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8 June 2021

Dear Ofwat,

A consultation on the scope and balance of developer charges and incentives

Thank you for inviting Yorkshire Water to review the above consultation on the structure and scope of the charges and incentives for developer services. We found the proposals and the accompanying report from Frontier Economics thought provoking and constructive with the objective to address some of the residual issues in this market.

We agree in principle that developers should contribute to the cost of new or upgraded strategic assets where growth in new housing and other new connections is the driver for investments. However, we believe this could be problematic to evidence without clear delineation between investment that is rightly to continue to be funded by our current and future customers. At a national level the high level analysis from Frontier suggests the additional funding to be sourced from developers under such a policy change would be significant. We are also concerned that should such funds be collected via infrastructure charges (as with network reinforcement expenditure currently) the short cost recovery period for infrastructure charges (a rolling five year period) could introduce significant bill volatility for a range of developer services customers.

We are in agreement with Ofwat's proposal to remove the income offset from 2025 and remove the balance of charges rule at the same time. We removed

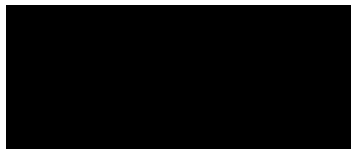
income offsetting from our charges in 2018 since we demonstrated that our expenditures and revenues for developer services related activities, including network reinforcement were in balance. The further proposal to redistribute the income offset monies in some form as an environmental incentive to developers is interesting, but due to our lack of income offsets, this would approach would not be applicable to Yorkshire Water without creating a potential cross subsidy between developers or the generality of customers. We understand a handful of other incumbents may be in a similar position with no, or very low value, income offsets.

We also support the proposal to set attractive and fair environmental incentives within new connection charges for developers and NAVs. We intend to take this forward by reaching out to others in the industry and sharing our expertise to look to design more innovative incentives with verifiable and sustained environmental benefits.

We provide detailed responses to the consultation questions appended to this letter.

Should you wish to discuss any matters relating to this in further detail, I would be grateful if in the first instance you would contact Julia Partridge, our Regulatory Change Manager.

Yours faithfully,



Wendy Kimpton
Head of Regulation