

# United Utilities response to Ofwat’s Charging arrangements for new connection services for English companies: comparative analysis and consultation



## Introduction

United Utilities welcomes the opportunity to comment on Ofwat’s comparative analysis and consultation on the charging arrangements for new connection services for English companies.

We have responded to each of the questions set out in the consultation below.

United Utilities undertakes proactive and open engagement with customers. This engagement informs continuous improvement plans to ensure that our service is in line with customer expectations.

The development of the charges for new connections, since the formal requirement to publish charging arrangements from 2018/19 onwards, has been a significant task for United Utilities. For the new charging arrangements for 2018/19 we undertook a wide range of stakeholder engagement activities which took several different forms over a 12 month period. These included focus group sessions, information published on our website for consultation, a specific consultation document, our annual “Developer Day” event and separate discussions and sharing of our draft charges scheme with a number of individual stakeholders. These sessions included discussing our proposed approach to setting charges, as well as sharing indicative proposed charges and providing examples along with a comparison of the charges with the approach used prior to the new charging rules being in force. Each year we continue to undertake a similar level of engagement activity. We typically engage with key stakeholders on a quarterly basis as well as hosting developer customer briefing events across the year, the agenda for these events includes an update on charges development. In developing 2021/22 charging arrangements these events are taking place remotely, typically in webinar format. We continue to receive constructive feedback and good insight from hosting such events and they continue to be well attended, reflecting the value our stakeholders place on having an open forum.

We have shared the Charges Scheme directly with a number of stakeholders including the Home Builders Federation and Fair Water Connections, as well as CCWater. We consider the comments made by these stakeholders alongside feedback from our wider stakeholder consultation activities, in relation to proposed changes to our Charges Scheme. A summary of key feedback from stakeholders for our 2020/21 charges, and how UUW has addressed this feedback is provided below:

Our stakeholders said:	UU response to our stakeholders:
Transition period is an important factor for them and clarity and transparency is really important.	We continue to follow Water UK guidance on transition. Transition was included on the agenda at the Developer Day to provide our stakeholders with an opportunity to discuss areas of concern. Taking on board feedback we have included a summary of our transition arrangements in the statement of significant changes for new connections and have updated the transition arrangements on our website
The charges scheme would benefit from greater clarity around how the infrastructure charge has been calculated	We have updated our charges scheme with some additional information on how infrastructure charges are derived

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<p>It is not clear from the charges scheme if Uuw offers infrastructure credits for those sites where there was previous use for non-domestic purposes.</p>	<p>We have updated our charges scheme to make it clear that we do offer infrastructure credits where there was previous use for non-domestic purposes. In addition, we have also included the calculation of infrastructure credits based on meter size for previous non-household use.</p>
<p>The government is looking to reduce per capita consumption, will this have an impact on the reduced rate infrastructure charge</p>	<p>We continue to review the criteria for the reduced rate infrastructure charge annually. There are no changes proposed on the sustainable rate for 2020/21. If any changes are proposed we will hold engagement sessions with our stakeholders to discuss further.</p>

Our stakeholder events are well attended and there is a good level of response from stakeholders to our offers of engagement which we consider is positive.

As we prepare for our 2021/22 publication, we are already engaging with stakeholders to seek their feedback on the published 2020/21 charges scheme, and we will work to further improve the charges scheme based on feedback received.

### Consultation questions

#### Common terminology

**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?

In principle we are supportive of the introduction of common terminology. We agree that improvement can be made in the clarity of how charges can be compared between companies.

Standardising terminology, where appropriate, could lead to an improved experience for developer customers, particularly those that deal with multiple water companies.

However, Ofwat’s proposals for standardising terminology could, in some cases, extend beyond the words and impact the structure of charges. Not only is our existing charges structure supported by customers but our charges are the responsibility of our board. Standard terminology which also impacts charges could impair this responsibility, though there may be some scope to use voluntary measures to create more standardisation. We also note that, in response to ongoing stakeholder engagement, we have amended terminology to adopt more commonly used language where possible - some of the proposed definitions would reverse these changes and therefore make the charges scheme less accessible to users.

In response to question 2, we set out in more detail our views on all of Ofwat’s proposals.

Consideration must also be given to the effects of harmonising terminology on existing contracts. This is done most smoothly by applying the changes in terminology only to new contracts as they arise, gradually harmonising terms as contracts expire and new ones are signed.

In addition, we note that the proposed list of terminology is not exhaustive and additional terms may need to be defined. We have additional terms in our definitions section, which is published in our charges

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scheme<sup>1</sup>. We have therefore also made further proposals for standard terminology in response to question 2, though note that these suggestions are by no means exhaustive.

**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 with the following definitions.

Term	Proposed definition	Comment
<b>Charging Arrangements</b>	Means a document setting out the charges and/or the methodologies for calculating them those, applied by the water or sewerage undertaker in accordance with these rules.	<b>AGREED</b> We will adopt this terminology and definition.
<b>Charging Year</b>	Means a calendar year running from 1 April in a given year to 31 March in the following year.	<b>AGREED</b> We will adopt this terminology and definition.
<b>Charges Scheme Rules</b>	Means the Charges Scheme Rules issued by the Water Services Regulation Authority under sections 143(6A) and 143B of the Water Industry Act 1991.	<b>AGREED</b> We do not object to the definition but we do not use the term in our charging arrangements document.
<b>Connection Charges</b>	Means charges that will be imposed by that undertaker for work carried out by it in accordance with the duties (or rights) created by the following provisions of the Water Industry Act 1991: section 45(1) (connection with Water Main); section 46(1) (ancillary works for purposes of making a domestic connection); section 98(1A) (provision of lateral drains); section 101B (construction of lateral drains following construction of a public sewer) or section 107(1) (right of undertakers to make communication with Public Sewer).	<b>AGREED</b> We will adopt this terminology and definition.
<b>Contestable Work</b>	Refers to work or services that can be completed by either the relevant undertaker or persons other than the relevant undertaker.	<b>AGREED</b> We will adopt this terminology and definition.  (although we will usually say ‘we’ rather than ‘relevant undertaker’).
<b>Development</b>	Means premises on which there are buildings, or on which there will be buildings when proposals made by any person for the erection of any buildings are carried out, and which require connection with, and/or modification of, existing water or sewerage infrastructure.	<b>AGREED</b> We will adopt this terminology and definition.

<sup>1</sup> <https://www.unitedutilities.com/globalassets/documents/wholesale-charges-documents/united-utilities-water-limited-new-connection-and-developer-services-cha....pdf>, section 16, pages 58 to 61

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<b>Diversion Charges</b>	<p>Means the charges imposed by that undertaker pursuant to section 185(5) of the Water Industry Act 1991.</p>	<p><b>AGREED</b></p> <p>We will adopt this terminology and definition.</p>
<b>Existing main</b>	<p>Means a main that was in operation before development commenced.</p>	<p><b>AGREED</b></p> <p>We will adopt this terminology and definition. It would be helpful to clarify if it includes abandoned mains as they would have been operational at some point before the development.</p>
<b>Income Offset</b>	<p>means a sum of money offset against the charges that would otherwise be applied for the provision of a Sewer or Water Main in recognition of revenue likely to be received by the relevant undertaker in future years for the provision of:</p> <ul style="list-style-type: none"> <li>i. supplies of water to premises connected to the new Water Main; or</li> <li>ii. sewerage services to premises connected to the new Sewer, and “Income Offsetting” shall be construed accordingly.</li> </ul>	<p><b>AGREED</b></p> <p>We will adopt this terminology and definition.</p>
<b>Lateral Drain</b>	<p>means (a) that part of a drain which runs from the curtilage of a building (or buildings or yards within the same curtilage) to the sewer with which the drain communicates or is to communicate; or (b) (if different and the context so requires) the part of a drain identified in a declaration of vesting made under section 102 of the Water Industry Act 1991 above or in an agreement made under section 104 of this Act.</p>	<p><b>AGREED</b></p> <p>We do not object to the definition, as we do not differentiate between a sewer and a lateral drain for charging purposes (all of our charges are based on sewer rather than lateral drains charged separately).</p> <p>However, for clarity, we propose the addition of the following sentence at the end of Ofwat’s proposed definition.</p> <p><b>UU proposal:</b></p> <p>For charging purposes we do not differentiate between a lateral drain and a sewer.</p>
<b>Network Reinforcement</b>	<p>Refers to work other than Site Specific Work, as defined below, to provide or modify such other:</p> <ul style="list-style-type: none"> <li>i. Water Mains and such tanks, service reservoirs and pumping stations, or</li> <li>ii. Sewers and such pumping stations</li> </ul> <p>as is necessary in consequence of the Site Specific installation or connection of Water Mains, Service Pipes, Public Sewers and Lateral Drains pursuant to an agreement with, or a duty owed under the Water Industry Act 1991 to, a person other than a relevant</p>	<p><b>AGREED</b></p> <p>We will adopt this terminology and definition.</p>

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	undertaker, including a requisition (under sections 41(1), 98(1) or 98(1A)), under an agreement for adoption (under sections 51A or 104), under a section 66D of or a section 117E agreement, pursuant to section 45(1) (Duty to make connections with main) or in accordance with another duty imposed by the Act, or in consequence of the exercise of rights under section 106(1) (Right to communicate with public sewers). It also includes the additional capacity in any earlier Water Main or Sewer that falls to be used in consequence of the provision or connection of a new Water Main or Sewer.	
<b>New Appointee</b>	Means a company holding an appointment as a relevant undertaker where the conditions of that appointment limit the charges that can be fixed under a charges scheme by reference to the charges fixed by one or more other relevant undertakers.	<b>AGREED</b> We will adopt this terminology and definition.
<b>No excavation</b>	These charges apply where we do not undertake any excavation, backfilling or reinstatement, for example, where the trench has been pre-excavated by you to our standards.	<b>AGREED</b> We will adopt this terminology and definition.
<b>Non-contestable Work</b>	Means work or services that only the relevant undertaker (or an agent acting on their behalf) can do or provide	<b>AGREED</b> We will adopt this terminology and definition.
<b>Public Sewer</b>	Means a sewer for the time being vested in a sewerage undertaker, whether under the Water Act 1989, the Water Industry Act 1991 or otherwise.	<b>AGREED</b> We will adopt this terminology and definition.
<b>Requisition Charge</b>	Means charges that will be imposed by that undertaker for work carried out by it in accordance with the duties imposed by section 41(1) (provision of requisitioned Water Main) and section 98(1) (provision of requisitioned public sewer) of the Water Industry Act 1991. That is, a charge set by the water company for the provision of the new water main or public sewer (a requisition) to recover the costs reasonably incurred in providing them.	<b>AGREED</b> We will adopt this terminology and definition.
<b>Service Connection</b>	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.	<b>AGREED</b> We will adopt this terminology and definition.
<b>Supply pipe</b>	Means the part of the service pipe that is not the communication pipe	<b>AGREED</b> We will adopt this terminology and definition.  We also think it would be useful to include diagrams to be clear on this definition.

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In harmonising terminology there is an opportunity in reviewing the definitions to reduce the ambiguity in relation to charges terminology that make it difficult for a lay person to understand and interpret.

We suggest alternatives to the following proposed definitions alongside explanation as to why we think a different definition is more suitable than that proposed in the consultation:

Term	Proposed definition	Reason and UU proposal
<b>Alternative point of connection</b>	Means a location on our water and sewerage network other than the point of connection	<p><b>Reason for disagreement:</b></p> <p>We consider the current terms “Alternative point of connection” and “Point of connection” to be confusing to a lay person. It seems counter intuitive to call the alternative point of connection the place where the actual connection is made and the point of connection to be the theoretical point of connection that is used for setting charges and defining site boundaries. It might be better to call the point of connection the “Actual point of connection” and refer to the initial assumption about the point of connection to be the “assumed point of connection” or “initial point of connection”.</p> <p><b>UU proposal:</b></p> <p><b>Term:</b> “Actual final point of connection”</p> <p><b>Proposed definition:</b> Means a location on our network other than the assumed point of connection</p>
<b>Carriageway</b>	Means tarmac covered ground.	<p><b>Reason for disagreement:</b></p> <p>We do not consider it desirable to classify based on the substance type. The term “carriageway” is defined in the Highways Act. We consider it appropriate to use this definition.</p> <p><b>UU proposal:</b> means a way constituting or comprised in a highway, being a way (other than a cycle track) over which the public have a right of way for the passage of vehicles.</p>
<b>Charging rules</b>	Means the Charging Rules for New Connection Services (English Undertakers) issued under sections 51CD, 105ZF and 144ZA of the Act	<p><b>Reason for disagreement:</b></p> <p>The proposed term is too brief and therefore too ambiguous for users of this and other charges schemes. We therefore propose the term “New Connections Charging Rules”.</p> <p><b>UU proposal:</b></p> <p><b>Term:</b> “New connections charging rules”</p> <p><b>Definition:</b> Means the Charging Rules for New Connection Services (English Undertakers) issued</p>



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		under sections 51CD, 105ZF and 144ZA of the Water Industry Act 1991
<b>Communication pipe</b>	Means any part of a Service Pipe which a water undertaker could be, or have been, required to lay under section 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.	<p><b>Reason for disagreement:</b></p> <p>The meter housing and stop valve could be in different locations (in the footway, front garden or on the wall – depending on water company policy) therefore they are not necessarily a continuous part of the pipe. We also think it would be useful to include diagrams in the definition to be clear.</p> <p><b>UU proposal:</b> means any part of a Service Pipe which a water undertaker could be, or have been, required to lay under section 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.</p>
<b>Domestic premises</b>	Means any premises used wholly or partly as a dwelling or intended for such use.	<p><b>Reason for disagreement:</b></p> <p>We have chosen to adopt the terminology from Ofwat’s eligibility guidance i.e. “household premises” rather than “domestic premises” across all of our charges schemes. This is to avoid confusion with ‘domestic purposes’, which can be at either household or non-household premises. This aids consistency with our wider charges schemes.</p> <p><b>UU proposal: Household premises</b> – premises in any part of which a person has his home and whose principal use is a home and which may be identified as such in light of any eligibility guidance issued by Ofwat.</p>
<b>Fixed charges</b>	Means charges set for a given Charging Year which are fixed in amount or which are calculated by reference to a predetermined methodology set out in the undertaker’s Charging Arrangements, the application of which allows calculation at the outset of the total amount owing in that Charging Year in respect of the charges in question. Such charges are to be fixed for a Charging Year, as defined above.  For the avoidance of doubt, and subject to the above, undertakers may impose Fixed Charges by	<p><b>Reason for disagreement:</b></p> <p>In general, we believe that companies and customers generally refer to “fixed charges” and “variable charges” in a different way than Ofwat’s definition. The term “variable charge” is generally referred to synonymously with volumetric rates, i.e. charges whereby payment is dependent on quantity, even if the unit rate charge is a fixed constant value throughout the year. Further, the term “fixed charge” is generally referred to synonymously with one-off or standing charges that are a single fixed value for the year (i.e. they don’t vary with a consumed quantity). In other charges scheme (e.g. our wholesale charges scheme) we refer to some of our charges as a “fixed charge” or “volumetric charges” in accordance with this more common general usage.</p>

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	<p>reference to a unit measurement (for example, per mega-litre).</p> <p>Furthermore, undertakers may offer more than one Fixed Charge in charging for a service provided in accordance with the present rules (for example, by differentiating between different geographic areas).</p>	<p>By their nature, published charges within the charges scheme are all “fixed” in accordance with Ofwat’s current definition. We would prefer the terminology such as “published charges” or “published rates” to refer to charging whereby the annual and/or unit charges do not vary within the year. For tariff rates that may be dependent on some methodology (i.e. the value of the charge or unit charge may be different for different developments), we would suggest that “bespoke charges”, or “bespoke rates” would be a better alternative terminology, to clarify that the charges will be specifically calculated on a case by case basis.</p> <p>To avoid this confusion, we do not use the term “Fixed charges” in our new connections charges scheme. We also do not intend to adopt this terminology in our scheme, whilst Ofwat includes its current definition in the charges scheme rules.</p>
<b>Footpath (footway)</b>	Means a concrete covered surface.	<p><b>Reason for disagreement:</b></p> <p>We do not consider it desirable to classify based on the substance type. Footpath and footway are not interchangeable and are separately defined in the Highways Act. We consider it more appropriate to use these definitions. (Note: we would consider a footpath or footway to be ‘surfaced’ - or made ground)</p> <p><b>UU proposal:</b> Footpath: means a highway over which the public have a right of way on foot only, not being a footway.</p> <p>Footway: means a way comprised in a highway which also comprises a carriageway, being a way over which the public have a right of way on foot only.</p>
<b>House</b>	Means any building or part of a building that is occupied as a private dwelling house or which, if unoccupied, is likely to be so occupied and, accordingly, includes a flat.	<p><b>Reason for disagreement:</b></p> <p>We consider the proposed definition to be overly complex. The definition also contains a circular reference to the defined term itself (“house”), the inclusion of which we consider is unhelpful.</p> <p><b>UU proposal:</b> any building or part of a building (including a flat) occupied or likely to be occupied as a private dwelling.</p>
<b>Infrastructure Charge</b>	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	<p><b>Reason for disagreement:</b></p> <p>We believe that the definition needs to contain reference to ‘domestic purposes’.</p>



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	company’s water supply or sewer for the first time which contributes to wider network reinforcement to meet the increased demand arising from the new connections.	<b>UU proposal:</b> 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 network for domestic purposes for the first time which contributes to wider network reinforcement to meet the increased demand arising from the new connections.
<b>NAV</b>	New appointment and variations provide water and/or sewerage services to customers in an area previously served by the incumbent monopoly provider. A new appointment is made when Ofwat appoints a company for the first time to provide services for specific geographic area. A variation is where an existing appointment is varied to extend the areas served.	<p><b>Reason for disagreement:</b></p> <p>We believe that a minor change is required to change reference to “served” (as this will cause confusion with the specific meaning in the NAV market of the unserved criterion) to include reference to “responsibility”. The definition needs to cover all NAV eligibility criteria, not just areas previously “served” by the incumbent undertaker.</p> <p><b>UU proposal:</b> New appointment and variations provide water and/or sewerage services to customers in an area that previously would have been the responsibility of the incumbent monopoly provider. A new appointment is made when Ofwat appoints a company for the first time to provide services for specific geographic area. A variation is where an existing appointment is varied to extend the areas served.</p>
<b>New Connection Services</b>	Is the collective term for New Water Mains, New Sewers, Service Connections, Lateral Drains, Waste Connections and Diversions.	<p><b>Reason for disagreement:</b></p> <p>We do not consider the term ‘waste connections’ to be appropriate. It is confusing to a lay person as it might be interpreted as relating to plumbing connections such as a toilet pan, washing machine and dishwasher waste connections.</p> <p><b>UU proposal:</b> is the collective term for New Water Mains, New Sewers, Service Connections, <del>Lateral Drains</del>, Sewerage Connections and Diversions.</p>
<b>On-Site</b>	Works carried out or proposed to be carried out within the site boundary.	<p><b>Reason for disagreement:</b></p> <p>We believe that a minor change is required to enable the proposed definition to be used in company charges scheme glossaries.</p> <p><b>UU proposal:</b> carried out or proposed to be carried out within the site boundary</p>
<b>Off-Site</b>	Works carried out or proposed to be carried out outside the site boundary.	<p><b>Reason for disagreement:</b></p> <p>We believe that a minor change (deleting the word “Works”) is required to enable the proposed definition to be used in company charges scheme glossaries.</p>

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		<b>UU proposal:</b> carried out or proposed to be carried out outside the site boundary.
<b>Point of connection</b>	Means the nearest practical location where the existing water main or sewer is the same size or larger than the new connecting main or sewer.	<p>We agree with the definition but not the term</p> <p><b>Reason for disagreement:</b></p> <p>We consider the current terms “Alternative point of connection” and “Point of connection” to be confusing to a lay person. It seems counter intuitive to call the alternative point of connection the place where the actual connection is made and the point of connection to be the theoretical point of connection that is used for setting charges and defining site boundaries. It might be better to call the point of connection the “Actual point of connection” and refer to the initial assumption about the point of connection to be the “assumed point of connection” or “initial point of connection”.</p> <p><b>UU proposal:</b></p> <p><b>Term:</b> “Assumed point of connection” or “Initial point of connection”</p>
<b>Self-lay</b>	The laying of water pipes and associated infrastructure in accordance with section 51a of the Act.	<p><b>Reason for disagreement:</b></p> <p>We believe a minor amendment would minimise ambiguity. It would be helpful to include extra wording in the definition.</p> <p><b>UU proposal:</b></p> <p>The laying of water pipes and associated infrastructure, by a party other than the water undertaker, in accordance with section 51a of the Water industry Act 1991.</p>
<b>Self-lay provider</b>	An accredited operative who can lay the pipework for a new water main or sewer rather the infrastructure being laid by the water company. The water company will take over responsibility for self-laid pipes that meet the terms of its agreement.	<p><b>Reason for disagreement:</b></p> <p>We believe that a minor change is required to enable the proposed definition to be used in company charges scheme glossaries.</p> <p><b>UU proposal:</b></p> <p>an entity that carries out self-lay work with Water Industry Registration Scheme (WIRS) accreditation. We [the undertaker] will take over responsibility for self-laid pipes that meet the terms of your agreement.</p>
<b>Service pipe</b>	Means so much of a pipe which is, or is to be, connected with a water main for supplying water from that main to any premises as — (a) is or is to be subject to water pressure from that main; or (b) would be so subject	<p><b>Reason for disagreement:</b></p> <p>We believe there is potential to improve the clarity of the proposed definition. It would be helpful if the definition states what the pipe is connecting and who</p>

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	but for the closing of some valve, and includes part of any service pipe.	owns it. We also think it would be useful to include diagrams in the definition to be clear.  <b>UU proposal:</b>  Means so much of a pipe that is to connect the water main to the property, and part of it is owned by the water and sewerage undertaker (which is the communication pipe) and the remainder of it is the responsibility of the property owner (which is the supply pipe)
<b>Sewers</b>	Includes all sewers and drains (not being drains within the meaning given by section 219(1) of the Water Industry Act 1991) which are used for the drainage of buildings and yards appurtenant to buildings. This definition includes tunnels or conduits which serve as such a pipe and any accessories for such a pipe.	<b>Reason for disagreement:</b>  We believe a minor amendment would minimise ambiguity. It would be helpful to include extra wording in the definition.  <b>UU proposal:</b>  Includes all sewers and drains, excluding lateral drains which are defined elsewhere, (not being drains within the meaning given by section 219(1) of the Water Industry Act 1991) which are used for the drainage of buildings and yards appurtenant to buildings. This definition includes tunnels or conduits which serve as such a pipe and any accessories for such a pipe.
<b>Site specific</b>	work on, or the provision of, water or sewerage structures or facilities located on a development as well as work to provide and connect a requested water main, sewer, communication pipe or lateral drain on, to or in the immediate vicinity of, the development. 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.	<b>Reason for disagreement:</b>  We believe that separating out the definition of site specific charges from the definition of site specific would be clearer.  <b>UU proposal:</b>  <b>Term:</b> Site specific  <b>Definition:</b> work on, or the provision of, water or sewerage structures or facilities located on a development as well as work to provide and connect a requested water main, sewer, communication pipe or lateral drain on, to or in the immediate vicinity of, the development.  <b>Term:</b> Site specific charges  <b>Definition:</b> 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.

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<p><b>Small company</b></p>	<p>Means a New Appointee.</p>	<p><b>Reason for disagreement</b></p> <p>It would be helpful to have one consistent definition across the three charges schemes:</p> <p>In the wholesale charging rules the small company definition is unchanged from the 20 December 2018 amendment "means any company holding an appointment as a relevant undertaker where the conditions of that appointment limit charges that can be fixed under a charges scheme under section 143 of the Water Industry Act 1991 by reference to the charges fixed by one or more other relevant undertakers."</p> <p>In the Charges Scheme Rules small company is not defined - instead it refers to New Appointees in rule 25</p>
<p><b>Undertaker</b></p>	<p>Means a water undertaker or sewerage undertaker.</p>	<p><b>Reason for disagreement:</b></p> <p>To avoid confusion with the more commonly known definition for this word, we think that the term “water undertaker”, “sewerage undertaker”, “water and sewerage undertaker”, or “relevant undertaker” should be used as the term against the relevant context instead.</p> <p><b>UU proposal:</b></p> <p><b>Term:</b> “water undertaker”</p> <p><b>Definition:</b> Means a company appointed to carry out water duties under the Water Industry Act 1991</p> <p><b>Term:</b> “sewerage undertaker”</p> <p><b>Definition:</b> Means a company appointed to carry out sewerage duties under the Water Industry Act 1991</p> <p><b>Term:</b> “water and sewerage undertaker”</p> <p><b>Definition:</b> Means a company appointed to carry out water and sewerage duties under the Water Industry Act 1991</p> <p><b>Term:</b> “relevant undertaker”</p> <p><b>Definition:</b> Means a company appointed to carry out water and/or sewerage duties under the Water Industry Act 1991</p>

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<b>Unmade Ground (verge)</b>	Refers to ground which does not have a surface. For example, unmade ground may feature grass and topsoil.	<p><b>Reason for disagreement:</b></p> <p>We do not object to the definition of unmade ground, however we suggest the removal of “(verge)” from the term. We think that the use of the word “verge” could be confusing as there are occasions when a verge could be surfaced.</p> <p><b>UU proposal: Unmade Ground</b></p>
<b>Water main</b>	Means any pipe, not being a pipe for the time being vested in a person other than the undertaker, which is used or to be used by a water undertaker or licensed water supplier for the purpose of making a general supply of water available to customers or potential customers of the undertaker or water supply licensee, as distinct from for the purpose of providing a supply to particular customers. This definition includes tunnels or conduits which serve as a pipe and any accessories for the pipe.	<p><b>Reason for disagreement:</b></p> <p>We do not object to the definition of water main but believe that there would be less ambiguity by including a minor addition to the term “Public water main”, this would make it consistent with the term “Public sewer”.</p>

Our stakeholders have told us that they value cost certainty and fairness. Through our engagement with them, they have told us that:

- they value a charging structure where they pay for the services they receive;
- they don’t want charges to be bundled; and,
- they don’t want to subsidise other developers.

There is also a desire to keep changes in charges to be kept to a minimum to allow them to plan and budget the cost for their development with a degree of certainty. We make it clear in our charges scheme through the use of worked examples (both those required by Ofwat and additional examples which we provide after engagement with our stakeholders) how our charges are built up.

We acknowledge that there is merit in introducing standard terminology such as short length and long length in the worked examples. This can make it easier to determine charges at a glance and aid comparability across companies.

However, care needs to be taken in adopting standardised terminology if this impacts the actual structure of charges. We do not believe that developers would support this, in light of their feedback to us on the value they place on fairness of costs. Developers have specifically told us that they want clarity over the metres of pipe used in the calculation of their charges. Our charging structure and worked examples are clear that the cost of our service connections explicitly includes the first two metres of pipe. Anything additional to that is charged per metre. Developers support this charging approach and clarity.

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We especially disagree with the definition of long length, should it also be extended to the calculation of charges, as the proposed definition would make the calculation of charges difficult as it is imprecise over the specific length of pipe used (“the length is 4 metres or more”, emphasis added).

Additionally, the application of the proposed short length definition in the calculation of our charges would also be problematic to implement as it assumes a doubling of pipe length from 2m (which is reflected in our standard connection charge) to up to 4m for each connection. We expect this would have cost shocks on our charges unless managed appropriately.

Term	Proposed definition	Comment
<b>Long length</b>	Refers to the length of the new water pipe required between the private supply pipe (at the property boundary) and the 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, 4 metres in unmade ground.	<p><b>DISAGREE:</b></p> <p>It is not clear whether this definition is intended for use purely in the worked examples or for use in the calculation of charges. If it is for the latter – <u>treatment in charges</u> - then we object; developers have specifically told us that they want clarity over the precise meterage used in their charges. If it is for the former - <u>treatment in worked examples</u> - then, the worked example needs a specific meterage defined (e.g. “4 metres” or “8 meters” rather than “4 metres or more”. Different companies may use different meterage in their worked examples meaning that they are not comparable.</p> <p>This term and proposed definition are used solely in the worked examples as a means to ensuring all companies use the same length of pipe in their examples.</p> <p><b>UU Proposal:</b></p> <p>An additional length of pipe in addition to the base length. The length of this additional length is explicitly stated per metre in the worked examples and included in the example charge.</p>
<b>Short length</b>	Refers to the length of the new water pipe required between the private supply pipe (at the property boundary) and the point of connection, where the length is less than 4 metres.	<p><b>DISAGREE:</b></p> <p><u>Treatment in worked examples:</u> As for the long length proposed definition, we do not object to the use of the term short length in the worked examples but do object if it has an impact on the calculation of charges. Currently the cost of our service connections explicitly includes the first two metres of pipe, on the assumption that this length does not typically result in crossing the road. Any extra meterage required is charged for separately. This approach is clearly shown in the charges structure and worked examples within the charges scheme. This approach is endorsed by our developer community.</p> <p><b>UU proposal:</b></p> <p>The base length included in the charge. We propose that the standard base length to be used in the worked examples should be 2 metres.</p>



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We suggest the following additional definitions alongside explanation as to why we think they are required. We also note though that the current proposed list of terms is not exhaustive and would be keen to develop the method to subsequently amend the list should the need arise in the future:

Term	Proposed definition	Comment
<b>Made ground</b>	Refers to ground which has a surface. For example, a carriageway or footpath.	Our charges are currently determined by whether ground is surfaced or unsurfaced. Adding a definition for made ground would allow us to continue with this simplified basis for charges.
<b>Domestic purposes</b>	Water used for drinking, washing, cooking, central heating and sanitary purposes, as defined by section 218 of the Act	

We note that as part of our stakeholder engagement full service NAVs have raised some issues around reinforcement. Full service NAVs would construct their own treatment works. However, an incumbent that needed to increase treatment capacity as a result of a new development would do so without levying a direct charge to the developer. Concerns have been raised that this may disadvantage a full service NAV in competing for sites. We note there is no equivalent of the infrastructure charge to pass on the cost of non-infrastructure reinforcement. The cost of this is funded from other customers.

We are keen to work with industry stakeholders to consider how best to ensure “full service” NAVs can be satisfied that they are competing on a level playing field.

Ofwat has stated<sup>2</sup> that incumbents should not include existing strategic assets (i.e. treatment works) within infrastructure charges, as reinforcement of such assets is expected to be recovered from the generality of customers. We note that full service NAVs, which provide their own treatment facilities, have indicated to us that they consider that their circumstances are inconsistent with the current approach to infrastructure charges.

We believe that this is an area worthy of further and prompt consideration in reviewing the charging rules in order to ensure that these issues are fully assessed. We would be pleased to participate in such a review in the interests of establishing what a satisfactory approach could be given the specific circumstances faced by full service NAVs

### Presentation of charges

**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 the proposal to set out explicit expectations on the presentation of worked examples. We believe clear worked examples will help customers understand the charges and how they apply and also provide consistency and transparency across companies’ charging arrangements.

<sup>2</sup> Charging Rules for New Connections – decision document December 2016, Section 3.2, page 32.

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We support the proposal to present worked examples disaggregated by service and unit cost. We believe the layout and the level of detail we include in our worked examples in the 2020/21 charging arrangements for new connection services provides the appropriate level of detail for transparency.<sup>3</sup>

The worked examples we publish include the following:

- Description of the service requirements
- Any assumptions made (for example, for traffic management, in our worked examples we have assumed only 2 way lights are required and these costs are already included in the standard rates)
- Separate tables for water charges and sewerage charges
- Within the tables each charge is separately listed with columns completed for quantity, unit charge, total charge and charges scheme reference
- In addition, we group the charges within each table and include sub totals (application and administration charges, connection charges, requisition/construction charges and other charges).

In addition to the worked examples that Ofwat expected water companies to include in 2020/21 charges schemes, we also continued to include the detailed worked examples which we already included in previous years, before Ofwat published its expectations. These additional examples include further illustrations of example schemes, to enable customers to compare the 2020/21 charges for the example schemes to those published in previous years. Following consultation with customers to establish which of our additional examples are most useful, we may rationalise or expand the number of examples we publish in future years' charging schemes. We continue to actively engage with our customers on suitable worked examples and how best to update, present and publish these, to make them most user-friendly.

### Analysis of charges

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

We don't believe there are any substantive areas of analysis that are missing or could be improved.

**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.

We believe there are a number of reasons for the differences in charging levels, which are:

- Levels of SLP and housebuilding activities
- Cost allocation
- External factors

We believe the key differences come from levels of SLP activity and cost allocation.

When considering the variance in pricing there are a wide variety of factors that impact the costs behind developer services charging, many of which are identified by Ofwat in the consultation analysis. For UUW, one of the biggest factors relates to the nature of work we ourselves undertake, as opposed to that which SLPs choose to undertake themselves. In the North West, SLPs undertake the vast majority of work on

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<sup>3</sup> Section 17 Appendix 1 and section 18 Appendix 2, pages 62 to 93, New connections and developer services charges scheme 2020/21

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larger sites, and on those without significant operational issues (such as the presence of canals or rail lines). Remaining with U UW, are therefore sites of either smaller economies of scale or additional complexity, thus requiring less efficient or more expensive amounts of work for a similar output. This point is reflected in Figure 3.1 (“Comparison of SLP market share and water companies’ on-site charges”, page 23) in the consultation document. U UW’s on-site charges for a housing development of 50 properties is the second highest charge, which reflects the higher proportion of complex work undertaken by U UW.

Another key factor impacting differences in charging levels is in relation to cost allocation. It is not easy to compare the extent to which charges reflect the cost of services delivered by contractors as contractual arrangements will vary across companies.

Our contractor rates negotiated for new connections are based on the surface type and pipe diameter size. These have the biggest impact on the cost of providing the connection service as they directly reflect the cost of the appropriate labour, materials and plant and equipment required. (N.B. this relationship between connection charges and surface type is one of the reasons why we have suggested alternatives to the proposed definitions for “carriageway”, “footpath” and “unmade ground (verge)”.)

We recognise that within such contractual arrangements the granularity of services provided will vary across companies and will result in variability in charges.

A good illustration of the impact of this on the variability of charges is Table 3.1 (“Charges for new services connection including administrative and other costs”, page 19) in the consultation document. We have replicated this table below and included the values for United Utilities in the bottom line for comparison.

Charges (£) 2019/20	No excavation			Unmade ground			Made ground			Carriageway		
	3m	6m	9m	3m	6m	9m	3m	6m	9m	3m	6m	9m
£/surface lengths (m)												
<b>Mean</b>	511	562	590	813	1,058	1,187	1,113	1,563	1,850	1,346	1,865	2,223
<b>Median</b>	451	495	501	760	993	1,023	1,069	1,381	1,659	1,288	1,784	2,065
<b>Maximum</b>	972	1,144	1,144	1,548	2,186	2,186	1,690	2,440	3,190	2,258	3,150	4,110
<b>Minimum</b>	192	192	192	447	524	553	658	915	976	766	915	1,003
<b>United Utilities *</b>	385	439	493	468	633	793	667	931	1,195	667	931	1,195

\* Source: 28 October 2019 Ofwat request for data validation

We acknowledge that there may be numerous valid reasons for differences in charging levels across companies. To the extent to which these differences result in cost reflective charges we do not believe this in itself cause a problem. However, we recognise that variability in charges across the industry is an area of concern for developer customers in trying to understand why costs vary so much for what effectively should be the same service provision.

If more standardisation is required to address variability of charges we can take action to facilitate that standardisation but it will take time, it will involve stakeholder engagement, and it will involve transitional

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arrangements. There will be a diversity of views amongst our customers about whether the benefits of standardisation outweigh the inconvenience and disruption caused by the change. This will require careful engagement between company, regulator and stakeholders.

#### Cost reflectivity principle

**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 believe that Licence Conditions E and E1 already provide an implicit obligation on water companies to ensure that charges are reflective of costs, therefore no modification of the Charging Rules is required in respect of this obligation. We are required not to show undue preference or undue discrimination, and are therefore fully aware of the need to ensure cost reflectivity in our charges.

We note that the income offset is explicitly exempt from this cost-reflectivity principle, as it is used as a mechanism to ensure that the balance of revenue recovered from developers and other customers is maintained, in line with the charging rules for new connections services and the charges scheme rules. Therefore any inclusion of a cost reflectivity principle should recognise that specific exclusion.

For several years we have been setting our charges on the basis that cost reflectivity is a desirable outcome as part of the overarching objectives issued by Defra.

In reviewing appropriate charges, year on year, we have to take a balance between cost reflectivity and the four overarching objectives for charging issued by Defra in its January 2016 Charging guidance to Ofwat<sup>4</sup>:

- Fairness and affordability;
- Environmental protection;
- Stability and predictability (includes reference to cost-reflectivity) ;
- Transparency and customer-focused service (includes reference to cost-reflectivity).

It is important that cost reflectivity requirements continue to be balanced with the other charging principles, recognising that all the charging principles are important and that sometimes these are in tension. We would not support the elevation of cost reflectivity as an overriding consideration above all other charging principles. This is particularly true in the event of a significant change in costs, whereby a company should be encouraged to transition towards any such change over time, rather than feeling obliged to immediately impose a significant increase in a charges, simply in order to comply with an explicit cost reflectivity charging rule. There is ample evidence that customers – including developers – are not supportive of sudden changes in costs which could in some cases undermine the economic case for any given development.

Our contractor rates are currently based on the contractor rates generated through a competitive process. We recognise in its RISE review, Ofwat commented that this alone was not sufficient to ensure cost

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<sup>4</sup> [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/496044/charging-guidance-ofwat-2016.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/496044/charging-guidance-ofwat-2016.pdf)

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reflectivity. We are considering further the implications of this. In the forthcoming retender for the new connection services we will consider what steps we can take to ameliorate those concerns.

In addition to the obligations stemming from Licence Condition E1, our responsibilities in relation to competition law give additional weight to the need to consider cost reflectivity or charges into related contestable markets. Also, within the consultation document reference is made to Thames employing an ex post true-up of contractors' costs and charges. This is to ensure there is no significant variation between the contractors' actual costs and the price paid by the water company and ultimately the developer. Cost pass-through arrangements do appear to offer benefits in terms of cost reflectivity but they may not always deliver cost efficiency because the incentives are not there to minimise costs.

One potential negative consequence of an overriding obligation focussed on cost reflectivity could be that it may curtail companies' ability to mitigate incidence effects, in particular cost shocks, on particular groups of customers. This mitigation is short term, but does avoid significant negative impact on the customer. We suggest that the merit of any explicit obligation should be carefully considered in relation to the companies' ability to manage incidence effects. In addition, given the already complex and administratively burdensome nature of charges setting for developer services, we would hope that any changes would not add substantially to this activity.

### Industry collaboration

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

It is essential that water companies' boards remain responsible for the charges and charges scheme and are free to manage the balance of risk between regulatory and legal requirements. Therefore, if there is to be a common charging methodology, water companies need to retain the ability to approve charges in a way that enables them to retain responsibility for the consequences. A move to overly prescriptive common charging methodologies could create conflict with that responsibility of the company. There may be scope to use voluntary measures or guidance and this would encourage Boards to improve the level of standardisation in presentation and comparability of charges, without restricting their ability to set charges in line with their other requirements and accountabilities.

We believe that the implementation of prescriptive common charging methodologies could also have substantial incidence effects. Therefore, any common methodology must ensure that the common element of the charging methodology is focussed on creating greater comparability and clarity, whilst ensuring that there remains sufficient flexibility for companies to continue to address the particular demographic, geographic and historic characteristics evident within each region (i.e. that common charging methodologies must not conflict with the need for charges to be cost reflective for each company individually). Having a common methodology that specifies how information is presented and the inclusion of identical examples at the same level of granularity of charges would help deliver the comparability for customers, without compromising the necessary charging flexibility. The creation of best practice guidance could also support the aim providing greater comparability and transparency between companies, experience suggests that over time companies have looked to meet best practice where there are not substantial barriers to following that best practice.

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We are positively disposed towards better standardisation of charging structures and are happy to work together in a group as long as any competition law ramifications are resolved.

In addition to the scope for companies working together on charging structures, customers can play a key role here. For example, customers can identify the charging structures that they believe are most helpful for them. Through our stakeholder engagement process we strongly encourage our key stakeholders (e.g. HBF, HBA and FWC) to identify and promote best practice across the sector, as they are best placed to identify how charges schemes and charging structures could (or should) be standardised.

**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 think that a working group, if operated appropriately, could prove to be part of the solution to deliver the better comparability sought by developers and Ofwat. Working groups are commonplace solutions within regulated industries, in an effort to forge greater consistency and clarity amongst the parties involved. A current example of a successful working group from the water sector is the NHH water retail market's Retailer Wholesaler Group (RWG). It supports the NHH retail market, allowing trading parties, regulators and consumer groups to work together.

We believe that the RWG provides a successful model that has allowed real progress to be made towards standardisation and greater clarity in the NHH retail market. It became evident soon after market opening that the lack of standardised policies across the industry created additional complexity for retailers, which in turn contributes to inefficiencies in terms of time and costs to their business.

The RWG has developed and published a series of best practice guides. By developing these as best practice guides, rather than as industry standards, work has been able to progress at a much greater pace than is likely to have been the case if these guidance documents were defined as industry standards. Trading parties have demonstrated a desire to standardise where practicable, as much of the guidance has been adopted. However, where companies have yet to adopt the guidance there is often substantive reason for this. Should these documents have instead been mandatory industry standards, then this may have led to a more extensive and time-consuming process of agreement or no agreement at all.

The terms of reference and governance of these groups were not the same as they would have been if it was known at the outset that the output of these had the potential to be made mandatory. The costs of adopting of all elements of all best practice guidelines could be significant, as could be the impacts on customers. With these costs in mind if guidance were to become mandatory, greater scrutiny and consideration of costs would be necessary, as would a full cost benefit analysis. There would also need to be a more substantial change control process that took into consideration the impact of any changes. For these reasons, we believe that having the guidance as voluntary gives the flexibility to better deliver for stakeholders.

Based on the experiences from the RWG work to support the NHH retail market we would recommend that discussions should be tightly limited to exclude straying into areas that must remain the sole responsibility of the individual companies. Discussion could include standardisation of terminology and definitions and worked examples of the different forms of charging, a structure to guide the form of publication of charges.



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However, an industry working group is unlikely to be able to set detailed rules for cost allocations and charging levels which all company boards individually will agree to adopt. It is right that company boards are individually accountable for compliance with charging rules and related obligations, whilst also taking account of opportunities for standardisation where possible - even if that means that opportunities for standardisation may be more limited, e.g. if boards consider that this could lead to conflict with its broader obligations.