

June 2021

Gathering data about developer services – a consultation

About this document

This document consults on the collection of additional data to inform the regulation of the developer services market as part of the 2024 price review ([PR24](#)).

Specifically, we are building on work carried out for us by CEPA and published alongside our May 2021 PR24 discussion document, that identified two options – an adaptation of our current regulatory approach, or a more fundamental change in how we regulate developer services. Furthermore, we are continuing to consider whether a separate control for contestable (site specific) developer services would be beneficial.

We propose to collect more data on costs, revenues and market share of incumbents and competitors, to:

- inform our view on whether an option that relies more on competition can be justified;
- help refine existing uncertainty mechanisms within the price control; and
- support the evolution of the cost assessment at PR24.

Responding to this consultation

The closing date for this consultation is 22 July. Please email us at OfwatPandO@ofwat.gov.uk with your response, or if you wish to discuss any aspect of this consultation, or to arrange a conversation on the issues we have raised.

We will publish responses to this consultation on our website at www.ofwat.gov.uk, unless you indicate that you would like your response to remain unpublished.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 consultation, 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.

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1. Introduction

The 2024 price review (**PR24**) will set the price service and incentive package for incumbent water companies for the 2025–30 period. In May 2021, we shared our ideas and ambitions for PR24 in [PR24 and beyond: Creating tomorrow, together](#). We identified that while there is evidence that the level of competition in developer services is increasing, there may be scope to further enhance competition. This document consults on the collection of additional data to help inform the way we will regulate developer services for PR24.

Developer services in the water sector are subject to competition. When a developer requires new water and/or wastewater connections to a new development site, they can request the incumbent water company or a new appointee (**NAV**) to provide the necessary infrastructure and service the site. Alternatively, developers may choose a contractor to provide the necessary pipework and related services. This is known as self-lay provision, and we refer to these contractors as self-lay providers (**SLPs**). However, not all developer services activities in the water sector are contestable (or contested) and so elements of the work must be provided by the local incumbent water company. In addition, while there is significant market penetration from SLPs and NAVs in some company areas, many developers continue to rely on their local incumbent company for the provision of developer services. Consequently, developer service activities of incumbent water companies are still subject to price control regulation.

In PR19 we included developer services costs in our base (or on-going) expenditure allowances and committed to adjust revenues at PR24 to reflect differences between forecast and outturn numbers of new connections.

In our May 2021 discussion document, based on earlier work from CEPA¹, we identified two options for the regulation of developer services for PR24:

- **An adaptation of the current regulatory approach**, where all developer services continue to be included within the network-plus price control, but improving the approach to cost assessment and reconciliations, potentially with a view to a further transition towards more separate regulation or deregulation of developer services at future price controls. The focus would be on cost assessment improvements, which could be enabled through enhanced data collection, and/or improvements to the design of the regulatory framework.
- **A more fundamental change in the approach to regulating developer services at PR24** that would be more reliant on ‘backstop’ regulation of contestable developer services, akin to Ofgem’s approach to regulating electricity new connections. Under this option, contestable developer services (assumed to be site specific work) would be excluded from the network-plus price controls but would initially be subject to a capped regulated margin. Non-contestable work (i.e., network reinforcement) would be expected

¹ CEPA, May 2021, "Approach to the regulation of developer services at PR24", available on our website [here](#).

to remain within the scope of the separate water and wastewater network plus price controls. This would require a licence modification.

We also stated that we were continuing to consider whether a separate control for contestable (site specific) developer services would be beneficial.

To help inform the decision on which option to take forward for PR24 we stated we would:

- **Introduce more prescriptive developer services cost allocation guidance.** As part of this we are issuing guidance on the allocation of overheads to developer services as well as other elements of the price control.
- **Enhanced collection and use of developer services data,** which would enable us to conduct a more comprehensive ‘state of the market’ review. This could encompass collecting data on costs, revenues and information on market penetration of other companies that provide developer services: self-lay providers and new appointment and variations. This data may provide more confidence that an option that relies more on competition can be justified. The improvements in data availability will also help the refinement to existing uncertainty mechanisms within the price control, e.g., the Developer Services Revenue Adjustment, and/or support the evolution of the cost assessment at PR24.

This document consults on the additional data that we propose to collect on developer services.

2. Overview of data collection requirements

To help improve our approach to the regulation of developer services for PR24, including our approach to cost assessment, and inform the decision on whether we can move to a form of backstop regulation, we consider that we need information in three areas:

- **Demand and supply information** – this data will help to provide indicators of the current and future state of competition in the developer services market in different regions of the country and by different types of new development.
- **Costs and revenues** – this will encompass data on incumbent company costs and revenues for different types of developer services and development types. This will help with the design of PR24 regulatory arrangements, our approach to cost assessment and provide further information on the state of competition.
- **Cost drivers** – this will encompass data on the drivers of incumbent company developer services costs. This will help with design of PR24 regulatory arrangements and the approach to cost assessment.

2.1 Data requirements

We commissioned consultants CEPA to help develop the additional developer services data requirements. CEPA's findings are set out in their June 2021 document, 'Reporting to inform developer services regulation at PR24', published alongside this consultation. We are grateful for the support and feedback from companies involved in this exercise.

CEPA found potential gaps in the data we currently collect across each of the three areas noted above. At a workshop with incumbent companies, CEPA explored the extent to which these gaps could be filled with data already collected, and how much additional collection, allocation and reporting system changes would be needed. CEPA also considered the level of granularity of information to be collected, and what would be the most appropriate way to segment the data to give the best reflection of the state of the developer services market.

CEPA has identified the following data requirements:

- Data should be **segmented** by what **services are required** (connections only, or new mains and sewers too); by **size of development** (number of properties, length of new mains and sewers laid); data should be disaggregated by **new developments served by NAVs and incumbents** as NAVs are better placed to provide data on NAV sites; data should also be split by **work type** – i.e. site-specific (service connection, mains/sewer requisition, and diversion), local network reinforcement and indirect / other data to mirror current data collection processes; with a further disaggregation based on the **proportion of contestable work** undertaken by the incumbent to allow comparison on a like-for-like

basis (i.e., scope of activities undertaken by the incumbent is approximately the same when comparing different developments).

- **Demand and supply information** would show the level of **SLP and NAV market share**, for different development segments; would include **information on quotes** given, accepted and negotiated, including their value; and would describe the **number of SLPs and NAVs operating** in their areas;
- **Costs and revenues data** should be provided for the different segments, and for contestable and non-contestable services;
- **Cost drivers** should be included for length of communication pipe and ground surface type (man-made surface such as road or footpath, or unmade ground which may feature grass or topsoil).

We provide CEPA's proposed data requirements as the developer service pro-forma issued as part of this consultation.

2.2 Proposed timetable and next steps

We intend to collect the additional developer services data through the annual performance reporting process. We set out our proposed high-level timetable in Table 1.

Data for the 2021-22 reporting year will not be available until July 2022. This will mean that we cannot use this data to help inform our PR24 draft methodology which we intend to issue in June/July 2022. **We therefore propose to collect interim data for 2020-21 during the current financial year.** This data collection exercise will help us and companies understand the extent of data available and able to be reported, and what changes companies need to implement in order to report fully on the 2021-22 reporting year. We will therefore use the data submitted by companies to update our final regulatory accounting guidelines for 2021-22, which we aim to issue in October.

Depending on the quality of the data submitted, we hope to be able to use the data companies are able to submit for 2020-21 to undertake an initial assessment of competition in the developer services market. This assessment will help to inform our PR24 draft methodology and provide companies an early indication of our intentions. Our assessment will also take into account responses to the May 2021 discussion document. We intend to use the 2021-22 data submission in July 2022 to inform our PR24 final methodology in December 2022. Depending on our approach we may need to consult further on our regulation of the developer services market in 2022 or 2023.

Table 1 – high-level timetable of developer services data collection

24 June 2021	Ofwat consults on developer services data requirements
22 July 2021	Consultation responses received
w/c 2 August 2021	Ofwat issues updated data tables for 2020-21
w/c 20 September 2021	Companies respond to request for 2020-21 data
October 2021	Ofwat issues final RAGs for 2021-22
June/July 2022	Ofwat publishes PR24 draft methodology
July 2022	Companies submit 2021-22 data as part of annual performance reports
December 2022	Ofwat publishes PR24 final methodology

2.3 Feedback and questions

We welcome that incumbent water and wastewater companies, in discussion, broadly support providing additional developer services data and information. However, we acknowledge that the data requirements we have identified may impose an additional reporting burden, particularly where some companies have identified the need to reconfigure their data collection and reporting systems.

We have set out the following questions, to help us understand how we can achieve our ambitions regarding the regulation of developer services.

- 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?
- 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?
- 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?
- Would you be able to provide information on cost drivers, in particular length of communication pipe and surface type (split into made/unmade)?
- Are there any key new development characteristics you think are missing from the data request and should be included?
- Is there any additional developer services data you collect that you think would be helpful to Ofwat?
- 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)?

**Ofwat (The Water Services Regulation Authority)
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