

# Large Developer Customer Forum



# OBJECTIVES

- Share the progress we have made on our application process
- Get your feedback on the wider websites
- Show you our new Developer Pack
- Start to talk about new charging approach from Ofwat

# DEVELOPER PACK

# CHARGES

# AGENDA

- Recap of developer services charges

Key focus areas for 2020/2021:

- Changes to income offset and asset payments
- Water mains requisition charges

An opportunity to talk more broadly about:

- Infrastructure charges & the infrastructure discount scheme
- Sewer adoption inspection charges and sewer requisition charges (S98)
- Opportunities – overarching bond payments and simplified service connection charges

# EXPECTATIONS

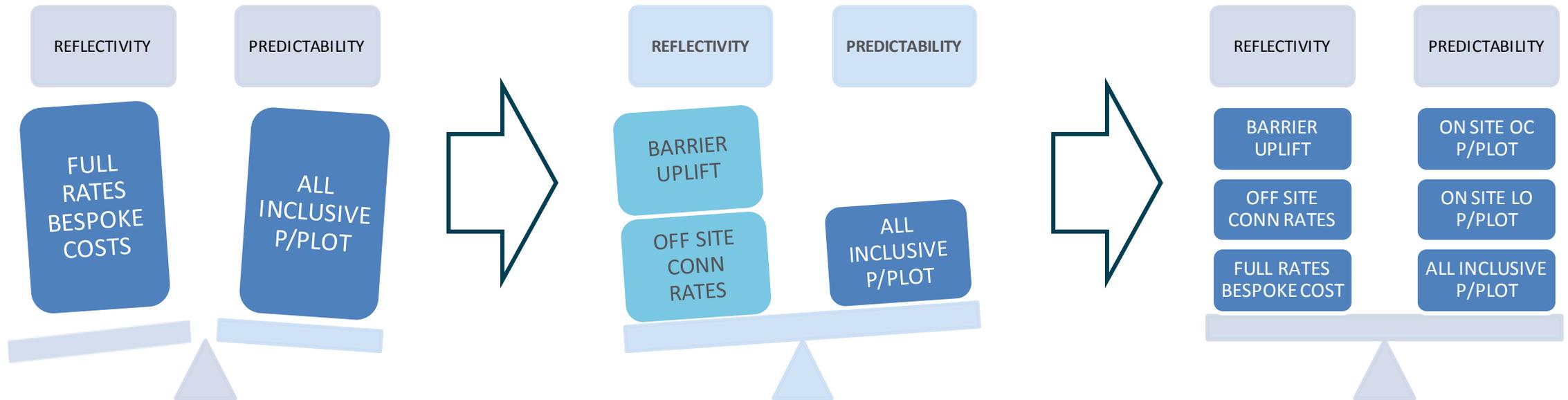
- Raise awareness of industry and Severn Trent specific charges changes
- Understand your views and seek your counsel as we develop our 20/21 charges
- Understand what you perceive as 'best in class'

# SUMMARY OF CHARGES

		Purpose	Structure	19/20 charge
Covers fixed activity & not site specific	Application Fee	Covers front-end administrative activities up to providing a quote	Standard charges Per scheme	£1,739.82 (new mains)
	Infrastructure Charges	Income used to improve the network to cope with increased demand from newly connected properties	Standard charges Per plot	£438.89 (water)
Site specific activity	Connection Charge	Individual service connections to each new property	Menu of rates	£284.74 (0-5m no ex)
	★ Mains Requisitions	Laying new water mains to serve a development or adopting a new water mains laid by a SLP	Standard charges Per plot	£620.58 (lay only in PE)
	★ Income offset / asset payments	Offsetting mains construction costs to account for future income / providing asset payments to adopt SLP laid mains	Standard approach Flat % of scheme costs	10% contribution 90% asset payment (gross)
	Waste Inspection Charge	Covers the end-to-end process of adopting new sewers.	Standard charges Per metre (2.5% & 10%)	£10.57 (inspection) £42.30 (bond)

# REQUISITION CHARGES

# GETTING THE BALANCE RIGHT



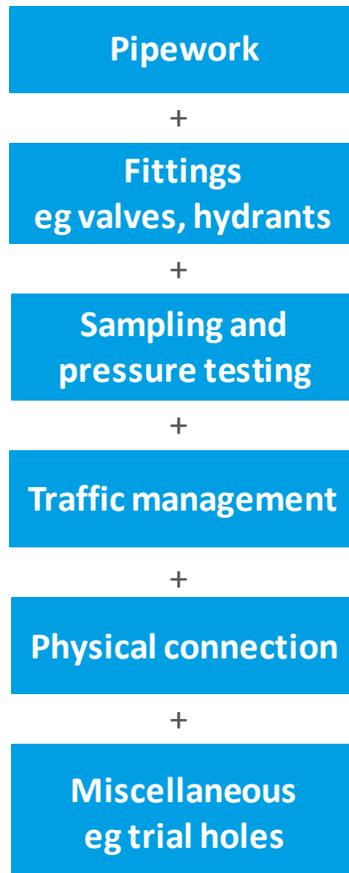
We needed to get the right balance to ensure our charges were both reflective and predictable.

# ACHIEVING THE RIGHT BALANCE

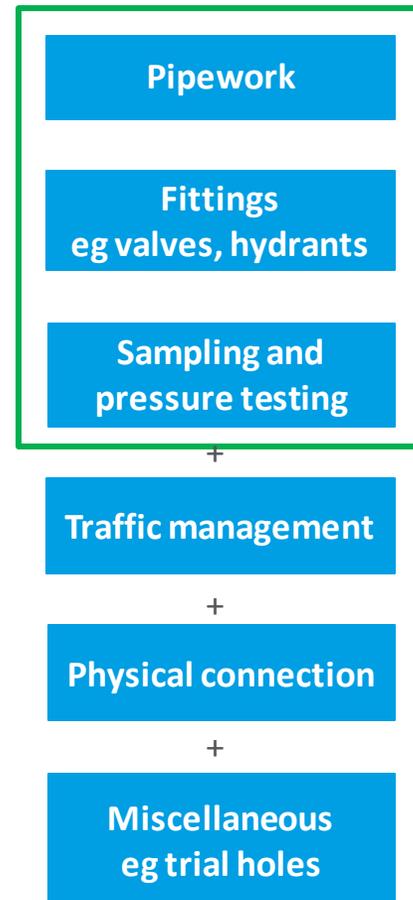
- We have continued to review whether per plot is the right approach over the last two years
- Our assessment is that it is not proving to be the differentiator we thought it would be.
- Our customers are not demonstrably getting greater benefit (ie ease of estimating costs) through this method compared to our peers.
- The introduction of estimator tools has helped customers with ease of self-quoting and appear more impactful than the structure of the charges themselves
- Over the past 12 months our barrier pipe charges have been brought out of our 'standard' per plot charging and are not quoted in a bespoke way so the percentage of schemes which can be quoted in a simplified and 'average' way has been reduced
- We are therefore proposing to move to a 'per metre' scale in line with more of the market which should provide the consistency that we know customers value
- We would like to understand your thoughts on a 'per metre' approach

# SCALE AND OPTIONS

Per metre – bespoke

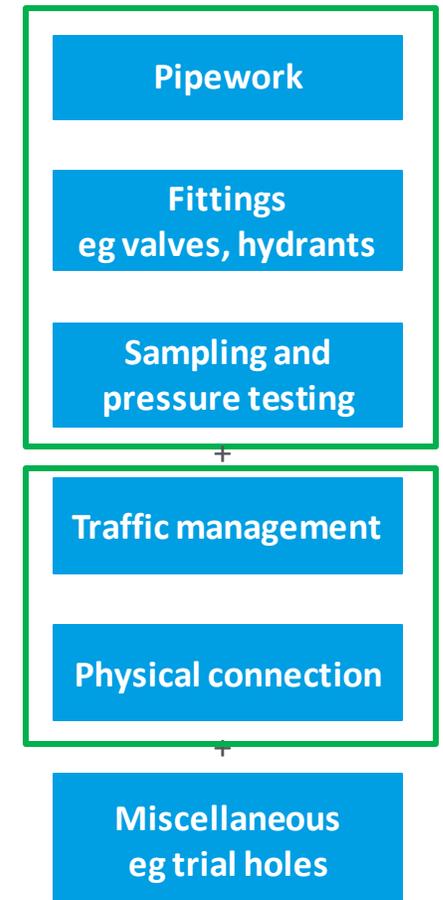


Per metre – average



Consolidated average charge

Per metre - average



Consolidated average charge

Consolidated average charge

# KEY CONSIDERATIONS

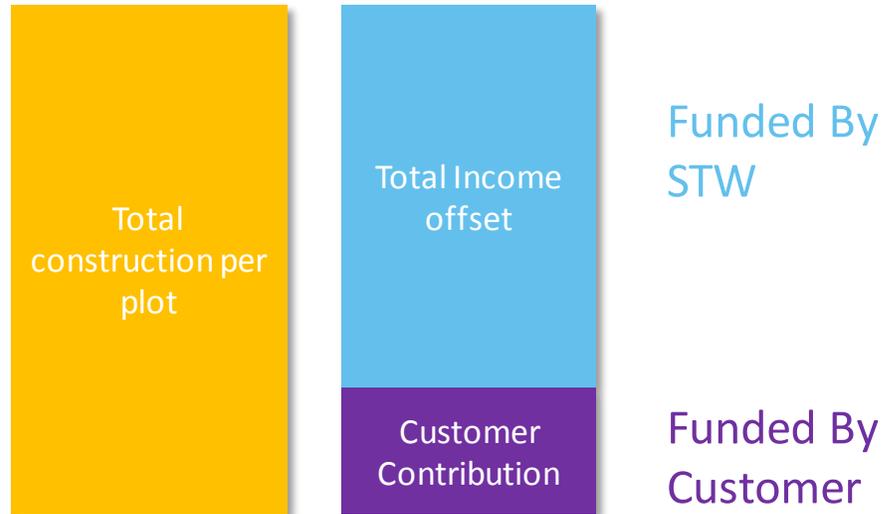
- Is our per plot structure a differentiator for you?
  - Within a per metre approach, where would you like us to land on the scale?
  - Can the structure of our charges be a differentiator / what have you seen that is best in class?
    - Presentation and explanation of charges
    - Structure of the charges
    - Quoting tools
    - Value of charges
- Or does it centre around
- Service and communication

# INCOME OFFSET

# A FAIR & BALANCED APPROACH

## Requisition Mains

(Total Construction – Total Income = Customer Contribution)

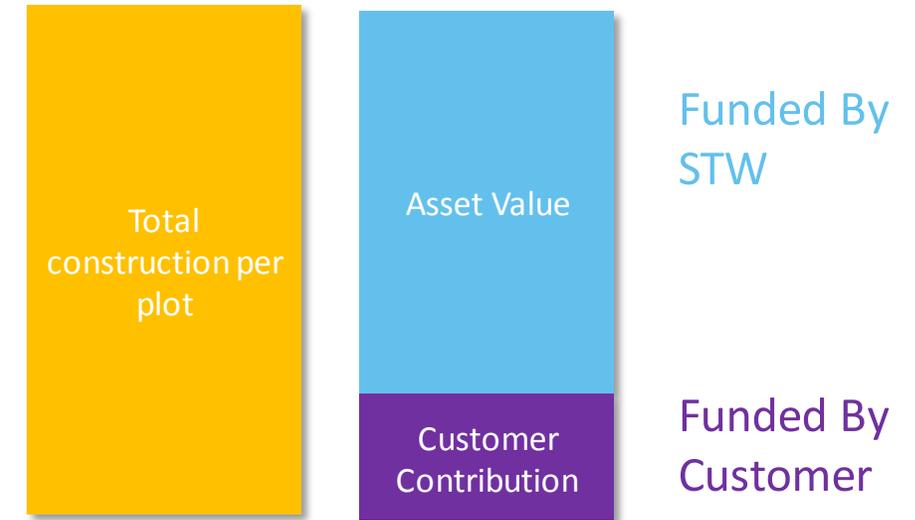


### **Customer pays**

Customer contribution (Balance after deducting income offset)

## Adoption of Mains

(Total Construction – Customer Contribution = Asset Value)



### **STW pay Customer**

Asset Value minus any charges for work completed by STW on behalf of or at the request of the customer

**Customer contribution therefore is fair as it is the same and helps to maintain the balance with our existing customer base**

# SUMMARY

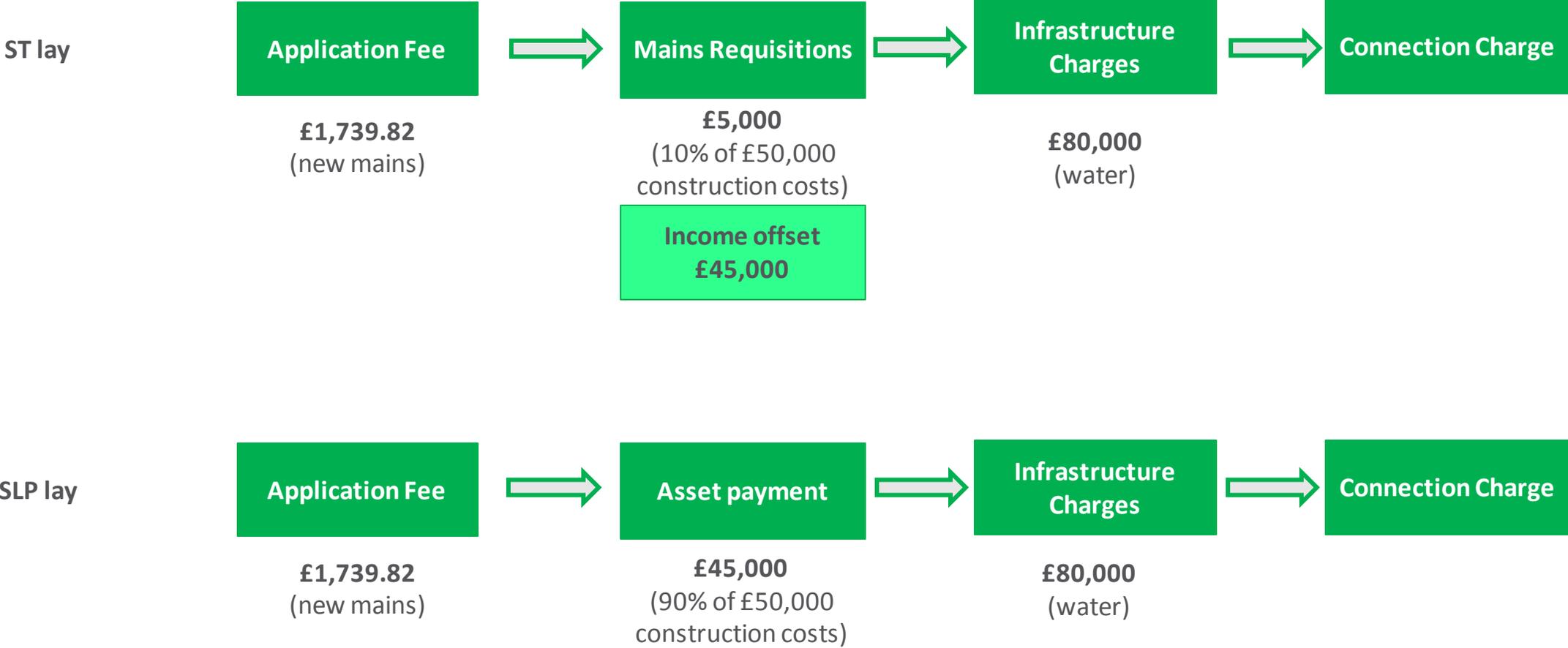
## What are the changes?

- Current mains laying requisition income offset will be moving against the infrastructure charge
- And will therefore be available to all customers not just developers who require a new main or self lay customers
- The quantum of income offset applied across all customers will be the same as previous years however it will be spread across more customers so the benefit received will be reduced for developers and self lay customers who currently receive the offset
- No asset payments made on water or waste schemes. Mains and sewer requisition charges will be full cost.
- One off income offset for NAV's in line with developer income offset rather than a discounted bulk supply agreement.

## Why are these changes being made?

- Level playing field across all customer segments.

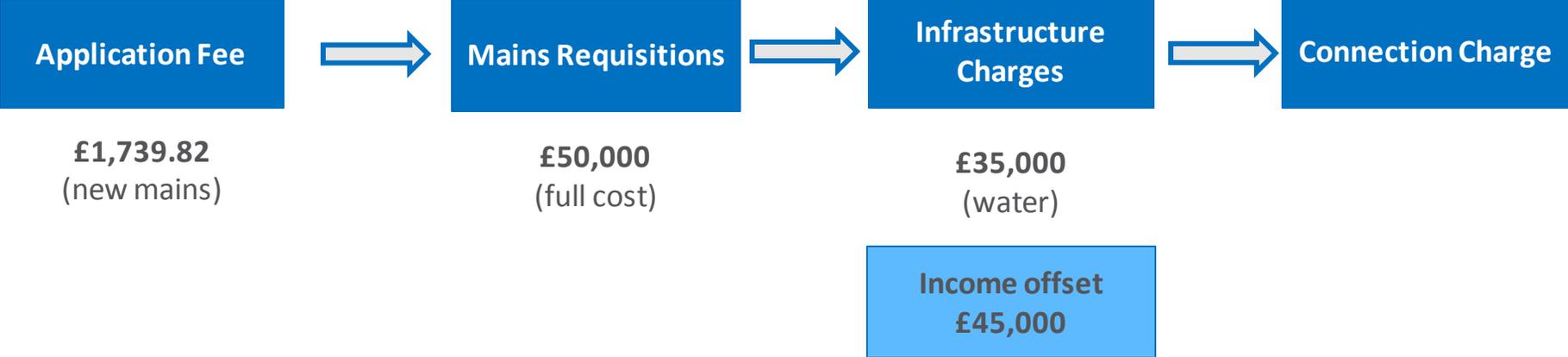
# HOW WILL THIS WORK? CURRENT



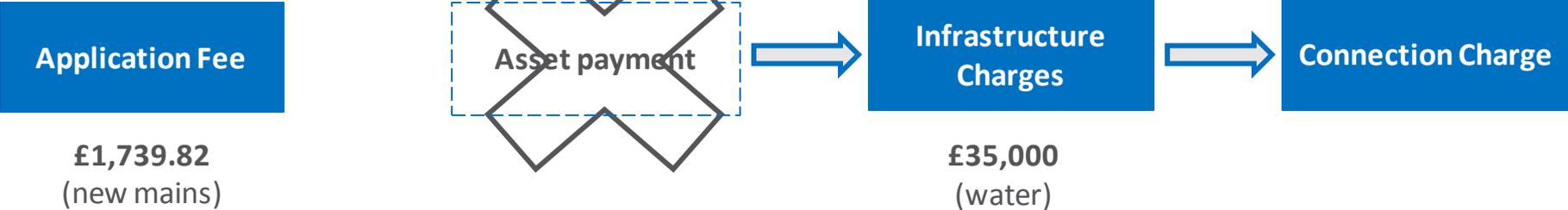
\*Illustrative figures only

# HOW WILL THIS WORK? TO BE

ST lay

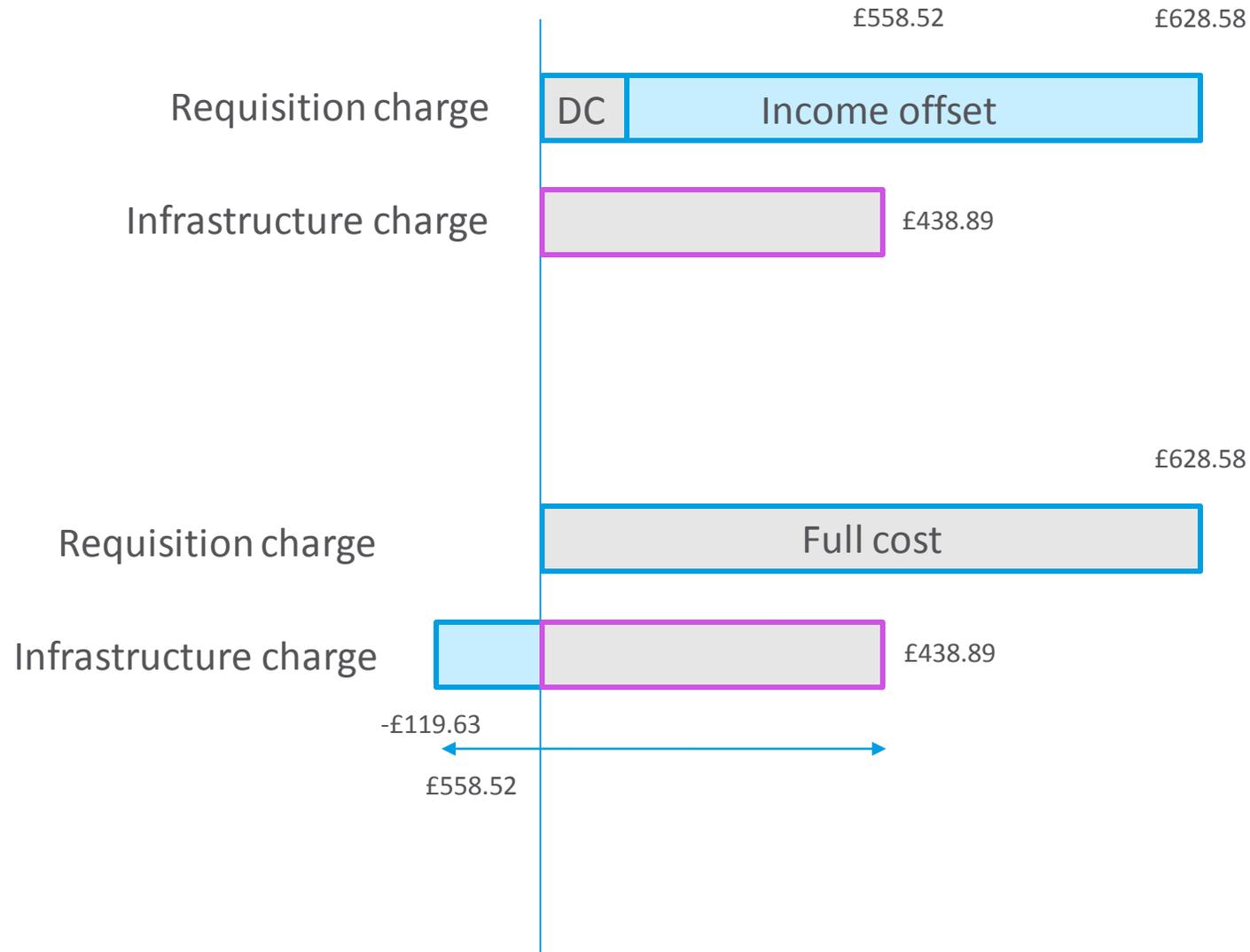


SLP lay



\*Illustrative figures only

# HOW WILL THIS WORK FOR SEVERN TRENT?



\*Illustrative figures only

# KEY CONSIDERATIONS

## Structure of our income offset

We are currently planning to use a single standard 'per plot' approach which applies to all developments.

- Is this an approach you would support?
- Are there other approaches or considerations we should be considering?

## Presentation and explanation of the income offset

We are currently planning to show the mains requisition charge, the infrastructure charge and the income offset separately to make it clear how the net position of charges payable has been reached for each scheme. We know that other companies show a 'net' charge for all three for simplicity.

- Is this an approach (showing the components separately) you would support?
- Are there other approaches or considerations we should be considering?

## Other key considerations

- Transition arrangements and implementation
- Communication of the changes
- Cash flow within the first few years of the new mechanism
- Our infrastructure discount scheme
- Existing schemes already in progress

# OTHER CHARGES

## Infrastructure charges & the infrastructure discount scheme

- We have a simple 'per plot' charge for water and waste across our region which we are currently planning to maintain. Would you be in favour of moving to zonal infrastructure charges?
- We will be reviewing our infrastructure discount scheme in 20/21 assessing it's impact over the past few years but also in view of the income offset changes.

## Sewer adoption inspection charges and sewer requisition charges (S98)

- Our current sewer adoption charge is based on 2.5% of onsite construction costs in line with industry guidance. We are reviewing the option of moving to a new approach which is based on our incurred costs of managing the process from end-to-end.
- We have seen variability in the estimated costs we provide to developers for S98 sewer requisition schemes which we want to improve – we are not planning to necessarily change the value of the charge but assess what we can provide for the fee that provides greater cost certainty.

## Opportunities

- Simplified service connection charges for site work
- Map charges
- Overarching bond payments