



The Future of Regulation in the Water Sector for Developer Services





Welcome

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Agenda

PR24 Overview of changes to Developer Services

- Rationale behind the changes
- De-regulation and changes to Price Control
- Environmental Incentives Consultation

Transition into AMP8

- Journey to charges (transitional arrangements)
- Charges consultation 2023
- Transition into AMP8 – Unbundling / Systems / Adaptive Growth Model / D-Mex



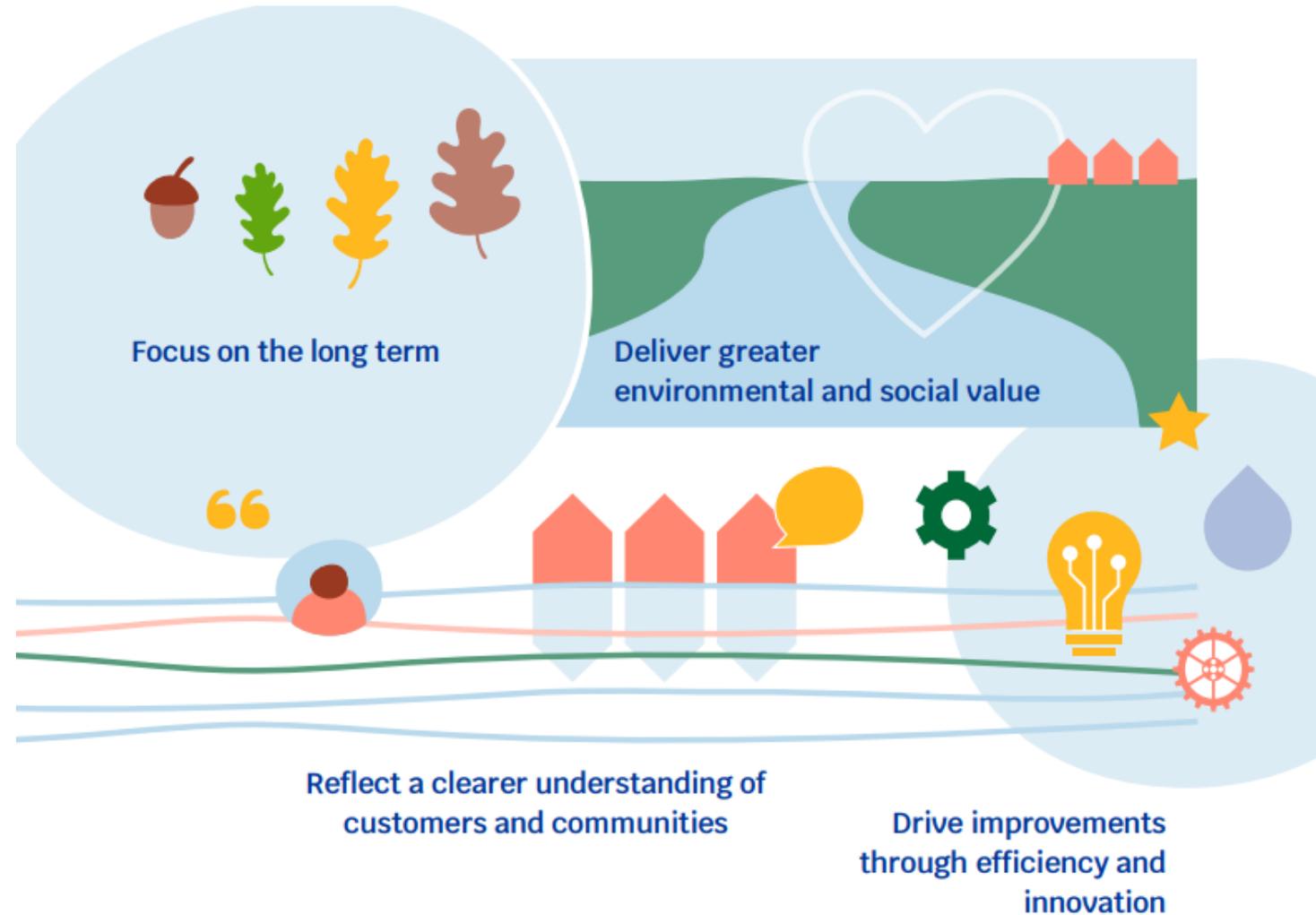
PR24 – Overview of changes to Developer Services



PR24 for Developer Services

Ofwat

“Building a better future”



PR24 for Developer Services



- De-regulation of site-specific services
- Removal from price control
- Infra network reinforcement (stays inside)
- Promote greater collaboration
- Improve fairness and transparency
- Contribute to increasing sustainable development
- Changes to charging rules to support customers with limited competition
- Protected by DMeX
- Removal of Income Offset
- Replaced by Environmental Incentives



Environmental incentives



Environmental Incentives: What are they?

“ ”

Offering developers discounts on their new connection charges for meeting certain standards of water efficiency or sustainable drainage.

Why is Ofwat focussing on these?

- Population growth, economic development and climate change collectively putting significant pressure on water resources in England and Wales.
- Climate change is also responsible for increases in the frequency and intensity of rainstorms which can increase the strain on sewers, this then increases the likelihood of Combined Sewer Overflows (CSOs) activation and river pollution, as well as localised flooding.
- Water companies provide 14 billion litres of clean water for public water supply each day. Around 4 billion litres of additional water a day will be needed in England by 2050.
- Of the 4 billion, 50% will come from increased supply of water.
Remainder from improving water efficiency, reducing demand and cutting wasted water.



Ofwat's intentions

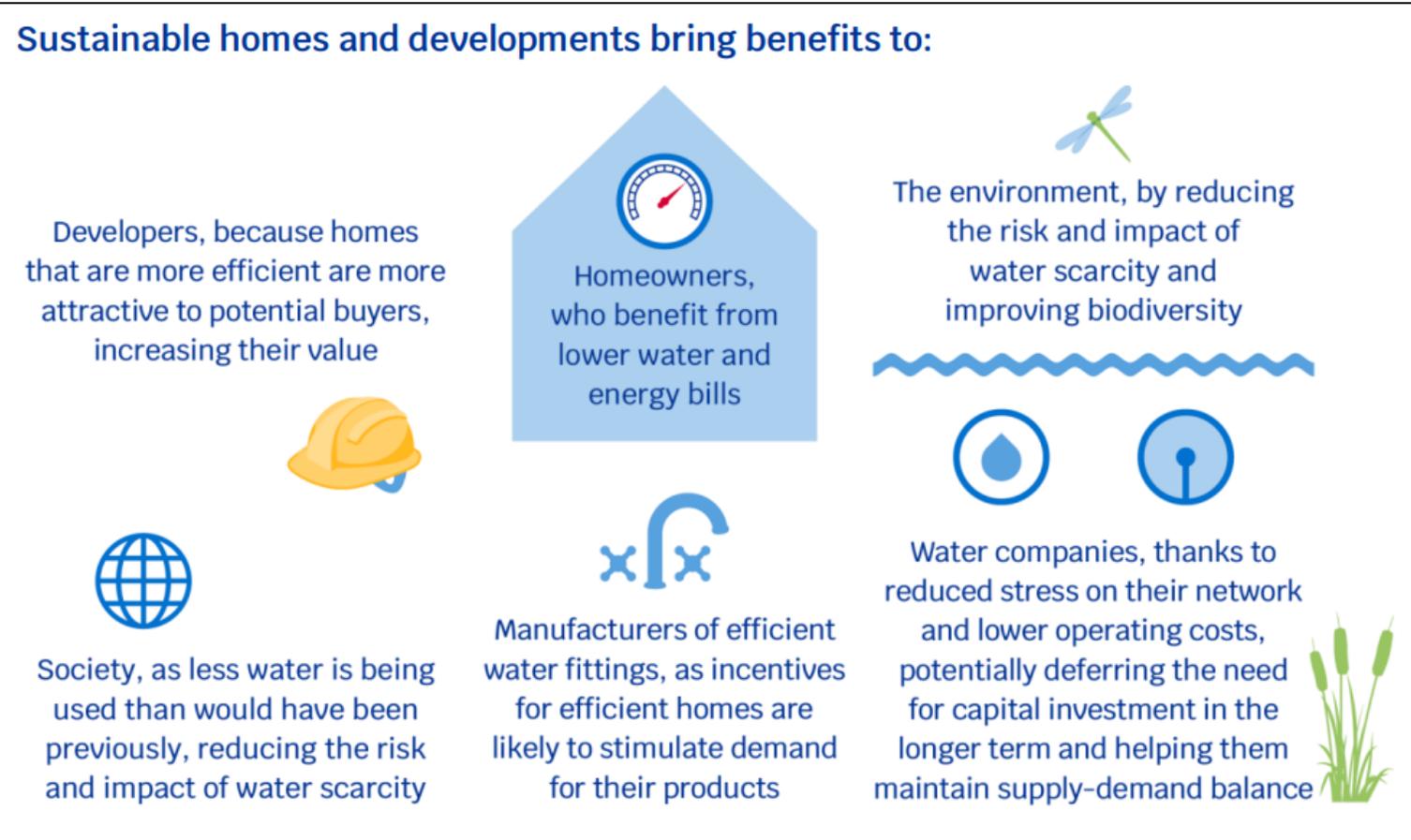
- Hold companies to account for their contribution towards reducing personal water consumption to 110 litres of water per head per day (l/h/d) by 2050.
- Recognise the need for investment in supply and demand solutions as set out in the water resources management plans.
- Challenge and incentivise companies to meet the aims of strategic drainage and wastewater management planning in a way that represents best value for money over the long-term for customers, the environment and wider society.



“ ”

Our proposed aim for environmental incentives is that they result in greater water efficiency and / or more sustainable drainage across all types of new development.

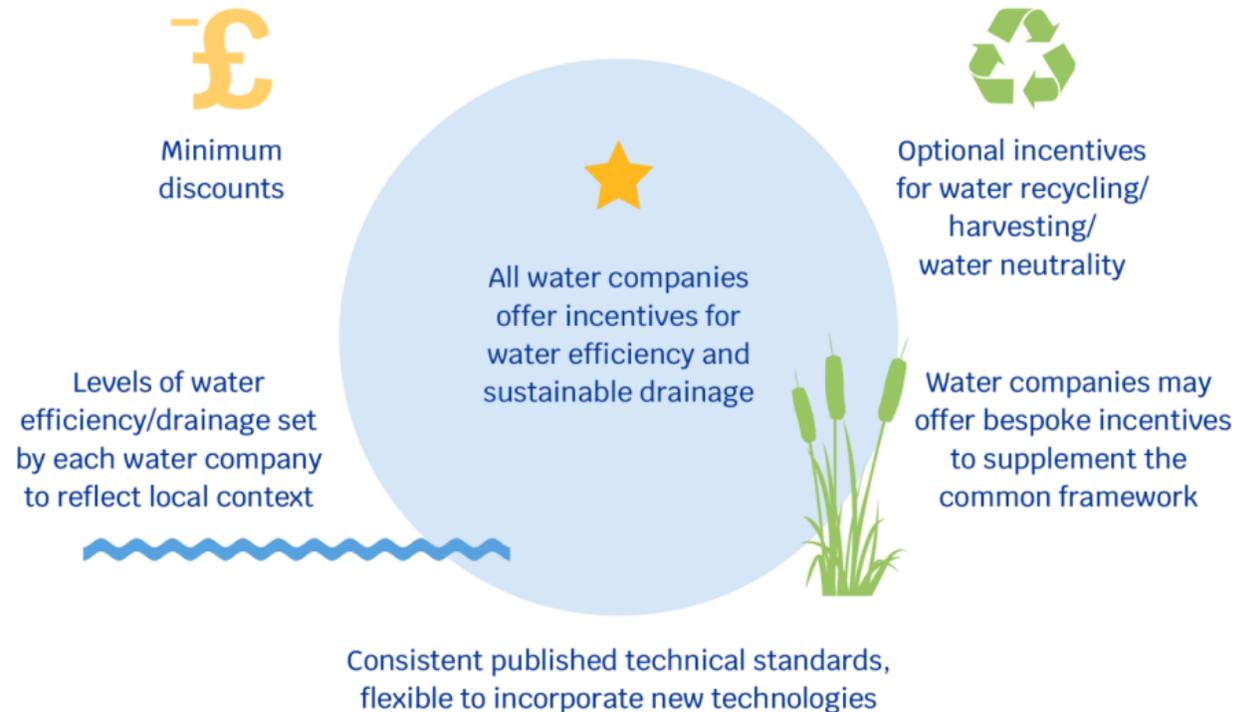
Environmental incentives: The benefits



Environmental incentives: The Proposal

Figure 1: Our proposed common framework for environmental incentives

Environmental incentives are published discounts or credits offered by the water company to those developers, new appointees and other customers that deliver more sustainable new developments



Our views on Environmental Incentives



- We are supportive with offering environmental incentives in AMP8 to developers
- We believe any incentives need to be linked to wider Government action
- We believe combined benefit schemes (Water and Water Recycling) should be considered rather than standalone schemes – maximising combined benefits of technologies such as grey water recycling (lowers water demand as well as water discharge).
- We expressed concern with the cost reflectivity principle where incentives are linked to infrastructure charges
- Funding / revenue neutrality needs to be considered
- Audit issues will need addressing
- **We believe a simple incentive scheme should be implemented initially rather than the tiered approach which Ofwat are driving. One which has much more ambitious targets for water reduction.**

Live Poll



Go to **Slido.com** and type in this code:
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Use QR code below:



Environmental incentives



- **‘Project 80’** – to consider achieving this as part of the planning process.
- Offer a sizeable financial incentive for achieving 80 l/p/d
- Plus the provision of reuse, helping lower demand

Live Poll



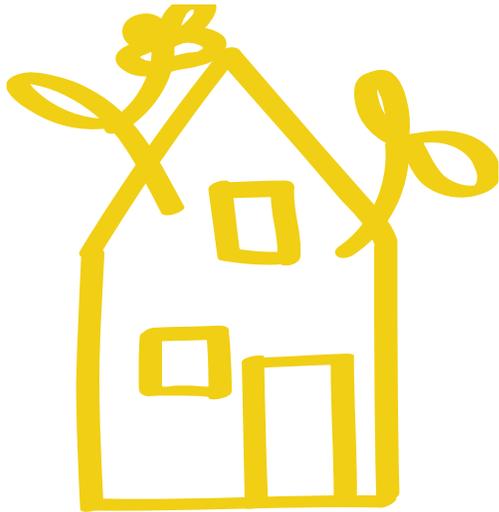
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Environmental incentives

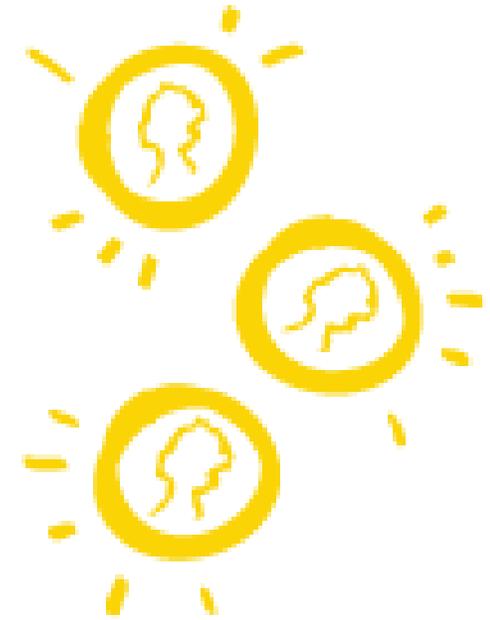


- **‘Project 110’** – Assessing actual water sustainability performance of new homes
- When to audit? Post connection / pre-occupation
 - Purely on fittings alone?
 - Water efficiency calculator
- Longevity of audited performance levels
 - Water labelling

Environmental incentives

Our Year 5 Thinking...

- Considering a consultation service at design stage focussed on water efficiency
- Hope to enable developers deliver homes in line with our ambitious plan we will launch in AMP8
- Also considering 'stepping stone' scheme for Year 5



Transition into AMP8



Background

The five principles and reflective charges

- The Water Act 2014 provides Ofwat with the powers to develop and update developer services charging rules. Ofwat does this through providing guiding principles that are aligned with DEFRA guidance to Ofwat.
- From April 2022 we have five principles, the most recent one added being the requirement that our costs reflect the relevant service.

The five principles

1. Fairness and affordability;
2. Environmental protection;
3. Stability and predictability;
4. Transparency and customer-focused service;
5. Reflect cost of relevant service



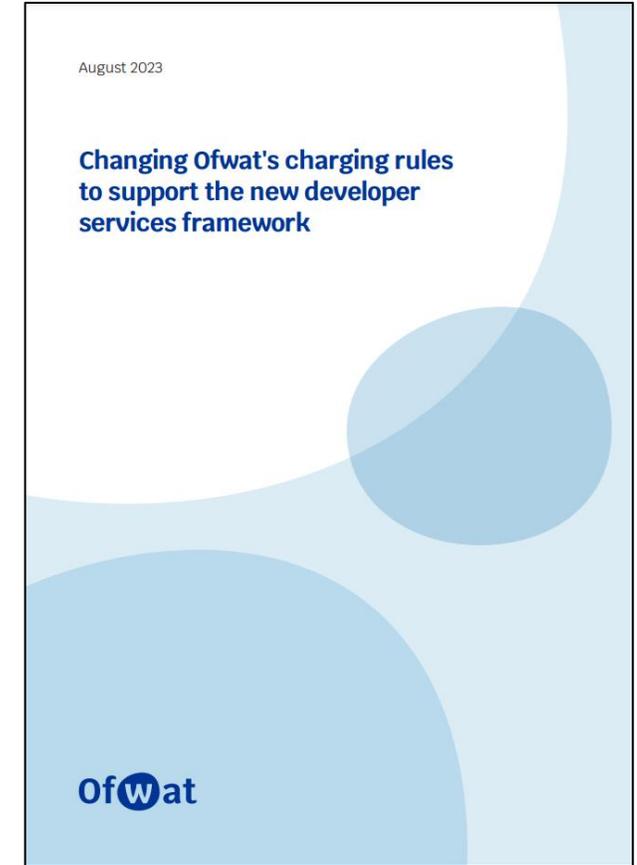
Charges Consultation



Ofwat charges consultation

Key Messages

- Ofwat is proposing changes to the Charging Rules for New Connection Services to take effect from April 2025
- The changes complement deregulation of site-specific developer services activities as part of PR24 framework by removing them from the price controls
- Ofwat intends to implement measures of protection for some customers whose market choice is limited, including;
 - Tethering charges (uncontested to contested activities)
 - Increase transparency (unbundle charges)
 - Introduce two further scenarios (to support wider customer representation)
- Ofwat aims to facilitate competition in the developer services market and ensure customers remain protected from abuse of market power, further areas the consultation proposes changes;
 - Enhancing guidance (Regulatory Accounting Guidelines) for allocation of cost
 - Proposals for a Market Review (Prior to 2029)
 - Refine how companies set infrastructure charges (difference between forecast vs actual)
 - Enable implementation of environmental incentives



Ofwat charges consultation

Tethering of Charges

- Ofwat analysis based on published charges arrangements worked examples (scenarios)
- Analysis undertaken from our published charges arrangement scenarios
- Anglian Water sit around the mid-point of the table
- Ofwat propose to use an ‘industry maximum’ tether ratio for their proposal (although do not expect a rapid rise for companies below the maximum)
- Provide evidence in the market review prior to PR29 on how company supports the developer services market

Table 3 – Tether ratio for English companies, 2023-24.

Company	Scenario 1 to scenario 4	Scenario 1 to scenario 6	Scenario 2 to scenario 4	Scenario 2 to scenario 6
Anglian Water	1.3	1.5	0.5	0.6
Northumbrian Water	1.6	1.8	0.6	0.7
Northumbrian (Essex)	1.1	1.3	0.5	0.6
Severn Trent Water	1.8	2.2	0.7	0.8
Southern Water	0.6	0.8	0.4	0.5
South West Water	0.8	0.9	0.3	0.4
Thames Water	1.5	1.8	0.4	0.5
United Utilities	1.0	1.1	0.3	0.4
Wessex Water	1.0	1.1	0.5	0.6
Yorkshire Water	1.9	2.2	0.5	0.6
Affinity Water	1.4	1.6	0.4	0.4
Bristol Water	0.8	0.9	0.3	0.4
Portsmouth Water	1.2	1.4	0.4	0.4
South East Water	1.4	1.6	0.6	0.6
South Staffs Water	1.3	1.7	0.6	0.8
SES Water	0.7	0.9	0.5	0.6
English companies Average	1.2	1.4	0.5	0.5
Minimum	0.6	0.8	0.3	0.4
Maximum	1.9	2.2	0.7	0.8
Median	1.3	1.5	0.5	0.6

Source: Ofwat analysis of companies' 2023-24 charging arrangements

Ofwat charges consultation

Unbundling of Charges

- Ofwat analysis witnessed bundled charges, including; design, administration, meters, boundary boxes etc. into single connection charge
- Ofwat considers this is not transparent to scrutinise cost-reflectivity for SLP's & NAV's
- Proposal to separate activities
- Implemented by amending Common Terms & Worked Examples (CTWE) document (scenarios & structure) with granular breakdown of;
 - Installation of meters, boundary boxes & service pipes
 - Excavation & reinstatement
 - Traffic management
 - Materials & labour
 - Design, administration & other fees

Figure 8: Bundling of company charges for scenario 1 of worked examples

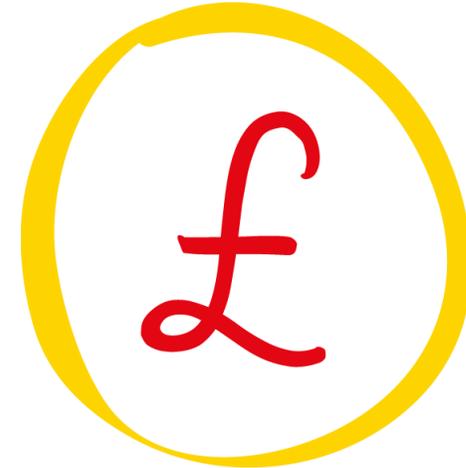
	Pre-construction Charges			Construction Charges			
	Application Fee	Admin Fee	Design Fee	Connection fee*	Pipework - Road	Traffic Management	Meters
Unit	£	£	£	Per connection	Per metre	Per TM usage	Per connection
Company							
Anglian Water							
Northumbrian Water							
Northumbrian Water - Essex							
Severn Trent							
South West Water							
Southern Water							
Thames Water							
United Utilities Water							
Wessex Water							
Yorkshire Water							
Affinity Water							
Bristol Water							
Portsmouth Water							
South East Water							
South Staffs Water							
Sutton & East Surrey							
Key: Yellow = bundled charge	Red = Charge not included						*including assumed pipework allowance

Source: Ofwat analysis of companies' 2023-24 charging arrangements

Unbundling Cont...

Unbundling in Year 5: Increasing cost transparency whilst continuing to ensure cost reflectivity

- Traffic management
- Application fees
- 'Lay only'



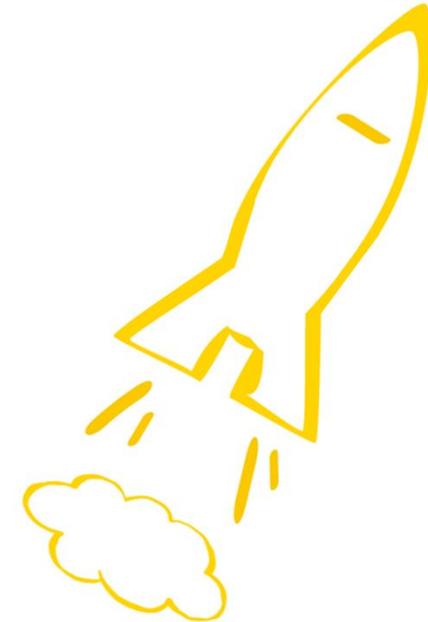
Year 5 Considerations



The glide path

Year 5

- Charges Review – Unbundling and beyond
- Personalisation of service & our new CRM
- Implementation of our ‘Adaptive Growth Model’
- Environmental Incentives



Our new CRM System

A New Digital Process

- Bespoke to how we work with customers
- Opportunity for greater self-service and automation
- Focussed around the journey for each customer type



Customer type overview

Below outlines the customer types that have been identified within the Anglian Water Developer Services business

Beginners



Homeowners	Small Businesses
2990 Applications	2292 Applications
3126 Properties	2454 Properties

Beginner customers and or small businesses that have limited technical knowledge of design and construction services. They require more support to bridge the gap of technical knowledge so that they are appropriately informed to support their applications.

Identifier: Number of properties (= OR < 4)

Building Professionals



Building Enablers	Construction Expert
281 Applications	601 Applications
1655 Properties	5161 Properties

Technical experts who have extensive knowledge in design and construction services. They utilize technical knowledge and innovation to hunt out opportunities to further promote their organization and make a fair profit.

Identifier: Number of properties (≥ 5 AND ≤ 49)

Commercial Developer



Large Developers
2930 Applications
2306833

Large scale development companies who manage many plots across long term development schemes. They expect a trusted partnership with dedicated contacts who they can form long standing relationships with.

Identifier: Number of properties (≥ 50)

SLPs



277 Applications
191996 Properties

Registered Self-Lay Providers who can also implement the services provided by Anglian Water. They value a collaborative relationship model, working in partnership to construct high quality adoptable assets and being accredited in design and delivery.

Identifier: [LRQA - Self-Lay Register](#)

NAVs



272 Applications
491080 Properties

New appointments and variations (NAVs) are limited companies which provide a water and/or sewerage service to customers in an area which was previously provided by the incumbent monopoly provider.

Identifier: [Ofwat - NAV Register](#)

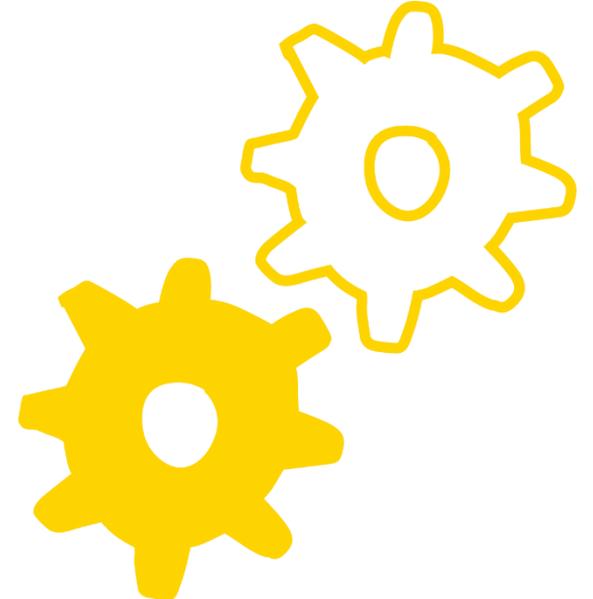
Adaptive Growth Model

What is it and what does it do?

- Tool to assess the impact of growth on the existing asset network
- Currently available for sewer network
- Future aspirations to include surface water and treated water distribution

Key customer benefits

- Drainage Impact Assessment – quicker, better, more accurate and nuanced
- Enable more effective planning support
- Allows earlier solution optimising



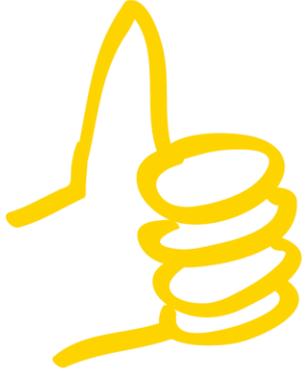
Looking forward



Timescales

- DMeX consultation response – 26 September 2023
- PR24 Business Plan Submission – 2 October 2023
- Charges consultation response – 27 October 2023
- Year 5 charges consultation – October 2023
- Publish Year 5 charges arrangements – January 2024
- Draft determination – Spring 2024
- PR24 regulation changes ‘Go Live’ – 1 April 2025



Thank you 
for listening