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Request for stakeholder views on charging for developer services in Wales



About this document

Ofwat is the economic regulator for the water and wastewater sectors across Wales and England. We are developing new rules to govern how the Welsh water and wastewater companies¹ set their charges for developer services. In this document we ask for stakeholders' views on the current approach to charging for developer services and what changes might be put in place in the future. We are particularly keen to hear from developers and self-lay providers who operate solely or mainly in Wales.

If you would like to let us know your views, you can complete an [online survey](#) which sets out a number of questions about this issue. If you would like to contact us directly either by email or through direct discussion (by telephone or a video conference meeting) please email us at charging@ofwat.gov.uk. We are looking for responses by the end of September, but may accept responses provided after this date. We will also hold a video conference for all interested parties on 1 September 2020 to explain the process of developing these charging rules and to answer questions. If you would like to join the conference or suggest a question you would like us to cover, send an email to the address above.



¹ Companies holding appointments under the Water Industry Act 1991, currently Dŵr Cymru Welsh Water, Hafren Dyfrdwy and Albion Eco Limited.

Charging for developer services

Developer services in the water and wastewater sectors cover a range of activities,² from connecting newly-built properties to the public water or wastewater system to providing new water mains or requesting that existing water mains or sewers are relocated. Most of these services can be provided either by the local water company or by a third party, and are paid for by the customer that is requesting the service. As the local water company is a monopoly and tends to provide the majority of these services, we regulate these charges to help to ensure that the charges these companies set are fair.

Currently, the rules for setting such charges are set out in legislation.³ The rules can only be amended by changing the legislation, which makes them slow to cope with changes over time. The Welsh Government has considered the option of replacing these fixed rules with a duty on Ofwat to set charging rules that govern how the Welsh water companies set their charges for developer services. Giving Ofwat the power to set rules would mean that those rules could be changed more easily, in response to changes in the way developer services are provided or to take account of stakeholders' experiences.

In December 2018, we [consulted on](#) some initial options for the approach we could take to regulating charging for developer services for the Welsh water companies. We have considered the responses to that consultation, but because we did not receive many views, we are looking for additional stakeholder views to help to inform us on how these charging rules should be set.

Questions for stakeholders

We want views from stakeholders on how charges for developer services by the Welsh water companies should be regulated. We have set out six questions on topics that we would like to hear about from stakeholders, especially developers, self-lay providers and new appointees (NAVs) that will be directly affected by any changes to the way developer services are charged for. We would also welcome any general comments you have on the charges for developer services not covered by these questions.

We recognise that the response to the Covid-19 pandemic is currently impacting the construction industry. If for any reason the pandemic will impact your ability to respond to this request, please let us know.

² See section 2.1 of our [December 2018 consultation](#).

³ [The Water Industry Act 1991](#).

1) Do you have any specific concerns with the current approach to charging for developer services by the Welsh water companies or features that you want to see retained?

We make policy for Wales on the basis of evidence which is relevant specifically to Wales. Therefore, we want to hear about any concerns you have with the current approach to charging for developer services by the Welsh water companies, or features that you like and want to see retained.

When we proposed new charging rules for developer services for the English water companies, stakeholders raised a number of concerns about the rules already in place in England (and currently in place for the Welsh water companies). Examples of the sort of issues that were raised by English stakeholders include:

- the potential for the final charges for a developer service to be significantly different from the estimated charge provided by the water company, making it difficult to predict the actual costs of the work;
- concerns that there may be double charging for some work, such as offsite reinforcement works that can be charged for through both requisition charges for new water mains and sewers and through infrastructure charges;
- concerns that the charges were not very transparent and it was difficult to know what activities each charge covered and how the charges had been determined; and
- a desire by some stakeholders to retain the balance of charges that existed between costs incurred by the water companies that the developer paid for and costs that were funded by existing water customers.

2) What are your views on retaining the current approach to charging for developer services by the Welsh water companies?

While we are considering potential ways to change the way that charging for developer services for Welsh companies is regulated, one option we have is to retain the current approach. As a result, we want to hear your views on whether or not you would prefer the current approach to be retained.

3) Would you prefer charges for developer services to reflect the actual cost of providing each particular service or be more predictable?

Under the current charging arrangements for Welsh water companies, the charges for services such as water main requisitions are based on the actual costs incurred

by the water company in providing that service. The water company estimates the likely charge before the work is carried out, but then charges based on the actual costs incurred. As a result, there may be a material difference between the estimate and the final charge if the work turned out to be easier or more challenging than expected. English water companies used to set charges for developer services this way, but now fix charges upfront, following [work carried out by Ofwat](#). This means charges are predictable, but may not reflect the actual cost of doing the work where it turns out to be more or less complex than anticipated.

In general, it is not possible for companies to accurately set charges for every potential development site upfront. Sites differ in the nature and extent of work that is needed to be done, so companies need either to estimate the likely charge (and reconcile afterwards based on actual costs incurred) or set upfront charges based on a 'typical' development – but recognising that the actual costs incurred may be different from the upfront, predictable charge. As a result, we want to know whether you have a preference for:

- strongly cost reflective charges such as charges that are based on the final actual costs;
- very predictable charges that are set upfront based on estimated costs, but may not reflect the actual costs that the water company incurs;
- a balance between these two, such as requiring the final charge to be capped at being within 10% of the initial estimate (and can be lower than the initial estimate);
- developer services charged on the basis of a fixed charge per plot that represents the average cost of providing developer services and does not take into account any site specific costs; or
- an alternative approach that you may want to suggest.

4) What are your views on the income offset?

Currently for Welsh water companies, when a developer requisitions a new water main or sewer to be built, the water company provides an income offset to the developer. This is a discount on the charge for the new main or sewer to reflect the extra revenue that the water company will receive from water and/or wastewater bills paid by the newly connected end customers.

In April 2020, we changed the way that the income offset works for English water companies so that it is applied to all new connections rather than only applying to developer services that involve requisitioned water mains and sewers.⁴ This change

⁴ [Consultation on charging rules for new connections and new developments for English companies from April 2020 – April 2019](#).

allows the discount to be applied to all customers that wanted a new water or wastewater connection, making the approach for setting charges for self-lay providers simpler and removing a barrier for NAVs to compete for new sites to operate. The overall value of the discount that the water companies provide each year is not changing, but it is now spread over a larger number of new connection services. As a result, developments that involve a requisition may receive a lower discount than under the current arrangements, but developments that do not involve a requisition will receive a discount, which they would not have previously received.

There is also a timing issue to consider with this change. For English water companies, the discount is now applied to the infrastructure charge, which is paid for after the new connections have been made. In the current system for Welsh water companies, the discount is applied to the requisition charge which is typically paid for before the work starts on the new main or sewer. This means that the discount is applied at a later stage under the process for English water companies which may have a cash-flow implication for developers.

We would like to hear views of stakeholders in Wales on this discount, including whether we should make a similar change to the way that this discount is applied by English water companies.

5) Are there any other features that you want to see in the way that charges for developer services are set and the rules that govern them?

If there are any features of these charges or the rules that govern them that you want to see that are not covered by the questions above, let us know. This could be a feature of the rules that we set or a feature of the charges that the companies then set under these rules. There are a range of features of charging for developer services that you may wish to comment on such as:

- how asset payments are made when a self-lay provider undertakes new connections rather than the water company;
- how any local offsite reinforcement works that may be necessary to cope with the additional demand from a new development should be charged for; and
- how strategic improvements to the water and wastewater network to cope with extra demand from new developments should be charged for, which are current charged for through an infrastructure charge placed on each new connection.

6) Are there any other points that you would like to raise with us that are not covered by the previous questions?

Let us know if you have any other points that you would like to raise with us that are not covered by the other questions.

7) Please provide some information about the organisation that you represent.

To help us to understand how different types of stakeholders view these issues, it would be helpful if you can include some information about the organisation that you represent. For example, are you a developer, self-lay provider or other stakeholder with an interest in these issues? We would also like to understand where you operate (in Wales, in England or both).

Responding to this request for stakeholder views

We recognise that we have limited options to directly engage with stakeholders under the current circumstances due to the Welsh and UK Governments' social distancing guidance during the Covid-19 pandemic. However, we can accept emailed submissions. If you would prefer to discuss these issues with us directly, we can arrange a time to hold telephone or video conference meetings. If you would like to arrange a call or video conference, or email your response, email us at charging@ofwat.gov.uk.

You can also provide your views on the issues discussed in this document by completing an online survey on [Microsoft Forms](#), which can be found at the following address. Please note that we will ensure the same data protection for any information that you provide through this survey as we would for emailed responses.

Finally, we will also be holding a video conference on 1 September to explain the process of developing these charging rules and answer some questions that have been raised by stakeholders. If you would like to join the conference or suggest a question you would like us to cover, send an email to the address above.

Written responses to this request for stakeholder views may be published on our website at www.ofwat.gov.uk, unless you indicate that you would like your response to remain unpublished. Information provided in response to this request, including personal information, may be published or disclosed in accordance with access to information legislation – primarily the Freedom of Information Act 2000 (FoIA), the General Data Protection Regulation 2016, the Data Protection Act 2018, and the Environmental Information Regulations 2004. For further information on how we process personal data please see our Privacy Policy.

If you would like the information that you provide to be treated as confidential, please be aware that, under the FoIA, there is a statutory 'Code of Practice' which deals, among other things, with obligations of confidence. In view of this, it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information, we will take full account of your explanation, but we cannot give an assurance that we can maintain confidentiality in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on Ofwat.

Consultation responses in the Welsh language

We welcome any responses to this consultation in the Welsh or English languages. However, where we receive responses in the Welsh language, we will share them with an external company for translation purposes.

Next steps

Once we have gathered these additional stakeholder views we will use them to inform our proposed charging rules. We will then undertake a public consultation later this year on a fully detailed set of possible charging rules and options so that stakeholders can see how these approaches would operate. This will allow us to get stakeholder feedback on amendments or improvements that can be made to these approaches to setting charging rules.

If the decision is made to go ahead with the introduction of new charging rules, we will publish a formal consultation on the final version of the charging rules that would bring them into effect. We currently do not have a specific date for introducing any new charging rules and we will work with the Welsh Government on finding a suitable time to introduce any new charging rules. However, we would not look to introduce any new charging rules to come into effect before April 2022 as we recognise that once we introduce new charging rules, the Welsh water companies will need time to develop a new scheme of charges that would comply with the new charging rules.

Ofwat (The Water Services Regulation Authority)
is a non-ministerial government department.
We regulate the water sector in England and Wales.

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