



## **Developer Services**

## **New Connections Charging Arrangements 2020/2021**

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Consultation Responses and Conclusions - December 2019

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# 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 15,000 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.

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, the water industry regulator. There are two sets of rules that we must follow in setting our charges for the period 1 April 2020 to 31 March 2021, both published by Ofwat in July 2019:

- Ofwat's Charging Rules for New Connection Services (English Undertakers)<sup>1</sup>
- Charges Scheme Rules issued by the Water Services Regulation Authority under sections 143(6A) and 143B of the Water Industry Act 1991<sup>2</sup>

These 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.

We are required to determine our charges for new connections services in accordance with the principle that charges covered by the rules should reflect:

- a) fairness and affordability;
- b) environmental protection;
- c) stability and predictability; and
- d) transparency and customer-focused service.

We must also take reasonable steps to ensure the balance between contributions to costs by developers and other customers prior to 1st April 2018, is broadly maintained.

The charging rules and charges scheme rules made by Ofwat in July 2019 has introduced a significant policy changes from 1 April 2020. These changes mean that income offsets will no longer be applied to our costs of providing requisitioned water mains and that asset payments will no longer be made to self lay providers. Instead, income offsets will be applied to infrastructure charges payable on each new connection made to our network<sup>3</sup>.

The changes to the charging rules and charges scheme rules will affect:

1. Developers
2. Self-Lay Providers (SLPs); and
3. New Appointees.

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

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<sup>1</sup> [www.ofwat.gov.uk/publication/charges-schemes-rules-from-april-2020/](http://www.ofwat.gov.uk/publication/charges-schemes-rules-from-april-2020/)

<sup>2</sup> [www.ofwat.gov.uk/consultation/consultation-on-charging-rules-for-new-connections-and-new-developments-for-english-companies-from-april-2020/](http://www.ofwat.gov.uk/consultation/consultation-on-charging-rules-for-new-connections-and-new-developments-for-english-companies-from-april-2020/)

<sup>3</sup> We note that Ofwat's Charges Scheme Rules define the income offset as being applied to connections to new water mains rather than all connections.



*Please note that we will publish our final charges for new connections services and infrastructure charges on 1 February 2020. The proposed charges in this consultation document are for consultation purposes only and may be different to our final charges.*

### **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](http://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 Definitions

### 2.1 Definitions 2019/20

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1. **Asset Payment**  
A payment made by Affinity water when a self-Lay provider installs a water main that is adopted by us. The asset payment is equivalent to the Income Offset provided to developers.
2. **Developer**  
Any person or business which is responsible for a development.
3. **Income Offset**  
A sum of money offset against the charges that would otherwise be applied for the provision of a water main in recognition of revenue likely to be received by us in future years for the provision of supplies of water to premises connected to the **new** water main.
4. **Infrastructure Charge**  
A contribution made by the Developer to the overall costs of reinforcing the water supply network. They are payable where new or existing premises are connected for the first time to the public water supply.
5. **New Income Offset (2020)**  
A sum of money offset against the Infrastructure Charge in recognition of the future revenue received by Affinity Water for domestic connections to **new** water mains.
6. **NAV**  
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. A NAV, therefore, involves one company replacing another as the appointee for a specific geographic area.
7. **New Service Connection**  
A request for a new water connection to Affinity Water's Network where the new connection is to be used for domestic purposes.
8. **SLP**  
Self-Lay Providers are independent connection providers who offer an alternative new water supply provision option to developers (rather than getting their new water mains and services laid by the incumbent water company).

### 3 Infrastructure Charges

#### 3.1 Application of Infrastructure Charge 2020/2021

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 in order to address pre-existing deficiencies in capacity or in capability.

Our 2019/2020 Standard Water Infrastructure Charge is set at a flat rate per property connected for domestic purposes. We are not proposing any change for 2020/21. The 2019/2020 and proposed 2020/21 charges are laid out in the table below;

<b>2019/20 Standard Water Infrastructure Charge per property (£)</b>	<b>375</b>
<b>2020/21 Standard Water Infrastructure Charge per property (£)</b>	<b>375</b>

#### Zonal Infrastructure Charge

We have considered a zonal infrastructure charge to help encourage development in areas that have greater access to water supplies. For example, an increased Infrastructure charge could be made for areas with less access to clean water and a lower charge for areas with additional capacity. However, we have provisionally concluded that for the areas in which we operate, a variable Standard Water Infrastructure Charge would be unlikely to influence developers on the selection of development sites. We would welcome views on this.

#### Water Efficient Developments

Building Regulations include the requirement for all new dwellings to achieve a water efficiency standard of 125 litres of water per person per day. Building Regulations Part G include an 'optional' requirement of 110 litres per person per day for new residential development, which should be implemented through local policy where there is a clear evidence need. Affinity Water operates in areas of serious water stress and supports the inclusion of a water efficiency standard of 110 litres per person per day being included in planning policies.

To help promote the achievement of this objective, we are considering a discount to the Standard Water Infrastructure Charge for new homes where there is evidence of water efficiency design to a standard of 110 litres (or less) per person per day. The Standard Water Infrastructure Charge would be reduced to £310 in these circumstances.

<b>2020/21 Standard Water Infrastructure Charge per property (£)</b>	<b>&lt;= 125 litres per person per day</b>	<b>375</b>
<b>2020/21 Standard Water Infrastructure Charge per property (£)</b>	<b>&lt;= 110 litres per person per day</b>	<b>310</b>

In Section 4 of this Consultation we are proposing an income offset against the standard water infrastructure charge of £310 per property. This would result in a net amount payable to us of £65 for properties designed

to meet the water efficiency standard of 125 litres per person per day and £0 for properties designed to achieve a standard of 110 litres per person per day.

## 3.2 Questions on Infrastructure Charges

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Q1) Would an Infrastructure Charge that is varied to reflect the availability of water across the Affinity Water area influence your decision on the purchase of a development site?

- Response 1 - We have no views on this matter (as it is something that is much more pertinent for developers).
- Response 2 - The provisional conclusion that 'for the areas in which we operate, a variable Standard Water Infrastructure Charge would be unlikely to influence developers on the selection of development sites' takes too narrow a view on the value of zonal infrastructure charges. In fact, we would argue strongly for the introduction of zonal charging to ensure that there is:
  - a level playing field for competitive approaches,
  - effective promotion of markets, competition and innovation,
  - adequate price signals for difficult to serve sites – both in terms of water resources and treatment as well as network infrastructure.
  -

Although some developers may prefer a flat rate, a zonal approach could have the same predictability if it were published on a five-yearly basis as part of your business plan. The assessment of your forthcoming costs over the next five years would form the basis of allocating these costs to the areas affected.

As a dominant player in the market the need to ensure that your charges are not anti-competitive should carry greater weight than a reported preference from your developer customers who may not be aware of the existence or benefits of alternative “full serve” suppliers.

- Response 3 - We believe other potential solutions such as zonal charging or varying the charge by size of property would introduce a further complexity to the charging methodology that is not warranted.

**Affinity Water Conclusion - With a high degree of change to the charging rules for 2020/21 and minimal responses received relating to the subject of zonal charging, we propose to review the option for Zonal Infrastructure Charging for the 2021/22 arrangements.**

**Our charges are set to recover our reasonable costs and as such, we believe they promote an effective market and support a level playing field. In setting our charges, the costs are reviewed and assured by independent external consultants, enabling Affinity Water and our Board to confidently provide the necessary assurances to our customers, the regulator and other stakeholders.**

Q2) Would the inclusion of a reduced infrastructure charge for the development of water efficient homes encourage the installation of water efficiency devices?

- Response 1 - We have no views on this matter (as it is something that is much more pertinent for developers). We do however comment that offering reduced infrastructure charges, on a water efficient basis, can complicate the self-lay delivery process by introducing factors which are between developers and water companies but can impact on the charges paid by SLPs. We therefore ask that the criteria for any such offering is clearly defined to facilitate the payable charge being fully identified in advance. This is to avoid any disputes over the amounts being charged (or refunded).
- Response 2 - We agree that tighter mandatory building regulations and standards should be introduced for all new build properties. Currently the introduction of a reduced infrastructure charge for water efficient devices does not guarantee sustained low PCC – due to replacement of low use devices in the early years of occupation. If efficiency can be guaranteed in the future then there is a strong case to reward the provision of such a service, whether delivered by a developer or by a NAV, and that reward should not be restricted to a proportion of the infrastructure charge. We are also concerned that subsidies should not be applied to infrastructure charges for issues that are currently “out of scope” in setting the infrastructure charge. Your current infrastructure charge does not include an element for ensuring you maintain a supply demand balance (the primary purpose of achieving a lower PCC) and therefore you should not be applying a discount for a benefit unrelated to the charge.
- Response 3 - We support schemes that promote the installation of water efficient devices.
- Response 4 - From a general perspective, I think the issue in question is whether the reduction in the infrastructure charge will encourage the installation of water efficient devices over and above what developers may already be doing. For example, if a particular development is specifically being built and marketed as water efficient, then although the developer may qualify for the reduced charge, this may not actually have affected the developers’ decision on fixtures and fittings.

**Affinity Water Conclusion - With a small number of responses received relating to how we encourage water efficient homes, we intend to implement the discount, and review the uptake and benefit over the period. This is in line with the general charging principal of environmental protection and aligns with our business strategy to achieve a Per Capita Consumption (PCC) of 110 litres per person, per property, per day for all customers. Affinity Water will continue to review this charging arrangement and will take stock prior to the 21/22 infrastructure charges being established.**

## 4 Requisition Charges and Income Offset

### 4.1 Application of Income Offset 2019/2020

We explained in the Introduction to this Consultation that the charging rules and charges scheme rules made by Ofwat in July 2019 have introduced a significant policy change from 1 April 2020. This change means that income offsets will no longer be applied against our costs of providing requisitioned water mains and that asset payments will no longer be made to self lay providers. Instead, income offsets will be applied to infrastructure charges payable on each new connection made to our network.

Currently we contribute 90% of the costs of new water mains requisitions, with the developer meeting the remaining 10%. The relative contributions reflect historical information as to the extent to which the amount of revenue we expect to receive in future years from properties connected to requisitioned water mains exceed the cost of financing the construction of requisitioned water mains, on a net present value basis. Our contribution is known as the 'Income Offset'.

### 4.2 Application of Income Offset 2020/2021

From 1 April 2020, we will apply an income offset to infrastructure charges for all connections made for domestic purposes. This means that Developers requisitioning a new water main will pay our full charges for providing the water main.

Developers will, however, receive the Income Offset at the point at which Infrastructure Charges are paid. This means that an income offset will be provided for all connections made for domestic purposes, regardless of whether the connections are made to a requisitioned water main.

### 4.3 Calculation of Income Offset 2020/21

We propose to provide a standard per property rate for the income offset which will be payable by us at the same time that Infrastructure Charges are payable to us. We have derived the proposed income offset from the total value of income offsets and asset payments for the period 1 April 2017 to the 31 March 2018, divided by the total number of connections as shown in the table below.

Draft Income Off-Set Calculation		
Income Offset / Asset payments from offsets due in 2017/18		£ 4,426,000.00
Connections for domestic purposes (where an infrastructure charge was applicable)		15,000
Income Offset to be applied to infrastructure charge where a valid connection is made		£ 295.07
CPIH Increase 2018	2.10%	£ 301.26
CPIH Increase 2019 (Estimated)	2.00%	£ 307.29
<b><i>All above values are indicative and to be confirmed. Final values will be determined when the assurance review is complete</i></b>		

The income offset value used in the examples further within this document is set at **£310** for ease of comparison.

The new income offset amount will be paid direct to the developer when the connection is made as follows:

- we will apply an income offset for each premises connected to our network where an infrastructure charge is applicable,
- the income offset will be applied to the infrastructure charge when the property customer account is agreed, and a billing account is completed,
- an income offset payment will **not be** applicable to service connections to new mains schemes that have already previously received an income offset to the requisitioned mains cost; and
- an income offset payment will **not be** payable to service connections on Self Lay schemes that have already previously received an asset payment for the adopted mains.

We believe that the methods described above have the following advantages:

1. the majority of connections for domestic purposes will receive the income offset,
2. a flat rate per property income offset will make it simple for customers to calculate the costs for the provision of water for their development; and
3. by applying the income offset at the same time as Infrastructure Charges are payable will result in customers receiving payments at the same point in the process.

#### 4.4 Application of Income Offset Examples

The examples below use our charges for 2019/20 to enable a comparison. The charges for 2020/21 may differ from those shown below.

<b>Example 1. New Large Service Connection and a block of 30 flats</b>	<b>2019/20</b>	<b>2020/21</b>
<b>30 flats connected to a new 63mm service connection (Indicative values inserted to be confirmed)</b>		
<b>Total Service Connection Costs</b>	<b>9,510.00</b>	<b>9,510.00</b>
<b>Infrastructure Charges</b>	<b>11,250.00</b>	<b>11,250.00</b>
<b>Income offset</b>	<b>N/A</b>	<b>-</b> <b>9,300.00</b>
<b>Total Charges and Fees</b>	<b>20,760.00</b>	<b>11,460.00</b>
<i>Note: 2019/20 charge values utilised for 2020/21 column to enable clear comparison</i>		
<i>Note: a proposed reduced standard water infrastructure charge of £310 per property could be applied for water efficient new homes</i>		

<b>Example 2. New Water Main (50m) and 30 Service Connections</b>	<b>2019/20</b>	<b>2020/21</b>
<b>30 plots connected to a new water main</b> ( <i>Indicative values inserted to be confirmed</i> )	<b>(£) not inc. Vat</b>	<b>(£) not inc. Vat</b>
<b>Total Service Connections including fees</b>	<b>27,237</b>	<b>27,237</b>
<b>Total New Main Charges including Fees</b>	<b>18,507</b>	<b>18,507</b>
<b>Infrastructure Charges</b>	<b>11,250</b>	<b>11,250</b>
<b>Income offset</b>	<b>- 13,765</b>	<b>- 9,300</b>
<b>Total Charges and Fees</b>	<b>43,229</b>	<b>47,694</b>
<i>Note: 2019/20 charge values utilised for 2020/21 column to enable clear comparison</i>		
<i>Note: a proposed reduced standard water infrastructure charge of £310 per property could be applied for water efficient new homes</i>		

<b>Example 3. Single Connection</b>	<b>2019/20</b>	<b>2020/21</b>
<b>1 plot connected to a new water main</b> ( <i>Indicative values inserted to be confirmed</i> )	<b>(£) not inc. Vat</b>	<b>(£) not inc. Vat</b>
<b>Service Connection inc fees</b>	<b>2,146</b>	<b>2,146</b>
<b>Infrastructure Charges</b>	<b>375</b>	<b>375</b>
<b>Income offset (per plot)</b>	<b>N/A</b>	<b>- 310</b>
	<b>-</b>	
<b>Total Charges and Fees</b>	<b>2,521</b>	<b>2,211</b>
<i>Note: 2019/20 charge values utilised for 2020/21 column to enable clear comparison</i>		
<i>Note: a proposed reduced standard water infrastructure charge of £310 per property could be applied for water efficient new homes</i>		

<b>Example 4. New Water Main and 200 Service Connections</b>	<b>2019/20</b>	<b>2020/21</b>
<b>200 plots connected to a new water main</b> ( <i>Indicative values inserted to be confirmed</i> )		
<b>New Main Requisition including fees</b>	<b>68,753</b>	<b>68,753</b>
<b>Service Connections including fees</b>	<b>111,547</b>	<b>111,547</b>
<b>Infrastructure Charges</b>	<b>75,000</b>	<b>75,000</b>
<b>Income offset (90%)</b>	<b>- 49,669</b>	
<b>Income offset per plot</b>		<b>- 62,000</b>
<b>Total Charges and Fees</b>	<b>205,631</b>	<b>193,300</b>
<i>Note: 2019/20 charge values utilised for 2020/21 column to enable clear comparison</i>		
<i>Note: a proposed reduced standard water infrastructure charge of £310 per property could be applied for water efficient new homes</i>		

## 5 Charges and Asset Payments – Self-lay Water Mains

### 5.1 Application of Asset Payments 2019/2020

In the current **charging year** If a main is laid by a Self-lay Provider (SLP)

1. SLP Asset Payments: - When a SLP lays a water main on behalf of a developer and we adopt this main, the SLP is paid an Asset Payment which is equivalent to the Income Offset paid to developers.

### 5.2 Application of Asset Payments 2020/2021

We explained in the Introduction to this Consultation that the charging rules and charges scheme rules made by Ofwat in July 2019 have introduced a significant policy change from 1 April 2020. These changes mean that asset payments will no longer be made to self-lay providers.

From 1 April 2020, asset payments will no longer apply so no payments will be made to SLPs.

However, the new income offset will be paid to the Developer as set out in the example below

Example 5. Self-Lay New Water Main and 30 Service Connections	2019/20	2020/21
	(£) not inc. Vat	(£) not inc. Vat
<b>30 plots connected to a new water main (Indicative values )</b>		
<b>Application Fees</b>	<b>1,552</b>	<b>1,552</b>
<b>Administration Fees</b>	<b>2,773</b>	<b>2,773</b>
<b>Infrastructure Charges</b>	<b>11,250</b>	<b>11,250</b>
<b>Income offset (30 plots) paid to Developer</b>		- <b>9,300</b>
<b>Asset Value (90% of Affinity Water Charges)</b>	- <b>13,765</b>	
<b>Total Charges and Fees</b>	<b>1,810</b>	<b>6,275</b>
<i>Note: 2019/20 charge values utilised for 2020/21 column to enable clear comparison</i>		
<i>Note: a proposed reduced standard water infrastructure charge of £310 per property could be applied for water efficient new homes</i>		

### 5.3 Questions on Income Offset

Q3) Should the New Income Offset offered by Affinity Water be offered at a flat rate per property?

- Response 1 - We have no strong views on this apart from observing it simplifies the process when a flat rate per property is applied and most sites now incorporate a wide range of property types.
- Response 2 - Whilst we believe that income offsets are inherently anti-competitive, applying them on a flat rate per property basis is the least-worse option.
- Response 3 - We agree to the concept of applying a flat income offset per property for all types of new connections.

**Affinity Water Conclusion - On the basis that that the feedback is in favour of this proposal, we will proceed and apply the Income Offset as a flat rate per property.**

Q4) What impact do you anticipate from the change of the Income Offset against Requisition charges to the application of the New Income Offset against Infrastructure Charges?

- Response 1 - We welcome this change as it removes the nonsense that previously arose when Affinity Water capped Income Offset at the 'lay-only' construction rates. So, it should enable SLPs to provide a direct comparison offer to developers and thereby aid the development of water connection competition.
- Response 2 - We support neither approach (for the reason expressed in answer to question 3) but recognise that the system from April 2020 will be an improvement if Requisition charges are based on Points of Supply with available capacity.
- Response 3 - The cashflow impact on developers could be significant, Affinity Water should therefore continue to offer the opportunity to either pay infrastructure charges up-front or on connection. We believe that the application of staged payments could be appropriate for larger developments. Any changes implemented should be applied equally for all market participants.

**Affinity Water Conclusion – With a small number of varied responses to this option we intend to proceed with the original proposal.**

Q5) What, if any, alternative approaches to the delivery of the New Income Offset would you like Affinity Water to consider?

- Response 1 - We are not proposing any alternative approaches.
- Response 2 - Income offset should be linked to establishing low PCC and driving innovation – a fund designed to establish a market for efficiently serving new developments (and accessible to all NAVs) could deliver benefits to all stakeholders whilst meeting guidance on the balance of payment (level of existing customer cross-subsidy).  
In the particular case of a 'full service' NAV community water recycling scheme, the introduction of an offset in recognition of reduced demand on the off-site potable network will encourage greater sustainability and innovation.
- Response 3 – No comment.

**Affinity Water Conclusion - The responses received in relation to this question were minimal, therefore, we will proceed with our original proposal. We will continue to review this charging arrangement and will take stock prior to the 21/22 infrastructure charges being established. Additionally, as part of our AMP7 readiness plan, we will be engaging in further discussion with NAV's over the coming year on how we can further support effective markets and water efficiency in new builds.**

## 6 New Appointments and Variations (NAVs).

### 6.1 Application of Asset Payments 2019/2020

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In 2019/20. where a New Appointee (NAV) lays a water main then we pay an asset payment equivalent to the Income Offset paid to developers.

### 6.2 Application of Asset Payments 2020/2021

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From 1 April 2020, no asset payment will be made. However, an income offset will be applied to the infrastructure charges<sup>4</sup> payable by NAVs in respect of connections made to the NAV's network for domestic purposes.

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<sup>4</sup> Under our bulk supply agreement with a NAV, the NAV is required to pay for each property connected to its network and amount equivalent to the infrastructure charges that would have been payable to us had the properties been connected to our network.

## 7 Charges and Fees 2020/2021

### 7.1 General

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1. Our charges and fees are based on the forecast actual cost to deliver the element of the services listed within each section of the charges document. All charges are subject to review to ensure cost reflectivity,
2. We are continually reviewing all of our costs and recoveries for preceding years and if we over recover, we will re-evaluate the respective charges for future years and amend accordingly; and
3. the review will continue up the deadline for publication of the charges to ensure that we deliver current cost reflective charges and fees.

### 7.2 Review of Requisition Charges

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1. The [Requisition charges](#) 6.5(a), 6.5(b) 6.6, and 6.7 are built up from our contractor construction costs to which we add allowance factors, where required, for traffic management, street works permits, local authority costs and restrictions, road closures, bus stop suspensions, parking bay suspensions and other associated costs based on historical data and estimates of future requirements,
2. the review of the requisition charges is currently in progress; and
3. the expectation is that there will be no significant increase for these charges.

### 7.3 Review of Connection Charges

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1. The service [Connection charges](#) in Table 7.4(a), 7.4(b) and 7.4(d) are built up from our contractor construction costs to which we add allowance factors, where required, for traffic management, street works permits, local authority costs and restrictions, road closures, bus stop suspensions, parking bay suspensions and other associated costs based on historical data and estimates of future requirements,
2. we have undertaken a review of the total cost to deliver the New Service Connections work,
3. the review has identified that the forecast costs for the next charging period will be greater than anticipated due to an increase in costs for delivering service connections.
4. therefore, our charges for New Service Connections will increase. It is anticipated that the connection charge will increase in the order of 10%. The increase is to ensure that our charges remain cost reflective and help to promote effective competition in the market,
5. our fixed charges for your New Service Connection(s) are limited to the cost of connecting to the nearest reasonably practicable point on our network where the existing water main is at least the same diameter as your service connection, and
6. if we change the point of connection for capacity reasons or if we need to carry out additional works beyond the point of connection in order to provide capacity for your development, we will make no additional connection charge.

## 7.4 Review of Application and Administration Charges

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1. The application fee covers our costs associated with reviewing and acknowledging your application, checking to ensure we have all the relevant information, preparing a quotation and/or estimated charges for the works, and issuing a response to you,
2. our administration fees reflect the costs we incur for planning, organising, project managing, inspecting and commissioning the construction of the water main and or service connections to serve your development,
3. the review of the requisition charges is currently in progress; and
4. the expectation is that there will be no significant increase for application and administration charges.

## 7.5 Questions on our Charges and Fees 2020/21

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Q6) Do you agree that it is reasonable for us to evaluate our charges on an annual basis to ensure that they are cost reflective of the service provided?

- Response 1 - We regard it imperative that all charges are regularly reviewed to ensure that they are both cost reflective and only cover costs that it is reasonable for customers to pay. Our view is that this should be done regularly and not wait on 'annual' reviews. In this regard we do not view a number of the Affinity Water connection charges as being set on a reasonable and cost reflective basis. With regards this we consider that the current charges for:-
  - mains application (both in-house and company provision)
  - mains administration (both in-house and company provision)
  - service connection application and administration (both in-house and company provision)as being excessive and in urgent need for review. We also flag the charge for Pre-Planning reports which we do not view as being a cost customers should directly incur so again the basis of this charge needs of urgent review.
- Response 2 - There is merit in this approach as long as it includes an evaluation of alternative scenarios in a fully competitive market for new developments, however this might be outweighed by establishing greater clarity in a five-year process.
- Response 3 - While we recognise that annual evaluation could ensure a cost reflective approach, Affinity should have a customer management plan in place to avoid annual fluctuations that negatively impacts its developer services customers. Charging predictability is essential.

**Affinity Water Conclusion - We have evaluated our charges against the actual costs to deliver the service. The process of evaluating our costs vs our income is a continual process and has been monitored throughout the year. We make changes on an annual basis to support OFWATs requirement, that our charges provide stability and predictability for our Customers. The AWL Developer Services function runs on a net neutral cost basis over a rolling period. We believe that all charges are cost reflective to the service, and we continually track our charges against the cost to deliver the service. With regards to pre-development enquiry costs, we do offer a discounted fee against the requisition fees for customers who have previously paid for a pre-development enquiry, this is in recognition that we will have already completed some of the work required to develop the requisition quotation.**

Q7) What, if any, other approaches would you like Affinity Water to consider, in order to, maintain a cost reflective charge.

- Response 1 - Because Affinity Water's connection charges are amongst the highest, in our cross company comparison, and they also look to have increased the monies paid by developer customers between 2017/18 and 2018/19, we view it as imperative Affinity is now transparent and open about how their charges have been set and the make-up of work elements that form each charge. They should then do a comparison against the comparable costs in other connection sectors, such as gas and electricity, before coming to a view, aided by further detailed customer consultation, about how their charges need adjusting.
- Response 2 - See answers to questions 1 to 6 above. (*Response 2*)
- Response 3 – No comment.

**Affinity Water Conclusion - We continually review our costs, and we have evaluated our charges against the actual costs to deliver the service. The AWL Developer Services function runs on a net neutral cost basis over a rolling period and we consider that all charges are cost reflective of the services provided. We believe that our published charges will be transparent to the level of detail needed by our Customers.**

## 8 Design Fees

### 8.1 Design Fee Proposal

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1. The background to the design services we provide is that we obtain all our designs via an outsourced Contractor, selected in a competitive tender process. As such we believe that their costs reflected in our charges will be at market rates and comparable i.e. a level playing field to other contractors and Self Lay Providers (SLP),
2. the design team provides an inclusive service. The total cost of the design is recovered in the calculated average fee,
3. in line with the requirement to provide a fair and level playing field and promote competition, we are undertaking a review of our design fees,
4. our intention is to remove the fee for the design review in the upstream market (Work that can only be undertaken by Affinity Water), including the first review and subsequent first revision,
5. we are currently in the midst of a review of the charges applied to the downstream market (work that can be undertaken by any suitably qualified designer). Where design services are procured through our business, this service is considered contestable works and we will review our charges to ensure that they are fully reflective of our costs, therefore allowing a margin for equally efficient providers of this service; and
6. the early indication of the review is that an increase in design fees will be required to ensure that all of our design costs are recovered. The forecast increase in costs is anticipated to in the order of 20% which will be a significant increase and thus we must consult with our stakeholders on this. This increase will have to be applied to ensure that our costs are reflective and allow a level playing field for entry into a competitive open market.

### 8.2 Questions on Design Fees

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Q8) Do you agree that our fees for design must be cost reflective and include our reasonable forecast of costs to allow an open fair market?

- Response 1 - We are surprised by this question as why would a design charge not be set on a 'cost reflective' basis?  
From our perspective the charges when Affinity does design themselves should include for all the tasks that they require SLPs submitting designs to perform and not offer any savings which arise because Affinity can perform related 'wholesale' and 'retail' tasks simultaneously.
- Response 2 – Yes.
- Response 3 - The level of charge proposed will be key in understanding the reasonableness of the Affinity Water proposal. We are however concerned that the absence self-serve product could create both a cost and timing disadvantage to Affinity customers. Self-serve enables 3rd parties to undertake a number of design activities themselves, similar to the gas and electricity sectors.

**Affinity Water Conclusion - The changes proposed are designed to further support effective markets and encourage design works to be undertaken by the downstream market, by removing the fees charged for the items covered in the upstream element of the design. The feedback during our customer consultation days was supportive of the proposals to remove fees for design reviews undertaken by Affinity Water. The responses to question 9 above support this view. Our decision is to proceed as planned.**

Q9) Do you agree that cancellation of design review fees for the first submitted design for SLPS removes a barrier for entry into a competitive market?

- Response 1 - Such an arrangement would give confidence to SLPs that their submitted designs will not be unreasonably refused which could aid the competitive connection market for design work. Of greater benefits would be committing to much quicker response times, allowing minor amendments in submitted designs to be done whilst construction is advanced through works planning and guaranteeing fast approval service standards. Also introducing self-certification (where a SLP who has had a number of designs approved can elect to authorise their own work).
- Response 2 – Yes.
- Response 3 - The level of charge proposed will be key in understanding the reasonableness of the Affinity Water proposal. We are however concerned that the absence self-serve product could create both a cost and timing disadvantage to Affinity customers. Self-serve enables 3rd parties to undertake a number of design activities themselves, similar to the gas and electricity sectors.

**Affinity Water Conclusion - The changes proposed are designed to further support effective markets and encourage design works to be undertaken by the downstream market, by removing the fees charged for the items covered in the upstream element of the design. The feedback during our customer consultation days was supportive of the proposals to remove fees for design reviews undertaken by Affinity Water. The responses to question 9 above support this view. Our decision is to proceed as planned.**

## 9 Transitional Arrangements

### 9.1 Transition Arrangements Proposal

The new charging rules will be applied from 1st April 2020. We recognise that some quotations for new mains and connections work would have been provided prior to this date and would have been calculated using the 2019/20 charging rules with an expiry date of 31 March 2020.

We are proposing the following to cover the transition period:

1. All quotations requested prior to 1 April 2020 will be provided using the 2019/20 Charging Arrangements for New Connections Services and 2019/20 Charges Scheme.
2. if your work has not started prior to 1 April 2020 you will have the option to ask for a requote,
3. if your work has commenced, you cannot ask for a requote,
4. all 2019/20 quotes that are provided between 1 February and 31 March 2020 are valid if they are paid within 90 days of the 1 April 2020,
5. SLP and NAV quotations are valid as per transition item 4 as long as the relevant agreements are signed within the same period,
6. from 1st April 2020 all quotations will be provided in line with the new charging arrangements for 2020/21,
7. if a 2019/20 quotation is accepted and paid during the transition period but after 1st April 2020 and a subsequent requote is required for any major change, then the 2020/21 charges will be applied,
8. if we have provided a quotation and a change, such as number of service connections, design change or other significant change is requested we will charge a re-application fee equal to 50% of the application fees set out in our charging arrangements; and
9. SLP and NAV variations.

All changes that are required from 1 April 2020 will be charged at the new rules regardless of when the initial quotation was accepted and paid.

To help ensure that all of our customers are well informed of the potential differences in charges between the 2019/20 and the 2020/21, we are proposing to provide a brief information note that explains the changes in process and the location of the 2020/21 charges on our system. This briefing note will be included with all quotations provided between 1 February 2020 and 1 April 2020.

### 9.2 Questions on our Transitional Arrangements

Q10) Is our proposed timeframe of 90 days for the acceptance and payment of a 2019/20 quotation reasonable?

- Response 1 - Our views are that 90 days is too short for mains work where often a developer gathers quotes from a number of providers before making decisions and arranging for main laying to be done. To the find that there are further delays whilst work gets re-quoted and authorisation for increased budgets obtained will not be beneficial, so we request that, for main laying work, quotes are kept open for a minimum of 6 months. We consider that centring transitional arrangements around quotation acceptance dates only works where mains and services are in the same application. This is covered in the wording in Section 4.3 (though interestingly this assumes that asset payments are always made before service connections) but has not been carried forward into the transitionary arrangements section.

We are also troubled that minor site layout variations could trigger a re-quote (on less favourable terms). We regard this as unacceptable and urge Affinity Water to set-out the major change criteria which has to occur before any main laying work gets re-quoted (this needs to be much more extensive than a couple of additional services into a site layout).

Moreover, we are concerned that, unlike in 2018, each company is making their arrangements for transitions between 2019/20 and 2020/21 charges. This will invariably lead to many confusing

variations compounded where water only companies collect sewerage infrastructure charges on behalf of other companies. We therefore urge all companies to work together and introduce common transitional arrangements.

- Response 2 – No comment.
- Response 3 – No comment.

**Affinity Water Conclusion - Affinity Water has 28 calendar days to provide a quotation for the works. With the move of the Income Offset and removal of Asset Payments, the process for competitive quotations should be simplified in April 2020. This will be achieved by reducing the number of moving parts to be considered when developing competitive quotes, which will help support the effective markets.**

**However, we recognise that our customers may face challenges in the provision of quotes submitted between February 2020 and end of March 2020, and we will increase the time period for the validity of quotes pre-April 2020, from 90 days to 120 days. This therefore means that quotes issued in early February will be valid until the end of July. It should be noted that if a quotation is accepted and paid prior to this period, we will not be setting a deadline for the works to start.**

**Q11) If your answer to Q)10 is no, please specify which elements you disagree with and why?**

- Response 1 – See our response to question 10. (*Response 1*)
- Response 2 – No comment.
- Response 3 No comment.

**Affinity Water Conclusion – We intend to proceed as planned.**

## 10 Full Questions List

### 10.1 The questions from all sections are provided below:

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Q1) Would an Infrastructure Charge that is varied to reflect the availability of water across the Affinity Water area influence your decision on the purchase of a development site?

Q2) Would the inclusion of a reduced infrastructure charge for the development of water efficient homes encourage the installation of water efficiency devices?

Q3) Should the New Income Offset offered by Affinity Water be offered at a flat rate per property?

Q4) What impact do you anticipate from the change of the Income Offset against Requisition charges to the application of the New Income Offset against Infrastructure Charges?

Q5) What, if any, alternative approaches to the delivery of the New Income Offset would you like Affinity Water to consider?

Q6) Do you agree that it is reasonable for us to evaluate our charges on an annual basis to ensure that they are cost reflective of the service provided?

Q7) What, if any, other approaches would you like Affinity Water to consider, in order to, maintain a cost reflective charge?

Q8) Do you agree that our fees for design must be cost reflective and include our reasonable forecast of costs to allow an open fair market?

Q9) Do you agree that cancellation of design review fees for the first submitted design for SLPS removes a barrier for entry into a competitive market?

Q10) Is our proposed timeframe of 90 days for the acceptance and payment of a 2019/20 quotation reasonable?

Q11) If your answer to Q)10 is no, please specify which elements you disagree with and why?