



Developer Services 2020 Charging Arrangements: An independent consultation

September 2019



Why has Thames Water commissioned this research?

In July 2019 Ofwat issued new charging rules for new connections that come into force on 1 April 2020. These new rules mean that it is compulsory to apply an income offset to the infrastructure charge instead of to the requisition charge. This is in order to make it available to all types of new developments, regardless of who provides the on-site work.

Ofwat has advised all water companies that their charges should reflect 'fairness and affordability' and 'stability and predictability'. Therefore, it is Thames Water's responsibility to ensure the way they introduce this change into their charges reflects this.

This document details how Thames Water is proposing to respond to these new rules in their 2020/21 New Connections Charging Arrangements.

In addition, Thames Water is proposing to make changes to introduce application and design fees for new mains applications in order to promote effective competition for design work, as it is a contestable activity that others can also complete.

Thames Water wants to consult with its customers to get their feedback on three different areas of change:

1. A) Infrastructure charges and B) The NEW income offset
2. Transition arrangements – how these new rules will be rolled out
3. Application and design fees for new water mains

This document refers to three groups of customers whom these changes will affect:

- Developers
- Self-lay providers (SLPs)
- New appointments and variations (NAVs) - sometimes known as inset providers

This consultation is being managed by Verve, an independent market research company. Further details on Verve can be found at www.addverve.com.

Instructions on the completion and submission of this document can be seen on the following page.



This market research consultation is being managed by Verve on behalf of Thames Water. As such, the answers to this survey will be saved onto Verve's servers for 3 months, in order for us to analyse at an aggregated level and report back findings to Thames Water. No personal data will be shared back to Thames Water at an individual level.

Please tick this box to confirm you are happy for Verve to store and use your data for Market Research purposes.

To read more of how Verve will store and manage your data, please read our [GDPR statement](#) and [Privacy Policy](#).

Please can you indicate by ticking the relevant box below, the type of organisation that you represent:

Housebuilder

Self-Lay Provider

Homeowner

NAV

Consultant

All responses submitted in this consultation will be anonymous. Thames Water will not receive any personal information that you choose to share.

This document is an interactive PDF. After each new topic, you will find a section with questions about each topic. There is a blank text field under each question to which you can add your comments.

If you would like to contribute to this research, please enter your responses to all the questions included in this document, save it and email it to developerservicesconsultation@addverve.com before Monday 30 September 2019.

If you would like further information on this consultation, please contact [REDACTED] at Verve.

Tel: [REDACTED]

Email: [REDACTED]



Infrastructure Charges

The current situation

Infrastructure charges are payable on all new connections and fund any improvements Thames Water has to make to provide additional network capacity to support new developments. Currently infrastructure charges are charged at a flat rate per water connection and per waste connection, as below.

2019/20 infrastructure charges	Charge per property connected
Water	£140
Wastewater	£210

The proposal

Thames Water are proposing not to make any changes to the flat rate approach for infrastructure charges in 2020. They have considered zonal infrastructure charges (i.e. varying the charge depending on the geographical area your site is in) but feedback from developers has been that this would not influence their decisions in where to develop.

Thames Water are, however proposing to harmonise payment options for infrastructure charges and allow all customer groups the choice to pay in advance or when the connection is made.



Questions

To what extent do you agree or disagree with the continuation of a flat rate fee for infrastructure charges in 2020 and why?

NEW Income Offset

The current situation



For Developers: Thames Water subsidises the cost of new water mains and sewer requisitions based on the amount of new revenue it expects to receive over the next twelve years from the properties connected as a result. This contribution made by Thames Water is called the 'income offset', and it is deducted from the new mains or sewer requisition quotation.



For SLPs: When a self-lay provider installs a water main which is adopted by Thames Water, they are paid an 'asset payment' that's equivalent to the 'income offset' given to developers.



For NAVs: Thames Water pays the NAV an income offset/asset payment equivalent in instalments on a phased basis following assessment of the actual on-site mains laid vs the on site mains design originally provided.

The identified drawbacks of the current situation:

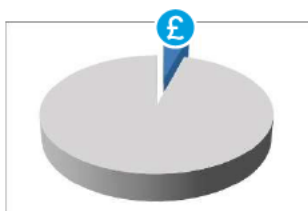
- Customers laying only 'service connections' on an existing main do not currently receive any income offset or equivalent.
- The timing of receiving the income offset or equivalent will vary across the different customer groups.



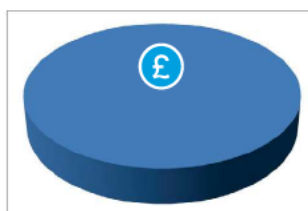
Income Offset Changes

The proposal

- Thames Water’s aim is to comply with Ofwat’s new rules and harmonise the payment so that all customers are treated equivalently. To do this, asset payments will cease to exist and income offsets will be applied to infrastructure charges.
- The new income offset will be applicable to all new connections – not just those customers with a new water main.
- The same total amount of money will be shared across all new connections customers using a flat rate per property.
- The new income offset will be paid to customers at the same time they pay the infrastructure charge (in advance, when paying the quote, or on the date of connection – as per previous section).
- There will no longer be an income offset on sewer requisitions, Thames Water will add the relevant pot of money to the water allocation pot (Waste Infrastructure Charges are paid as part of the provision of new water connections so the income offset will be applied to the new water connection rather than the sewer requisition).



Currently the entire ‘income offset’ pot goes to the 4% of Developer Services customers who require a new main or sewer requisition.



In future, the same total ‘income offset’ pot will be shared across all customers who are making a new connection, whether they need a new main/sewer or not.

The potential benefits of the proposed approach:

- All customers making a new connection to our water network will receive an income offset.
- A flat rate per property means it is simple for customers to understand and calculate the income offset they will receive.
- The new income offset being given at the same time as infrastructure charges are paid is simple and consistent and means:
 - Customers will be able to lock in the new income offset in the same way they can the infrastructure charge.
 - The timing rules for receiving the income offset will be the same for all customers.

Why is Thames Water proposing a flat rate for the new income offset, rather than banded rates?

Some developers have already suggested to Thames Water that it should look at banding the income offset rates – i.e. giving larger development sites a larger slice of the income offset pie, to minimise the impact of the changes on large developers needing long lengths of new main. A theoretical example of a banded approach is below:

Number of properties on the development	Income offset per property
0-50	£A smaller sum
51-200	£A middling sum
201+	£A larger sum

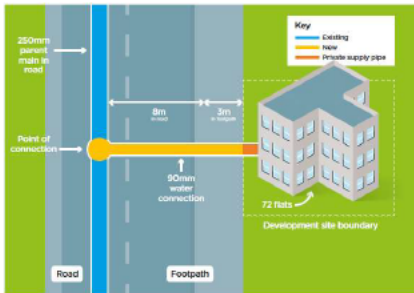
Thames Water has carried out financial modelling to look at this and concluded that a banded approach would do very little to mitigate customer impact, and would also be more complex to manage. For this reason, it's proposing a flat rate for the new income offset.

See the Appendix for the results of the modelling exercise.

Examples of how the income offset will be applied can be seen below. Additional examples can be seen in the Appendix.

Example 1: New water connection to a block of flats

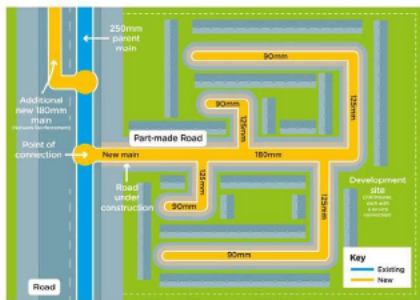
200 flats being connected to an existing water main.



	Today	Future
Service connections	£10,200	£10,200
Internal meters 20mm	£18,000	£18,000
Infrastructure charges	£70,000	£70,000
Income Offset	n/a	(£62,000)
Net infrastructure charges	£70,000	£8,000
Total charge	£98,200	£36,200

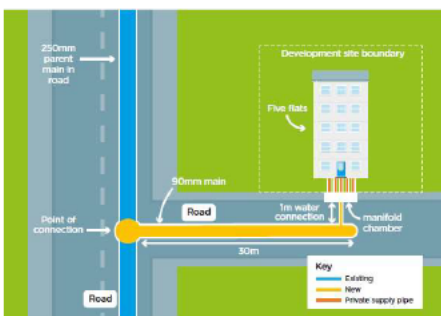
Example 2: New water main and water connections

200 house development, an additional new main is needed.



	Today	Future
New main	£499,870	£499,870
Income offset	(£368,494)	n/a
Service connections	£81,000	£81,000
Infrastructure charges	£70,000	£70,000
Income Offset	n/a	(£62,000)
Net infrastructure charges	£70,000	£8,000
Total charge	£282,376	£588,870

Example 3: Self-lay of new water main and new water connections to five flats



	Today	Future
Thames Water works	£4,380	£4,380
Gross asset payment	(£9,983)	n/a
Net asset payment	(£5,603)	£0
Service connections	n/a	n/a
Infrastructure charges	£1,750	£1,750
Income Offset	n/a	(£1,550)
Net infrastructure charges	£1,750	£200
Total charge	(£3,853)	£4,580

For the same five-flat development but no new main is required.

This shows that the proposed approach gives the same income offset for equivalent number of properties.

	Today	Future
Infrastructure charges	£1,750	£1,750
Income Offset	n/a	(£1,550)
Net infrastructure charges	£1,750	£200
Total charge	£1,750	£200



Questions

To what extent do you agree or disagree with the new income offset being given at a flat rate per property?

To what extent do you agree or disagree with the principle of receiving the income offset at the same time that you pay the infrastructure charges?

To what extent do you agree or disagree with discontinuing the income offset on sewer requisitions and applying this credit across water schemes and why?

What alternative approaches, if any, would you like Thames Water to consider for income offset?

Transition Arrangements

Although the new charging rules come in to effect for work commencing on or after 1 April 2020, Thames Water recognises that some of that work will be covered by quotes issued prior to this date. These quotes would have been drawn up using the 2019/20 Charging Arrangements, with a 180 calendar day validity period.

Thames Water has come up with a set of proposals for new water mains and service connections work that it will use to determine whether the 2019/20 or 2020/21 Charging Arrangements apply.

Key dates:

1 Feb 2020
2020/21 Charges Published

1 Apr 2020
2020/21 Charges Go Live

Quote rules:

Before 1 April 2020, all quotes issued will be issued under 2019/20 Charging Arrangements

- If your work has commenced you cannot ask for a requote under 2020/21 Charging Arrangements
- If your work has not commenced, you can ask for a requote under 2020/21 Charging Arrangements after 1 April 2020

From 1 April 2020, all quotes issued will be under 2020/21 Charging Arrangements

Throughout the change, 2019/20 quotes are still valid if they're paid within their 180 calendar day validity period and work commences within 12 months of acceptance and the relevant SLP/NAV agreements are signed (if applicable)

Communicating the options to customers:

Changes communicated in quotes, with links to consultation proposals

Changes communicated in quotes, with links to new charging document

Thames Water are also considering

- If a developer accepts and pays a quote issued under 2019/20 Charging Arrangements, and then requires a re-quote on or after 1 April 2020, the 2020/21 Charging Arrangements will be used to calculate the re-quote.
- Similarly, if an SLP or NAV signs an agreement issued under 2019/20 Charging Arrangements, and then requires a variation on or after 1 April 2020, the 2020/21 Charging Arrangements will be used as the new basis for the agreement.
- If customers ask for a re-quote at any time, Thames Water will apply re-quote fees as normal.



Making the options clear for customers

Thames Water's aim in the run up to the charging changes is to help customers understand a change is coming, and what their options are.

From 1 October 2019, Thames Water proposes that:

Thames Water will include information in their new water mains and service connections quotes to:

- highlight that Charging Arrangements will be changing from 1 April 2020.
- refer customers to the consultation information on their website.

Their intention is to help customers understand what's going on, and make informed choices about when they want their work to commence.

From 1 Feb 2020 our 2020/21 charges will be published on their website. This means that:

From 1 February– 31 March 2020, Thames Water will update their quotes to:

- highlight that Charging Arrangements will be changing from 1 April 2020.
- refer customers to the published 2020/21 Charging Arrangements document on their website.

This will enable customers to use the 2020/21 Charging Arrangements document to work out the specific impact of the changes for their site. This should enable them to make informed choices about whether they want to accept this quote, or to ask for a re-quote on or after 1 April 2020.

As Thames Water is proposing a simple mechanism for the new income offset, customers will be able to easily calculate the impact of the income offset changes themselves. Because of this, Thames Water is not proposing to run dual quoting – i.e. working out the 2019/20 and 2020/21 charges for a customer's site to show them a price comparison. The costs of doing this would be substantial, and Thames Water has to pass these costs on to customers in their charges – they do not believe there would be sufficient benefit to justify this.

Questions

To what extent do you agree or disagree with the principles of which charging rules Thames Water will apply during the transition period?

To what extent do you agree or disagree with the principle that for a quote to remain valid, work must have started within 12 months of acceptance and payment?

What alternative approaches, if any, would you like Thames Water to consider for transitioning between charging rules?

To what extent do you agree or disagree with the proposals for providing information to customers about the changes to the charges?

What alternative approaches, if any, would you like Thames Water to use to provide information about the changes to charges to customers?

Application and design fees for new water mains

The current situation

Currently, the costs associated with handling new mains applications and producing designs are not charged separately - no upfront fees are payable. The costs of application and design work are included in the connection and pipelaying tariffs paid by developers when works go ahead.

The proposal

Thames Water is proposing the following:

- An application fee: Based on a flat rate fee paid by all customers upfront, upon application
 - The flat rate fee will cover the costs required to process the application and the payment
 - Will be non-refundable if the work does not go ahead
- A design fee: Based on a scaled fee paid by all customers upfront, upon application
 - This fee could be scaled based on the number of connections
 - Will be non-refundable if the work does not go ahead
 - A flat rate amendment fee will be charged for small changes to designs
 - Any re-designs will be charged at the same cost as the original design

If you choose to ask someone else to design the work, Thames Water is proposing that a checking fee be included and be payable as part of accepting the quote.

- The charge will cover the costs required to check that the submitted design conforms to appropriate standards
- It will be a scaled fee paid in advance of works based on the number of connections included in the scheme
- A recheck fee is likely to be the same as the original checking fee

The potential benefits of the proposed cost structure:

For customers

- Allowing contestable design work to be carried out by alternative providers will save developers money if they can do it cheaper, or if they are able to complete it more quickly
- The scaling of design fees means that developers are paying a more cost reflective fee for the work required

For Thames Water

- Thames Water expects a reduction in speculative quotes as a result of the application and design fees being non-refundable if work does not go ahead
- These new charges align Thames Water with other water companies and to the approach taken on service connections

Questions

To what extent do you agree or disagree with Thames Water's proposal of using [a flat rate Mains Application Fee](#) and why?

To what extent do you agree or disagree with Thames Water's proposal of using [a scaled design and checking fee](#) and why?

What alternative approaches would you like to see Thames Water use for Mains Application and Design and Checking fees?

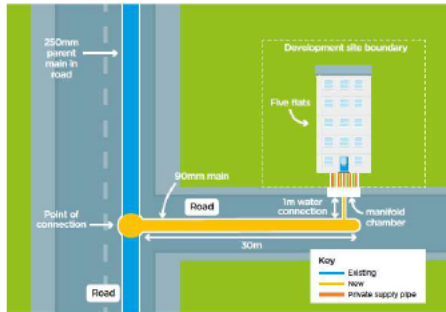
Any additional comments you want to make?

Appendix

Additional examples of how income offset will work

Example 4: New water main and new water connections to five flats

The same five-flat development as Example 3, with Thames Water now completing all the work.



	Today	Future
New main	£21,780	£21,780
Income offset	(£9,983)	n/a
Net charge for new main	£11,797	£21,780
Service connections	£3,000	£3,000
Infrastructure charges	£1,750	£1,750
Income Offset	n/a	(£1,550)
Net infrastructure charges	£1,750	£200
Total charge	£16,547	£24,980

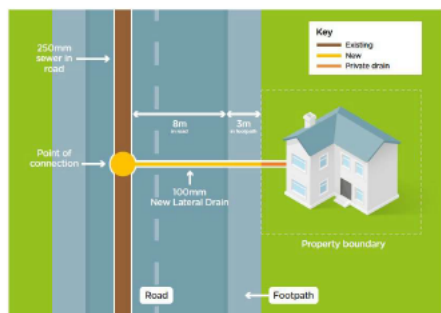
The same five-flat development as above but no new main required.

	Today	Future
Service connections	£3,000	£3,000
Infrastructure charges	£1,750	£1,750
Income Offset	n/a	(£1,550)
Net infrastructure charges	£1,750	£200
Total charge	£4,750	£3,200

This shows that the proposed approach gives the same income offset for equivalent number of properties.

Example 5: Gravity-fed new sewer to serve five homes

This example considers a five-house development where a new gravity-fed foul sewer is needed.



	Today	Future
Sewer requisition	£56,760	£56,760
Income offset	(£7,409)	n/a
Total charge	£49,351	£56,760

We assume that:

- the developer builds their own connections into the new sewer for the five houses, so there are no charges outlined for these works.

The proposed approach assumes that Waste Infrastructure Charges are being paid as part of the provision of new water connections, so no income offset will be applied to Sewer Requisitions.

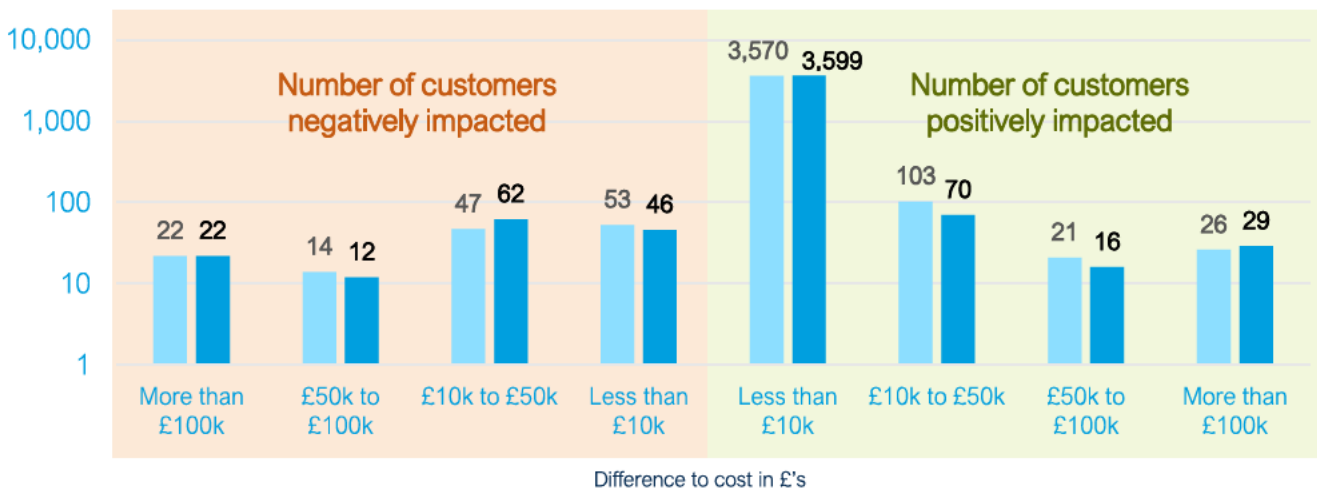
Income Offset – Options considered

We've considered applying the new income offset in different ways to understand the how many customers would win and how many would lose.

Using 2018/19 schemes, here's how customers would have been impacted by two different options

Flat rate
More than 95% of customers are likely to benefit

Banded option
More than 95% of customers are likely to benefit. More complex to administer and not considered as fair



This document was compiled by Thames Water and Verve.

Once you have completed this document, please save it and email it to developerservicesconsultation@addverve.com any time before Monday 30 September 2019.

You can find further detail on the consultation and this document at <https://developers.thameswater.co.uk/new-connection-charging>.

If you wish any further information on this consultation, please contact [redacted] at Verve.

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