

Development Services:

Charging arrangements consultation

Phase 1 | December 2021



1. Development Services: Charging arrangements consultation

1.1 Our consultation process

Each year we publish our Development Services' charging arrangements for the services that we offer to enable growth in our region. On occasions, Ofwat will update their rules for how the Water Industry should charge their customers. 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 in our consultation process, it helps us understand your needs which helps us identify the best way to create and set our charging arrangements.

The consultation is made up of 3 stages:

Phase 1: September 2021: Consultation opens on future charging arrangements

Launching in September 2021 we asked our customers their views on the core principles we use to develop our charging arrangements through an online survey that has now closed. Thanks to everyone who took the time to complete our survey.

Phase 2: November 2021: Working together

In early November 2021 we ran online webinars with customers to get more detailed thoughts and feedback on the suggested changes and how we balance charges against these core principles. You can view our webinar session [here](#).

Phase 3: November 2021 onwards: Publishing our plans

This phase is currently ongoing as we reflect on the feedback received in Phase 1 and 2 and re-examine our charging arrangements. Once completed, we will provide our customers with indicative charges through a number of worked examples.

We aim to have Phase 3 completed in December 2021 with a view to publishing our final charging arrangements for 2022-2023 period by the end of January 2022.

2. Phase 1 of our consultation

Our September consultation reflected on our charging arrangements within the landscape of Ofwat's principle-based charging rules and the addition of a new fifth principle that requires our charges to reflect the cost of the relevant service.

In examining our charges against this change, we held an internal review of all of our current charges. This review examined whether our charges were still fit-for-purpose, whether they promoted a healthy and active competitive market, and whether they met Ofwat's five principles of:

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.

2.1 Proposed Changes

Following this review, we proposed to engage with our customers on introducing changes to four areas within our charging arrangements, designed to make sure that we carefully balance Ofwat's five principles of charging.

These were:

- [New Connections.](#)
We proposed moving to granular costs and removing average charges.
- [Application Fees for New Connection.](#)
We proposed applying an upfront fee for providing cost advice on off-site water connections.
- [Design Service.](#)
We proposed 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 proposed introducing a new charging rate for supporting off-site Self-lay connections.

In addition to the four proposed changes, we also asked our customers to consider the principle of Environmental Protection and how we could implement either a financial or non-financial incentive aimed at delivering long term sustainable growth. Finally, we asked our customers to consider Ofwat's five principles and to rank them based on their importance from highest to lowest.

2.2 Customer Segmentation

As part of the consultation, we contacted 900 customers using a variety of communication channels including email, text message and directly through phone calls. Of the 900 customers, we received a response from 7%.

Within the online survey, we asked our customers to select a profile that best represented who they are and what their needs are when working with us. When reflecting on the proposed changes, it's important to make the distinction between a customer constructing a single dwelling has and a National House Developer constructing thousands of houses per year.

The profile groups were:

1. Building Enabler (Consultants, Contractors, Architects)
2. Homeowner (New build or extension)
3. New Appointments & Variation (NAV)
4. Self-lay Provider (SLP)
5. Land Developer/Promoter
6. Major House/Commercial Developers
7. Small Building Business

We used the segmentation to look at the separate responses against each proposal. For each response, we split customer responses into two groups:

8. Customer types most impacted by the changes (Group 1).
9. All other customer types who were less impacted by the changes (Group 2).

3. Customer responses to our proposed new charging arrangements

3.1 Proposal one: New Connection Charges

3.1.1 Current charging arrangements

Our New Connection charges are currently based on the average cost of carrying out the work grouped into four bandings. These bandings 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).

3.1.2 Proposed charging structure

We proposed to remove the average charging system for our off-site connections and create 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.



The question that we asked was:

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

Option 1: Granular Costs

Option 2: Banded Costs

3.1.3 Customer comments

We split out customers into two main groups.

Group 1: Building Enablers, Homeowners and Small Building Businesses customers. These customers are most likely to undertake an off-site new connection. Their results are in Figure 1a.

Group 2: Major House and Commercial Developers. These customers are most likely to undertake an on-site new connection. Their results are in Figure 1b.

Granular versus average costs

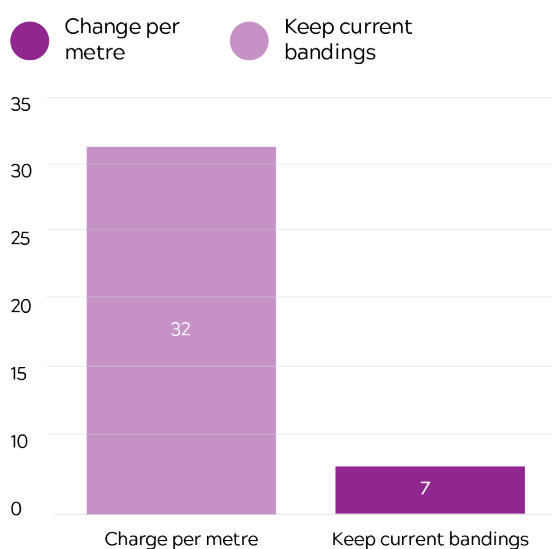


Figure 1a
Showing our Group 1 customers

Granular versus average costs

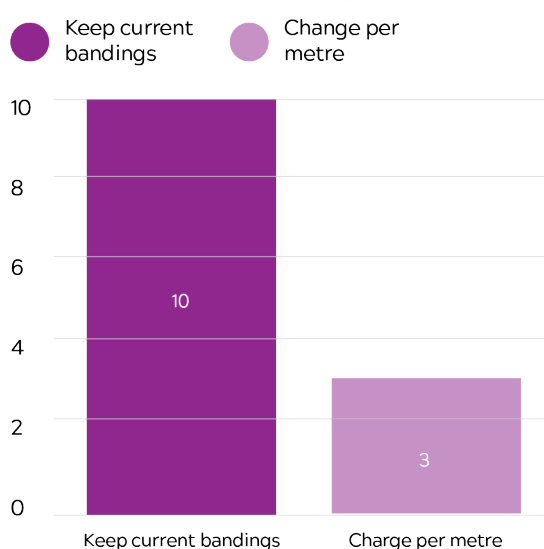


Figure 1b
Showing our Group 2 customers

It can be seen from the results that Group 1 customers favour making the change to a more granular costing arrangement. Group 2 customers however favour maintaining the current banding arrangement.

3.1.4 Our updated proposal

As part of our 2022-2023 charges we are minded to:

1. Maintain our method of determining the charges for on-site connections.
These favour Group 2 who wanted to maintain the current structure.
2. Change our off-site water connection charges to:
 - A fixed cost for the first 5 metres.
 - A fixed cost for every metre greater than 5 metres.

3.1.5 Phase two summary following webinar

We presented our original and updated proposal at our customer webinar on 2nd November 2021. There were no comments made regarding our updated proposal.

3.1.6 Next steps

We will be looking to implement the proposed changes in our April 2022 charging arrangements. These will be published in January 2022. We will also provide further information with worked examples as part of Phase 3 of our consultation.

3.2 Proposal 2: New Connection Application Fee

3.2.1 Current charging arrangements

We currently do not charge an application fee for providing cost advice for a new water connection. Our cost advice is designed to provide the customer with information on the complexity and likely cost for connecting their property. Once the cost advice is published, a customer can choose whether to proceed with the water 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

This in turn does not meet the fairness and affordability principle.

3.2.2 Proposed charging structure

We're considering introducing an application fee for new off-site water connections. This would cover the cost for providing cost advice. This fee would be paid at the same time as the initial application.

The fee would cover the cost of:

- Reviewing and validating applications;
- Hydraulic modelling (where required);
- Digital survey;
- Determining likely cost; and
- Providing cost information

We are aware that that people use our cost advice to help plan and predict their costs. In some cases, these customers are not wanting to start the process of making a formal application but are looking to understand their costs. We therefore provide an online calculator that allows people to budget for their new build project.

We are proposing to treat the New Connection application fee as pre-payment towards the final charge. Any customer proceeding with their application will pay the same cost regardless of whether we introduce an application fee or not.



The question that we asked was:

Do you support the introduction of an application fee for providing cost advice?

Option 1: Yes

Option 2: No

3.2.3 Customer comments

We split out customers into two main groups.

- Group 1:
Building Enablers, Homeowners and Small Building Businesses. These customers are most likely to undertake an off-site new connection and pay the application fee. Their results are in Figure 2a.
- Group 2:
Major House and Commercial Developers. These customers are most likely to undertake an on-site new connection as part of a Water Main application. Their results are in Figure 2b

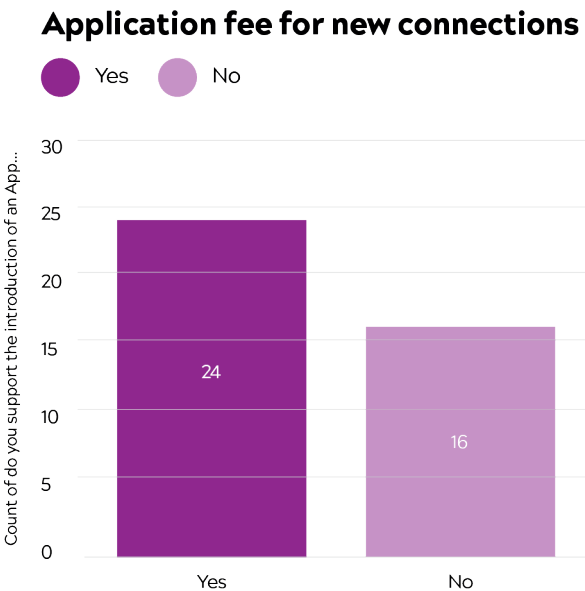


Figure 2a
Showing our Group 1 customers

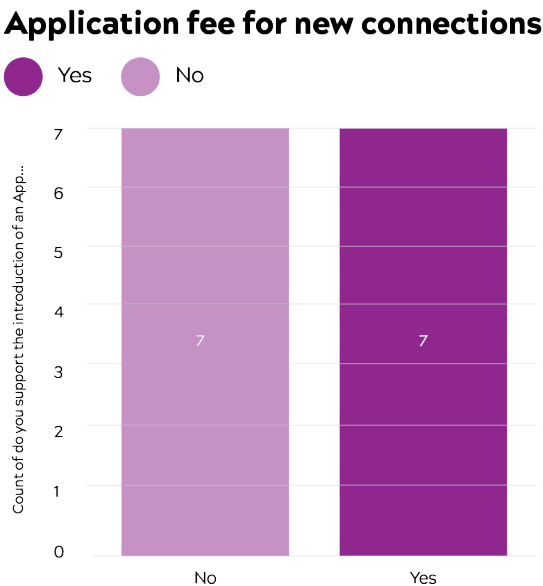


Figure 2b
Showing our Group 2 customers

It can be seen from the results that our Group 1 customers favour an application fee. Group 2 customers did not show a preference.

3.2.4 Our updated proposal

We will introduce an application fee for off-site water connections. The fee will recover our cost for providing cost advice and be treated as a pre-payment towards the total cost of the water connection. We will also maintain our new water connection cost calculator.

3.2.5 Webinar feedback

We presented our original and updated proposal at our customer webinar on 2nd November 2021. There were no comments made regarding our updated proposal.

However, several customers appeared keen to understand more about our water connection cost calculator. We will therefore consider how we can further adapt the usefulness of this calculator to support a wider customer base.

3.2.6 Next steps

We are looking to implement the proposed changes. These will be published in January 2022 three months before they are implemented. We will provide further information on the new charges in Phase 3 of our charge's consultation.

The changes will require software development on our online customer portal. We are currently consulting our software development partners and we may look to introduce our proposed changes from April 2023.

3.3 Proposal 3: Design service for new water mains

3.3.1 Current charging arrangements

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

Proposed charging structure

We're proposed introducing a service for providing designs for new water mains. This would allow us to provide an applicant with a fully designed water main. This design could then be constructed by third party self-lay company or NAV. We believe that this would help support a stable and competitive market for contestable services.



The question that we asked was:

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?

Option 1: Yes

Option 2: No

3.3.2 Customer comments

We split out customers into two main groups.

- Group 1:
NAVs and Self-lay customers. Their results are in Figure 3a.
- Group 2:
Building Enablers, Homeowner, Land Developer/Promotor, Major House/
Commercial Developers and Small Building Business. Their results are in Figure 3b.

Design service

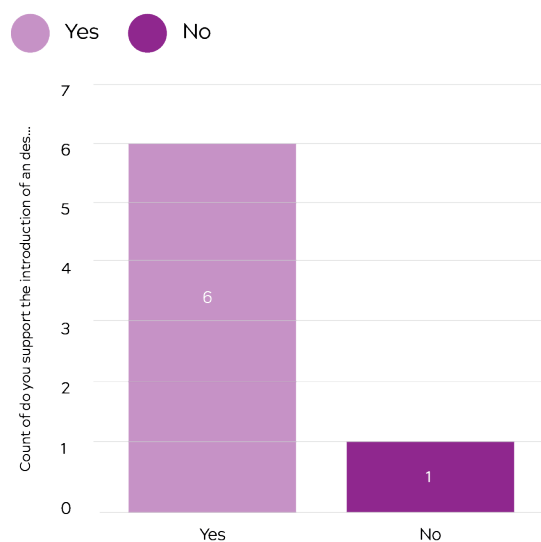


Figure 3a
Showing our Group 1 customers

Design service

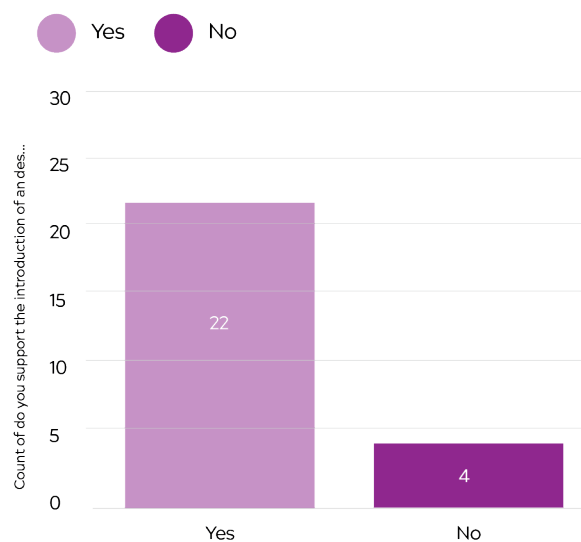


Figure 3b
Showing our Group 2 customers

It can be seen from the results that all customer types favoured the introduction of a simplified design-only service.

3.3.3 Our updated proposal

Following positive customer feedback to our proposal we are looking to introduce a design fee.

3.3.4 Webinar feedback

We presented our original and updated proposal at our customer webinar on 2 November 2021. There were no comments made regarding our updated proposal.

3.3.5 Next steps

We are looking to implement the proposed changes. These will be published in January 2022 three months before they are implemented. We are will provide further information on this charge and the process in our Phase 3 engagement.

3.4 Proposal 4: Offsite new connection rate for Self-Lay Providers

3.4.1 Current charging arrangements

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. Proposed charging structure

We're considering introducing a standalone rate to support self-lay customers undertaking offsite connections. We believe that this new rate will further support the presence of the contestable market and reflect the cost of providing the relevant service.



The question that we asked was:

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

Option 1: Yes

Option 2: No

3.4.2 Customer comments

We split out customers into two main groups.

- Group 1:
Self-lay customers. Their results are in Figure 4a.
- Group 2:
All other customer types. Their results are in Figure 4b.

Self-lay rate

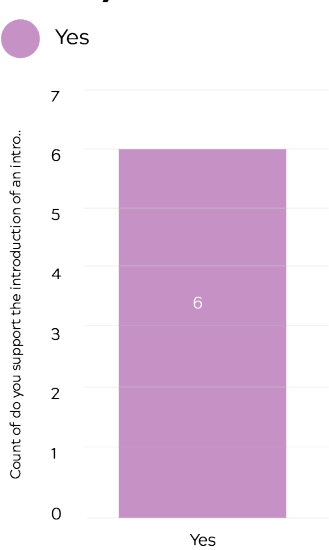


Figure 4a
Showing our Group 1 customers

Self-lay rate

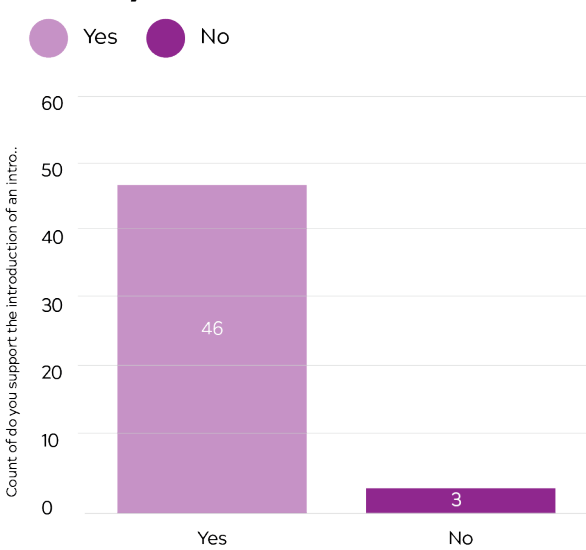


Figure 4b
Showing our Group 2 customers

Group 1 customers unanimously supported our proposal. In addition, the majority of our other customer types also supported our proposal.

3.4.3 Our updated proposal

Following a positive customer feedback to our proposal we are looking to introduce an offsite connection fee for self-lay companies.

This arrangement will be provided in our charging documents in a manner that is accessible to all of our customers. This will be supplemented by clear information in our cost advice which will set out what is contestable and non-contestable. We believe that this will help support our customers when making their decision.

3.4.4 Webinar feedback

We presented our proposal at our customer webinar on 2 November 2021. There were no comments made regarding our updated proposal.

3.4.5 Next steps

We will be looking to implement the proposed changes in our April 2022 charging arrangements. These will be published in January 2022. We will also provide further information with worked examples as part of Phase 3 of our consultation.

4. Additional Questions

In addition to our four proposals, we asked for feedback on two other areas to help steer balancing our charging arrangements against the five principles. The first was on environmental protection and we sought information on how we can better support our customers in delivering sustainable growth. The second was on Ofwat's five charging principles and we asked our customers to rank these principles in order of importance to them.

4.1 Environmental Protection

4.1.1 Background

One of Ofwat's guiding principles is to ensure our charges provide environmental protection. This principle is different to the four others as it relates to the impact from the work we do rather than the financial impact on our customers. Ofwat recently consulted water companies and the wider developer community on the balance of Developer Services charges. One of their suggestions was that Income Offset, what we currently term Infrastructure Credit, could be used to incentivise environmental protection. Prior to April 2020, we waived our infrastructure charge when a customer could show that their project provided a level of water efficiency. We saw a very low take up of this offer and we withdrew it. This current charging consultation offered us an opportunity to revisit how we approach environmental protection as well get the opinion of our customers.

4.1.2 Customer Engagement



The question that we asked was:

Question 1:

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?

Option 1: Yes

Option 2: No

Question 2:

What environmental incentives or measures do you think we should consider in the future (either through financial incentives/infrastructure credit or via another means)?

4.1.3 Customer Responses - Question 1

We did not separate our customers into different segmentations.
The overall results from our customers are seen in Figure 4.1 .

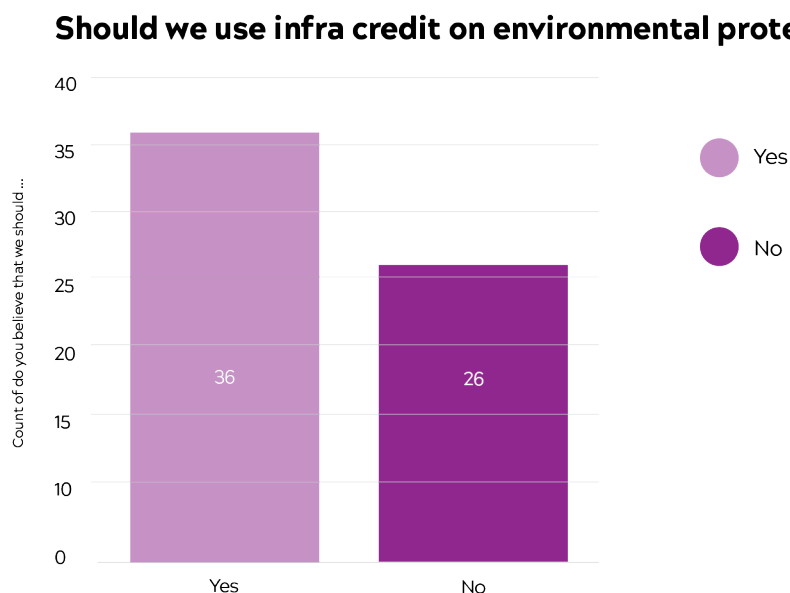


Figure 4.1

Figure 4.1 Customer responses to whether Income Offset should be used to facilitate Environmental Protection.

Most of our customers responded in a positive manner to the question.
However, there was a small overall majority compared to our other consultation responses.

4.1.4 Customer Responses - Question 2

Whilst there was no common theme, comments gathered included wanting us to support developments on rainwater harvesting and SUDs schemes. There were also some non-financial responses asking us to collaborate with other parties on environmental initiatives as well as provide embedded carbon on all our designs.

4.1.5 Our takeaway on Environmental Protection

We are currently reflecting on comments and looking at how we can take your ideas forward. We are also keen to explore how we can provide embedded carbon data in a manner that would provide relevance to your overall environmental commitments. To support this, we are considering working with some of our larger house or land developers to undertake a trial.

4.2 Balancing the 5 principles

4.2.1 Background

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

These principles are:

- Fairness and affordability;
- Environmental protection;
- Stability and predictability;
- Transparency and customer-focused service;
- Reflect cost of relevant service

These principles aren't always easy to balance. For instance, a charge that is predictable may not be fair. For instance, setting our charges in bands based on average cost allows our customers to predict their cost however it also means that some customers are over or under charged for the specific work that we undertake.

Asking our customers to rank the five principles in order of importance allows us to have a good understanding of how we can balance our charges in a way that our customers would prefer them to be balanced.

4.2.2 Customer Responses

Almost half of our customers selected Fairness and Affordability as their number one priority. A third selected the new principle of having charges that reflect the cost. The data is provided in Figure 4.2a.

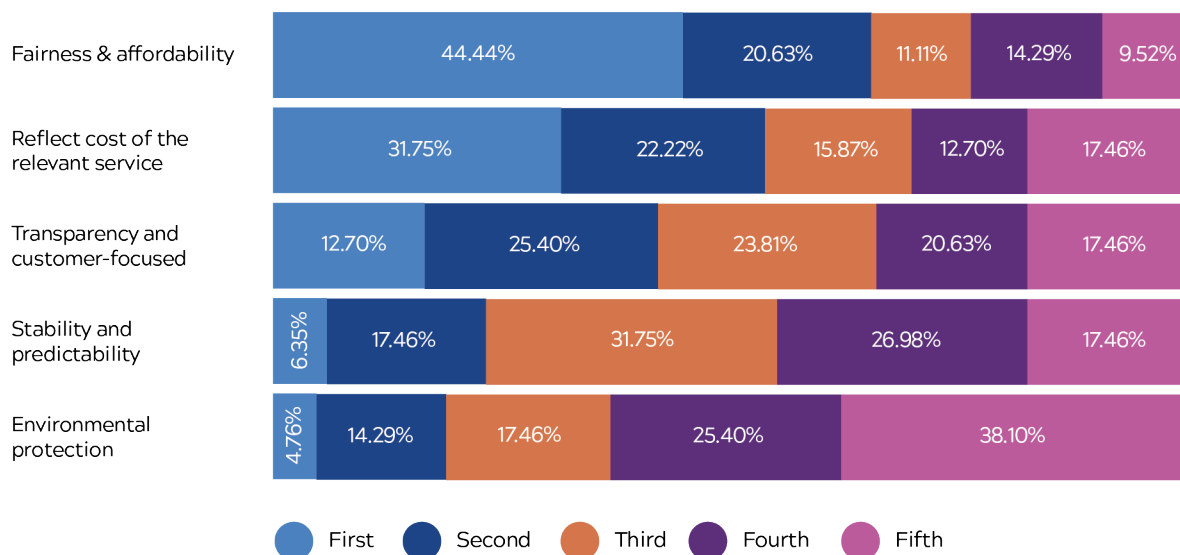


Figure 4.2a Showing the ranking of each principle across all our customers.

In most cases, each customer segment aligned with the overall picture. However, two groups had slightly different responses. These were Major Housebuilders & Land Developers, and Self-lay & NAV customers (Figure 4.2b and 4.2c respectively).

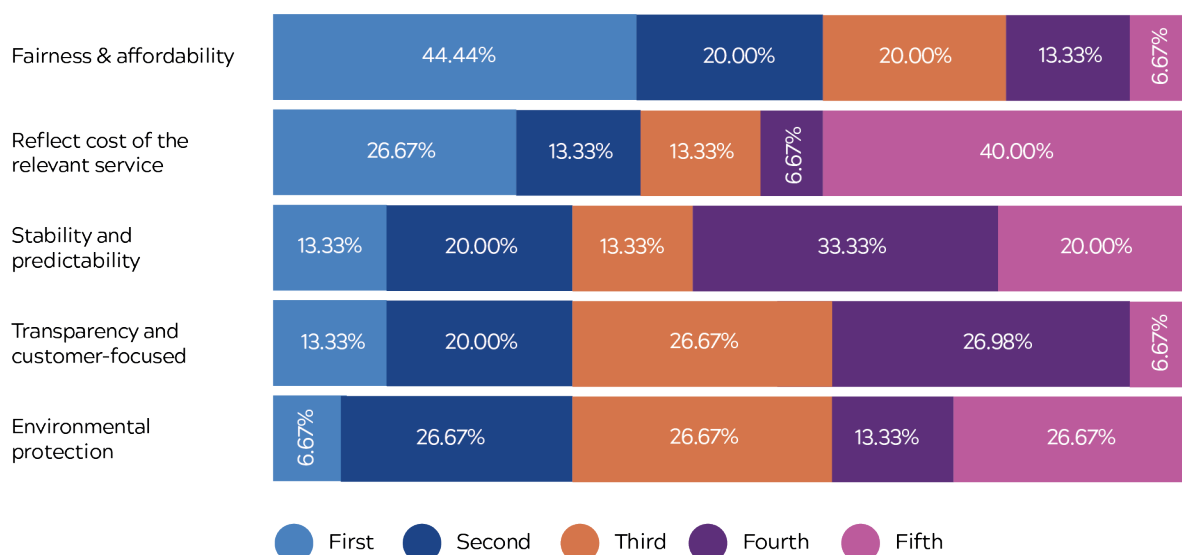


Figure 4.2b
Major House/Land Developers

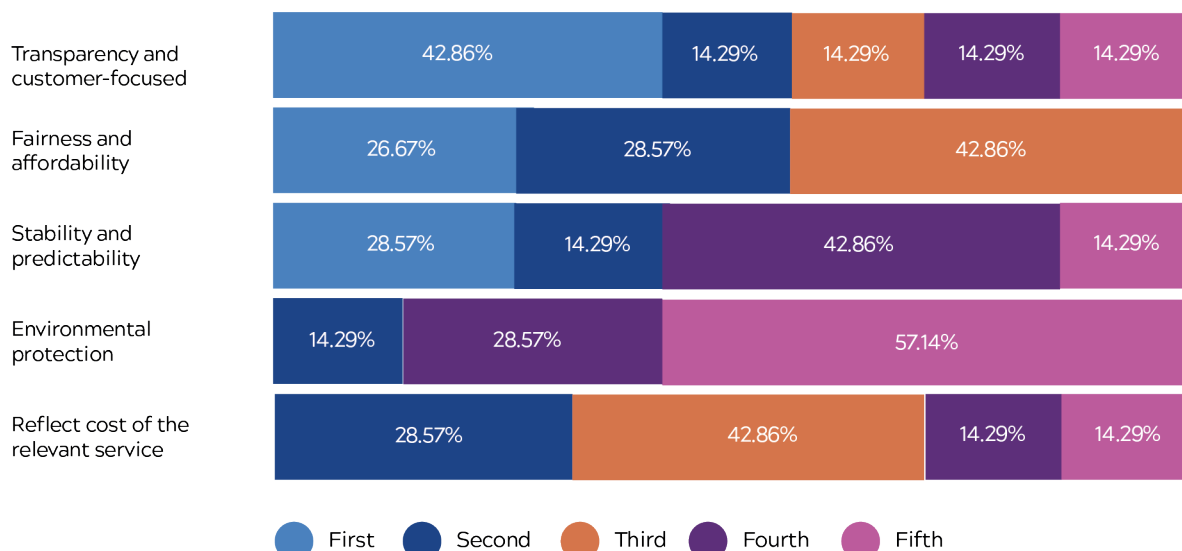


Figure 4.2c
Self-lay/NAV customers

Major House Builders and Land Developers followed some of the main trend. However, their need for a stable and predictable cost was higher than transparency/customer focused. This follows the trend seen in our first proposal where these customers favoured maintaining our averaging charging mechanism for connections, which is the most predictable option in setting charges.

Our Self-lay and NAV customers were the most different of all our customer types. In this case, no Self-lay or NAV company selected the principles of either Environmental Protection or charges that reflect the cost of the relevant service. One customer noted in our webinar that these companies, like incumbent water companies, are probably exploring what a reflective cost means to them as well as how they can support protecting the environment.

5. What next?

As part of our Phase 3 consultation process, we are currently undertaking a ‘bottom-up’ examination of our costs. As part of this, we will reflect on our customers comments during both Phase 1 and Phase 2.

We are looking to publish an update to this consultation which will provide indicative costs against worked examples. This will include the examples provided by Ofwat and used across the Water Industry. We will also work to include examples that show the difference between our previous and upcoming charging arrangements.

We intend to publish our final charging arrangement in January 2022 which will be implemented from April 2022 onwards.