

Via email: OfwatPandO@ofwat.gov.uk

21 July 2021

Dear Ofwat,

Gathering data about developer services - a consultation

Thank you for the opportunity to respond to this consultation regarding gathering data for developer services.

We were pleased to have been engaged by CEPA prior to the consultation and we provided detailed feedback to inform the shaping of the data request outlined in this consultation. Nevertheless, we feel there are still opportunities to improve the data tables, and ultimately support provision of accurate data.

We are supportive of better informing PR24 through acquisition of greater clarity of developer services costs; however, we have concerns over the level of detail in the data request and the practicability of providing the data in the timescales indicated.

While we believe a submission in July 2022 is a fair request, it would be extremely challenging to meet the current timescales identified in the consultation for response by 20th September 2021 for historic data. This is in part due to the complexity of the data request, but also that the timescales now clash with the work which has commenced for the 2022-23 annual charging review. As a result, we do not have the necessary resource available, and as indicated in our responses, in its current format, we would not be able to meet the deadline of w/c 20th September 2021.

We were pleased to see Ofwat lead a workshop on this topic on 13th July 2021, which helped clarify elements of this data request. We were encouraged to see that there was an understanding that the request may need further work, as well as an acknowledgement of companies' concerns relating to the feasibility of the request. We would be very interested to have a further discussion prior to the final publication of the data request, to understand how the feedback from companies has been considered in the finalisation of the tables.

I hope you find our response helpful, please do not hesitate to reach out if you have any queries.

Yours sincerely,

A black rectangular box redacting the signature of Nicky Fomes.

Nicky Fomes

Interim Director of Strategy and Regulation

1) Do you envisage having any problems completing the data request for 2021-22 by July 2022, or the historical data for 2020-21 by w/c 20 September 2021?

Completion of the data request for 2021-22 by July 2022 is feasible as this will give companies time to put in place processes and system changes to be able to ensure the data is reportable. However, in reporting assured data such as this, we would expect reporting to be completed as the year progresses, rather than as one activity at the end of 2021-22. As we are yet to define the data tables, and we know there is a historic activity to complete this year for 2020-21 data, there should be consideration that companies may not be able to fully assure this data as part of the normal APR processes. This is because 2021-22 data analysis would not be able to commence until the 2020-21 data activity had been completed. It could, therefore, prove challenging to complete full governance and assurance processes by July 2022. Furthermore, as this data would be required to be auditable, it is likely that un-budgeted system enhancements would be required throughout 2020-21 to make this data capable of being reported in the format required. At present, there is no mechanism to recover these costs.

With regards to completing the data request for 2020-21 by w/c 20 September 2021, we would have concerns regarding the feasibility of this. As per our initial feedback to CEPA, provision of data to this granularity would require manual interpretation at individual job level which would be time consuming. We anticipate this would take a full-time resource around three months to complete. In addition, resource required to complete this activity is the same resource already engaged with the 2022-23 annual charging review, therefore it is likely that additional resource would need to be identified. This would increase our costs in 2021-22, with no clear route for recovery.

We also anticipate some specific challenges in relation to the data requested, and the definitions supporting this. We detail this in our responses to Questions 2 and 3 below.

2) If you envisage problems with providing the full historical dataset for 2020-21, what areas would you remove from the data request, or how much additional time would you need to meet the request?

Suggested areas for removal

- We would request either the removal or clarification of cost data when referring to NAV sites. We would not have sight of the costs associated with the work completed by the NAV, so clarity is required on what costs should be identified in this data table, particularly where the NAV completes the majority of the contestable works.
- As water companies, we do not have sight of real time information relating to number of properties connected on NAV sites inset within our operating area, as these are connections into their network and not ours. While this is currently in the water company APR tables, we do not see the benefit of trying to replicate this data in this request as it is not our data. As such, we do not feel asking an incumbent water company to further assure against this data is appropriate.
- We would have difficulty in splitting out the cost data based on the five development sizes identified in the current data request. We would request that this is rationalised to small (1-49) medium (50-100), large (100+) development size structure, which is already adopted by most of the industry and reflected in charging worked examples.

- We would have difficulties splitting the costs, by development, of local reinforcement and site-specific works. This is because when our partners submit payment applications, they do not differentiate between the two elements. This would require manual intervention at job level to interrogate the design and understand whether the costs related to site-specific work or local reinforcement.
- We would welcome simplifying the data tables to identify for each development who completed the majority of the contestable elements of work and providing cost data related to the development as a whole, rather than splitting down the costs for each majority and minority element. The example of an alternative format shown by Ofwat during the workshop on 13 July 2021 illustrated this. We would support this simplification, as providing cost data split by contestability would require manual intervention at job level which would be extremely time consuming.

Timescales for completion

In its current format, we would require at least three months with a full-time resource to complete this request. However, should the table be substantially rationalised and simplified, this could be reduced.

We appreciate the openness from Ofwat during the workshop on 13 July 2021, in understanding that the data provided for 2020-21 activities may not be fully accurate given the timescales involved. We would seek clarity in the consultation decision document as to whether companies can submit commentaries alongside the data request submission, to identify where challenges in providing accurate data may remain.

3) Are the definitions (provided in the cover worksheet) clear enough to mitigate the risk of reporting inconsistencies between companies? If not, what changes would you recommend?

We suggest a number of proposed changes to the definitions list:

- a. Incumbent undertakes non contestable and is the majority/minority provider of contestable work

At present, we feel the use of the term 'greatest value' is not adequately defined and may lead to inconsistent interpretation by companies. We would propose the following change to the definition: 'the greatest value, in terms of cost, of contestable developer services work at the point of project closure'.

- b. Projects (no.)

We suggested including a sentence on phasing to clarify that this relates to a scheme as it has been applied for, and that if a phase of a scheme is considered financially completed, this would be classed as a project. We propose adding this to the end of the definition: 'These should be characterised in the same way as the scheme has been applied and designed for. For example, a site may have multiple phases, but if one phase is applied and designed for separately, then this would be classed as a project'.

c. Properties connected (no.) & Connections (no.)

We would suggest the removal of NAV volumes as this is not our data, and we would not have sight of the corresponding cost information.

d. Quote not accepted

We propose to use the phrase 'cost advice' instead of quote. As the industry has moved to fixed charges, the use of the term quote can be misleading.

e. Quote not accepted in part or in full (e.g., planned development is cancelled or quote still valid)

We would suggest removing this definition and changing to 'Number of offers sent'.

f. Fully / partially accepted offers / quotes (no.)

The definition provided for this term is not adequate as it does not appropriately define what would be classed as a partially accepted offer. We would suggest removing this term and amend to 'Number of offers accepted' to reduce interpretation of what a partially accepted offer is.

g. Number of years competing in the incumbent's region

We anticipate difficulties in providing this data as it is reliant on our people knowing the number of years a SLP or NAV has been active in our region; therefore, this is likely to be reliant on an estimation (e.g. NAVs may have been bidding for sites for a period before securing their first variation within our area but we will not have had visibility of such action). We would therefore propose that the definition is amended to 'Estimated number of years competing in the incumbent's region'. As a result, however, this will result in less accurate information, and we would challenge the value of the data as a result. We would suggest more accurate information regarding NAV activity could be gathered directly from the NAV. This might not be as feasible with SLP customers, however, we remain uncertain of the benefit in collecting this data.

h. Other developer services activities

We believe this definition could be tightened as this may be an area where companies could vastly differ in terms of what cost and associate revenue is included in this, compared to bundled into site-specific costs. We would request a larger list of items expected for inclusion in this category, including treatment of traffic management as an example.

More generally, we would request that any definitions which overlap with definitions being consulted on as part of the recent charging rules consultation, should be utilised to ensure consistency across the industry.

4) Would you be able to provide information on cost drivers, in particular length of communication pipe and surface type (split into made/unmade)?

This data would add a further level of complexity to the data request which we do not believe would provide added benefit in terms of cost driver analysis. Surface type was included in the original data tables we provided comments on previously, and we raised our concerns in that feedback to CEPA. We were pleased to see that this had been taken on board.

5) Are there any key new development characteristics you think are missing from the data request and should be included?

We believe there is merit in splitting out connections to existing mains in the data table, in addition to small, medium and large development size categories.

6) Is there any additional developer services data you collect that you think would be helpful to Ofwat?

We do not believe there are any significant gaps in the data request which require inclusion.

7) Would an alternative data format be more appropriate (e.g., list / table of new developments connected in reporting year alongside relevant cost / revenue data and characteristics)?

We welcome the alternative table which was shown by Ofwat during the workshop on 13 July 2021, as this simplified the information requested to be provided by companies. It would be difficult to suggest a further alternative without commencing the analysis and understanding what a more appropriate format might be.