

Northumbrian Water Limited

Response to the 'Consultation on updating Ofwat's charging rules'

6 July 2021

Northumbrian Water actively engaged with WaterUK on the industry response to this consultation, the group was Chaired by our representative Helen Lumsdon. We support the WaterUK position on the dilution of the outputs from the industry group in this consultation. We understand Ofwat are now going to include the WaterUK proposed tables in the statutory consultation.

Q1: Do you agree with our proposed rule changes? Please offer alternatives if you think they would better achieve our intentions.

Generally, we agree with the proposed rule changes which are summarised in Table 1 of the consultation. Having engaged with WaterUK on this consultation response we do not intend to repeat that work, the answers in this document generally do not differ from the WaterUK responses, however, we have offered alternative proposed terminology in Appendix A (see page 4).

Q2: Do you agree with our proposed changes in Appendices 1, 2 and 3?

Appendix 1 Proposed changes to our charging rules

1 Change the publication deadlines to require publication of WCR "by 13 January", and for CSR and NCR "by 1 February".

A sensible change.

2 Amend to allow simultaneous publication of statement of significant changes and charges scheme.

A sensible change.

3 New rule that "Charging structures must reflect the long run costs associated with providing the relevant service".

Again, a sensible change.

4 Amend glossary to reflect outputs from Industry working group on terminology.

We agree with the WaterUK submission on terminology subject to our proposed alternatives which can be found in Appendix A (see page 4).

5 New information requirements on using worked examples to illustrate charges for new connections.

Again, a sensible proposal. We are supportive of the WaterUK work in this area that includes charges for SLPs and NAVs alongside the water company provision for the same services.

6 Move rules relating to English companies' Infrastructure Charges so that they appear in the same document as the English New Connection Rules rather than in the Charges Scheme Rules document.

Agree.

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- 7 Amend definition of “Income offset” to be clear that it applies to new connections to both existing mains and new mains.**

Our Income Offset is set at zero, therefore, this is not relevant to us but it is a reasonable and correct amendment.

- 8 Amend definition of “network reinforcement” to be clear that the rules allow companies to take into account costs incurred as a result of new premises connected by a bulk service NAV.**

This is correct and very important; we strongly support this.

- 9 New rule requiring companies to explain how they treat quoted that cross into a new charging year.**

Again, this looks like good practice and will require us to formalise what we currently do.

Appendix 2 Proposed new and amended terms & Appendix 3 Proposed information requirements

We support the terms as written in the WaterUK response to this consultation in preference to those suggested by Ofwat. However, we have a small number of differences where we have proposed alternative definitions, see Appendix A (page 4).

In terms of the worked examples we are also supportive of the submission put forward by WaterUK in response to this consultation.

We engaged with approximately 530 individuals representing developer and SLP customers. (Our NAV customers and other third-party stakeholders were engaged with by members of the WaterUK working group to avoid duplication of contact from several water companies)

- In early June we invited the above customers to respond to the WaterUK consultation on terminology and worked examples.
- In mid-June we reminded those customers of the WaterUK consultation and advised them of Ofwat’s consultation had been launched. We informed them that Ofwat’s consultation included, amongst other things, an abridged version of the WaterUK work on terminology and worked examples.
- In mid-June we invited 120 repeat customers to participate in an online feedback session about the WaterUK consultation. One customer attended the session.
- As of the 29 June 2021, no customers had submitted a written response to us regarding the WaterUK consultation.

The customer that attended the online session works as an intermediary on behalf of developers to make applications and organise connection work on behalf of developers across a number of water company areas. The following relevant comments were made:

- Terminology/definitions in companies’ Charging Arrangements should be written in a way that customers understand and not in a way that unnecessarily uses legal terms. However, if there is a need to define terms legally, that could be done as, say an appendix.

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- The worked examples should include the requisition and self-lay costs side by side for easy comparison. The benefit of including the NAV costs also could cause some confusion for some customers of smaller developments where, where NAV provision whilst being possible, is unlikely.

Q3: We seek your views on our clarification of the five-year rule. In particular, we would like to know of any potential implications for charges and customers' bills from companies following our interpretation.

We welcome the clarification on setting infrastructure charges in section 4. This clarifies what was a potential ambiguity and we support the forward-looking basis of matching infrastructure charges to network reinforcement costs. We have lowered our infrastructure charges over time to match the network reinforcement costs and we intend to keep tracking this balance on a forward-looking basis. We will therefore not see any potential implications for charges and customers' bills from this clarification.

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Appendix A: Northumbrian Water's Proposed Terminology

Current term	Current Definition	Proposed term	Working Group Proposed Definition	Ofwat Proposed Definition from consultation	Stakeholder & Working Group feedback	Northumbrian (NWG) feedback
N/A	N/A	Administration Fee(s)	The fee(s) associated with general administration activities post cost advice stage, relating to the construction phase, which can include processing of any payments, scheduling works, supervision, project management and processing information into relevant billing/management systems.	"Administration Fee" means the fee associated with general administration activities, after the cost advice stage, relating to the construction phase, which can include processing any payments, scheduling the works, supervision and project management, and processing information into relevant billing/management systems.	<p>While there was little feedback on this term across the board, there was challenge as to the use of the words 'can include'. The working group feel that as this piece of work was concerned with standardisation of terminology, rather than structure of charges, the use of the phrase 'can include' is important to ensure water companies can include some, all or none of the aspects within this term. For example, some companies may split out project management fees into a separate charge element.</p> <p>There was also feedback that the definition should differentiate between administration and site-based activity, such as site visits. The working group would therefore recommend that the definition be amended to:</p> <p>"means the fee associated with general administration activities, after the cost advice stage, relating to the construction phase, which can include processing any payments, scheduling the works, supervision and project management, and processing information into relevant billing/management systems. This would not include site-based activities."</p> <p>Finally, there was feedback that administration fees can be applied for both mains and connections activities. It would therefore be beneficial to split out Mains Administration Fee and Connections</p>	<p>Comments: We agree with the definition but are not in favour of including the last sentence proposed by the Working Group and Ofwat.</p> <p>NWG proposal: "means the fee associated with general administration activities, after the cost advice stage, relating to the construction phase, which can include processing any payments, scheduling the works, supervision and project management, and processing information into relevant billing/management systems."</p>

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					Administration Fee as separate defined terms.	
"Alternative point of connection"	means a location on our water or sewerage network other than the point of connection.	Alternative Point of Connection	The practical location indicated by a Water Company which is neither i) a practical location indicated by the Developer Customer, NAV or Self-Lay Provider nor ii) the nearest practical location where the existing Water Main or Sewer is the same size or larger than the new connecting Water Main or Sewer - furthermore/also consistent with requirements under section 45 and 106 of the Water Industry Act 1991	"Alternative Point of Connection" means the practical location indicated by the Undertaker which is neither i) a practical location indicated by the Developer Customer nor ii) 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>The intention of this term by the working group was to consider the chargeable element, where an alternative point of connection is provided by the Water Company. The feedback given by stakeholders supported the requirement for this, but suggested the current definition is not workable in that context.</p> <p>The working group have reconsidered the definition and would recommend the following definition:</p> <p>"means another location indicated by the Water Company which is neither i) a practical location indicated by the Developer Customer, nor ii) the nearest practical location where the existing Water Main or Sewer is the same size or larger than the new connecting Water Main or Sewer. The alternative point indicated may require network reinforcement which would be funded by the Water Company. The chargeable element for the Developer Customer remains as per the original point of connection."</p>	<p>Comments: We disagree with the inclusion of the words that we have struck through below. The purpose of defining the term is to indicate what the "Alternative Point of Connection" is and should not extend to including commentary on how network reinforcement should be funded in cases where an Alternative Point of Connection is applicable. In our opinion that should either be addressed through a charging rule or, at the very least, explained within companies' Charging Arrangements documents.</p> <p>NWG proposal: "means another location indicated by the Water Company which is neither i) a practical location indicated by the Developer Customer, nor ii) the nearest practical location where the existing Water Main or Sewer is the same size or larger than the new connecting Water Main or Sewer. The alternative point indicated may require network reinforcement which would be funded by the Water Company. The chargeable element for the Developer Customer remains as per the original point of connection."</p>

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<p>"Domestic premises"</p>	<p>means any premises used wholly or partly as a dwelling or intended for such use.</p>	<p>Household Premise</p>	<p>Means any premises used principally as a domestic dwelling or intended for such use, such as a house or flat.</p>	<p>"Domestic Premises" means any premises used wholly or partly as a dwelling or intended for such use, such as a house or flat.</p>	<p>We received some feedback that supports the change to 'Domestic Premise' to maintain continuity of terminology, when considering 'Domestic usage'.</p> <p>However, members of the working group still believe that Household premise alleviates confusion with 'domestic purposes', which can be at either household or non-household premises. The working group originally suggested this change to align with Ofwat's eligibility criteria. We strongly suggest the reintroduction of the Working Group's original proposed term of "Household Premises".</p>	<p>Comment: We would strongly suggest the reintroduction of the Working Group's original proposed term of "Household Premises". The use of "Household" is, in our opinion, more specific to the use of the premises as somewhere that people live i.e. a "house" and avoids potential confusion with other terms such as "domestic usage" and "domestic purposes" which are key in defining how Network Reinforcement is charged for.</p> <p>NWG proposal: "Household Premises" means any premises used wholly or partly as a dwelling or intended for such use, such as a house or flat.</p>
<p>N/A</p>	<p>N/A</p>	<p>Infrastructure Credits</p>	<p>Infrastructure Credits may be applied when there has previously been a billable account on the same site/address. The eligibility criteria and method of calculating Infrastructure Credits is defined in a Water Company's Charging Arrangements.</p>	<p>"Infrastructure Credit" means a credit that may be applied to a billable account at the same site or address as was previously used for another billable account. The eligibility criteria and method of calculating Infrastructure Credits is defined in the Undertaker's Charging Arrangements.</p>	<p>We some feedback on the proposed definition of this term. In general, there was a call for more standardisation of application of infrastructure credits across the industry, with one company specifically calling out the requirement to distinguish between infrastructure credits and water efficiency credits, where the definition can become blurred. The working group agrees with this and has provided a definition for 'Water Efficiency Incentive', however we propose specifically referring to this term in this definition to ensure this difference is clear.</p> <p>Our proposed definition is therefore:</p> <p>"means a credit which may be applied when there has previously been a billable account on the same site/address. The eligibility criteria and method of calculating Infrastructure Credits is defined in the Water Company's Charging Arrangements. This term is autonomous from any incentives applied"</p>	<p>We agree with WaterUK's proposal except for the words we have struck through. Although the last two sentences seek to provide clarity as to what an Infrastructure Credit is not, this clarity could be provided outside of the definition, say in a company's Charging Arrangements by providing methodologies describing how credits and incentives are applied.</p> <p>NWG proposal: "means a credit which may be applied when there has previously been a billable account on the same site/address. The eligibility criteria and method of calculating Infrastructure Credits is defined in the Water Company's Charging Arrangements. This term is autonomous from any incentives"</p>

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					<p>against the infrastructure charge, for water efficiency for example. These are defined in the term 'Water Efficiency Incentive'."</p> <p>While the stakeholder feedback relating to standardisation across the industry is not within the scope of this consultation, we suggest that the application of infrastructure credits by water companies could be addressed by the introduction of a charging rule</p>	<p>applied against the infrastructure charge, for water efficiency for example. These are defined in the term 'Water Efficiency Incentive'."</p>
N/A	N/A	Non-household Premise	Any premises used principally for business purposes, such as an office.	<p>"Non-domestic Premises" means any premises not a domestic premises, being used principally for industrial, business, recreational or community purposes and not as a dwelling, or intended for such use.</p>	<p>We received no feedback on the proposed definition of this term from stakeholders, though one stakeholder supported the broader range provided in the Ofwat definition, as this covers off premises such as charities and toilet blocks, which are not necessarily seen for business purposes.</p> <p>The working group, however, do believe non-household premise is more appropriate as a term as per the response to Household premise, as this is aligned to Ofwat's eligibility guidance.</p>	<p>We strongly suggest the reintroduction of the Working Group's original proposed term of "Non-household Premises". The use of "Non-household" is more specific to the use of the premises as somewhere people do not live. This term avoids the potential confusion with "non-domestic usage" or "non-domestic purposes" which are key terms when defining how network reinforcement is charged for.</p> <p>NWG proposal: "Non-household Premises" means any premises used principally for industrial, business, recreational or community purposes and not as a dwelling, or intended for such use used wholly or partly as a dwelling or intended for such use, such as a house or flat."</p>
"Point of connection"	means the nearest practical location where the existing Water Main or sewer is the same size or larger	Point of Connection	A location which is either i) a practical location indicated by a Developer Customer, NAV or Self-Lay Provider where the existing Water Main or Sewer is the same size or larger than the new connecting main or Sewer or, where they have not indicated a location, ii)	<p>"Point of Connection" means a location which is either i) a practical location indicated by a Developer customer where the existing water main or sewer is the same size or larger than the new connecting main or</p>	<p>We received no feedback on the proposed definition of this term, however given the references to the chargeable element in 'Alternative point of connection', we would recommend that the definition is updated to:</p> <p>"means a location which is either i) a practical location indicated by a Developer customer where the existing water main or sewer is the same size</p>	<p>We disagree with the inclusion of the words that we have struck through below. The purpose of defining the term is to indicate what the "Point of Connection" is, not to extend to include commentary on how network reinforcement should be funded in cases where an Alternative Point of Connection is applicable. In</p>

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	than the new connecting main or sewer.		the nearest practical location where the existing Water Main or Sewer is the same size or larger than the new connecting main or Sewer – furthermore/also consistent with requirements under section 45 and 106 of the Water Industry Act 1991	sewer or, where they have not indicated a location, ii) the nearest practical location where the existing water main or sewer is the same size or larger than the new connecting main or sewer.	or larger than the new connecting main or sewer or, where they have not indicated a location, ii) the nearest practical location where the existing water main or sewer is the same size or larger than the new connecting main or sewer. Should an alternative point of connection be identified by the Water Company, any increase in associated costs would be borne by the Water Company."	our opinion that should either be addressed through a charging rule or, at the very least, explained within companies' Charging Arrangements documents. We agree with the use of the term "Water Company" in place of "Undertaker". NWG proposal "means a location which is either i) a practical location indicated by a Developer customer where the existing water main or sewer is the same size or larger than the new connecting main or sewer or, where they have not indicated a location, ii) the nearest practical location where the existing water main or sewer is the same size or larger than the new connecting main or sewer. Should an alternative point of connection be identified by the Water Company, any increase in associated costs would be borne by the Water Company."
Suggested new terms						
N/A	N/A	Adoption	N/A	N/A	Fair Water Connections propose this term alongside the following definition: <i>"The process by which the water company takes over responsibility for infrastructure such as mains and sewers."</i> The working group have discussed this term and associated definition and support its inclusion. However, where a legal definition, published guidance or industry term is already in use we consider it appropriate to use this definition where possible.	We favour the proposed definition below as it refers to both water and sewerage assets and removes the reference to the ongoing operation of the assets mentioned in the definition which, in our opinion, is superfluous NWG proposal: "The process whereby water or sewerage assets are vested in a Water Company"

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					<p>The working group therefore propose that the Water UK sewers for adoption guidance definition should be used for the term Adoption which is defined below:</p> <p>“the process whereby assets are vested in the water company and subsequently maintained at its expense.”</p>	
N/A	N/A	Non-standard connection	N/A	N/A	<p>Fair Water Connections propose this term alongside the following definition:</p> <p>A service sized above the standard size to accommodate non-domestic usage or to supply multiple properties.</p> <p>The working group supports this term inclusion, however, would propose the following definition to allow for usage type to be either domestic or non-domestic.</p> <p>“A service sized above the standard size as defined by the Water Company.”</p>	<p>We are not in favour of the inclusion of terms such as “standard” and “non-standard” as they are not specific</p>
N/A	N/A	Pre-Development Enquiries	N/A	N/A	<p>Fair Water Connections suggested a potential term, but no definition suggested.</p> <p>The working group support this term being included and would propose the following definition:</p> <p>“A Pre-Development Enquiry can be submitted by a Developer Customer to understand the infrastructure requirements or considerations for proposed developments. The Water Company will provide a report to i) confirm if the development can be supplied with water, ii) capacity within the wastewater network, iii) if any reinforcement work will be required to supply the site together and iv) identifying any existing assets crossing the site which may require diverting or protecting. Where Network Reinforcement is required to supply the</p>	<p>Comments: As Infrastructure Charges are used to fund Network Reinforcement as a consequence of Domestic Usage, there is no requirement to provide costs in such cases.</p> <p>NWG proposal: “A Pre-Development Enquiry can be submitted by a Developer Customer to understand the infrastructure requirements or considerations for a proposed Development allowing the Water Company to i) assess its network capacity to supply water and/or dispose of waste water and ii) to identify any existing assets that may</p>

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					site, the company should provide an indicative capital cost or range of costs for these works.”	require diverting or protecting. Where Network Reinforcement is required because of Non-domestic Usage, the Water Company provides an indicative capital cost or range of costs in its response.”
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