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By email to: charging@ofwat.gov.uk

16 September 2020

Dear Ofwat,

Charging arrangements for new connection services for English companies: comparative analysis and consultation

Thank you for inviting us to consider the proposals to harmonise the charging arrangements for new connection services for English companies from April 2022 onwards.

We have reviewed the proposals within the consultation, including the introduction of consistent terminology to be used in companies published charging arrangements; to increase the number of worked examples presented in charging publications; and to amend the new connection rules from April 2022 to be more explicit around cost reflectivity.

We agree with these proposals which should benefit all the stakeholders who require our new connections services. The positive impact from a greater use of common terminology and more worked examples should be an improvement in the ability to compare charges for the similar services across the industry.

We agree with the high-level scope of the New Connection Charges Working Group, although we are concerned about the limited amount of time to set up the group, to define a clear scope with a suitable level of governance and to deliver outputs in time to publish updates and recommendations for incorporation into the 2022-23 charging rules.

We provide detailed responses to the consultation questions appended to this letter.

Should you wish to discuss any matters relating to this in further detail, I would be grateful if in the first instance you would contact Julia Partridge, our Regulatory Change Manager.

Yours faithfully,



Wendy Kimpton
Head of Regulation

Yorkshire Water response to:

“Charging arrangements for new connection services for English companies: comparative analysis and consultation”

The answers to the questions below refer to the consultation, which was launched by Ofwat on the 27 May 2020, on the charging arrangements for new connection services for English water companies.

The link to the publication can be found on:

<https://www.ofwat.gov.uk/consultation/charging-arrangements-for-new-connection-services-for-english-companies-comparative-analysis-and-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?

Yes, we agree with the proposal to introduce common terminology to charging arrangements and its implementation which should be of benefit to all stakeholders who require new connections services. The positive impact from a greater use of common terminology will be the ability to compare the level of charges for similar services across the industry.

We would welcome further clarity on the governance and decision making on harmonising terminology and who will be the responsible owner and arbitrator where agreement to common terms is not achieved. Would the new connections charges glossary be owned by Ofwat or at an industry level?

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

We broadly agree with the definitions in the glossary. There are some terms where we require further clarification and we have documented suggested amendments which are set out below.

“Carriageway”

The definition in the consultation is restricted to ‘tarmac covered ground’. A carriageway could be made from other material. The definition could also be

defined by user and the legality of the carriageway either 'public' or 'private' use. We would commonly consider a carriageway to be for use primarily by vehicles (including bicycles) as opposed to a pavement, footpath or footway (including footbridges or underpasses) primarily used by pedestrians.

This definition could also be structured more formally to include Public Highway, Public Footpath, Highway, Footpath, Access Road and Carriageway.

“Footpath (Footway)”

The definition specifies that a footpath is made of a 'concrete covered surface'. We believe this definition is currently too narrow, a footpath may also be constructed from tarmac, gravel or block paved. The definition could specify more than one surface or otherwise be defined as a 'formal covered surface'.

The definition should also not be restricted by surface type, and could be structured as a type of access (in the same way as the definition for carriageway) to include Public Footway, Public Highway, Footpath or Access Road.

“House”

A 'house' may also be defined as a 'plot', 'property' or 'dwelling'. Could the glossary include a definition of all terms and the relationship between them?

“Self-lay provider”

Our understanding is that a 'self-lay provider' or 'SLP' is accredited or suitably qualified to lay water mains which the incumbent water company or NAV will adopt. Sewerage adoption has been available as an option to developers for some time and the third-parties who construct sewerage networks are not presently referred to as an SLP.

To avoid confusion, we believe there is value in keeping a distinction between market participants laying water mains, who are required to hold and maintain certain quality accreditations, and those participants that lay sewers who do not.

“Short Length”

In the glossary the definition of a 'short length' is specific to a pipe length of less than four metres. We would like more information on the reason for setting this specific pipe length.

YWS apply the term 'short length' where a new pipe doesn't cross the middle point of a road and is not restricted to a maximum pipe length. YWS refer to these as 'shortsided' for a new pipe up to the middle of the road and 'longsided' for a new pipe over the middle of the road.

"Unmade ground (verge)"

We would welcome the inclusion of a 'swale' as an unmade ground type either as part of this definition or its own entry. The current definition only includes 'grass and topsoil' as unmade ground types.

A swale may be made from 'engineered soil' but is still a type of unmade ground.

There are two additional definitions which we would add.

"Easement"

To include a definition which means the right of use over third party land, be it restriction of building or right of access

"Swale"

Another type of surface which is not concrete or tarmac. We would like the glossary to be as complete as possible and include different types of green engineering.

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?

Yes, we agree with the proposal to set out explicit expectations for worked examples. We would prefer concise, defined examples with an expectation for companies and stakeholders of the required level of detail. The examples should be built through consultation with stakeholders including developers (large and small), SLP's, NAV's and single house owners.

The worked examples should be a good reflection of typical developments and presented as a concise number of examples which does not compromise the simplicity of an easy to read and access charges publication.

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

We would like to understand the reason for setting common pipe lengths in the glossary of terms.

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.

There may be a number of contributing factors for differences in the level of charging for similar services across companies charging arrangements. It's currently difficult to make direct comparisons without commonality in the structure of published charges.

However, we are aware companies will have different levels of costs associated with their new connections activities impacted by regional costs of construction and traffic management. The inclusion of common examples will facilitate an easier comparison of charging levels and their component parts.

The differences may not be a problem in themselves, if the cost reflectivity principle is followed by all companies.

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?

Yes, we support the principle that the Charging Rules should explicitly include cost reflectivity in the general principles, in a manner that continues to support the widest possible use of fixed and standard charges to all customers.

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

The benefits we have identified from the implementation of common methodologies are:

- enabling intercompany comparison of charges across the industry for all stakeholders,
- enabling the assurance of published charges against defined common methodologies,
- the ability to provide customers with more transparent and consistent charging information.

The disbenefits we have identified are:

- possible limitation on innovation where charges are bound by specific structures for presentation,
- difficult to align methodologies closely across the industry with different delivery arrangements including service partner arrangements,
- a greater administrative burden and impact on the delivery and differentiation of service,
- incidence effects for customers where charging arrangements materially change to become aligned to a common methodology.

Yes, we support the adoption of common methodologies for new connection charges across all companies but note the possibility of negative incidence effects impacting some customers and the need for considered transition in arrangements.

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 New Connection Charges Working Group. We concur with the focus on on-site connections as a good starting point to develop a standard approach as these are a simpler set of charges for both water and wastewater services.

However, we are concerned there will be insufficient time to set the group up, to define a clear scope, with suitable level of governance in time for meaningful contributions into the publication of the 2022-23 charging rules.

We would like to see a uniform amount of participation from all stakeholders, particularly if the group is non-mandatory, including participants chosen from a representative group of customers and other interested third parties.

While we advocate engagement from all interested parties, any such working group will have to expressly acknowledge and deal with the competition law risk posed by water companies coming together to discuss charging arrangements and pricing methodology. Information exchange could in many circumstances be a breach of Competition Act 1998, as each water company is expected to determine independently its own pricing.

Attendance from Ofwat and Water UK; clear guidance on what is and what is not appropriate for discussion in the sessions (circulated well in advance); strict agendas; and detailed minutes are all potential ways of ensuring the group is set up and operates in a compliant way. Unfortunately, the very subject matter of this working group means that these usual tools may not be enough to protect all parties and customers best interests. We welcome views from Ofwat on how to ensure such a group can be set up to succeed without enabling or facilitating breaches of competition law.