

# Development Services: Charging arrangements consultation

September 2021



## We'd love to hear from you

Each year we publish our Development Services' charging arrangements for the services that we offer to enable growth in our region. This includes undertaking pre-development capacity assessments, new connections, new main designs and their construction, vetting and adopting third party drainage infrastructure, and the support services that we offer to New Appointments and Variation (NAVs) companies and accredited Self-lay providers (SLPs).

On occasions, Ofwat will update their rules for how the Water Industry should charge their customers. Most recently, Ofwat have updated their rules for charging Developers that impacted charging arrangements in 2018 and 2020. Ofwat have recently reconsulted on additional changes to their rules which impact charging arrangements from 2022 onwards.

We recognise the value of getting the views and opinions of as many of our customers as possible. Through listening to what you tell us, it helps us understand your needs which helps us identify the best way to create and set our charging arrangements.

As a customer who we've worked with previously on a development project, we'd like your feedback so we can continue to evolve our services in line with charging rule changes.

## What happens next?

This consultation will be made up of 3 stages:

### **Phase 1:** Consultation opens on future charging arrangements

Launching in September 2021, we're asking our customers their views on the core principles we use to develop our charging arrangements.

### **Phase 2:** Working together

In October 2021 we'll run online webinars with customers to get more detailed thoughts and feedback on the suggested changes and how we balance charges against these core principles.

### **Phase 3:** Publishing our plans

Finally, we'll share with you our proposed changes for how we'll approach our charging arrangements before we issue the 2022-23 charges toward the end of this financial year.

## How to give us your views

Our consultation covers 6 areas and should take around 5 minutes to complete.

The consultation is available online using Microsoft Forms and is open until **1st October 2021**


You can find the consultation and give us your thoughts [here](#).

We'll publish an anonymous summary of the feedback we receive on our website and use it to shape our future charging arrangements.

If you have any questions on this consultation or wish to provide more feedback on your experience of our charging arrangements or working with us, please email [dmex@anglianwater.co.uk](mailto:dmex@anglianwater.co.uk)

Thank you for your time and feedback.



Scan me  
to add your views 

## Current principles and background to Developer Charging

The Water Act 2014 provides Ofwat with the powers to develop and update Developer Services charging rules. In 2018, Ofwat introduced new rules that govern the charges Water Companies can impose when providing new connection services to customers.

The Charging Rules for New Connection Services (English Undertakers) replaced the charging arrangements that were previously set out in the Water Industry Act of 1991 (WIA91).

Under these new rules, companies are required to determine charges in accordance with the following principles:

1. fairness and affordability;
2. environmental protection;
3. stability and predictability; and
4. transparency and customer-focused service.

In setting these four principles, Water Companies were required to maintain their pre-2018 balance between what the developer and other customers contributed towards the costs of providing infrastructure. In 2018, the drive was to maintain bill stability during a large transitional period.

To maintain our balance, we used an “Income Offset” value. This offset reduced the charge that developer customers faced when requisitioning a new Housing Estate Main. This directly replicated the pre-April 2018 charging regime that placed a duty on us to offset future income from our price of providing a new Housing Estate Main.

In 2019, Ofwat consulted the industry on improving fairness of charges to a wider group of customers, including Self-lay, NAV and Offsite New Connection customers. As our Income Offset was only applied to those developers who needed a new Housing Estate Mains it predominately benefited larger house developers only.

Following the 2019 consultation, we moved the Income Offset on to the Infrastructure Charge, which every customer paid. For simplicity, we renamed the Income Offset as the “Infrastructure Credit”. From April 2020, every New Connection customer, regardless of size or customer type, paid a one-off Infrastructure Charge and received a one-off Infrastructure Credit. In 2020/21, the Infrastructure Charge was £340, and the Infrastructure Credit was £400.

## Ofwat's additional principle of cost reflectivity



Ofwat have started a consultation ahead of making changes that will impact how Water Companies charge developer customers from 2022/23.

The aim of these changes is to make sure that the Water Companies charging arrangements should meet the Department for Environment, Food and Rural Affairs (Defra) guidance to Ofwat that developer charges should:

- Reflect costs, support fairness and affordability across companies' different sets of customers;
- Be transparent, benefit customers and, by supporting markets, offer developers greater choice;
- Incentivise developers and third-party providers to help meet long term challenges, particularly through developing water efficient new homes and sites with sustainable drainage.

Ofwat are proposing to add a fifth Charging principle that requires our charges to reflect the cost of the service being provided.

From April 2022, the five principles that Water Companies must balance are:

1. fairness and affordability;
2. environmental protection;
3. stability and predictability;
4. transparency and customer-focused service; and
5. reflect cost of the relevant service.

We are therefore consulting you, our customers, on how you would like to see us balance these five principles.

## Here's what we're proposing in response to these changes



We're considering four separate changes to our charging arrangements. These are designed to make sure that we carefully balance Ofwat's five principles of charging.

### The four changes being proposed are:

- **New Connections.** We're considering moving to granular costs and removing average charges.
- **Application Fees for New Connection.** We're considering applying an upfront fee for providing cost advice on New Connections.
- **Design Service.** We're considering introducing a service for undertaking an onsite water main design on behalf of a developer, self-lay or NAV company.
- **Self-Lay offsite rate.** We're considering introducing a new charging rate for supporting offsite Self-lay connections.

As part of this consultation, we're also keen to hear how you would balance the five principles and how you believe we can best provide financial or non-financial incentives to deliver long-term environmental protection.

On the following pages we outline these changes in more detail and the specific questions we'd like your views on.

## Section 1: New Connection Charges

Our New Connection charges are currently based on the average cost of carrying out the work. During our previous consultation, stability and predictability came through very strongly in your responses and we have grouped the typical connection types into four bands. These bands make it simpler for you to categorise your connection and having a single average connection cost per group makes it easier to predict your price. The groups we use are:

**Onsite Connection.** This is the supply connection made to a newly constructed water main that has been provided specifically for this development. The water supply pipe and water main in this category are typically located on land owned and being developed by the housing developer.

**Offsite near-side connection.** This is a water supply connection being made to an existing water main located in a street. A near-side connection is where your supply pipe and our water main is located on the same side of the road. Routinely this work requires us to lay 5m of pipe from your supply pipe to our water main. We charge a fixed average price for a connection in this category regardless of whether we need to provide 1m or 5m of service pipe.

**Offsite far-side connection.** This is a water supply connection being made to an existing water main located in a street. A far-side connection is where your supply pipe and our water main is located on opposite sides of the road and we need to lay a length of service pipe across the road. Routinely this work requires us to lay over 5m but less than 18m of pipe between the supply pipe, laid by yourself, and our water main. We charge a fixed average price for a connection in this category regardless of whether we need to provide 5m or 18m of service pipe.

**Offsite Connection over 18m.** Should the trench to lay the supply pipe between your supply pipe and our water main be greater than 18m, then we will charge you the price of an offsite far-side connection plus an additional charge per extra metre of pipe we lay. This additional cost will be set based on the type of dig required (e.g. unmade land or carriageway).

Whilst we believe that this banding system provides you with an easier method to predict your cost, it does not necessarily comply with the new principle to provide a charge where the cost reflects the relevant service being undertaken. In this case, an offsite far-side connection would have the same average charge irrespective of whether we construct a 6m or 18m trench.

**What we're proposing:**

We're considering removing the average charging system for our offsite connections and creating a single linear price that is based on a per-metre rate. The offsite connection would then be based on granular costing set using the length of supply pipe needed, the ground type we need to dig through and the diameter of the pipe.



**Question one:**

Do you believe we should charge a set price per metre for offsite connections, or should we maintain our bandings?

Do you believe that there is an alternative way to charge for a New Connection that balances Ofwat's five principles?



## Section 2: Application Fee for a New Connection

Our current charging arrangements do not require you to pay an application fee when you first apply for a New Connection. Following this application, we provide you with cost advice on the complexity and likely cost for undertaking your connection. At this point, you can choose to proceed with the connection or not.

We have a percentage of applications that do not proceed past this stage meaning we don't currently recover the cost of preparing this cost advice for new connections that don't go ahead.

The cost to complete this is then borne by other customers whose projects continue past initial application and cost advice stage.

### What we're proposing:

We're considering introducing an Application Fee. This would cover the cost for providing you with your cost advice. This fee would need to be paid at the same time as the initial application.

This fee would cover our costs for undertaking the work necessary to provide customers with their cost advice. This includes reviewing and acknowledging their application, validating the information to ensure it is complete and undertaking a desktop survey. The cost advice will then provide the information on the work required to undertake the connection including the cost and traffic management requirements.

We are aware that in some cases people use our cost advice to help plan and predict their likely costs. To continue providing this valuable service and support these customers, we will continue to provide an online calculator and tools that will allow people to budget for the work.

Should you proceed with your New Connection then we intend to use your Application Fee as pre-payment towards the final charge. Therefore, you will pay the same regardless of whether we introduce an Application Fee or not.

If an applicant doesn't proceed with the connection, a customer would only pay the initial Application Fee, which will be priced to recover the cost of our initial work.



### Question two:

Do you support the introduction of an Application Fee for providing cost advice?

## Section 3: Design Service for New Water Mains

We currently levy a design deposit to recover our cost of designing a water main. Should you proceed with the work then the deposit is offset against the cost of delivering the scheme. We believe that our design fee process is overly complex and doesn't serve the wider needs of our customers.

### What we're proposing:

We're considering introducing a service for providing Designs for New Water Mains.

We believe a simpler option is to provide our design services to customers who are wanting to construct the water mains but may not be able to procure a design. We think that this will help us support the emerging competitive market, and specifically, our Self-lay and NAV customers.

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### Question three:

Do you support the introduction of a design-only service for providing accredited or appointed businesses with a designed layout for constructing against on their housing estate mains on new developments?



## Section 4: Offsite New Connection Rate for Self-Lay Providers

Currently, there are no rates in our published charging arrangements to support Self-Lay Customers undertaking offsite New Connections. We currently provide the rate for undertaking onsite connections and all charges are set against this.

### What we're proposing:

We're considering introducing a new rate to support Self-Lay Customers undertake offsite connections.

We're considering introducing this new rate so that our charges better reflect the cost of providing the relevant service. There are differences between onsite and offsite connections, and we believe that there should be no cross-subsidisation across the two separate processes.

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### Question four:

Do you support the introduction of an offsite New Connection Rate for supporting self-lay companies?



## Section 5: Balancing Ofwat's Five Principles of Developer Services Charging

We're looking for your opinion on how we can best balance Ofwat's five principles.

These principles are:

1. fairness and affordability;
2. environmental protection;
3. stability and predictability;
4. transparency and customer-focused service; and
5. reflect cost of the relevant service.

These principles aren't always easy to balance. For instance, the fairest way to charge is to price each job specifically on the cost for undertaking the work, including factoring in sudden changes in material costs. However, whilst fair, it means that the cost is neither stable nor predictable.

We'd like to hear from you on how you would balance each principle and, specifically, how you would rank them in their importance to you. We'll use this information to help us understand how best to create our charges.



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### Question five:

In order from most important to least important, how would you rank each principle?

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## Section 6: Environmental protection

One of Ofwat's principles is to make sure that our charges provide environmental protection. We would be keen to hear from you, how you think we can best make use of this provision in our charges.

Ofwat recently consulted Water Companies and the wider Developer community on the Balance of Developer Services Charges. One of their suggestions was that the Income Offset (equivalent to the 2021-2022 Infrastructure Credit of £402 per connected property) could be used to incentivise developers to provide environmental protection.

We'd be keen to hear your ideas on how we could support the wider environment. Do you believe that we could use some or all of the Infrastructure Credit to support developments that provide specific environmental initiatives or achieve specific environmental credentials?

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### Question six:

Do you believe that we should use some or all the Infrastructure Credit, currently used to offset your overall charges, to help facilitate or incentivise environmental initiatives?

### Question seven:

What environmental incentives or measures do you think we should consider in the future (either through financial incentives/Infrastructure Credit or via another means).



## Additional notes



Anglian Water is the largest water and water recycling company in England and Wales by geographic area. We supply water and water recycling services to almost seven million people in the East of England and Hartlepool. Our region stretches from the Thames to the Humber Estuary and Northampton to Norwich.

We also supply water to the Hartlepool region. Because of our region's size, we run more water and water recycling treatment works than elsewhere - 1,257 - which is around a quarter of all the works in England and Wales.

We're also one of the driest regions in the country; with just 600 millimetres of rain each year, we receive on average, a third less than the rest of England. As a result of this combined with low lying and long coastline, the challenges we face around climate change are substantial.

## Growth in our area



Our region is one of the fastest growing in the country. Growth projections exceed 175,000 new homes over the next five years – without factoring in the proposed Oxford-Cambridge Arc. By 2040, the region's population may grow by a further million people, and growth is most likely in areas where supplies are most stretched, the environment is under most pressure and the risk of flooding is greatest. We need to facilitate sustainable growth with timely and efficient delivery of infrastructure and services.

Our region expects rapid economic and housing growth over the next 25 years and beyond with one in five of new homes in England being built in our region. In our 5 Year Planning Period from 2020 we are planning for 200,000 new homes to connect to our sewer network and about 180,000 will connect to our water network. We must play our part in facilitating sustainable growth with timely and efficient delivery of infrastructure and services.

To enable this growth, we're investing to improve capacity in our sewerage network, including Sustainable Urban Drainage Systems (SUDS) and on new and existing water infrastructure for new homes. We're working with our customers to manage demand for both water and drainage to help make this growth sustainable.

We want to enable sustainable economic and housing growth in the UK's fastest growing region, in fact it's one of our four long term ambitions. Enabling growth sustainably will allow us to deliver on our company purpose, of bringing environmental and social prosperity to the region we serve through our commitment to Love Every Drop.

To this end we are finding better ways to coordinate planning with local authorities and developers to identify areas where demand for our services will increase, and ways of incentivising developers to build in a way that minimises the impact on demand and the environment.

**We work with our customers, stakeholders and partners to enable sustainable, economic and housing growth in the UK's fastest growing region, to embed water and resilience at the heart of growth and development in the East of England.**

## How we're regulated

We're regulated by the Water Services Regulation Authority, more commonly known as Ofwat. Ofwat are responsible for the economic regulation of the water industry, protecting the interests of consumers, promoting competition and ensuring the industry carries out its functions. For developer services, Ofwat promotes effective operation of the market and they have the power to set charging rules and determine disputes between parties.