

AffinityWater

Charging Consultation for 2024/2025

Development Experience New Connections

October 2023



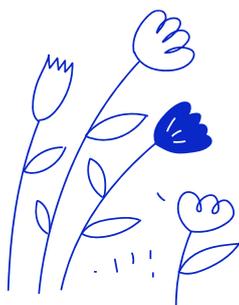
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Introduction

Our Development Experience team are committed to providing water supplies to new developments, enabling growth in our region, and supporting effective markets.

We are passionate about providing an outstanding level of customer service and recognise the importance of gaining feedback on our strategic direction.

We will publish our final charges for new connections services and infrastructure charges by 1st February 2024. The proposed charges in this consultation document are for consultation purposes only and may differ from our final charges. An inflation figure has been applied to charges in line with forecast, to ensure figures are as reflective as possible at this stage.

This document is designed to accompany our consultation video also available on our website and we invite you to share your feedback on the following questions:

1. **WHAT ARE YOUR OPINIONS ON INCLUDING A BACKWARDS LOOKING VIEW TO CALCULATE THE INFRASTRUCTURE CHARGE?**
[STRONGLY AGREE, AGREE, NEITHER AGREE NOR DISAGREE, DISAGREE, STRONGLY DISAGREE]
2. **TO WHAT EXTENT DO YOU AGREE WITH THE REMOVAL OF INCOME OFFSET THIS YEAR TO ENSURE ACCORDANCE WITH OFWAT GUIDANCE?**
[STRONGLY AGREE, AGREE, NEITHER AGREE NOR DISAGREE, DISAGREE, STRONGLY DISAGREE]
3. **TO WHAT EXTENT DO YOU AGREE WITH OUR PROPOSAL TO INCREASE WATER EFFICIENCY DISCOUNTS?**
[STRONGLY AGREE, AGREE, NEITHER AGREE NOR DISAGREE, DISAGREE, STRONGLY DISAGREE]
4. **WHAT ARE YOUR OPINIONS ON ENCOURAGING WATER EFFICIENT PROPERTIES WITHIN OUR AREA?**
5. **WHAT ARE YOUR OPINIONS ON THE ALIGNMENT OF CUSTOMER JOURNEYS, WHETHER YOU BE A SMALL OR LARGE DEVELOPER, NAV OR SELF-LAY PROVIDER?**
6. **TO WHAT EXTENT DO YOU AGREE THAT AN INCREASED ONSITE PRESENCE IMPROVES VALUE FOR MONEY?**
[STRONGLY AGREE, AGREE, NEITHER AGREE NOR DISAGREE, DISAGREE, STRONGLY DISAGREE]
7. **WOULD YOU BE INTERESTED IN USING OUR PROPOSED NEW DESIGN SERVICES IN THE FUTURE?**
[YES, MAYBE, NO, N/A]
8. **WHAT AREAS ARE YOU MOST INTERESTED IN HEARING ABOUT IN ADVANCE?**
[REGULATORY CHANGES, DIGITAL UPGRADES, NEW PUBLICATION RELEASES, KEY INDUSTRY EVENTS, OTHER]
9. **DO YOU HAVE ANY ADDITIONAL COMMENTS OR SUGGESTIONS YOU'D LIKE TO SHARE WITH US?**
10. **WHERE DID YOU COME ACROSS THIS CONSULTATION?**
[WEBSITE, VIDEO, LINKEDIN, EMAIL, OTHER]

Responding to this consultation

Each year we publish our new connections charging arrangements for development customers, to explain the charges associated with services which support growth and new developments in our region. As part of this process, we consult with our customers to understand their views on any proposed changes, as well as feedback on best practice across the industry.

We will take on board your feedback, to ensure our charges for next year reflect what is important to you. All feedback will be anonymised and published in a decision document

towards the end of November 2023. Your opinions and comments on our proposed changes are greatly appreciated and are key to helping shape our future.

We invite you to share feedback by completing our [online response form](#), it's quick and easy to do, it should only take about five minutes! If you'd prefer to email us, please send your response to charges@affinitywater.co.uk.

The deadline for submissions is 17:00 on Friday, November 17th, 2023.



1. Infrastructure Charge

The purpose of an infrastructure charge is to enable a charge to be levied to broadly reflect the expected additional load placed on our network by the connection of premises not previously connected to it. Infrastructure charges do not relate to the costs of reinforcing, upgrading or otherwise modifying existing network infrastructure to address pre-existing deficiencies in capacity or capability.

We have calculated our forecasted infrastructure charge in line with Ofwat charging rules, with a fully forward-looking perspective. We consider forecasted connections volumes for AMP7 and into AMP8, alongside the future expected expenditure for network reinforcement to support our regional growth.

Our infrastructure charge is set at a flat rate per property connected for domestic purposes. We have calculated our indicative 2024/2025 infrastructure charge using the elements outlined in figure 1.

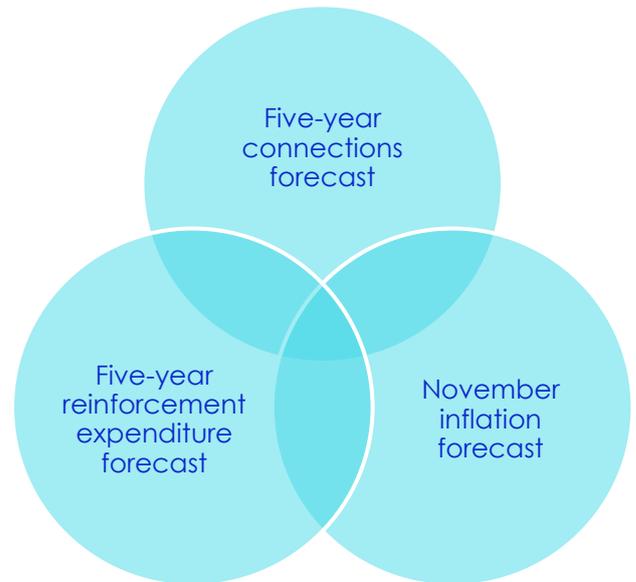


Figure 1: Data points to calculate infrastructure charge

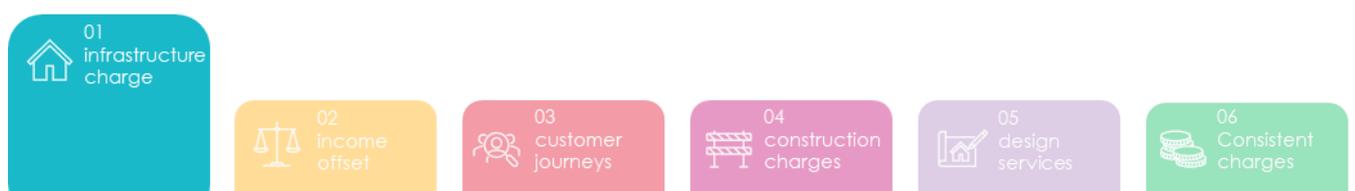
To ensure we have used appropriate and reasonable forecasts for the above calculation, we have undertaken additional supporting assurance using historic actual values.

The forecasted infrastructure charge includes an uplift to reflect our forecasted CPIh (Consumer Price Index – housing) inflation value for November 2023, which will be confirmed and released around mid-December 2023; until then, this value is subject to change. Over the last few years, we have seen inflation rise considerably, we understand this can be unsettling when considering charging predictability and stability.

2023/2024 Infrastructure Charge	Proposed 2024/2025 Infrastructure Charge	% Change
£434	£585	35%

Table 1: Infrastructure charge comparison

As a result of the current unsettled housing market and the subsequent effect upon our national economy we have seen a slow decline of new connections being made to our network. With uncertainty remaining, our aim is to reflect these latest unexpected changes in our forecasted data to ensure the values we propose, and will later finalise in our February 2024 publication, are accurate and representative of the developments and growth in our region.



Below outlines the detailed build-up of how the forecasted infrastructure charge has been calculated. Table 2 is a replica of that published in our current charging arrangements¹. It will be finalised and included in our 2024/2025 charging arrangements published by 1st February 2024.

Calculation of Proposed Infrastructure Charge		
Description	% Uplift	Values
Total cost of network reinforcement (growth) in forward 5-year period		£28,817,068.95
Total connection volume in forward 5-year period		51,536
Initial infrastructure charge		£559.16
Forecasted November 2023 inflation	4.7	£26.28
Proposed infrastructure charge for 24/25		£585

Table 2: Calculation of proposed infrastructure charge

Whilst we note this change in infrastructure charge is significant, we would like to take this opportunity to assure you that our average five-year programme for network reinforcement remains relatively stable. Our approach to setting this charge remains the same and is fully compliant with the charging rules. The programme remains subject to fair and effective analysis to ensure we provide successful just-in-time reinforcement deliverables. However, growth remains a market challenge and has seen a significant reduction in build rates and properties connected.

Where the programme remains at a consistent and appropriate level for areas of growth occurring in our region, and the approach to infrastructure charge setting remains the same, we have seen the proportionate infrastructure charge allocation per customer increase. This change aligns to the reduction in properties forecasted to be connected to our network over the next five years.

Ofwat noted in their most recent consultation that consideration was being undertaken to, again, review the way the infrastructure charge is calculated². The proposed methodology would allow for incumbents to include historical variances between expenditure and revenue when setting new infrastructure charges. We believe this would allow infrastructure charges to be reflective and adaptive to market trends and deliverables seen over time adding greater protection to both customers and the network. The consultation also explores an industry comparison of the cumulative variance between infrastructure costs and revenues.

The way this charge is applied to and recovered from customers is not anticipated to change. There will remain an infrastructure charge for each property connected to the network.

¹ <https://www.affinitywater.co.uk/docs/developer/2023/2023.24-New-Connections-Charging-Arrangements.pdf>

² <https://www.ofwat.gov.uk/wp-content/uploads/2023/08/Changing-Ofwats-charging-rules-to-support-the-new-developer-services-framework.pdf>



Although this proposal is driven by our regulator, we would like to take this opportunity to understand your opinions on such an approach.

Q1: WHAT ARE YOUR OPINIONS ON INCLUDING A BACKWARDS LOOKING VIEW TO CALCULATE THE INFRASTRUCTURE CHARGE?



2. Income Offset and Water Efficiency



Over time, the approach and development of income offset has changed, we outline this in more detail below (figure 2).

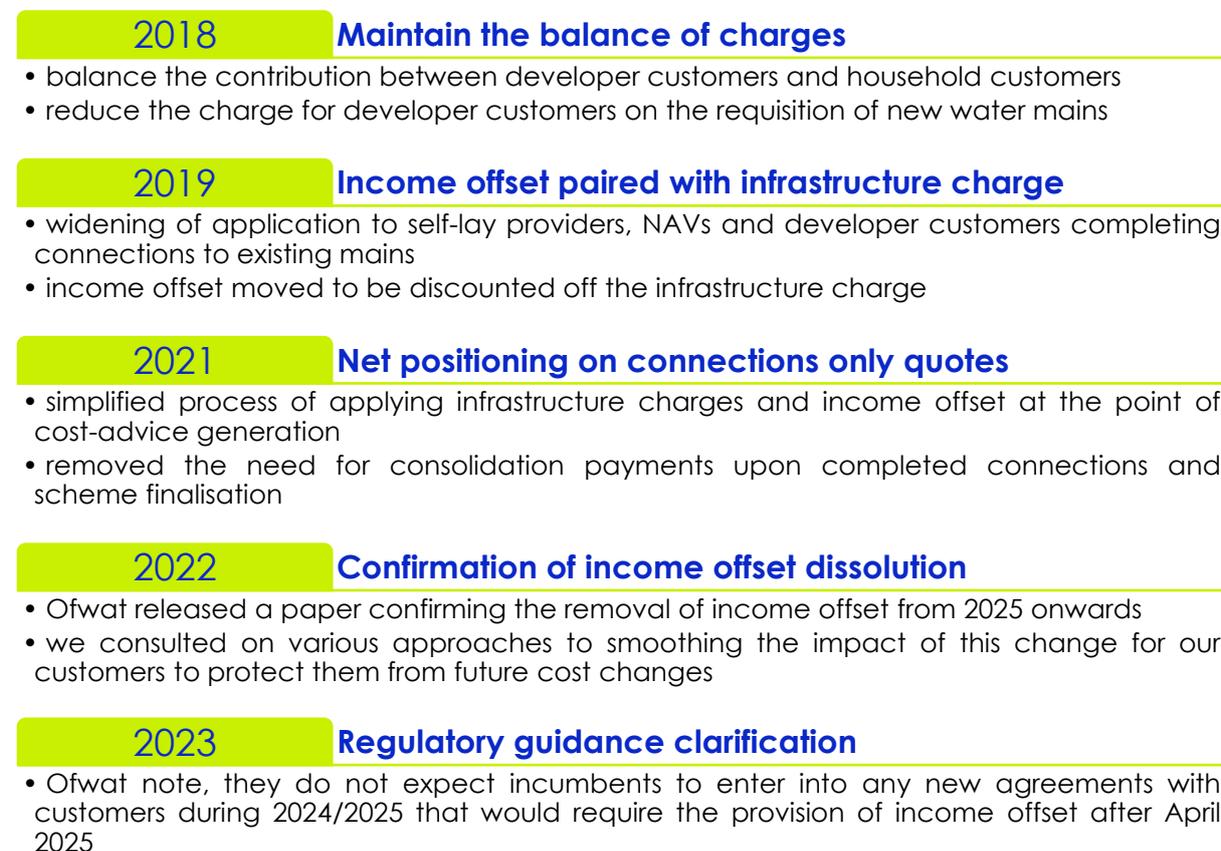


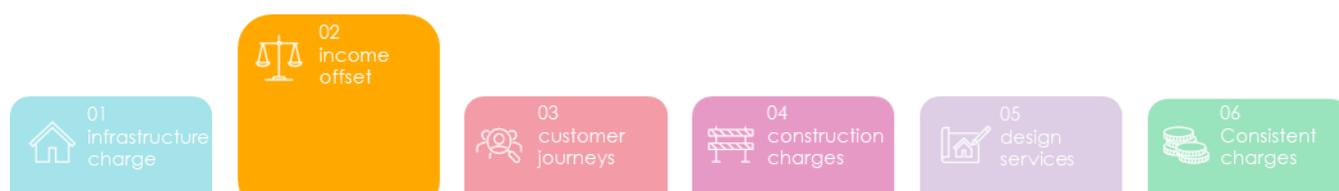
Figure 2: Timeline of changes to the income offset

In our 2022 customer consultation we proposed three options on how we could approach the handling of income offset in lieu of the confirmation of income offset dissolution³. In line with our customer preferences, we opted to undertake 'option 1'. This option maintained the same level of total discount off the infrastructure charge as previous years but proportioned differently across income offset and water efficiency.

We noted last year that we would consult again on the application of a glidepath approach to the journey of diminishing income offset. However, under the new guidance from Ofwat, whereby incumbents should not enter any new agreements which require the provision of income offset post-April 2025, we propose to remove income offset in 2024/2025. This will ensure any schemes which fall within our transition period are not in breach.

To help reduce the impact our customers may feel as a result of this change, we propose to continue our strategy of increasing the water efficiency discount for properties which meet our criteria and provide relevant documentation upon application.

³ <https://www.affinitywater.co.uk/docs/developer/2022/DX-Charging-Consultation-Response-23.24.pdf>



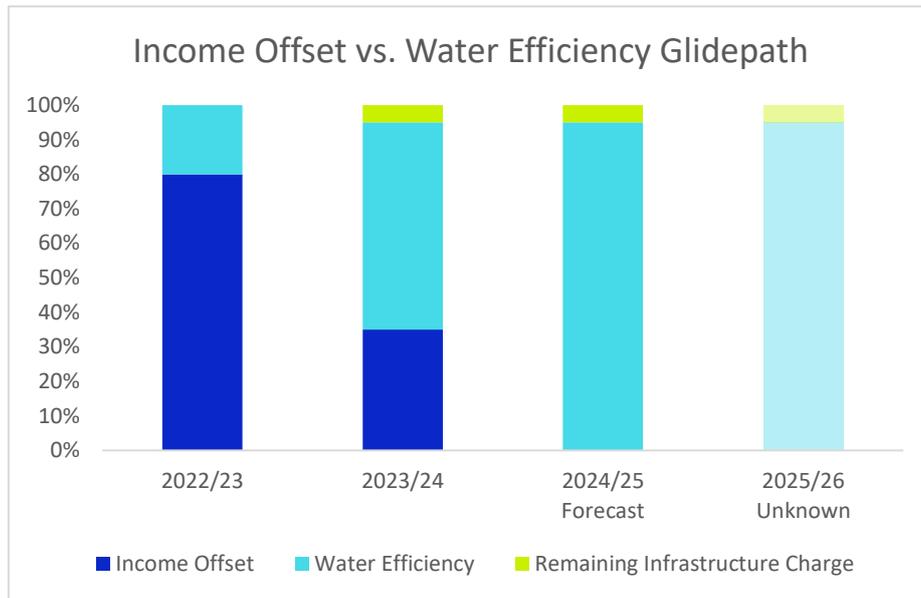


Figure 3: Income Offset vs. Water Efficiency Glidepath

We believe this approach provides:

- a relatively stable discount against the infrastructure charge,
- encouragement to explore more water efficient connections,
- alignment with new regulatory guidance,
- a reduction in the impact which otherwise could be felt in 2025 when regulation removes income offset and,
- a simple, easy to understand, and predictable structure of our development charges

Ofwat, earlier in 2023, also consulted on the approach to setting industry standard water efficiency discounts to encourage consistent methodologies whilst encouraging bespoke discounts to be provided by incumbents for extraordinary water saving initiatives⁴. More information on this topic is available on their website.

Q2: TO WHAT EXTENT DO YOU AGREE WITH THE REMOVAL OF INCOME OFFSET THIS YEAR TO ENSURE ACCORDANCE WITH OFWAT GUIDANCE?

[STRONGLY AGREE, AGREE, NEITHER AGREE NOR DISAGREE, DISAGREE, STRONGLY DISAGREE]

Q3: TO WHAT EXTENT DO YOU AGREE WITH OUR PROPOSAL TO INCREASE WATER EFFICIENCY DISCOUNTS?

[STRONGLY AGREE, AGREE, NEITHER AGREE NOR DISAGREE, DISAGREE, STRONGLY DISAGREE]

Q4: WHAT ARE YOUR OPINIONS ON ENCOURAGING WATER EFFICIENT PROPERTIES WITHIN OUR AREA?

⁴ <https://www.ofwat.gov.uk/wp-content/uploads/2023/06/Consultation-on-Environmental-incentives-to-Support-Sustainable-New-Homes.pdf>

3. Customer Journeys

We are committed to ensuring your experience with us is easy and seamless. As such, so far this year, we have made significant strides in enhancing our backend system capability and improving our website with the goal of bettering our service for all customer types. Below (figure 4) are our highlights of deliverables since April 2023 to enhance the journeys our customers go through.

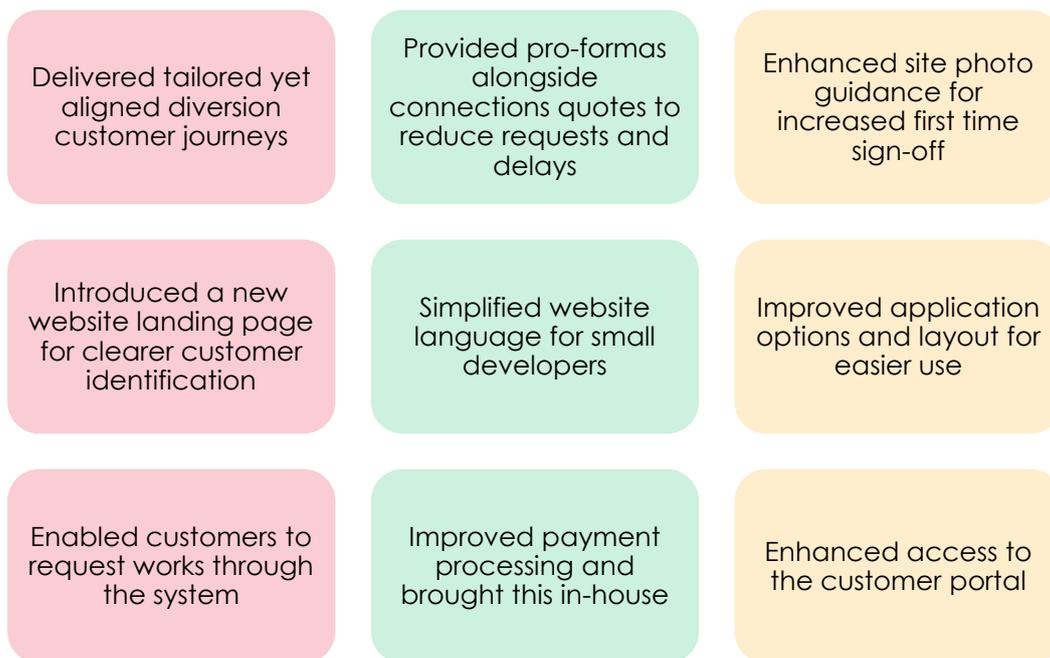


Figure 4: Delivered digital highlights.

We are pleased to also share that our efforts in website development and enhancement have not gone unnoticed; the latest Accent report noted there has been substantial improvements made. We recognise that the digital space is where the majority of our customers engage with us, and we are dedicated to building on the successes of the past year. It is our continued aim to make your online interactions with us as smooth and user-friendly as possible.

Moving into 2024/2025, we propose to increase the focus on self-lay and NAV journeys. These journeys are critical in delivering against our promise to encourage the open market and improve accessibility for other market players.

To ensure this work aligns with the charging principles and competition law, we note full and careful consideration will be applied to the analysis of system upgrades. We propose to more closely align self-lay and NAV journeys to those experienced by other developer customers. Ultimately, we hope this will improve deliverable speed, quality and transfer of information for all our customers.

One other key customer alignment we propose to implement for the 2024/2025 charging period is a change to the fee structure for NAV customers covered under our Bulk Supply



Charges for New Appointments and Variations⁵. This is the last remaining customer type which incurs a re-application fee; we have slowly phased this out for other customer types over the last few years. As such, we propose to remove this fee from the structure. While this partially aligns NAV charging to that of our other customers, we further propose to complete full alignment and introduce a re-design fee.

As standard, we ensure the costs are fair and allied across the Bulk Supply Charges for New Appointments and Variations document and the New Connection Charging Arrangements. We propose to maintain this approach and ensure the lower band (1-49 properties) of new mains fees (application, design, and administration) are in line with the charges NAV customers incur. We will provide clear and detailed guidance in the associated charging publications on the application of such fees, when they become liable and the activities they cover.

Q5: WHAT ARE YOUR OPINIONS ON THE ALIGNMENT OF CUSTOMER JOURNEYS, WHETHER YOU BE A SMALL OR LARGE DEVELOPER, NAV, OR SELF-LAY PROVIDER?



⁵ <https://www.affinitywater.co.uk/docs/developer/2023/Bulk-Supply-and-NAV-Charges-2023-24.pdf>



4. Construction Charges and Onsite Services

Each year our portfolio of charges and associated delivery activities undergo a full bottom-up, cost reflective review to ensure we continue to provide a high-quality service whilst supporting an open market and adhere to the new connection charging rules.

During this analysis and on review of the application of construction out of hours uplifts for schemes across the year, we have identified a cost-saving opportunity for our customers. We propose to build into our scope of works for the next major system upgrade, to provide our Application and Cost Engineers with increased functionality to more accurately allocate the out of hours uplift for construction lines. In 2023/2024 the out of hours construction uplift was set at 66%, and so we are confident that this proposal will have a significant and positive impact.

This change will result in cost reductions for those customers whose connections only scheme requires out of hours construction works to be undertaken. This proposal will align the system charging approach between our connections only and new mains customers, who already benefit from this approach. The delivery of this proposal remains subject to confirmation of functionality implementation by our system delivery partners.

In addition to the above, we propose to provide an enhanced site visibility programme for 2024/2025. This will allow our skilled Liaison Engineers and Technical Extra Care and Delivery Engineers to be more on-hand during the construction phase of scheme delivery. This proposal has been developed to deliver against the needs of, improve the experience of and deliver greater value for money for our customers.

As a result of the efficiencies made over the last few years from our departmental restructure, system changes and enhanced training we do not anticipate this additional service to significantly impact the cost of our standard fees. Full and detailed analysis has been undertaken to review resource allocation and activities to effectively mitigate unwanted cost increases whilst balancing the need for an enhanced service offering.

Q6: To what extent do you agree that an increased onsite presence improves value for money?

[STRONGLY AGREE, AGREE, NEITHER AGREE NOR DISAGREE, DISAGREE, STRONGLY DISAGREE]

5. Design Services

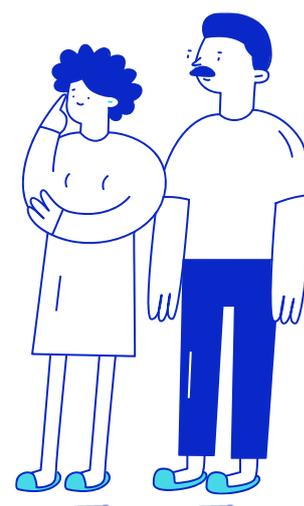
Along with the rest of the industry, we recently published our draft business plan for the next five-year period, 2025-2030⁶. Whilst not all the information included in the plan may be relevant here, we are pleased to share there is a dedicated section covering developer services⁷. Although we are not consulting on the information provided in these documents, we are always open to receiving customer feedback and welcome your opinions.

In line with our plans for the future, we propose to explore the opportunity of providing additional design services to industry third parties. We envision this service to be, primarily, of interest to self-lay providers and NAVs but we welcome wider interest and are happy to work alongside our customers, your contractors, and your consultants. Our team will be able to design onsite networks in accordance with the established design requirements aligning approaches between regional patches and construction plans.

We will be able to provide tailored solutions that align with network sustainability, ensure the longevity of the infrastructure, share best practices across the industry and, most importantly, safeguard customer supply. Our network designs will prevent the construction of over-engineered solutions and reduce associated maintenance liabilities for pipework and fittings in the future to continue excellent water quality performance.

We note that costs for such a service are yet to be determined, but we welcome your views on whether this proposal would be of interest to you.

Q7: WOULD YOU BE INTERESTED IN USING OUR PROPOSED NEW DESIGN SERVICES IN THE FUTURE?
[YES, MAYBE, NO, N/A]



⁶ https://www.affinitywater.co.uk/docs/PR24/Business_plan/AFW39.pdf

⁷ <https://www.affinitywater.co.uk/docs/PR24/Appendices/AFW06.pdf>



6. Consistent Charges

Our aim is to continue to ensure our customers can easily identify all potential charges associated with their works prior to applying with us.

Over the last few years, we have consulted on a range of changes to the approach of our charging structure and application of costs. Considering there have been limited changes to the charging rules this year, we are pleased to note there are no additional significant proposed changes outside of those explored earlier in this consultation document.

Consistent key elements:

- Transition period timeline and service offerings
- Application, Design and Administration fee activities
- Traffic Management structure and application
- Extraordinary charges
- Design phasing and information requirements
- Out of hours approach
- Provision of payment milestones

We continue to calculate and publish our charges in a stable and predictable way, in accordance with the new connection charging principles. As such, we aim to uplift our charges closely in line with inflation, and as a result our charges will not remain at the same level as 2023/2024. At this time, we advise there could be potential increases linked to material and supplier costs, as seen last year. However, our procurement teams are working hard to minimise and where possible mitigate such impacts.

We continue to aim to structure our charges in a way that is easy for our developer customers to calculate costs associated with their anticipated works.

Q8: WHAT AREAS ARE YOU MOST INTERESTED IN HEARING ABOUT IN ADVANCE?

[REGULATORY CHANGES, DIGITAL UPGRADES, NEW PUBLICATION RELEASES, KEY INDUSTRY EVENTS, OTHER]



Summary

We hope you enjoyed our consultation video and found this written accompaniment interesting and helpful in anticipating how we propose to structure our developer charges in 2024/2025.

If you have something you would like to share with us that does not sit under the questions included throughout this document, we have included two final questions to provide you with this opportunity and an insight into how you found us!

Q9: DO YOU HAVE ANY ADDITIONAL COMMENTS OR SUGGESTIONS YOU'D LIKE TO SHARE WITH US?

Q10: WHERE DID YOU COME ACROSS THIS CONSULTATION?

[WEBSITE, VIDEO, LINKEDIN, EMAIL, OTHER]

Next steps

Your opinions and comments on our proposed changes are greatly appreciated and are key to helping shape our future.

We invite you to share feedback by completing our [online response form](#), it's quick and easy to do, it should only take about five minutes! If you'd prefer to email us, please send your response to charges@affinitywater.co.uk.

The deadline for submissions is 17:00 on Friday, November 17th, 2023.

Following the review of feedback, we will publish a decision document on our website by the end of November 2023.

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- Ofwat's Charging Rules for New Connection Services (English Undertakers)⁸
- Charges Scheme Rules issued by the Water Services Regulation Authority under sections 143(6A) and 143B of the Water Industry Act 1991⁹

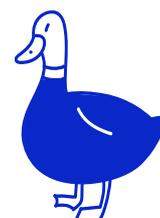
The new connections charging rules underwent consultation during 2021, with the changes now included in the above reiterations. The rules apply to the provision of water mains and new connections provided for domestic purposes as well as the diversion of water mains situated in private land. They do not apply to:

- a) requests for a supply of water for non-domestic purposes,
- b) requests made by a water supply licensee for the connection of premises to our network, or other steps in respect of that system; or
- c) charges under an agreement to provide one or more water undertakers with a supply of water in bulk.

This consultation also featured the introduction of a new general charging principle around cost-reflectivity¹⁰. We are required to determine our charges in accordance with these principles which are as follows:

- a) fairness and affordability;
- b) environmental protection;
- c) stability and predictability;
- d) transparency and customer-focused service; and
- e) reflect cost of the relevant service.

Ofwat closed their most recent consultation on developer charges in October 2023, which outlined several proposed changes, most of which are likely to come into effect at the start of the new asset management period, in April 2025¹¹.



⁸ https://www.ofwat.gov.uk/wp-content/uploads/2021/10/Charging_Rules_For_New_Connection_Services_Effective_April_2022.pdf

⁹ https://www.ofwat.gov.uk/wp-content/uploads/2021/10/Charges_Scheme_Rules_Effective_April_2022.pdf

¹⁰ <https://www.ofwat.gov.uk/wp-content/uploads/2021/08/August-2021-Statutory-consultation-on-changes-to-our-charging-rules.pdf>

¹¹ <https://www.ofwat.gov.uk/wp-content/uploads/2023/08/Changing-Ofwats-charging-rules-to-support-the-new-developer-services-framework.pdf>