



**Anglian Water
Services Ltd**
Lancaster House
Lancaster Way
Ermine Business Park
Huntingdon
PE29 6XU

Tel 01480 323000
www.anglianwater.co.uk

By email

22 July 2021

Gathering data about developer services – a consultation

This is Anglian Water's response to Ofwat's consultation on gather data about developer services.

I would like to take the opportunity to introduce myself and outline some structural changes within Anglian Water Development Services business unit. I am Don Maher, formerly Head of Wholesale Market Services looking after our retailer customers and am now also picking up responsibility for Development Services as Head of Non-Household Services. Iain Amis has moved into our regulation team to act as our Head of Strategic Growth, reflecting our increased focus on strategic growth and resources within our core regulatory and business planning function. For this and future Development Services related matters I would be happy to be the initial point of contact.

Anglian Water's purpose is to bring environmental and social prosperity to the region we serve. One of the ways we do this is by seeking to deliver the long-term goal from our Strategic Direction Statement to facilitate sustainable economic and housing growth. This helps bring prosperity to our region and supports central and local government ambition on home building and the post Covid-19 economic recovery.

As such we welcome the commitment to improve cost assessment for developer services in PR24.¹ Improved cost assessment for these activities is critical in both the development of the market for development services and equally as important, the facilitation of investment to deliver the infrastructure needed to enable efficient, sustainable growth.

We do not currently capture all of the data requested in the format of the data request. We have made some proposals in response to the consultation questions but expect compiling the data to be a significant undertaking. However, given the importance of this work, we support Ofwat's intent and will make every effort to compile the data this year.

Looking forward, growth drivers such as the Cam-Ox Arc will drive the need for efficiently delivered infrastructure benefiting multiple future developments. We are not the only region which is subject to high growth and the need for strategic infrastructure. It is critical for sustainable economic development that these activities are funded appropriately.

We are encouraged by Ofwat's first steps to improve consistency of reporting and gather additional developer services data. However, as recognised by the CMA in its redetermination, new development and population growth drives wider costs than just those associated with new

¹ Ofwat, PR24 and beyond: Creating tomorrow, together, section 8.2.3.

connections on development sites. We are concerned that the focus of this work appears to be activity on development sites, which is likely easier to model than strategic investment in network reinforcement and treatment capacity. The data request only gathers cursory information on network reinforcement and gathers no data in relation to investment required for treatment upgrades that result from new development and population growth. We have made some suggestions to seek to fill these important gaps. It is vital that the cost assessment approach at PR24 is improved in these areas, so we encourage Ofwat to improve data gather here in addition to on-site activity.

We continue to believe that it would be most appropriate to model growth expenditure separately from base expenditure. We also recognise to enable a focus on the long term it may be necessary to separate the more routine, repeatable aspects of enabling growth (such as connections activity) from strategy investment which will benefit both current and future customers. This is consistent with Ofwat's emphasis on the long-term at PR24.

For example, on-site activity (largely the activities proposed by Ofwat for de-regulation) could be modelled using a relatively simple cost modelling approach. This would give greater robustness to the associated relative efficiency assessment for this type of activity, both for companies and the competitors in this market. This data request may provide additional data to model this activity.

By contrast, the drivers of investment in network reinforcement and treatment upgrades are complex and not linked 1:1 with volume of connections. It is also efficient to develop and construct strategic infrastructure to enable developments both in the shorter and long term, many of which we have on the horizon the Anglian region. Historically, our Wing Strategic Main is an example of this infrastructure and also the challenges the 5-year regulatory framework has in dealing with investment of this nature. We believe the data request misses an opportunity to gather data that would inform cost modelling for these activities, which are vital to supporting economic growth.

Regarding regulatory treatment, we understand the merits and agree with the proposed scope under the option for deregulation. We welcome further consideration of this option. However, we note that this leaves network reinforcement and treatment costs associated with growth, as well as revenue from infrastructure charges, within the price control so a requirement for a reconciliation mechanism would remain. This mechanism should account for cost and revenues.

We provide our views against each consultation question in the annex to this letter. If you have any questions in relation to the above responses, please do not hesitate to contact us.

Yours faithfully,

A black rectangular redaction box covering the signature of Don Maher.

Don Maher
Head of Non-Household Services

Annex 1 – question responses

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?

We do not hold the data in the manner requested in the data request in our management systems. Compiling the data will involve manual checking of applications, offers, quotations and invoices. We anticipate that it would take 2,000 hours to complete the work. Due to the timing being across the summer period we would struggle to resource and complete the work in time for September 2021.

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?

We welcome and recognise the importance of improving the cost assessments for developer services. As such, while we believe gathering the data will be resource intensive, we believe that it will be a worthwhile exercise.

To give you an understanding of the resource implications, last year we received 12,000 applications, completed 20,000 new connections and commissioned 150km of water main. To provide the data, we would need to manually check every application and cross reference it across different systems to manually extract the relevant data.

We anticipate that we would be able to provide the data request by end of December 2021.

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?

Whilst the definitions are broadly clear we believe that some of the definitions may need tightening or further clarity to prevent inconsistent data being reported.

For instance, the definition for phased projects under Connections No. (and similarly for New Properties and length of new mains laid) states:

“For a phased project where service connections were made over multiple reporting years, the total number of service connections at project close should be reported rather than just the service connections that were made in this reporting year.”

It is unclear at what point a project is closed. For example:

- An onsite connection was made in May 2020. The connection was made to a Housing Estate Main.
- The Housing Estate Main was constructed in 2019 for a parcel of 75 houses (including this connection). The Housing Estate Main was provided under the Pre-April 2020 charging regime. This main connects to a Spine Main serving the wider development.
- The Spine Water was designed in 2017 for 300 houses and constructed in 2018 under the Pre-April 2018 charging regime.

- Network Reinforcement is also required but the existing offsite network has capacity for 250 houses and the reinforcement is not needed until 2023. In addition, the Network reinforcement will provide capacity for this and other known developments in the vicinity.
- The final connection on the site will be completed in 2024.

We would welcome further guidance on how such an example would be populated in the data request.

We strongly believe that Network Reinforcement should be included in the data request as it forms an important part of understanding Developer Charges.

We would also like you to consider situations where we provide a landlord supply and internal meters. For instance, we can make a connection to an apartment block and provide a landlord supply, but we also provide internal meters to the individual units. We believe it would be beneficial for the guidance to be explicit about how many connections and properties a situation like this should equate to in the data request.

We note that you do not make any reference to onsite or offsite connections, which can have widely different costs. We are unclear if this was intentional. We consider an offsite connection to be a connection where the works is carried out in nearby land that is not owned by the applicant or they do not have a deed of easement.

We would also ask if you are looking for us to provide data on replacement supply, where we may make a connection to an existing property. We believe the banding of 0-4 properties suggests these situations should be captured. As these are costs that are incurred and revenue recovered for this activity they should be captured.

It may be helpful to provide a number of worked examples to aid consistent reporting. We would be happy to work with you on this.

Finally, it should be noted that providing data at a project close rather than in a specific reporting year will result in data that is inconsistent with our APR data.

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

We hold partial information for offsite connections only. We currently only hold data on offsite connection numbers, divided into connections with a communication pipe of up to 5m, between 5m and 18m, or over 18m.

We apply supplementary charges for digs in excess of 18m that is dependent on surface type. We do not hold the data for connections less than 18m.

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

There are four major cost drivers that are not included:

- **Rurality** – how rural the village/town is. A highly rural location is likely to have a smaller network with less available capacity. This area is likely to require more Network Reinforcement than the same size site in a populated area. Companies with a higher rural percentage will appear less efficient due to having greater Network Reinforcement costs. We believe that this would cause cost differences between companies. We do not currently report on this data and would not be able to provide it retrospectively. However, with some minor changes to our process, we would be able to record and provide it at subsequent data requests.
- **Remoteness** – how remote the development is to the network. This increases the length of pipe laid and costs between the site boundary and the point of connection. It also increases the average cost to attend a development for routine appointments. This will make some companies appear less efficient. We believe that this would cause cost differences between companies. We do not currently report on this data and would not be able to provide it retrospectively. However, with some minor changes to our process, we would be able to record and provide it at subsequent data requests.
- **Housing type** – detached houses require more onsite water mains than an equal number of properties in, for instance, terraced houses. Water companies with a greater proportion of detached houses will appear less efficient. We believe that this would cause cost differences between companies. We do not currently report on this data and would not be able to provide it retrospectively. However, with some minor changes to our process, we would be able to record and provide it at subsequent data requests. Information
- **Intensity of growth** – high growth locations enable cost efficiency though high connection numbers compared to low growth locations. In addition, high growth areas often have multiple developments in close location allowing for less travel time. These areas also enable Network Reinforcement to be constructed for the benefit of multiple developments and therefore delivered at a lower the unit cost. We believe that different growth intensity will cause cost differences between companies. We do not currently record this data but we would be able to provide it in a retrospective data request.

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

We have provided some suggestions on this in response to Question 5.

We believe the data request should seek to gather more information relating to costs of network reinforcement. The cost drivers identified above will support this but, as outlined in the CEPA report,² more information could be collected on whether this expenditure was for new infrastructure, incremental upgrades or rebuild.

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)?

² CEPA, Reporting to inform developer services regulation at PR24.

We would recommend that you provide further clarity on Gross Revenue Received. Some of these elements attract VAT whilst others are exempt. We believe revenues should be reported without VAT.