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By email: charging@ofwat.gov.uk.

22 June 2023

Dear Ofwat,

RE: Consultation on changes to our New Appointments and Variations policy and assessment guidance.

Thank you for the opportunity to review and respond to your consultation on the proposed changes to Ofwat's process for assessing applications for New appointments and variations (NAVs). The changes proposed seek to comply with the Strategic Priorities and Objectives Statement to Ofwat issued by the Welsh Government.

The consultation proposes an update to Ofwat's guidance and policy statements which relates to its NAV application assessment process. The proposed changes would place an additional requirement on applicants for New Appointments in Wales to clearly evidence how the applicant serving the site rather than the current incumbent water company would be beneficial to customers.

We acknowledge that the proposed changes refer only to candidate sites in Wales, but Ofwat also seeks stakeholder views on the potential for introducing a similar requirement for applications for sites in England in the future. We outline our thoughts on this below.

Q3. What are your views on introducing a similar requirement for sites in England at some point in the future?

Having reviewed the consultation document, we welcome the proposals to seek evidence from applicant NAVs for sites in Wales that their service will benefit end customers and that Ofwat *"will assess the application to ensure that granting the application will provide a benefit to the end customers and/or the environment"*. We would be happy to discuss how this could also work across England in line with Government's priorities for Ofwat's regulation of the water industry in England, and how the use of markets could deliver better outcomes for customers and the environment.

From an English market perspective, the government's strategic priorities for Ofwat, published in March 2022, requires Ofwat to consider how promoting competition in markets can drive long term, sustainable investment, provide benefits to customers and support government's priorities, namely:

- To protect and enhance the environment by challenging the industry to improve their environmental performance;
- To deliver a resilient water sector plan by challenging the industry to invest in and operate water and wastewater services to secure the needs of current and future customers, and
- To serve and protect customers by providing a better water service for all customers.

Yorkshire Water fully supports and welcomes the opportunity to be involved in any conversation on how the new appointee market is evolving in England. Considering the rate of NAV growth over the last couple of years and that they have a wide geographical coverage across England and Wales, we do believe that Ofwat should consider extending these proposals relating to applications candidate NAV sites in Wales to those sites in England to help facilitate competition that best serves end customers in the new connections, networks, and retail markets that NAVs compete in.

If there is to be a shift from the historical position that aims to 'protect' customers interests when confirming their local monopoly provider i.e., the 'no worse off' principle towards an appointment regime that seeks to 'improve' services and experiences for customers, we believe Ofwat could consider greater alignment and consistency of incentivisation across the above markets between incumbents and new appointees providing network and retail services typically. For example, we

welcome the inclusion of new appointees in Ofwat's current proposals to introduce a new principles based customer focused licence condition and trust this will extend across the suite of associated guidance. This alignment could extend to consistency of reporting performance and customer outcomes around common service standards and support for customers facing challenging vulnerabilities or who are struggling to pay their water bills.

We note these may be beyond the remit of the new appointee application process, but we believe a track record of compliance to such features of the regulatory framework should be a consideration. Or where the new appointee organisation is new to the market in England and therefore unable to demonstrate progress in these aspects, they could be asked to provide some clear evidence that they have created the policies and processes to give the regulator comfort and confidence in their abilities to comply if appointed and serving end customers.

We appreciate Ofwat wishes to maintain a proportionate regulatory burden for new market entrants and NAV organisations due to them being smaller than most incumbents. We also envisage that for a couple more years incumbents may be expected to continue to incur the additional costs to facilitate an effective market for NAVs (billing, client management, regulatory reporting, etc) that will need to be borne in the round by the widest customer base, and not directly by customers of the new appointees. However, from a customer service and value perspective, we would like to see a tangible move by Ofwat towards defining a more common playing field (not necessarily level at this stage) that lays out provisions beyond the Guaranteed Standards Scheme and the obligations of the Water Industry Act and other legal and statutory instruments.

With their multi utility commercial offerings and coverage beyond a single incumbent territory, the advantages many of the current new appointees can bring developers in the new connections market may lead to the drivers for an alternative network/retail monopoly provider being centred on beneficial position for developers above drivers to improve the services or value proposition for end customers, although these are not mutually exclusive.

We would welcome further discussion with Ofwat and NAV organisations to better understand how the regulatory incentives and market arrangements applicable to

independent water companies differ from those of incumbents and where there could be advantages for customers of greater alignment.

Should you have any further questions or require more information please let me know.

Yours sincerely,

A solid black rectangular box used to redact the signature of Colin Fraser.

Colin Fraser
Regulatory Strategy Manager
Yorkshire Water