Wessex Water Response: Gathering Data about Developer Services

We welcome the opportunity to comment on the proposed data requested on developer services and we recognise that collecting data will inform a way forward for PR24. However, we have some concerns:

- we would require further clarity on several definitions as we expect the current definitions to lead to significant differences in reporting.
- the timescales are challenging. We are in the summer holiday period, then into the time of year where we focus on developer charges. This means that our resources to complete additional data requests at short notice will be limited
- we question the value of some of the information being requested, specifically around network reinforcement which is not development specific

If an early submission of this data is required, it will come at the expense of accuracy and completeness of the data as more assumptions will need to be made. Careful consideration needs to be given to the trade-off between getting good quality, reliable data and an early view of data. We think that on balance ensuring accurate data is the key priority to inform a robust approach at PR24 and so we would suggest that the September submission date be reviewed and pushed back to the end of November 2021.

Please see our responses to the specific questions below:

Q1. 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?

Yes - both data requests will be challenging without further clarification on a few key issues and definitions as outlined below. Moreover, we believe the 20 September 2021 date should be amended to the end of November 2021 to ensure it gets sufficient focus to add value.

Local Network Reinforcement

We are not clear on the benefit of collecting local network reinforcement data in the format suggested as the activity is not dependant on any single development and is non-contestable so not subject to competition.

Information on network reinforcement revenue and expenditure is already provided as part of the APR. We cannot see the benefit of outlining income versus cost for individual developments as they will be substantially divorced from each other - the expenditure is recovered from all developer customers, not just that final development occurring before investment. All new connections will add strain to the network, and it is the cumulative effect over multiple years that results in investment. In any given year, we will not see revenue and costs align but over an appropriate timescale we would see them converge. Therefore, the charges are set regionally and are required to be cost reflective over many years. Even a move to zonal charges will not result in this data being more meaningful as on a small scale, one would need to consider a longer timeframe to see convergence.

We have further specific issues with the collectability of the data below:

In the case of waste revenue, there are further hurdles to overcome. This is because the waste infrastructure charges are not collected off the back of waste connection activities (e.g. S106, S104, S98 etc.), Rather, they are collected as part of the new water supply application, where relevant discounts for pre-existing site usage, the relevant multiplier, etc. are applied. In some cases, the new water supply application is managed by a third party (neighbouring Water Only company), who is required to pass that information to us. There

are also occasions where waste connections are made indirectly via private drains. These do not attract an application to us but are still liable for infrastructure charges. These circumstances make it challenging to accurately report on local network reinforcement wastewater revenue on a site by site basis, which would require extensive manual work and cross-referencing.

The 'completed' developer services work on proformas 1 & 4 could have sites reported that were agreed pre 2018 and the introduction of new charging rules. These may have a very different approach to revenue for local network reinforcement and so could distort the overall data set. We would question whether the information could become so distorted that it becomes impossible to draw meaningful conclusions.

Regarding cost, although we can map which developments contribute to a network reinforcement scheme there will often be a timing issue, as the financial closure of a site/project is unlikely to coincide with the completion of the network reinforcement scheme. The latter could easily be completed months or years later. Therefore, we frequently won't have anything to report in this line, and the cost of that investment will not appear on these data sheets.

Therefore, we see no added value in collecting this data. It will at best be unhelpful, and at worst present misleading information on how infrastructure charges and revenues should be considered.

NAVs

There is no way of us knowing that a NAV site is complete/financially closed. At no stage are we informed that a project/site has now concluded, thus making it unreportable on this data sheet.

On proforma 1 (water), we have been asked for connection information on NAV sites, but not number of properties. However, on proforma 4 (waste), we have been asked to provide information for both properties and connections - is this inconsistency intended? Regardless, NAVs do not notify us of how many connections they have made, and we are not privy to the specific arrangements within their site. They only inform us of the number of properties connected, at 6 monthly intervals. This same issue also repeats on proforma 3 (Other Market Info). We propose this requirement is removed.

On proforma 1 (water), no information is required on 'length of new mains' installed in association with the NAV site. However, this information is required on proforma 4 (waste). Is this inconsistency intended? Generally, the incumbent will not be delivering the mains, and so if this information is required, we are not normally privy to it. We propose this requirement is removed.

The interactions that the incumbent has with a NAV are normally fairly low value, administrative exercises – with the NAV typically not requiring the incumbent to deliver infrastructure. Whilst we acknowledge that we may need some mechanism to record our typically low-value transactions with NAVs, most of this is not data that we hold and so it should be provided directly by the NAVs. We note that steps towards this are being consulted on in the reporting for new appointees' consultation and we fully support this. We propose this requirement is removed.

Regarding fully/partially accepted offers/quotes (no.), we are not privy to the private commercial arrangements of any SLP or NAV, and so there is no way that we could report

on how many developers they have approached/quoted. We would suggest that this item be removed entirely, and the information sought directly from the parties involved.

Q2. 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 recommend the removal of local network reinforcement data from both the historical request and any future requests – for reasons outlined in Q1.

We recommend the requirement to provide most NAV data be removed from the historical request and any future requests – for reasons outlined in Q1.

With those elements removed, we expect to need until the end of November to deliver the 2020-21 data.

Q3. 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 have a number of specific queries on the definitions that need more clarity to enable us to submit consistent accurate data.

Third party market participants active

The definition suggests that to be included within proforma 3, a NAV/SLP must have been awarded contestable work in the regulatory year.

However, the table on proforma 3 also includes sections on properties connected, connections made, etc. These definitions seem to suggest that we should report *all* work delivered by a NAV/SLP, regardless of whether it relates to work that was awarded during the regulatory year (e.g. we assume that other activity from historical sites operated by the NAV/SLP would also be requested).

On that basis, this approach would seem to exclude activities completed on historical sites run by a NAV or SLP if they have **not** been awarded some form of contestable work in the regulatory year. This may not be the intention, and it is our view that it would make more sense to remove the requirement that an SLP/NAV must have been awarded contestable work in the reporting year in order to appear on the table. This would ensure all NAVs/SLPs that are still active in some capacity (either securing new sites or working on old ones) are accounted for.

That said, we still maintain that we are not best placed to provide some information relating to NAVs, as we outlined in our response to Q1.

Local Network Reinforcement

We maintain that this item should be removed. However, if it remains part of the data sheet then we have the following queries on the definition:

Please provide clarity on what is meant by the sentence 'It also includes the additional capacity in any earlier water main or sewer than falls (*that fails?)* to be used in consequence

of the provision or connection of a new water main or sewer.' How would this be reported in practice, and could some examples/scenarios be provided?

Regarding the sentence 'Expenditure associated with strategic reinforcement relates to investments in strategic assets, such as water resources, water treatment works, and wastewater treatment works' – could you confirm that this is indeed correct, as the current definition of network reinforcement explicitly excludes work on strategic assets and would represent a divergence from how the charges are set, and from how they are reported in the APR? This makes little sense to us and we suggest that the current definition of local reinforcement is used. That is not to say we support the current methodology.

Waste connection nr.

Please provide clarification on the definition of a waste connection.

Our query specifically relates to S104 adoption sites, where new lateral drains and sewers will be installed, into which each property will connect. Should these connections be counted on the data sheet? They are within our 'served' area, but they are being made to pipes that we either:

- don't currently own, but we eventually will when vested under the adoption agreement or
- do not own and won't ever be adopted.

We would also like to understand what approach should be applied for indirect connections (via existing private drains). There are differing approaches to this across the industry and so this may lead to inconsistency in the reported data. We recommend that indirect connections are specifically excluded from the definition to ensure consistency.

Gross Revenue Received & Actual Costs (£)

Please provide guidance on sites where a NAV/SLP completes the on-site work and we complete the off-site work, under direct instruction from the developer.

As we have no visibility of the scope of 'on-site' work, we are unable to review the job as a whole to determine who is the majority/minority provider of contestable activity. We suggest that the on-site and off-site activity are considered as two separate reportable items.

Properties connected (no.)

Please clarify if this means new properties only, or can it also mean existing properties that are being newly connected to the network for the first time (e.g. property previously used a septic tank)? Our suggestion is that all should be included.

Also, please confirm that a second connection for an existing property would be excluded – this does occur from time to time and it would be beneficial if that was explicitly addressed within the definition.

Quote not accepted in part or in full

We can envisage some scenarios where the status of a quote at the end of the current regulatory year (31 March), might differ from the status of a quote on the date that we are required to report on it via the data sheet, which may be several months later.

Please clarify if we are reporting on the status of the quote as of the 31 March each year, and that this will not change even if the quote is subsequently accepted, cancelled or modified before we come to report on it?

Incumbent offers (no.)

For phased sites, when should we report on quotes issued? If we are to mirror the 'connections' methodology in this consultation, then we would only report on quotes when the *last phase* has been quoted. The reason for this is that if we report as we go, it will incorrectly paint a picture of a large number of small developments being quoted for, when in fact they are part of a much larger site.

Similarly, on some occasions even where there is no official phasing, we will produce multiple offers on the same site or project. We need a clearer definition: is it the number of 'sites' that have been quoted for (irrespective of how many quotes were actually issued for it); or, the actual number of quotes issued? If the former, then we suggest that we only report on the site once *the last quote was issued* – for same reasons as outlined in our commentary on the phasing.

Finally, please provide clarification on the detail that if a site requires both a S104 for on-site sewers, and a S98 for off-site sewers, that we should not report on that site as a whole until both have been quoted/awarded, so as to avoid double counting.

Site-specific work – incumbent final quotation value (£) and Other developer services activities – incumbent final quotation value (£)

Linked to the above point on phasing - when we report on these values, does the definition require us to add together all quotes on that site (even if they weren't issued within the reporting year)?

Connections to Nav site (no.)

There is reference to sewers in this definition, this should be removed as proforma 3 only refers to water.

Number of years competing in the incumbent's region

Please could you clarify this further. As some participants may not compete within the region every year, do you want us just to list the number of consecutive years they have, or the time since they first competed or the number of years in which they have competed?

Services required: Connection and new sewers

Please confirm whether the terminology on proforma 5, row 16 refers to 'all' and 'some' contestable work, rather than 'majority' and 'minority'. Is this intended or should it be consistent with the rest of the data request?

Length of new mains laid

Please confirm whether, on proformas 1 & 4, column Q, under connections only, we expect these should be greyed out – as these tables do not cater for scenarios where new mains/sewers are required.

Services required: Connection only

Please confirm whether, on proforma 2, the terminology on B5 refers to 'undertakes' work but should it say 'awarded'?

Q4. Would you be able to provide information on cost drivers, in particular length of communication pipe and surface type (split into made/unmade)?

Where we have quoted and delivered work, we would be able to report on the key cost drivers we list below, although it may take some time to compile. This will paint an incomplete picture of the total work done as we will not necessarily know what is delivered by other market participants.

Key cost drivers that we currently capture are:

- Pipe length
- Pipe diameter
- Pipe depth
- Surface type
- By exception we record difficult ground conditions e.g. Contaminated land.

Q5. Are there any key new development characteristics you think are missing from the data request and should be included?

None that we can think of.

Q6. Is there any additional developer services data you collect that you think would be helpful to Ofwat?

None that we can think of.

Q7. 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 do not think that any other segmentation of developments, or your proposal to split this by development will ease the workload or add any significant benefit to the data. In fact, we think that the size of the development is the key factor to segment as it is the economies of scale that is the key driver in differences of costs.