



Developer Services New Connections Charging Arrangements 2022/2023 - Consultation

October 2021

Table of Contents

| | | |
|----------|---|-----------|
| 1 | Introduction..... | 3 |
| 2 | The charging principles | 6 |
| 3 | Pre-Planning Services | 7 |
| 4 | Environmental Best Practice | 8 |
| 5 | Application, Administration and Design Fees..... | 9 |
| 6 | Infrastructure Charge and Income Offset..... | 12 |
| 7 | Transitional Arrangements | 14 |
| 8 | Traffic Management Charges..... | 16 |
| 9 | Consultation Summary & Next Steps..... | 17 |

1 Introduction

1.1 Affinity Water

We are the largest water-only supplier in the UK, and we are committed to delivering a high-quality water service to all our customers.

We provide on average 900 million litres of water each day to a population of more than 3.6 million people in parts of Bedfordshire, Berkshire, Buckinghamshire, Essex, Hertfordshire, Surrey, the London Boroughs of Harrow and Hillingdon and parts of the London Boroughs of Barnet, Brent, Ealing and Enfield. We also supply water to the Tendring peninsula in Essex and the Folkestone and Dover areas of Kent.



Each year, around 13,000 new properties are connected to our network. Most properties are connected to our existing water mains while others require our network to be extended (and sometimes reinforced) to facilitate connection.

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

1.2 Purpose of this consultation

From 1 April 2018, the basis for charging for the new connections services we provide changed. From this date, water companies are required to set charges in accordance with rules made by Ofwat.

There are two sets of rules that we must follow in setting our charges for the period 1 April 2022 to 31 March 2023, both published by Ofwat in July 2019:

- Ofwat's Charging Rules for New Connection Services (English Undertakers)¹
- Charges Scheme Rules issued by the Water Services Regulation Authority under sections 143(6A) and 143B of the Water Industry Act 1991²

The new connections charging rules underwent consultation during 2021, with draft rules published in August 2021³. We are waiting formal re-publication of these rules. 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.

Each year we publish our new connections charging arrangements for developer customers, to explain the charges associated with services which support growth and new developments in our region. This includes undertaking pre-planning assessments, new connections, new main designs, construction of new mains, as well services offered to New Appointments and Variation (NAV) companies and accredited Self-Lay Providers (SLPs). 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.

As above, Ofwat have recently consulted on additional changes to their rules which impact charging arrangements from 2022 onwards.⁴ This consultation features the introduction of a new general charging principle around cost-reflectivity. We are required to determine our charges for new connections services in accordance with the principles that charges covered by the rules should reflect. These are:

- a) fairness and affordability;
- b) environmental protection;
- c) stability and predictability;
- d) transparency and customer-focused service; and for 22/23 onwards
- e) reflect cost of the relevant service.

While the only significant change made to the charging rules for 2022/2023 is the introduction of the cost reflectivity principle, we would like to receive your feedback on the following areas of focus for our annual review:

- a) The charging principles
- b) Pre-planning services;
- c) Environmental best practice;

¹ www.ofwat.gov.uk/publication/charges-schemes-rules-from-april-2020/

² www.ofwat.gov.uk/consultation/consultation-on-charging-rules-for-new-connections-and-new-developments-for-english-companies-from-april-2020/

³ <https://www.ofwat.gov.uk/wp-content/uploads/2021/08/For-consultation-draft-Charging-Rules-for-New-Connection-Services-English-Undertakers-1.pdf>

⁴ <https://www.ofwat.gov.uk/wp-content/uploads/2021/08/August-2021-Statutory-consultation-on-changes-to-our-charging-rules.pdf>

- d) Application, administration and design fees;
- e) Infrastructure charge and income offset;
- f) Transition arrangements; and
- g) Traffic management

We are passionate about providing an outstanding level of customer service and recognise the importance of gaining feedback on our direction of travel. Therefore, we will use this document to provide you with information on our approach to setting the 22/23 charges and seek your views on this. We will take on board this 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 2021.

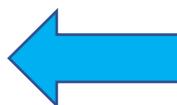
1.3 Responding to this consultation

We held an engagement event on 6th October 2021 and shared our initial plans for our 22/23 charges as per the above. We provide this document as a formal consultation and give opportunity for wider comment from all our customers.

Please note that we will publish our final charges for new connections services and infrastructure charges by 1st February 2022. The proposed charges in this consultation document are for consultation purposes only and may be different 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.

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

We invite you to provide feedback by returning responses to the questions set out throughout the document, either via a written response sent to charges@affinitywater.co.uk or via our digital response form accessed using this [link](#) or the QR code below.



Scan me with your smartphone to access our digital form, or, if you prefer, simply send written responses to our [mailbox](#).

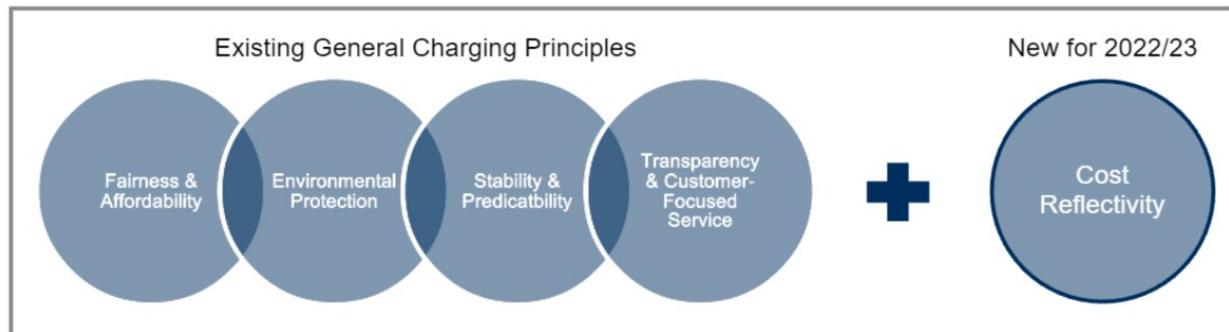
Please provide responses in either format by 17:00 on 5th November 2021.

Privacy notice

The information you provide about yourself will help us understand the views of different stakeholders in the new connections market to inform the development of our Charging Arrangements for New Connections Services. It will be securely stored for one year and only held for the purposes of this project, after which it will be securely disposed of. For more information about privacy please visit: www.affinitywater.co.uk/privacy-notice.aspx By submitting your response, you agree to us using your response in our results. We will not publish names of individuals but may refer to names of organisations.

2 The charging principles

Companies are required to determine charges in accordance with the general charging principles outlined below.



We have included a new general charging principle that Ofwat are currently consulting on for inclusion in 2022/23 and beyond. This principle aims to ensure that water company's charging arrangements 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.

We understand that the introduction of this charging principle around cost-reflectivity may create some tensions with other principles, particularly stability and predictability. With customers at the heart of our business, we want to ensure we have focused on the right areas, considered the balance of principles appropriately and understood those most important to you.

To help guide us in building our charges, we are asking how you would rank the principles in order of importance to you and why.

2.1 Questions on charging principles

Q1) Please rank the following principles in order of importance, starting with the most important. Please provide comment as to why you have ranked them in this way.

- **Fairness & Affordability;**
- **Environmental Protection;**
- **Stability & Predictability;**
- **Transparency & Customer-Focused Service, and**
- **Cost Reflectivity**

3 Pre-Planning Services

Affinity Water are committed to supporting growth in our region and would like to encourage developer customers to talk to us at the earliest stages of planning their development using our pre-planning service. This is so that we can understand how water can be provided to the proposed development in the most efficient and timely way. Early engagement ensures we can fully appreciate our customer requirements and plan for any infrastructure requirements in the best possible way.

Our pre-planning service will help you to understand the costs involved in serving the site, the most appropriate point of connection and if there are any existing water assets within your development area which may need diverting. It will also inform us where reinforcement may be required to support your development.

Affinity Water would like to continue to encourage developer customers to engage with us at the earliest stages of planning their development by continuing to offer this service free of charge. Early discussions can help prevent potential delays in the latter parts of the process but also gives us opportunities to better plan for growth, and in turn make more cost-effective decisions in applying solutions for your development.

We do, however, appreciate that this service has an associated cost. As a business we feel maintaining this open and accessible service is necessary, and by encouraging early engagement with us, we will reduce costs in the longer term. Therefore, we suggest retaining this service free of charge, with the view to recover through cost-avoidance.

3.1 Questions on Pre-Planning Services

Q2) Do you agree with our proposed approach to charging for pre-planning services?

Q3) Is there anything else we could do to reduce the barriers to early engagement?

4 Environmental Best Practice

As water companies, we have a responsibility to ensure we are protecting the environment which we work in. In addition, we have a general charging principle we should consider around environmental protection. In Ofwat's recent consultation on balance of charges⁵, there was clear signposting around the importance of environmental incentives, and how, as we move into AMP8 and beyond, there may be stronger ways for water companies to support sustainable development. In the meantime, the increased focus on our environment provides us with an opportunity to explore uncharted greener avenues and gauge levels of support for investigation into alternative and additional environmental protection activities and/or incentivisation programmes.

Last year, we introduced an £80 water efficiency discount off the infrastructure charge for developers who achieved a per person consumption target of 110 litres per day. While we appreciate this is a new incentive scheme, uptake on this has not been substantial. We do, however, propose to maintain this approach for a discount against the infrastructure charge, with an uplift for inflation. However, we are keen to understand the barriers to this, and whether there is any best practice we can learn from and incorporate into our charging structure. We are also keen to understand whether the target of 110 litres per person per day is appropriate and whether there should be a larger discount applied for developments which go beyond this.

4.1 Questions on Environmental Best Practice

Q4) Do you agree with our approach for a water efficiency discount and what barriers, if any, do you see to this?

Q5) Are there any green incentives or best practice you would like to see Affinity Water consider?

Q6) To what extent do you support further work on investigating environmental incentives?

⁵ <https://www.ofwat.gov.uk/wp-content/uploads/2021/04/Balance-of-charges-consultation.pdf>

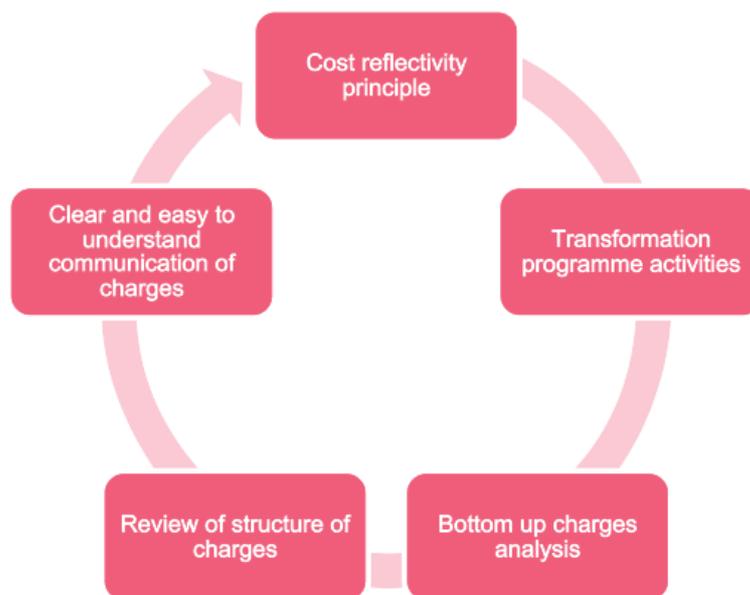
5 Application, Administration and Design Fees

Affinity’s portfolio of pre-construction costs and activities has undergone a full bottom-up, cost reflectivity review to ensure we continue to provide a high-quality service whilst supporting an open market and level-playing field.

This cost analysis builds on Affinity’s adherence to the new charging principle of cost reflectivity. While previous build up information reflected the general costs of work, as required under competition law, we recognised that through our transformation journey over the last 18 months, as well as the introduction of a new organisational design and partner contractors, meant that a full bottom-up analysis activity would be prudent.

There are no significant changes proposed to the structure of our application, administration, and design fees. However, there will be a change to the values because of our analysis and other contributing factors such as inflation.

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



Our indicative 22/23 charges for application, admin and design fees are as follows.

Self-Lay

Mains

| Charge Item | Size | Indicative 22/23 Charge |
|--------------------|-----------------------|-------------------------|
| Application Fee | Small (<50 plots) | £432 |
| | Medium (50-100 plots) | £472 |
| | Large (>100 plots) | £544 |
| Administration Fee | Small (<50 plots) | £518 |
| | Medium (50-100 plots) | £590 |

| | | |
|----------------|-----------------------|--|
| | Large (>100 plots) | £663 |
| Design Vetting | N/A | FOC for first design submission and first amended design |
| Design | Small (<50 plots) | £832 |
| | Medium (50-100 plots) | £1,056 |
| | Large (>100 plots) | £1,265 |

Services

| Charge Item | Unit | Indicative 22/23 Charge |
|--------------------|----------|-------------------------|
| Application Fee | Per plot | £30 |
| Administration Fee | Per plot | £31 |

Mains & Services

Mains

| Charge Item | Size | Indicative 22/23 Charge |
|--------------------|-----------------------|-------------------------|
| Application Fee | Small (<50 plots) | £432 |
| | Medium (50-100 plots) | £472 |
| | Large (>100 plots) | £544 |
| Administration Fee | Small (<50 plots) | £936 |
| | Medium (50-100 plots) | £1,044 |
| | Large (>100 plots) | £1,152 |
| Design | Small (<50 plots) | £832 |
| | Medium (50-100 plots) | £1,056 |
| | Large (>100 plots) | £1,265 |

Services

| Charge Item | Unit | Indicative 22/23 Charge |
|--------------------|----------|-------------------------|
| Application Fee | Per plot | £30 |
| Administration Fee | Per plot | £79 |

Connections to existing mains

| Charge Item | Unit | Indicative 22/23 Charge |
|----------------------------------|----------|-------------------------|
| Application Fee first plot | Per plot | £142 |
| Application Fee subsequent plots | Per plot | £54 |
| Administration Fee | Per plot | £94 |

Diversions

| Charge Item | Indicative 22/23 Charge |
|--------------------|-------------------------|
| Application Fee | £383 |
| Administration Fee | £872 |
| Design Fee | £1,183 |

While we are not requesting specific feedback in the form of a question, we welcome any comments on our approach.

6 Infrastructure Charge and Income Offset

6.1 Infrastructure Charge

The purpose of an infrastructure charge is to enable a charge to be levied to reflect broadly 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 in capability.

In line with Ofwat charging rules, we have reviewed our infrastructure charge for 2022/2023 alongside our forecasted connections volumes for AMP7, beside the future expected expenditure for network reinforcement.

Our infrastructure charge is set at a flat rate per property connected for domestic purposes.

Ofwat require the infrastructure charge to be fully forward looking, however we expect advice on this to be clarified in the upcoming decision document by Ofwat, following the recent statutory consultation.⁶

At present, we have calculated our indicative 22/23 infrastructure charge using the following values:

- Five-year forecast total expenditure for network reinforcement
- Five-year forecast total number of connections
- Inflation forecast to be applied to the 22/23 calculated charge

To ensure we have used appropriate and reasonable forecasts for the above calculation, we have undertaken additional supporting assurance using historic actual values. All calculations have been done with the most up to date information and based on Ofwat information relating to methodology for setting the infrastructure charge as of September 2021.

| 21/22 Infrastructure Charge | Indicative 22/23 Infrastructure Charge |
|-----------------------------|--|
| £249 | £403 |

6.2 Questions on Infrastructure Charge for 2022/23

Q7) Do you agree with our methodology for calculating the infrastructure charge?

6.3 Income Offset

We are required to maintain a balance between the contribution developer customers make and household customers for the provision of infrastructure. To maintain that balance, an income offset value was used between 2018 and 2020 to reduce the charge for developer customers on requisition of water mains. In 2019, Ofwat published a consultation on widening this to SLPs, NAVs and customers completing connections to existing mains. As a result of the subsequent charging rule changes, to comply, we moved

⁶ <https://www.ofwat.gov.uk/wp-content/uploads/2021/08/August-2021-Statutory-consultation-on-changes-to-our-charging-rules.pdf>

the income offset to the infrastructure charge, which was paid by every customer type and applied it against each new connection for a supply of water to the premises connected to a water main, where an infrastructure charge is applicable.

During last year’s charging arrangements consultation, we simplified the process of applying infrastructure charges and income offset so that this was provided at the point of the cost-advice generation; removing the need for consolidation payments upon completed connection and scheme finalisation. We propose to maintain this process through 22/23 under the view that it provides the best customer experience and remains the most appropriate.

Following a review of best practice, we propose to use the following methodology for calculating the income offset to maintain the balance of changes as required under the Charging Rules.

| Step Number | 22/23 Proposed Methodology |
|-------------|---|
| 1 | Identify mains cost forecast for 21/22 |
| 2 | Identify the % self-lay onsite works based on 20/21 % |
| 3 | Calculate the total main laying cost (Forecast / remaining % Self-Lay works) |
| 4 | Identify the Affinity contribution pre 2020 @ 90% of total costs to ensure balance of charges is considered |
| 5 | Forecast connections for 22/23 |
| 6 | Calculate the income offset (Affinity contribution/forecast connections + inflation) |

In turn, our indicative income offset figures are illustrated below:

| Income Offset 21/22 | Indicative Income Offset 22/23 |
|---------------------|--------------------------------|
| £387 | £324 |

6.4 Questions on Income Offset for 2022/23

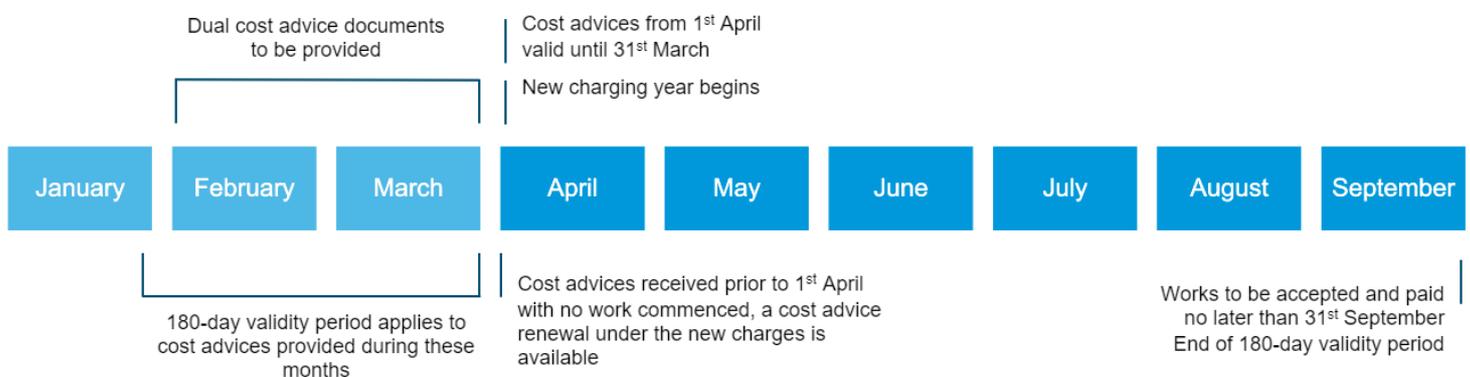
Q8) Do you agree with the approach for the income offset calculation?

7 Transitional Arrangements

We appreciate that the introduction of new charging regimes can add complexity from an administrative perspective for many of our developer customers. We are keen to seek your views on this area to ensure we are doing as much as possible to simplify the process of moving to a new charging year.

As a result of the consultation we held last year, for 21/22 charges, we introduced:

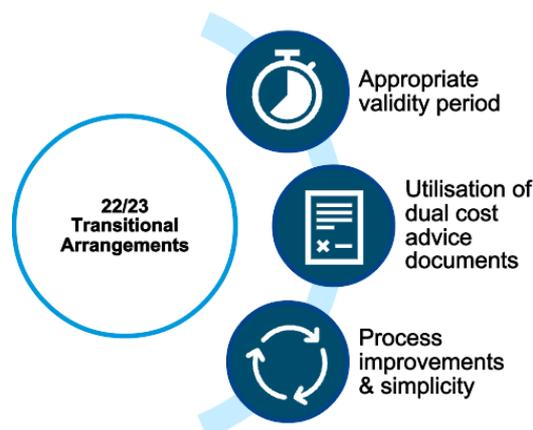
- Provision of dual cost advice (customer receipt of multiple documents for the same works based on two different years' charges) between 1st February – 31st March.
- Extended validity period increasing from 120 to 180 days for cost advice documents issued between 31st January – 31st March.



Our 2022/23 charges will be published by 1st February 2022. Although our new charges will come into effect for work commencing on or after 1st April 2022, we understand that some schemes will be at different stages of the scheme lifecycle. Our aim is to continue to provide you with useful, easy to use tools and helpful options all whilst improving your experience with Affinity Water.

For our 22/23 charges, we propose the following approach:

- Maintenance of the 180-day validity period
- Maintenance of the provision of dual cost advice documents
- Simplification of the timeline for provision of dual cost advice documents and the start from which the 180-day validity period begins by using a single start date of 1st February in any given year.



7.1 Questions on Transitional Arrangements for 2022/23

Q9) Do you agree with our approach to transitional arrangements?

Q10) To what extent do you support the provision of dual cost advice documents? If so, how can we improve this?

8 Traffic Management Charges

We want to continue to ensure our customers can easily identify all potential charges associated with their projects prior to applying to us. Last year, we separated out our traffic management charges from our construction charges to ensure maximum transparency of costs, but also to ensure fairness in the way the charge was applied at a scheme level. We want to build on this for 22/23.

We propose to simplify the road closure charges into a single average charge whilst still maintaining the inclusion of council TTRO charges, which were implemented as a result of last year's consultation.

Our position on additional case-by-case costs incurred in relation to lane rentals, bus stop suspensions and parking suspensions will remain as a reconciliation of the upfront fixed costs to ensure all costs are appropriately recovered.

| Traffic Management Charge | Indicative Charge 22/23 |
|--------------------------------------|-------------------------|
| 2-Way Traffic Lights (Automated) | £861 |
| 3-Way Traffic Lights (Automated) | £1,056 |
| 4-Way Traffic Lights (Automated) | £1,251 |
| 1 person – Manually Operated Stop/Go | £1,190 |
| 2 person – Manually Operated Stop/Go | £1,785 |
| Road Closure | £2,384 |

8.1 Questions on Traffic Management for 2022/23

Q11) Do you agree with our approach to setting traffic management charges?

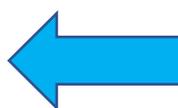
9 Consultation Summary & Next Steps

- 1) Please rank the following principles in order of importance, starting with the most important. Please provide comment as to why you have ranked in this way.
 - Fairness & Affordability;
 - Environmental Protection;
 - Stability & Predictability;
 - Transparency & Customer-Focused Service, and
 - Cost Reflectivity
- 2) Do you agree with our proposed approach to charging for pre-planning services?
- 3) Is there anything else we could do to reduce the barriers to early engagement?
- 4) Do you agree with our approach for a water efficiency discount and what barriers, if any, do you see to this?
- 5) Are there any green incentives or best practice you would like to see Affinity Water consider?
- 6) To what extent do you support further work on investigating environmental incentives?
- 7) Do you agree with our methodology for calculating the infrastructure charge?
- 8) Do you agree with the approach for the income offset calculation?
- 9) Do you agree with our approach to transitional arrangements?
- 10) To what extent do you support the provision of dual cost advice documents? If so, how can we improve this?
- 11) Do you agree with our approach to setting traffic management charges?

9.1 Next steps

Your opinions and comments on our proposed charges are greatly appreciated and are key to helping shape our thinking.

We invite you to provide feedback by returning responses to the questions set out throughout the document, either via a written response sent to charges@affinitywater.co.uk or via our digital response form accessed using this [link](#) or the QR code below.



Scan me with your smartphone to access our digital form, or, if you prefer, simply send written responses to our [mailbox](#).

Responses in either format should be received by 17:00 on 5th November 2021.

Following the review of feedback, we will publish a decision document on our website by the end of November 2021.