

United Utilities response to Ofwat's consultation - Changes to New Appointments & Variations policy & assessment guidance – June 2023

United Utilities welcomes the opportunity to comment on Ofwat's consultation on the proposed changes to Ofwat's New Appointments & Variations Policy statement & assessment guidance.

UUW recognises that the principles of competition and markets play a role in raising performance standards and driving efficiency, and that there are opportunities for markets to operate within the water and wastewater sector in order to deliver benefit to customers. We have focused significant effort into putting processes in place, with dedicated resource allocated to dealing with NAVs and the NAV process, and are fully committed to interacting with NAVs effectively to deliver a well-functioning market.

We consider that our contribution has been a positive one, and we have seen a substantial increase in NAV activity in our region in recent years.

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

1. What are your views on the proposed update to our Policy Statement and Application Guidance that would apply to applications for sites in Wales?

To date, United Utilities has had no engagement with NAVs in relation to sites in Wales. However, having reviewed the proposals, we believe that there would be merit in applying the proposals not only in Wales but also in England. This would reflect that it is important to ensure that customers in all regions benefit from the same protections and, where possible, gain from the competitive process.

We are therefore supportive of the proposed update to Ofwat's Policy Statement and application guidance.

In answer to questions two and three we have set out a number of factors that can equally be applied when considering the operation of the NAV market in Wales as well as England.

2. What are your views on how, with respect to this policy proposal, we can best achieve our aim that regulatory burdens are kept to a minimum while ensuring companies deliver the best outcomes for customers?

We share the aim of keeping regulatory burdens to a minimum while achieving best outcomes for customers, but it is necessary to ensure that there is no reduction in protection for either existing customers, or future customers of the new appointee. We do not believe that the proposal would present an unwarranted increase in regulatory burden.

The existing approach to assessment of a new appointment application focuses on ensuring future customers are no worse off, but it is our view that the scope of this is currently too narrow. It does not appear to take into account the full service offering and does not encourage innovation or better performance from new appointees.

We are increasingly dealing with complex scenarios in relation to NAV applications and are experiencing additional costs as an incumbent in managing activity in relation to these activities. We are currently considering the most appropriate mechanism for recovery of the costs in relation to NAV activity, and may introduce additional charges in the future.

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To reduce the regulatory burden as the NAV market matures, it may be appropriate to develop sector guidance and refine application processes at industry level, which could include a shorter application process including consultation. This would provide additional clarity to both incumbents and New Appointees, streamlining and simplifying the process.

Alongside this, additional costs to incumbent companies in relation to NAV activities will increasingly need to be considered in the charging models to avoid the danger of cross subsidies between incumbent customers and NAV customers.

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

UW's activity in relation to market development has been supportive of securing the best interests of customers. We believe that customer experience should always be at the heart of decision making. The existing approach to assessment of applications for New Appointments ensures that developers can enjoy the benefits of this competitive market but the potential benefit for end customers is sometimes less obvious. By end customers, we are referring to the eventual household or non-household customer rather than the developer or SLP.

We would welcome any improvement that recognises the evolution of this market and enables it to extend the benefits of a competitive market to end user customers.

We note that in the consultation it is stated that:

'...They [New Appointees] typically compete with the large (incumbent) water companies to lay the water and wastewater infrastructure for new housing developments (the new connections market).'

We do not believe this is the case in the North West region, where the vast majority of new mains are laid by Self Lay Providers and, in fact, many NAVs appoint the same SLPs to lay mains on their behalf. New appointees typically compete for ownership of assets rather than their construction, and sometimes not even that.

For a number of sites the New Appointee does not own any assets, such is the case with apartment blocks and industrial sites. In these cases it is less obvious how tangible benefits of the new appointment are realised for developers and end customers.

Further consideration needs to be given to ways in which incumbents and NAVs can best work alongside each other while providing the best service to customers. The way the market and current regulation has evolved means that there can be disadvantages.

Some examples:

- Reduced strategic consideration of the interaction between developments and the need to ensure resilience in our networks. For example, it may be beneficial to upsize the capacity of a sewer to allow for expected future development beyond the site under consideration. This wider planning is complicated where neighbouring New Appointees are making separate decisions based on the needs of an individual site.

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- It is often beneficial to connect a new development to existing water or wastewater assets at multiple points to increase the resilience of the network as a whole. It is unclear how this can effectively be achieved without increased costs for the incumbent including complicated agreement arrangements.
- Where larger developments, such as garden villages, are parcelled up by landowners, this can lead to many individual developments (and developers) creating a patchwork quilt of infrastructure owned and operated by different parties in line. This may lead to complex back to back arrangements, or unnecessary duplication of assets.
- A greater number of parties are often involved in the delivery of developments with a greater number of handoffs and the potential for rework, confusion and inefficiency in the application process. In addition once appointed the presence of NAVs alongside incumbents can create confusion for the end customer that needs to be appropriately mitigated.

Alongside pricing considerations, measures should also be required to ensure that the service a customer receives from a new appointee is also at least equivalent to those provided by an incumbent water company. The premise of 'no worse off' needs to be broadened to ensure that the assessment criteria is suitably robust. This assessment should include consideration of customer service, incident response and all elements of service provided, alongside consideration of price.

We welcome a wider view of what is considered to be a customer benefit, and believe this will provide encouragement to seek new, more efficient ways of delivering services for customers, and for the benefit of the environment.

We would broadly support the proposal to include a requirement that applicants must clearly evidence how the applicant serving the site rather than the current incumbent water company would be beneficial to end customers.