a new connection and there is increased demand. ~~which contributes to wider network reinforcement to meet the increased demand arising from the new connections~~ The revenue from these charges contribute the network reinforcement required by a water company in order to meet the increased demand arising from ~~the~~ new connections made in its area of operation.

“Communication Pipe” means any part of a Service Pipe which a water undertaker could be, or have been, required to lay under sections 45 and 46 of the Water Industry Act 1991. It consists of a pipe laid from an existing or newly laid Water Main to the boundary of a property, including a meter housing and stop valve. It has the same meaning as **“Service Connection”**.

“Service Connection” ~~means the construction of the pipe between the supply pipe of the premises and the public water main which is provided under section 45 and 46 of the Act.~~ has the same meaning as Communication Pipe.

“On-Site” ~~works carried out or proposed to be carried out~~ means within the site boundary of the Development.

“Off-Site” ~~works carried out or proposed to be carried out~~ means outside the site boundary of the Development.

“Supply Pipe” means the part of the service pipe that is not the ~~communication pipe~~ Communication Pipe.

“New Connection Services” is the collective term for ~~New~~ new Water Mains, ~~New~~ new Sewers, new Service Connections, new Lateral Drains, ~~Waste Connections~~ and ~~Diversions~~ diversions of existing Water Mains, Sewers, Later Drains and Service Connections.

“Self-lay Provider” is an organisation that is ~~An accredited operative who can lay~~ to construct New Connection Services ~~the pipework for a new water main or sewer~~ rather the infrastructure being laid constructed by ~~the~~ a water company. ~~The water company will take over responsibility for self-laid pipes that meet the terms of its agreement.~~

“Site Specific” means work on, or the provision of, water or sewerage structures or facilities located on a ~~development~~ Development as well as work to provide and connect a requested ~~water main, sewer, communication pipe or lateral drain~~ Water Main, Sewer, Communication



Pipe or Lateral Drain to the Point of Connection or Alternative Point of Connection. Charges for site specific work relate to the provision of connection structures or facilities located on a

development up to the nearest practical point on the existing network where the connecting pipework is of a nominal bore internal diameter no larger than that of our existing network. They do not refer to costs or work required as part of network reinforcement.