

Gathering data about developer services – a consultation

Response from Yorkshire Water

22 July 2021

The responses from Yorkshire Water (YWS) to the questions detailed below refer to the consultation issued by Ofwat on the 24 June 2021, on gathering data about developer services. This consultation builds on work carried out by CEPA for Ofwat which was published alongside Ofwat's May 2021 PR24 discussion document.

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?

We thank Ofwat for explaining its rationale for seeking greater information from incumbent water companies in relation to their activities provided into the new connections market in England. We acknowledge that to support the development of alternative approaches to how Ofwat could in future regulate the developer services provision from incumbents to drive greater activity in the market whilst protecting the interests of developer customers, the generality of customers, and the environment, it wishes to undertake a deeper review of the market than it has done to date.

Therefore, Ofwat is making its latest detailed information proposals with the future in mind and to inform developer services regulatory model for AMP8. However, we do envisage significant problems with both the range of information being proposed, the reporting period being requested, and the timeframe proposed for collation and submission of the information by companies.

Although the two reporting periods do present us with different challenges, we believe they will both require complex information gathering exercises that are time consuming and costly to produce, which will ultimately be borne by developer services customers.

We explain under our response to Q2. about how complicated and time consuming it would be to report historical information for the 2020-21 reporting year through back-casting. It will be almost entirely a manual process given parts of the proposed dataset do not align with information we collect and record as characteristics in our systems.

For the 2021-22 reporting year we could look to make changes to our systems and processes to accommodate a new dataset, but this will require detailed analysis and IT development time, so we would not have the functionality in place for several months. We would still be relying on significant amounts of manual investigation across large volumes of as yet non-reportable information and developing new assurance steps to mitigate risks where practicable to do so. We would be unlikely to be able to provide a high confidence grade to information we report for either 2020-21

or 2021-22 reporting periods, irrespective of the timeframes we are given to provide the information to Ofwat.

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?

It will be extremely challenging for YWS to produce backdated information for the 2020-21 shadow-year reporting for some key elements of the information request. The proposed 5 level segmentation by development site scale (number of properties to be connected across five bands) is not a breakdown we have ever recorded against connection quotations or completions. As this is not recorded, we are unable to develop scripts to extract information from our systems against such characteristics. This would therefore be a completely manual activity run as a resource intensive programme to review all developments in the historical period to draw out such information from free text entries on point of connection applications and other communications with us from prospective customers and confirmed customers by each site and then allot the requested information to the proposed size bands.

For the full dataset proposed it will:

- be extremely costly to collect/collate given the very manual nature of the work, especially when set against the value of the market in our region, which in time will filter into developer services charges,
- be highly disruptive to the timely provision of new connections services to our existing customers who require our services as the housebuilding sector bounces rapidly back from the early effects of the pandemic lockdowns,
- not be achievable by the timescale proposed, and
- the information collated is likely to carry a low confidence grade given the method of collection and aggregation.

For 2020-21 we would prefer for Ofwat to provide companies with more flexibility in how they could segment the market information against size or scale of the developer as a customer. For example, if Ofwat removed the set bandings by number of plots on a site, and instead allow companies to aggregate revenue and cost data's against customers by a broader or alternative classification (for example, large, medium, and small or single site without that being singularly defined) companies can review their information against their customer names (i.e. developer company) rather than have to assess each site project by project.

We appreciate this will not create like-for-like reporting across companies' submissions, but it will give Ofwat and CEPA a good indicative view of the market activity levels for the reporting year in question.

Even with such additional flexibility, we would require more months than proposed to complete any backdated reporting of the shadow year. We would ask Ofwat to consider updating the submission timeframe for both 2020-21 and 2021-22 to June 2022.

In order to proceed with planning and mobilising our teams in advance of collecting the required data, we would value feedback on our detailed comments on the Table of Definitions and the Glossary of Terms, as set out below under Q3.

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 reviewed the definitions in the information request document, and we have the following questions to ensure clarity in our understanding and consistent reporting in the future. Our comments and questions are as follows.

Tables

Table 1. Water Completed Developer Services work

Our understanding is that this Table will include reporting on all activities YWS delivers to its Developer Services customers, as work on connections, requisitions, adoptions, diversions, and reinforcement. However, should this reporting also include other activities, outside the charging rules, such as fees for pre-development enquiries?

Table 2. Water network+ - Developer Services quotations provided

On Table 2, we have the same question as Table 1, we would like clarification on the scope of the activities that should be included in this reporting and if it extends to activities outside of the charging rules.

We also require confirmation that this Table is only for offers or 'quotes' and not work carried out (or completed). There are timing issues for quotes issued in one financial year and the work could be completed in the following year and reported in Table 1. Please could you provide clarification on how we should present quotes in the two tables based on the timing difference? Should this reporting reconcile to our reporting to the APR, where the APR reports actual costs not quotes?

Table 3. DS Data List

Third party market participant name

Please could you clarify if this Table requires us to report in Column A per customer name (alphabetical) or per site/project by customer (no. in year).

Fully / partially accepted offers / quotes (no.)

Our quotes are mostly taken up and paid in full (this is our acceptance of the work to be completed). On partial acceptance, should we recognise quotes with deferred infrastructure charge payments as either 'fully' accepted (specific job costs paid as acceptance of the work) or 'partially' accepted (infrastructure charges still due) based on the rule that infrastructure charges are not legally due until the service connection is complete.

There is also a timing issue, as our quotes have a 12-month life span and acceptance can span two financial years. We need confirmation on how to report. This is the same comment which applies to the definition on Page 5 of the glossary of terms on 'Incumbent Offers'.

Connections (no.) or Connections to NAV site (no.)

Should Column E refer to 'Connections **SLP's** (no.) or Connections to NAV site (no.)? Currently the heading does not include 'SLP's'.

On Table 3, Column E we require confirmation as to whether these are the numbers of connections into a main that serve a NAV site, or the connections that serve the properties on a NAV site (service connections).

In our normal activities SLP's complete connections and request a number of meters to fit. We would assume that one meter becomes one connection to enable us to report this on SLP connections. Is this correct?

Table 4. Wastewater network+ - Completed Developer Services work

Should the reporting in Table 4 include activities outside of the charging rules, including sewer closures, highway drainage, and build overs? (as Table 1).

'Connection only (ie no new sewer needed)'. We require further clarification required as sewer connections will always require a new sewer or drain. Does this mean connections without an associated adoption agreement?

On the two halves of this Table, the terms contestable and non-contestable, generally relate to water and not sewerage. For a Section 106 connection we can elect the connection under S107 powers, should this be described as non-contestable?

Furthermore, YWS rarely exercise S107 with the developer undertaking the work. Would Ofwat describe a subsequent S106 application for connection work as 'majority provider of contestable work or minority'?

Table 5. Wastewater network+ - Developer Services quotations provided

We understand the reporting Table 5 refers to quotations, is this YWS led diversions and requisition activities?

We also require clarification on the definition of contestable and non-contestable work and where we should report the quotes as a minority or majority (see question above under Table 4).

Pro forma 1. Completed Work – Water

Projects

Please provide a definition of the term 'Project' and what this comprises of for large applications. Large projects comprise of numerous connections. Does this reporting refer to projects that are 'fully' completed i.e. a full site, or individual service connections that are fully completed where there would be numerous across a full site? The clarification of the definition will be required to prevent double counting.

Incumbent undertakes non contestable and is the majority provider of contestable work

Please provide clarification on the term 'majority'.

Incumbent undertakes non contestable and is the minority provider of contestable work

Please provide clarification on the term 'minority'.

Services required: Connection only (i.e., no new water mains needed)

Please confirm if these connections are commercial and residential. We report these numbers in the APR Tables 4Q.1 and 2 (as the overall connection numbers).

Services required: Connection and new water mains

Same question as above, should we report commercial and residential properties and connections into these columns, Column D and Column P.

Site-specific work

Does this include work outside the charging rules?

Other developer services activities (costs and revenues)

As noted before (Table 1) should we also include costs and revenues here, related to charges outside of the charging rules, such as fees for pre planning enquiries?

Developments/properties served by NAVs

Does this reporting include both residential and commercial properties as specified in the APR Tables 4Q.8 and 4Q.9?

Connections to NAV site (no.)

We require clarification on the previous definition, should we report commercial and residential NAV site connections in this Table?

We also require clarification where a connection is not to the main feeding a NAV site, how, or should, we should report these connections, where we do not have access to the information on service connections within NAV sites.

Pro forma 4. Completed Work – Waste

Contestable work

The definition in the glossary of terms (page 5) does not include sewerage, please could you provide further clarification on contestable and non-contestable work for sewerage services.

Services required: Connection only (i.e. no new sewers needed)

Please confirm the definition of 'new sewers' (and drains) does Pro forma 4 refer to connections without a sewer adoption? New sewers or drains are always required to make a new connection to the public sewer. Could you confirm if Pro forma 4 is asking for the number of new properties and connections before adoption?

Projects (no.)

We require further clarification on the definition of a 'project'. This may comprise of a connection, adoption and payment, made in the first year, but the project will not be financially complete until vesting which can take longer and span several financial years. For this definition when should a 'project' be considered 'completed'?

Site Specific Work

Gross revenue received (£)

In Column F, we can report the application charge here only. Developers undertake the physical construction for connections to the YWS network. We report the total application income, however we cannot break it down into size of the project as specified in this Table.

Actual Costs (£)

This column of reporting will capture actual costs to YWS which are the cost of the application fees. The costs of construction fall on the developer.

Local Network Reinforcement

Actual Costs (£)

Although we can report network reinforcement costs as a total value we cannot provide actual costs on network reinforcement at the required granular revenue. Network reinforcement activities are delivered at large locations rather than to specific developments defined by property numbers.

Length of new mains laid (km)

Pro forma 4 column E, requires length of new mains data, is this a typo, should this heading refer to sewer length?

Developments/properties served by a NAV

As above please provide clarity on contestable and non-contestable work for sewerage, and clarity on minority and majority of contestable work.

Pro forma 2. Quotations - Water**Incumbent undertakes non contestable work and is the majority provider of contestable work**

We require clarification on the term 'majority'.

Incumbent undertakes non contestable work and is the minority provider of contestable work

We require clarification on the term 'minority'.

Pro forma 5. Quotations - Sewerage**Services required: Connection only (ie no new sewers needed)**

We only issue quotations on sewer requisitions and YWS led diversions. These will be low quantity as the developer generally completes the work themselves.

As above please provide clarity on contestable and non-contestable work for sewerage, and clarity on minority and majority of contestable work.

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

There is no partial acceptance of these quotes issued by YWS.

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

We don't currently capture all the data mentioned for the cost drivers above. For the years 2020-21 and 2021-22 we would need to rely on data built up from very manual searches and our confidence grade on the reporting would be low.

However, our reporting systems do undergo periodic upgrades and the information on these cost drivers will be prioritised as reporting system upgrades, but this data would not be available in full (specifically reporting on work completed) until 2022-23.

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

Given the scale and complexity of the reporting task we have outlined above, we believe there may still be merit in seeking to capture some more emergent but equally important information about the market.

The new connections market effectively lays much of the new last-mile networks for incumbents and new appointment monopolies to adopt and operate and maintain. This market therefore has the potential to be a key contributor to the deployment of environmentally sustainable network solutions. We would welcome the inclusions of information about whether a SUDS sewer is a characteristic of the new development.

The information request could be kept simple and limited to a count of SUDS sewers adopted. This could provide to Ofwat and the sector over time a view on the changing prevalence of sustainable solutions across housing developments and the developer customer community and may help Ofwat determine if the best outcomes were being achieved.

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

The data in the proposed request is focused mainly on water services not sewerage services. Water terms have been applied to sewerage data requirements, for example, describing a wastewater pipe as a 'main' rather than as a 'sewer'.

There does not appear to be anywhere that companies are required to report on sewer adoptions. Should companies assume Ofwat is less interested in this element of the developer services market, given it is more mature and less competition for activities given that developers themselves deliver the on-site activity through their groundworker contractors directly. From an administration and value perspective, sewer adoptions are a significant component of our services in the round for developer services customers, but we acknowledge are of less significance when only considering contestable services.

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 would welcome the opportunity to work with the sector on a commonly agreed development size segmentation that better reflects the mix of customer types active in the market and through information understanding their ability and interest in pursuing both contestable and non-contestable services (for example a single connection house-builder compared to a builder of small developments).

Although in its report, CEPA states there has not been a consensus across the sector yet for determining segmentation by size, we do not believe there has been a clear opportunity for this to happen. Once a common segmentation structure is confirmed, we and other companies can build this into our associated procedures, systems, and reporting applications for the 2021-22 reporting period and beyond.