

December 2022

Creating tomorrow, together:  
Our final methodology for PR24

# Appendix 3

## Developer services

## About this document

We said we would revisit our regulation of new connection services at PR24 given growth in new connection services being provided by SLPs and new appointees.<sup>1</sup> This appendix sets out further detail of our approach to regulating developer services at PR24 that is set out in Chapter 3 of our final methodology document. It reflects on the views expressed by stakeholders in response to our draft methodology.

We are making several changes to our approach at PR24 to facilitate the development of competition in the developer services market. This includes removing regulation where it is no longer required and focusing regulation in areas where it will provide the most benefits to developer services customers.

Our approach in relation to English water companies is consistent with the UK government's strategic policy statement (SPS)<sup>2</sup> which includes expectations for Ofwat to:

- promote greater collaboration between incumbents and their new connections customers, particularly on large-scale developments;
- improve fairness and transparency in incumbents' charging arrangements and further promote sustainability and environmental protections; and
- consider how its regulatory framework can enable water and wastewater services to support government's ambitions to increase housing supply, in line with our duty to contribute to the achievement of sustainable development.

For Welsh water companies, we are removing wastewater site-specific developer services from the wastewater network plus price control as competition is widespread, which protects developer services customers. But water site-specific developer services will remain in the water network plus price control as competition is less widespread, and we do not have powers to establish charging rules to protect developer services customers. Our approach is consistent with the Welsh Government's strategic priorities and objectives statement to Ofwat, set out in the draft new Strategic Policy Statement (SPS).<sup>3</sup> Among other things, this sets out an expectation for Ofwat to keep under review our approach to developer services to ensure it is fit for purpose to support economic development in Wales.

We intend to consult on necessary licence modifications in 2023.

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<sup>1</sup> Ofwat, '[Delivering Water 2020: Our final methodology for the 2019 price review](#)', December 2017, p. 96.

<sup>2</sup> UK government, '[The government's strategic priorities for Ofwat](#)', updated 28 March 2022.

<sup>3</sup> Welsh Government, '[Strategic Priorities and Objectives Statement to Ofwat issued under section 2B of the Water Industry Act 1991](#)', 2022.

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# 1. Introduction

Developer services describes the activities delivered to connect new houses and businesses to the water and/or wastewater network. There are around 200,000 new connections every year across England and Wales. Developer services revenue accounted for 4.4% of water and wastewater network plus allowed revenue at PR19.

Developer services can be broken down into site-specific and network reinforcement work. Site-specific work includes new connections, water mains and sewer requisitions, and diversions under section 185 of the Water Industry Act 1991 (section 185 diversions). Network reinforcement includes the provision or upgrading of network assets to supply new customers with no net deterioration of existing levels of service.

Network reinforcement work is mostly delivered by the incumbent company. But site-specific work is mostly contestable and can be provided by the incumbent, a new appointee, or a self-lay provider (SLP). SLPs and new appointees may provide faster, more responsive services and lower prices than incumbents.<sup>4</sup> They can also sometimes provide developer services across utilities, reducing coordination issues.<sup>5</sup>

At PR19, developer services revenue was included within the water and wastewater network plus price controls, with the aim of driving cost efficiencies and preventing companies from overcharging new connection customers. We also:

- introduced a developer services revenue adjustment (DSRA) mechanism, which adjusts allowed revenue if the actual number of connections is more or less than forecast, mitigating volume risk; and
- introduced the developer services measure of experience (D-MeX) incentive mechanism to encourage water companies to provide good service quality to their developer services customers, SLPs and new appointees.

We also protect the needs and interests of developers, SLPs and new appointees through:

- **Charging Rules for New Connection Services (English Undertakers)** – these set out how English water companies should set and present their charges for new connection services.
- **Code for Adoption Agreements (English Undertakers)** – this sets out the minimum levels of service English water companies must provide to self-lay providers and developers and the actions they must take if they fail to deliver the minimum levels of service (eg a fee refund).

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<sup>4</sup> Ofwat, '[Review of incumbent company support for effective markets](#)', August 2020, pp. 30–31.

<sup>5</sup> Ofwat, '[Review of incumbent company support for effective markets](#)', August 2020, pp. 30–31.

- **Dispute determination powers under the new connections charging regime for Welsh water companies** – like English companies, Welsh companies have obligations to allow, and the right to charge for, new connections. Currently the framework for setting these charges remains set out in the Water Industry Act 1991, rather than in charging rules.

We said we would revisit our regulation of new connection services at PR24 given growth in new connection services being provided by SLPs and new appointees.<sup>6</sup>

This appendix details our approach to regulating developer services at PR24. We are making several changes to our approach to facilitate the development of competition in the developer services market. This includes removing regulation where it is no longer required and focusing regulation in areas where it will provide the most benefits to developer services customers.

The remainder of this appendix is structured as follows:

- Section 2: Approach to regulating wastewater site-specific developer services
- Section 3: Approach to regulating water site-specific developer services
- Section 4: Approach to regulating network reinforcement
- Section 5: Other developer services issues
- Annex 1: Learning from developer services regulation at PR19
- Annex 2: State of competition in developer services

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<sup>6</sup> Ofwat, '[Delivering Water 2020: Our final methodology for the 2019 price review](#)', December 2017, p. 96.

## 2. Approach to regulating wastewater site-specific developer services at PR24

Wastewater site-specific developer services includes new connections, sewer requisitions, and sewer diversions. Nearly all wastewater site-specific developer services are provided by developers. At PR19, these services were included in the scope of the wastewater network plus price control. We set out our approach to regulating wastewater site-specific developer services at PR24 below.

### 2.1 Our final methodology policies

- We will remove wastewater site-specific developer services from the wastewater network plus price control at PR24.
- D-MeX will remain at PR24 to continue to incentivise incumbent companies to provide good service quality to developers, SLPs and new appointees.
- We will consider ahead of the 2025–26 charging year whether any changes to charging rules are needed to protect new connection customers that must use the incumbent company to provide these services because of site access issues.

### 2.2 Key changes from our draft methodology

No material changes from our draft methodology.

### 2.3 Stakeholder views

- Incumbent companies generally agreed with our proposal to exclude wastewater site-specific developer services from the price control, noting that most wastewater developer services are fully competitive and new infrastructure is usually provided by the developer.
- But SLPs, new appointees, developers and their representatives were generally against our proposal, citing absence of widespread competition and risk for developments that need to use incumbent companies because of site access issues.

### 2.4 Our final decisions and reasoning

We will remove wastewater site-specific developer services from the wastewater network plus price control at PR24.

This is feasible because costs and revenues for wastewater site-specific developers can be separated from other activities given recent improvements to reporting and more limited interactions with other company activities compared with network reinforcement.

Nearly all wastewater site-specific developer services are delivered by developers (98%), so incumbent companies have little overall market power. This contrasts with water site-specific developer services where incumbent company market share is much higher. In addition, self-lay organisations must be accredited under the Water Industry Registration Scheme (WIRS) to carry out water site-specific developer services work. But developers do not need this accreditation to deliver wastewater site-specific developer services work.

This is reflected in total allowed wastewater site-specific developer services revenue, which was £162 million at PR19, or 0.6% of allowed wastewater network plus revenue. This is substantially lower than allowed water site-specific developer services revenue at PR19 (£1.1 billion or 4.8% of allowed water network plus revenue).

We consider our approach is proportionate and targeted given the current state of competition for wastewater site-specific developer services. It will substantially reduce regulatory complexity and burden compared with the PR19 approach. For example, there will be no need for challenging cost assessment or revenue reconciliations. And developer services customers' needs and interests will be met through competition, charging rules and the developer services measure of experience (D-MeX) incentive (discussed further below).

Our approach will also support the continued development of the market for wastewater site-specific developer services by removing potential market distortions caused by the inclusion in the price control. For example, inappropriate cost allocation leading to potential cost cross-subsidisation with other wastewater company activities.

We appreciate concerns raised by SLPs, new appointees, developers, and their representatives about our proposal to remove wastewater site-specific developer services from the price control. But we consider concerns that our proposal will cause lower service quality from incumbent companies are mitigated through competitive pressures, and our regulatory framework. For example, these services will still be included in D-MeX, which will incentivise incumbent companies to provide good service quality. The Code for Adoption Agreements will also remain, which sets out the minimum levels of service English water companies must provide to their developer services customers and the actions they must take if they fail to deliver the minimum levels of service.

For English wastewater companies, we will also consider ahead of the 2025-26 charging year whether any changes to our charging rules are needed to protect new connection customers that must use the incumbent company to provide wastewater site-specific developer services because of site access issues. For example, the need to cross a railway, where the incumbent needs to use its statutory powers.

United Utilities and Thames Water asked for more details on how we define site-specific wastewater developer services. Wastewater site-specific developer services includes connection of new properties to the existing sewer network, sewer requisitions, the provision of lateral drains, sewer diversions under section 185 of the Water Industry Act 1991, administration and application fees, and sewer adoption fees.

For avoidance of doubt, the costs of maintaining adopted assets will remain in the wastewater network plus price control. In addition, expenditure for new and additional sewage treatment and sewerage assets for first time sewerage schemes to meet the duty under s101A of the Water Industry Act 1991 will also remain in the wastewater network plus price control as the costs are borne by the generality of customers.

Thames Water also asked how to treat schemes that started in the 2020-21 to 2024-25 period, but where delivery will continue into the 2025-26 to 2029-30 period. We expect all forecast wastewater site-specific developer services to be reported under non-price control costs and revenue in PR24 business plans. This approach will also be used to collect outturn cost and revenue information from 2025-26 onwards. This will avoid disproportionate reporting complexity. This will be reflected in PR24 business plan tables.

During 2023 we will consult on a licence modification needed to remove wastewater site-specific developer services from the wastewater network plus price control. A more detailed definition of wastewater site-specific developer services will be developed through this process.



## 3. Approach to regulating water site-specific developer services at PR24

Water site-specific developer services includes new connections, mains requisitions, and water mains diversions. At PR19, these services were included in the scope of the water network plus price control. We set out our approach to regulating water site-specific developer services at PR24 below.

### 3.1 Our final methodology policies

- For English water companies at PR24, water site-specific developer services will be removed from the water network plus price control, but they will still be subject to our charging rules.<sup>7</sup> We will consult on potential changes to our charging rules ahead of the 2025–26 charging year to make sure that developer services customers with limited choice in the market are sufficiently protected. For example, developments that do not require new water mains. This could include the introduction of limits on increases in published charges through our charging rules.
- For Welsh water companies at PR24, water site-specific developer services will remain in the water network plus price control because competition is less widespread, and we do not have powers to establish charging rules to protect developer services customers.
- D-MeX will also continue to include these services at PR24 to ensure developers, SLPs and new appointees receive good service quality from the incumbent companies.

### 3.2 Key changes from our draft methodology

In our draft methodology, we proposed to split the market for water site-specific developer services based on development size. After considering stakeholder responses, water site-specific developer services be removed from the water network plus price control at PR24 for English water companies, but they will still be subject to our charging rules. The exception is section 185 diversions, which will remain in the water network plus price control as they are not currently contested. We will consider changes to our charging rules to protect developer services customers that have limited choice in the market. For example, development sites that do not require new water mains.

The Welsh Government informed us that it was incorrect to assume in our draft methodology that the provisions enabling us set new charging rules will be in place for Welsh companies for the 2025–30 period. Water site-specific developer services will therefore remain in the water network plus price control for Welsh water companies at PR24 because competition is

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<sup>7</sup> The exception is section 185 diversions, which will remain in the water network plus price control as they are not currently contested.

less widespread, and we do not have powers to establish charging rules to protect developer services customers.

### 3.3 Stakeholder views

Incumbent companies mostly think that water site-specific developer services should be removed from the water network plus price control in full, with alternative protections put in place through charging rules. They think splitting the market based on development size, as proposed in our draft methodology, would be overly complex,<sup>8</sup> create perverse incentives,<sup>9</sup> and is not aligned to how companies set charges. Some companies suggested distinguishing between developments that do, and do not, require new water mains instead. They said this would be more aligned with how companies set charges and is a key driver of whether a development is attractive to SLPs and new appointees.

But SLPs, new appointees, developers and their representatives do not think the market is sufficiently well developed to remove these services from the price control. They are concerned it would affect the competitiveness of SLPs and new appointees, and lead to lower levels of service quality from incumbent companies.

Several incumbent companies were concerned with our suggestion to cap increases in charges to CPIH. They argued this would lead to the risk of charges no longer being cost reflective, which would not comply with our charging rules for new connection services. United Utilities suggested linking charges for less competitive developments to those for more competitive developments. South Staffs Water suggested a reasonable starting point may be company-published new connection charges with an allowed uplift limited to CPIH each year. Yorkshire Water suggested setting a maximum net margin or earnings before interest and taxation (EBIT) margin for less competitive new connections.

### 3.4 Our final decisions and reasoning

In our draft methodology, we set out four options for regulating water site-specific developer services at PR24, to address the issues with the current regulatory regime (see Annex 1) and reflect the state of competition in water site-specific developer services (see Annex 2). These options are described below and look at the extent to which water site-specific developer services remain in the price control and the degree to which additional regulatory protections are provided.

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<sup>8</sup> For example, cost allocation challenges.

<sup>9</sup> For example, incentive to split developments up into smaller sizes.

## **Draft methodology options for regulating water site-specific developer services at PR24**

### **Option 1: improved status quo**

Water site-specific developer services remain in the water network-plus price control. We would consider making improvements to the PR19 approach where possible. For example, improvements to cost assessment and end-of-period reconciliations.

### **Option 2: remove competitive market segments from the price control; other market segments remain in the price control**

Developments with more than 25 properties are excluded from the water network plus price control. Developments with 25 properties and less remain in the water network plus price control and would be regulated as in Option 1 (ex-ante cost assessment; reconciliation mechanisms; etc.).

### **Option 3: separate developer services price control**

Water site-specific developer services would be removed from the water network plus price control. But they would remain regulated through a separate binding price control for developer services. The price control would include site-specific developer services (and potentially network reinforcement).

### **Option 4: remove all market segments from the price control; backstop regulation for market segments with limited competition**

Developments with more than 25 properties are excluded from the water network plus price control.

Developments with 25 properties and less would also be removed from the water network plus price control. But we would introduce backstop regulation so that developer services customers are sufficiently protected in potential instances of market power. This could include:

- only allowing incumbent companies to increase developer charges in line with CPIH; and/or
- returning any cost over-recovery to customers at the PR24 end-of-period reconciliation to ensure incumbent companies do not benefit financially from overcharging developer services customers.

We would review costs at the price review and monitor costs and revenue annually through the annual performance report (APR). Cost recovery risk borne by incumbent companies.

We recognised the options are more finely balanced than for wastewater site-specific developer services because the incumbent company remains the dominant service provider in certain regions of England and Wales and for certain new development types. Our analysis of granular developer services data showed that SLPs work on a similar number of new developments as incumbents when the size of the development surpasses 25 properties. But SLP activity remains low in small developments (25 properties and under).

We therefore concluded it would not be appropriate to exclude all water site-specific developer services from the price control without introducing alternative regulatory protections for market segments that currently have low levels of competition.<sup>10</sup>

We rejected Option 1 (improved status quo) as it would maintain a complex system of regulation that risks distorting the market.<sup>11</sup> Inclusion in the price control risks cost allocation issues that could lead to cross subsidisation with other activities, leading to new connection charges being set too low. The price control also protects water companies from market share risk because lost revenue can be recovered through water customer bills if work is completed by other providers, or their developer charges are set too low. This may prevent third parties from entering the market, and/or discourage incumbents from competing with third parties. Option 1 also does not offer a clear route to more proportionate and targeted regulation.

We also rejected Option 3 (separate developer services control) because of the additional challenges it would bring, such as greater emphasis on accurate cost assessment; deciding on the form of control (eg revenue or price cap); determining an appropriate return on developer services activities (if any); and how to deal with cost over or under recovery.

The choice was therefore between Option 2 and 4, which was finely balanced.

We proposed to exclude new developments of more than 25 properties from the water network plus price control at PR24. Our proposal in relation to new developments of 25 properties and below was that they should either:

- remain in the water network plus control (Option 2); or
- be removed from the water network plus control but with alternative protections to protect developer services customers in this market segment from potential monopoly power (Option 4).

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<sup>10</sup> We note there may be cases where SLPs are competing for work but not winning work. So, competition between SLPs and incumbent companies may be high, but SLP market shares may be low. We acknowledge this potential issue but consider SLP market share is a reasonably good proxy for competition in the market.

<sup>11</sup> The extent to which new connection customers are protected by the inclusion in the network plus price control is also not clear. It does not limit charges for new connections. Rather it limits total revenue, of which water site-specific developer services is a small proportion.

We sought stakeholder views on the relative merits of these options, and how we could achieve suitable customer protection under Option 4, such as through changes to our charging rules or applying an ex-post reconciliation adjustment.

As discussed in Section 3.3, our proposals received a mixed response. Most incumbent companies consider that water site-specific developer services should be removed from the price control, with alternative protections put in place through charging rules. But SLPs, new appointees, developers and their representatives do not think the market is sufficiently well developed to remove these services from the price control.

We have carefully considered stakeholder responses and have concluded that different approaches are needed for English and Welsh companies.

### **3.4.1 Approach to regulating water site-specific developer services at PR24 for English water companies**

For English companies, we will apply Option 4 at PR24. All water site-specific developer services other than section 185 diversions will be excluded from the water network plus price control. This was supported by almost all incumbent companies in response to our draft methodology.

Our analysis supports the suggestion made by some stakeholders to distinguish between developments that do, and do not, require new water mains. SLP share of new connections requiring new water mains was around 50% in 2020–21 and 2021–22, while only around 4% (2020–21) and 5% (2021–22) for sites not requiring new mains.<sup>12</sup>

So, development sites that require new water mains will be removed from the price control as there is relatively high levels of competition for these services. Developer services customers' needs and interests will be protected by competition, charging rules and competition law. We do not expect to introduce additional protections for this market segment.

But development sites that do not require new water mains will have further protections applied through additional charging rules because the level of competition remains low. This could include limits on increases in published charges through our charging rules to sit alongside the requirement for both published and bespoke charges to be cost reflective.

Incumbent companies will be required to provide us with cost and revenue data for all development sites so that we can monitor compliance with cost reflectivity. If we observe revenues exceeding costs over time, we will reconsider the effectiveness of competition as a constraint on incumbents' market power at PR29 and leave the door open to a return to price control regulation. Conversely, if we observe developments that do not require new water

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<sup>12</sup> See Annex 2 for more details.

mains can access alternative providers, we may consider further relaxation of our charging rules. This will also incentivise incumbent companies to continue to facilitate the market.

We consider this will offer a more targeted and flexible approach to regulating water-site-specific developer services. Charging rules can be more targeted to specific charges for developer services and are also more flexible than price controls as they can be more easily amended if necessary. This arguably provides those developer services customers with limited choice in the market with more protection than if water site-specific developer services were to remain in the water network plus price control.

Protecting developer services customers that do not require new water mains through charging rules instead of the water network plus price control also has the following benefits:

- it is less complex and burdensome because the need for challenging cost assessment and reconciliation mechanisms is removed;
- it removes potential market distortions caused by the inclusion in the price control (as discussed above for Option 1). Option 4 may therefore help to better facilitate a level playing field between incumbents, SLPs and new appointees, facilitating more competition and supporting new development; and
- it should improve water bill predictability for end users because unexpected year-on-year changes in water site-specific developer services revenue would no longer lead to changes in water customer bills.

The role of cost efficiency benchmarking is somewhat reduced in Option 4. We will not need to assess efficient costs at the price review for new developments that do not require new mains, unlike in Option 2. This could increase the risk of cost inefficiencies. But benchmarking can still play a role in determining limits on increases in published new connection charges, which can protect customers from being overcharged and drive efficiencies. For example, United Utilities suggested linking charges for less competitive developments to those for more competitive developments.

We have listened to concerns raised by SLPs, new appointees, developers, and their representatives that removal from the price control would lead to lower service quality from incumbent companies. We consider these risks are more appropriately addressed by the continued inclusion of these services in D-MeX and the Code for Adoption Agreements. These also address the risk that the removal of these services from the price control may encourage the incumbent companies to compete with other service providers more fiercely, rather than facilitate the market. A risk we acknowledged in our draft methodology. We will continue to monitor service levels provided by the incumbent companies and will reconsider reintroducing price control regulation at PR29 if we see signs of deteriorating service.

We will consult on potential changes to our charging rules ahead of the 2025-26 charging year to make sure that developer services customers with limited choice in the market are

sufficiently protected. For example, developments that do not require new water mains. We have listened to concerns raised about our proposal to limit increases in charges to CPIH. We recognise that limits introduced through charging rules must allow incumbent companies to set cost reflective charges and recover efficient costs.

We also plan to develop more detailed cost allocation guidance ahead of the 2025–26 charging year on how companies should allocate costs between developments that require new mains and developments that do not require new mains.

United Utilities and Thames Water asked for more detail on how we define 'water site-specific developer services'. For these purposes, water site-specific developer services include connection of new properties to the existing water network, provision of communication pipes, water main requisitions, and administration and application fees (including charges associated with self-lay schemes). For avoidance of doubt, the costs of maintaining adopted assets will remain in the water network plus price control.

During 2023 we will consult on a licence modification needed to remove water site-specific developer services from the water network plus price control for English water companies. A more detailed definition of water site-specific developer services will be developed through this process.

Water section 185 diversions will remain in the water network plus price control at PR24 as they are not currently contested. But we will include them in third-party services at PR24. Section 185 diversions arguably fall into the definition of third-party services: "supply of non-potable water and rechargeable works where water companies are the monopoly supplier, have a statutory duty to provide them or that use regulated assets". Some companies formerly reported section 185 diversion costs in third party services. There are also limited interactions with other water company activities (unlike network reinforcement), and this approach will ensure better alignment with the accounting treatment of other water site-specific developer services which will be removed from the price control. This means water section 185 diversions will be included in the third-party services reconciliation mechanism being introduced at PR24, which removes the need for a standalone reconciliation mechanism.<sup>13</sup>

### **3.4.2 Approach to regulating water site-specific developer services at PR24 for Welsh water companies**

Welsh Government informed us it was incorrect to assume in our draft methodology that the provisions enabling us to set charging rules will be in place for Welsh companies for the 2025–30 period. For Welsh companies at PR24, water site-specific developer services will

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<sup>13</sup> See [Appendix 9 – Setting Expenditure Allowances](#), Section 2.4.1, for more details on the third-party services end-of-period reconciliation mechanism being introduced at PR24.

therefore remain in the water network plus price control because competition is not as widespread, and we do not have powers to establish charging rules to protect developer services customers.<sup>14</sup>

The incumbent company remains the dominant service provider in Wales. So, it would not be appropriate to exclude all water site-specific developer services from the price control without introducing additional regulatory protections for market segments that currently have low levels of competition. As additional protections cannot be implemented through charging rules for Welsh companies, we consider including in the water network plus price control is the next best solution. But we will revisit this at PR29.

We will therefore set an efficient cost allowance for water site-specific developer services at PR24, after considering evidence presented in Welsh companies' business plans.

We will not introduce a standalone developer services reconciliation adjustment mechanism for Welsh companies. But water site-specific developer services will be included in the scope of cost sharing to help manage uncertainty around the volume and mix of work to be delivered, and to incentivise cost efficiency.<sup>15</sup> We will also consider ex-post adjustments to allowed revenue in the PR24 end-of-period reconciliation if the actual volume and mix of new connections is materially different from forecast and could not have been expected when developing business plan forecasts. This is like the approach to regulating developer services we adopted at PR14, which we consider is appropriate for Welsh companies given the volume of new connected properties is more stable over time and predictable.<sup>16</sup>

Section 185 diversions will be included in the third-party services end-of-period reconciliation mechanism being introduced at PR24, rather than cost sharing. This aligns the treatment of section 185 diversions for England and Welsh water companies, and with non-section 185 diversions. See [Appendix 9 - Setting Expenditure Allowances](#), Section 2.4.1, for more details.

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<sup>14</sup> Network reinforcement and section 185 diversions will also remain in the water network plus price control.

<sup>15</sup> Section 185 diversions will not be included in cost sharing. Instead, section 185 diversions will be included in the third-party services end-of-period reconciliation mechanism being introduced at PR24. See [Appendix 9 - Setting Expenditure Allowances](#), Section 2.4.1, for more details.

<sup>16</sup> Ofwat, '[Ofwat PR14 reconciliation rulebook](#)', December 2017, p. 43.



## 4. Approach to regulating network reinforcement at PR24

Network reinforcement includes the provision or upgrading of network assets to provide new customers with no net deterioration of existing levels of service. It is not currently contested and is therefore delivered by the incumbent company. At PR19, network reinforcement was included in the scope of the water and wastewater network plus price controls. We set out our approach to regulating water network reinforcement at PR24 below.

### 4.1 Our final methodology policies

- Network reinforcement remains in the water and wastewater network plus price controls at PR24 as it is not currently contested and is more difficult to separate from other company activities.
- Network reinforcement will be included in the scope of cost sharing at PR24 to help manage uncertainty around the volume and mix of network reinforcement work to be delivered, and to incentivise cost efficiency.

### 4.2 Key changes from our draft methodology

- No material changes

### 4.3 Stakeholder views

- Respondents generally agreed that network reinforcement should remain in the network plus price controls at PR24. But several water companies think the removal of network reinforcement from the price control should be a long-term goal to reduce the risk of cost cross-subsidisation to or from water bill paying customers.<sup>17</sup>
- Most respondents agreed that a separate network reinforcement reconciliation mechanism is not required if network reinforcement is included in cost sharing. But several stakeholders argued that cost sharing is not sufficient because the volume of network reinforcement work depends on housing growth, which is uncertain.<sup>18</sup>

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<sup>17</sup> Anglian Water, Severn Trent, Hafren Dyfrdwy, Wessex Water, Yorkshire Water, South Staffs Water.

<sup>18</sup> Anglian Water, Northumbrian Water, Thames Water, United Utilities, Yorkshire Water, Affinity Water, Independent Water Networks.

## 4.4 Our final decisions and reasoning

### 4.4.1 Network reinforcement price control treatment

Network reinforcement will remain in the network plus controls at PR24 because:

- It is almost entirely delivered by the incumbents, so competition is insufficient to protect new connection customers from monopoly power (eg higher prices).
- There are substantial interactions with other water company activities (eg capital maintenance) that do not facilitate accurate cost separation.
- There can be substantial temporal mismatch between costs and revenue because reinforcement may take place before work begins on a development site.

Most respondents to our draft methodology agreed with this approach for PR24. And no respondents supported a separate developer services price control.

### 4.4.2 Network reinforcement cost assessment

At PR19, we included network reinforcement costs in our wholesale base cost models. We used this approach because network reinforcement shares similar characteristics to base costs (eg companies experience these costs on a year-on-year basis) and cost drivers (eg company size and population density).

This approach also helped to mitigate for synergies and reporting inconsistencies between network reinforcement and base costs. For example, when network assets reach the end of their useful life, water companies can replace them with assets that deliver additional capacity. Three companies also reported zero network reinforcement expenditure between 2011-12 and 2016-17.

Anglian Water, South West Water, United Utilities and South East Water reiterated their view that network reinforcement should be assessed separately from other expenditure. As set out in section 2.4.1 of [Appendix 9 – Setting expenditure allowances](#), we intend to include network reinforcement costs in the base cost models at PR24. This is due to substantial interactions with capital maintenance expenditure and a close relationship with base cost drivers. Arup were also unable to develop robust standalone models for network reinforcement when we commissioned them to re-examine how we should assess growth related expenditure at PR24.<sup>19</sup> We will consider cost adjustment claims from companies that expect to deliver a higher amount of network reinforcement work than is funded through the base cost models.

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<sup>19</sup> Arup, '[Assessment of growth-related costs at PR24](#)', May 2022.

We also note Thames Water's interpretation of the definition of network reinforcement in our charging rules. More specifically, Thames Water consider they can only record costs against network reinforcement if it can be linked to a developer's application. We consider Thames Water's interpretation is too narrow. Incumbent companies can set infrastructure charges to recover the costs of network reinforcement from all foreseeable developer applications. We will consider how companies should keep track and report the costs and revenues over successive regulatory periods ahead of the business plan table Phase 3 update scheduled for February 2023.

### 4.4.3 Network reinforcement uncertainty mechanism

At PR19, the DSRA included site-specific developer services and network reinforcement.

We do not need an uncertainty mechanism for site-specific developer services at PR24 because of decisions to:

- for English water companies, remove water and wastewater site-specific developer services from the network plus price controls;
- for Welsh water companies, remove wastewater site-specific developer services from the wastewater network plus price control, and include water site-specific developer services in the scope of cost sharing; and
- for English and Welsh companies, include water section 185 diversions in the scope of the third-party services reconciliation adjustment mechanism being introduced at PR24.<sup>20</sup>

We therefore assessed if the inclusion of network reinforcement in cost sharing would be enough to manage uncertainty around the volume and mix of network reinforcement to be delivered at PR24, or if a separate uncertainty mechanism for network reinforcement is needed.

We set a high bar for uncertainty mechanisms given totex cost sharing provides substantial protection and because such mechanisms shift the balance of risk for customers.

We are not convinced that uncertain costs are material if network reinforcement is included in the scope of totex cost sharing. Network reinforcement spend has been around 1% of wholesale totex over the past 5 years. And the uncertain element of those costs is much smaller given network reinforcement is not site-specific and can be planned ahead of work starting on the development site based on planning applications. There should therefore be a higher degree of certainty on network reinforcement requirements in the next 5 years than site-specific developer services.

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<sup>20</sup> See [Appendix 9 – Setting Expenditure Allowances](#), Section 2.4.1, for more details on the third-party services end-of-period reconciliation mechanism being introduced at PR24.

Some stakeholders raised the concern that the absence of a network reinforcement uncertainty mechanism will encourage incumbent companies to hold up developments so that they don't have to incur the costs. We consider this risk is low. Incumbent companies have an obligation to connect new properties to the water and wastewater network under the Water Industry Act 1991. And D-MeX will remain at PR24 to encourage water and wastewater companies to provide good service to developers, SLPs and new appointees.

We therefore do not consider a separate network reinforcement uncertainty mechanism is needed at PR24, and there will not be a DSRA for the 2025–30 period. Instead, network reinforcement will be included in the scope of cost sharing at PR24 to help manage uncertainty around the volume and mix of network reinforcement work to be delivered, and to incentivise cost efficiency.

## 5. Other developer services issues

### English water companies

We also regulate developer services through our charging rules for English water companies. In October 2021 we decided to remove the ability to offer income offset and the balance of charges rule from April 2025 for English water companies.<sup>21</sup> In our draft methodology we explained that we had decided not to introduce formal transitional arrangements within the charging rules for these changes because it would unnecessarily increase regulatory complexity: companies are already required by the charging rules to reflect the principles of stability and predictability (amongst others).

We also described how we want water companies to do more to incentivise water efficiency and sustainable drainage, for example by offering environmental discounts for sustainable developments (or surcharges for developments that do not promote water/waste efficiency).

We received few comments on our approach to other developer services issues for English water companies.

Two respondents said that our approach to income offset and balance of charges enables developers to pay for investment they trigger,<sup>22</sup> but that Ofwat should explain the impact and implementation timescales to housebuilders.<sup>23</sup> A developer said Ofwat should reconsider its approach to charging, because cost estimates are often higher than actual costs but reconciliation is not automatically provided and that developers are gifting assets to companies (this is an issue we considered in our October 2021 conclusions).<sup>24</sup> One company said it is unable to introduce their own transitional arrangements with regards to income offset because they are required to comply with the balance of charges rule. They said that the change would impact some SLPs that have agreements running into AMP8.<sup>25</sup>

Respondents supported environmental incentives. But asked how the incentives might apply to new appointees,<sup>26</sup> respondents noted that income offset could incentivise drainage schemes,<sup>27</sup> suggested that discounts should be linked to cost savings,<sup>28</sup> and noted that some companies already innovate in how they incentivise water efficiency.<sup>29</sup> One company said that

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<sup>21</sup> See [Scope and balance of developer charges and incentives - conclusions - Ofwat](#), October 2021.

<sup>22</sup> Wessex Water.

<sup>23</sup> Independent Water Networks.

<sup>24</sup> Barratt Homes.

<sup>25</sup> United Utilities.

<sup>26</sup> ESP Water.

<sup>27</sup> Barratt Homes.

<sup>28</sup> Fair Water Connections.

<sup>29</sup> HBF, Persimmon.

it disagreed that environmental incentives should sit outside of the network plus price controls.<sup>30</sup>

We made the decision regarding removal of income offset well in advance of implementation so that companies had time to prepare their customers, many of whom are benefiting from the reduced costs and improved services associated with greater competition for developer services. We consider that there is flexibility in the wording of the balance of charges rule to allow companies to do this. We expect companies to effectively communicate their plans in good time to enable developer services customers to prepare for any changes. Income offset is designed to pass through to developers so that SLPs and new appointees should not be financially affected by its removal. We will consider issues around over or undercharging of network reinforcements further as part of our work to update our charging rules to complement the PR24 changes.

In September 2022 we published our report on environmental incentives, noting some examples of good practice by some companies, but recognising that many companies could do much more. We will be engaging with industry on both the environmental incentives they can offer over the coming year and on how we regulate environmental incentives for developer services from April 2025. But we can confirm that revenue associated with environmental incentives will be included in the network plus price controls.

Finally, the Habitats Regulations require new developments located in certain catchments, where freshwater habitats and estuaries experience nutrient pollution, to be nutrient neutral. Such developments may experience delays in the planning process and / or costs of mitigating associated nutrients. We set out our approach to nutrient neutrality at PR24 in [Appendix 9 – Setting expenditure allowances](#).

## Welsh companies

The Water Act 2014 included changes to the WIA91 that allow us to set charging rules for new connections services in England and Wales. In December 2017, the Welsh Government issued us with charging guidance which included guidance on setting these rules. We have consulted on draft rules.<sup>31</sup> However, the Welsh Government would need to bring into force the relevant provisions in the Water Act 2014 before charging rules for new connection services could be applied to Welsh water companies.

Welsh Government informed us it was incorrect to assume in our draft methodology that the provisions enabling us to set new charging rules will be in place for Welsh companies for the 2025-30 period. But developers will continue to have their existing ability to ask Ofwat to

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<sup>30</sup> United Utilities.

<sup>31</sup> Ofwat, '[Consultation on new connections charging rules for Welsh companies](#)', February 2021.

determine certain disputes about whether expenses have been reasonably incurred by Welsh water companies in individual cases.

## Annex 1: Learning from developer services regulation at PR19

### The inclusion of developer services in the single till creates wholesale bill volatility and potential cost cross subsidisation with the general customer base

The aim of including developer services in the single till was to protect developers from incumbent companies over-charging them, particularly those with limited choice. But it can lead to some negative consequences:

- **Water bill volatility** – developer services revenue is included in the single till. So, an increase in developer services revenue requires a reduction in revenue recovered from water customers. This reduces water bill predictability. But the impact is likely to be relatively small (eg a 20% increase in site-specific developer services revenue would require a 1% decrease in water network plus bills on average).
- **Potential cost cross subsidisation with the general customer base** – companies could use the revenue protection offered by the single till to set developer services charges too low, preventing effective competition from other companies. Charging rules should go some way to prevent this as charges are required to be cost reflective.
- **Water companies may be unable to recover efficient costs** associated with developer services activity that was not forecast when cost allowances were set at the price review. An ex-post revenue reconciliation mechanism can help to resolve this issue by adjusting allowed revenue based on the difference between forecast and actual volume and mix of developer services work but may not completely.

### Assessing site-specific developer services costs is very challenging

Our regulatory approach should allow water companies to recover efficient site-specific developer services costs. Cost recovery uncertainty may discourage incumbent companies from connecting new developments in a timely way (ie delaying work until the next regulatory period).

At PR19, we assessed developer services costs with base costs because of data limitations (eg developer services costs were not collected, and limited cost driver information was available). This approach made it challenging to identify the developer services cost allowance, or whether we had set it appropriately. Setting cost allowances too high or low risks distorting the market if companies use this information to set developer charges.

For PR24, we have more information available to forecast efficient developer services costs. We now collect developer services costs separately from other costs and collect more cost driver information. We have also improved overhead cost reporting guidance, which should improve developer services cost reporting consistency between companies.



Despite the additional data collection, developer services costs tend to be more difficult to assess than other costs because they depend on when new developments occur and the types of new developments. Both are outside company control. These factors vary more than the drivers of other water company activities, which makes it challenging to accurately forecast efficient developer services costs for each company. The cost assessment challenge is demonstrated by the very large range in water site-specific developer services unit costs, ranging from £1,157 to £4,379 per connection in 2020-21.

### **Incumbent companies can be financially rewarded for connections work delivered by SLPs and new appointees**

The DSRA adjusts allowed developer services revenue within the total revenue control using a single, average unit rate per connection if the actual number of new properties is more or less than the PR19 forecast. It was introduced at PR19 to encourage timely and quality new connections by mitigating volume risk and reducing cost recovery uncertainty, which should discourage incumbent companies from delaying new connections work until the next regulatory period.

The revenue adjustment is neutral to which party delivers the services (incumbent, SLP or new appointee). So, incumbent companies can benefit financially from connections completed by other providers because their revenue is unaffected, but costs are avoided. This should encourage incumbent companies to facilitate competition in the market (eg timely provision of information to SLPs; promoting the self-lay option). But it also means that developers pay SLPs or new appointees (instead of incumbent companies) for delivering the work, and end customers also pay incumbents for work they lost to SLPs or new appointees and did not deliver.

### **The DSRA does not account for in-period changes in the work-mix**

The use of a single unit rate in the DSRA means companies bear the risk that the mix of work undertaken is different to that forecast. This may mean that companies are not able to recover efficient costs if they deliver more complex developer services work than planned. And conversely, they would over-recover costs if they deliver less complex work than planned. This creates an incentive to give away more costly development sites to SLPs and new appointees.

Work-mix risk is present for all activities undertaken by companies. But is arguably more problematic for developer services given the work mix is driven by new development types, which is outside of company control.

## Annex 2: State of competition in developer services

We collected granular developer services data from water companies in 2021 and 2022 to better understand the state of competition in developer services. The key findings of our analysis are below, alongside findings from the CEPA and SIA Partners studies that were conducted in early 2021.<sup>32 33</sup> We intend to collect similar data for the 2022–23 charging year and will issue an information request in 2023.

### Almost all wastewater site-specific developer services are delivered by developers and SLPs

- 98% of sewer connections are completed by developers and SLPs instead of incumbent companies according to the granular data received in late 2021.<sup>34</sup>

### The amount of water site-specific developer services work delivered by SLPs is growing. But remains limited in some regions and market segments

- The overall level of SLP activity is growing. There are now over 100 SLPs delivering water site-specific developer services across England and Wales. And water connections made by SLPs increased from 26% to 43% between 2018–19 and 2021–22 (see Figure A2.1).
- Incumbent companies face active competitive pressure from SLPs in some regions of England and Wales, and for certain types of new developments.
- The percentage of new water connections completed by SLPs ranged from ~0% (SES Water), ~5% (South West Water), ~20% (Northumbrian Water), to ~51% (Bristol Water), ~60% (Severn Trent Water) and ~85% (United Utilities) in 2021–22 (see Figure A2.1).
- SLPs conduct most work on developments that need new water mains. 54% of new water mains were laid by SLPs in 2021–22 (see Figure A2.2).
- 6% of new properties connected in 2021–22 are served by new appointees. But there is large variation across England and Wales, with the percentage of new properties connected in 2021–22 that are served by new appointees ranging from 0% (South West Water) to 42% (Southern Water) (see Figures A2.3 and A2.4).
- SLPs connect a similar number of new properties to incumbent companies on development sites that require new water mains (See Figures A2.6 and A2.9).
- SLPs generally do not work on developments that do not require new water mains (see Figures A2.7 and A2.10). These sites accounted for around 48% of new properties in 2021–22. The need for new water mains also increases with development size.

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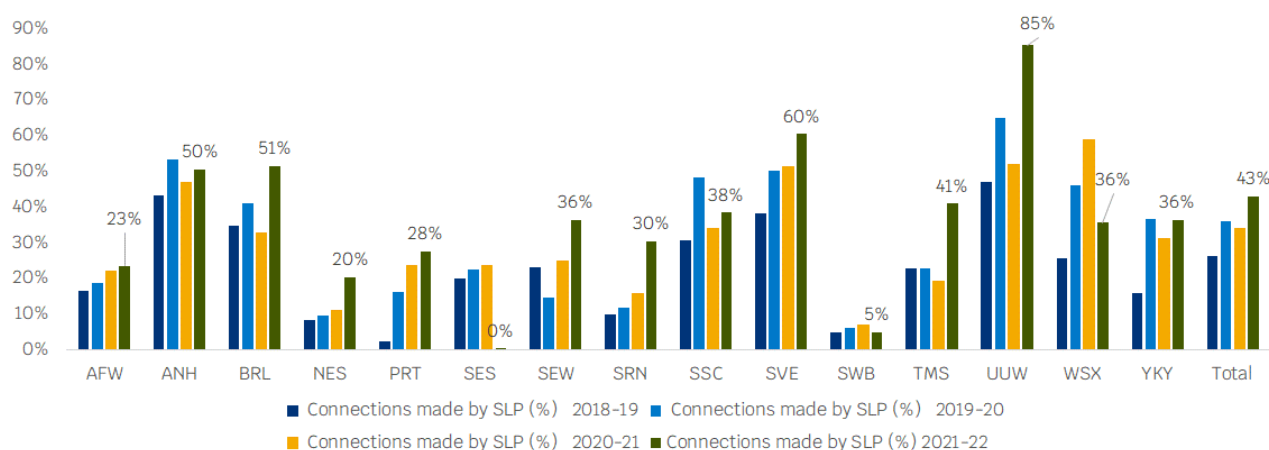
<sup>32</sup> CEPA, '[Approach to the regulation of developer services at PR24](#)', 24 May 2021.

<sup>33</sup> SIA Partners, '[Connection charges for developer services in England – root cause analysis](#)', August 2021.

<sup>34</sup> We did not request this data again in 2022 to reduce the regulatory burden on companies.

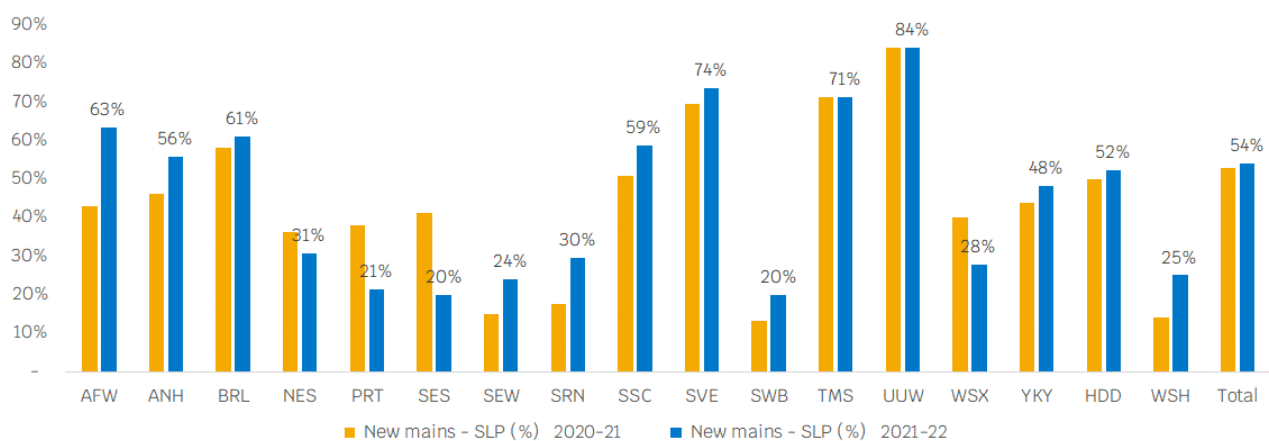
- The proportion of work undertaken by SLPs increases with development size. SLPs connect a similar number of new properties when the size of the development surpasses 25 properties (see Figure A2.5 and A2.8).

**Figure A2.1: water connections made by SLPs 2018-19 to 2021-22 (% of total connections served by incumbent companies)**



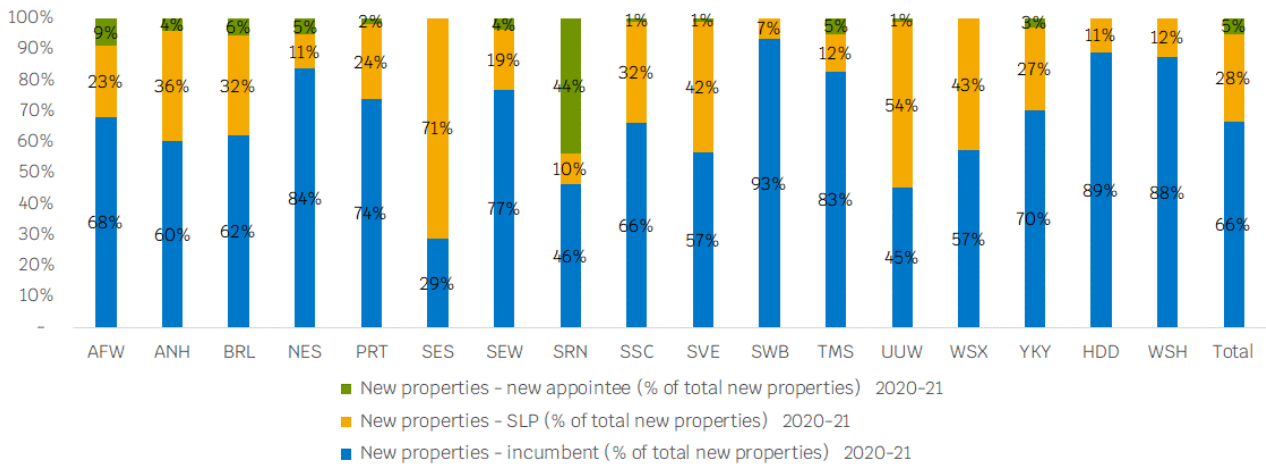
Source: SIA Partners. '[Connection Charges for Developer Services in England. Root Cause Analysis](#)'. August 2021; and Ofwat analysis of Annual Performance Report data.

**Figure A2.2: new water mains laid by SLPs in 2020-21 and 2021-22 (% of total new water mains to be maintained by incumbent companies)**



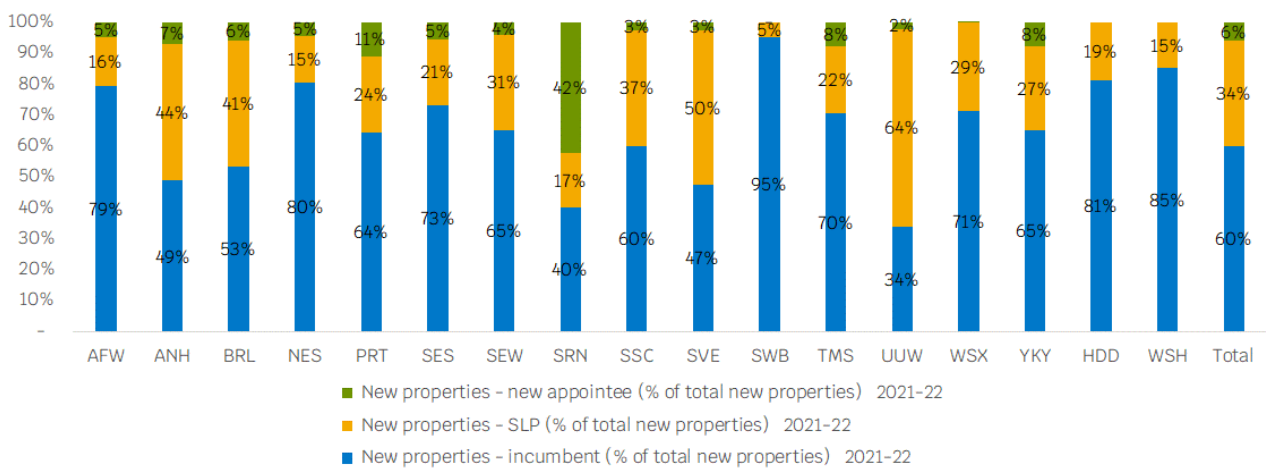
Source: Ofwat analysis of Annual Performance Report (APR) data

**Figure A2.3: Percentage of new properties connected by incumbents versus SLPs versus new appointees in 2020-21 (recorded in the year the connection was made)**



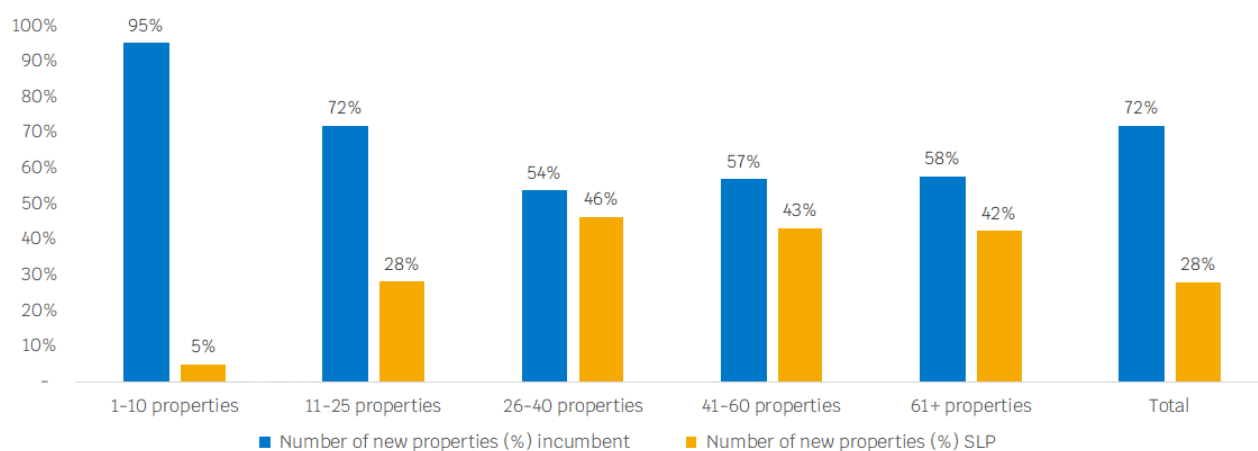
Source: Ofwat analysis of Annual Performance Report (APR) data

**Figure A2.4: Percentage of new properties connected by incumbents versus SLPs versus new appointees in 2021-22 (recorded in the year the connection was made)**



Source: Ofwat analysis of Annual Performance Report (APR) data

**Figure A2.5: Percentage of new properties connected by incumbents versus SLPs by development size in 2020-21 (all financially closed new developments)**



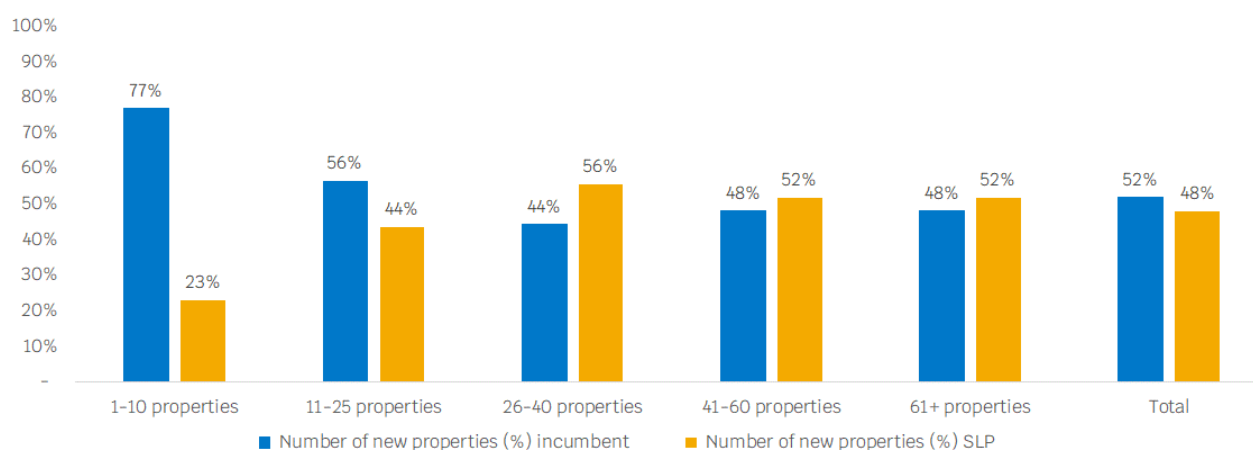
Source: Ofwat analysis of granular 2020-21 developer services data (financially closed new developments).

**Table A2.1: Percentage of new properties connected by SLPs by development size in 2020-21 (all financially closed new developments)**

	1-10 properties	11-25 properties	26-40 properties	41-60 properties	61+ properties	Total
Affinity Water (AFW)	3%	5%	0%	16%	38%	21%
Anglian Water (ANH)	9%	42%	63%	58%	74%	42%
Bristol Water (BRL)	12%	44%	68%	62%	29%	34%
Hafren Dyfrdwy (HDD)	0%	0%	n/a	0%	n/a	n/a
Northumbrian Water (NES)	2%	8%	14%	13%	6%	6%
Portsmouth Water (PRT)	0%	0%	0%	0%	0%	0%
SES Water (SES)	0%	0%	65%	0%	0%	4%
South East Water (SEW)	0%	n/a	n/a	n/a	n/a	n/a
Southern Water (SRN)	n/a	n/a	n/a	n/a	n/a	n/a
South Staffs Water (SSC)	5%	21%	100%	100%	100%	39%
Severn Trent Water (SVE)	0%	9%	13%	57%	37%	13%
South West Water (SWB)	0%	0%	0%	0%	0%	0%
Thames Water (TMS)	6%	28%	43%	26%	7%	14%
United Utilities (UUW)	12%	48%	71%	74%	82%	67%
Dŵr Cymru (WSH)	20%	27%	20%	29%	16%	20%
Wessex Water (WSX)	1%	6%	34%	32%	n/a	n/a
Yorkshire Water (YKY)	1%	19%	28%	15%	45%	26%
Industry total	5%	28%	46%	43%	42%	28%

Source: Ofwat analysis of granular 2020-21 developer services data (financially closed new developments).

**Figure A2.6: Percentage of new properties connected by incumbents versus SLPs by development size in 2020–21 (all financially closed new developments that require new requisition mains)**



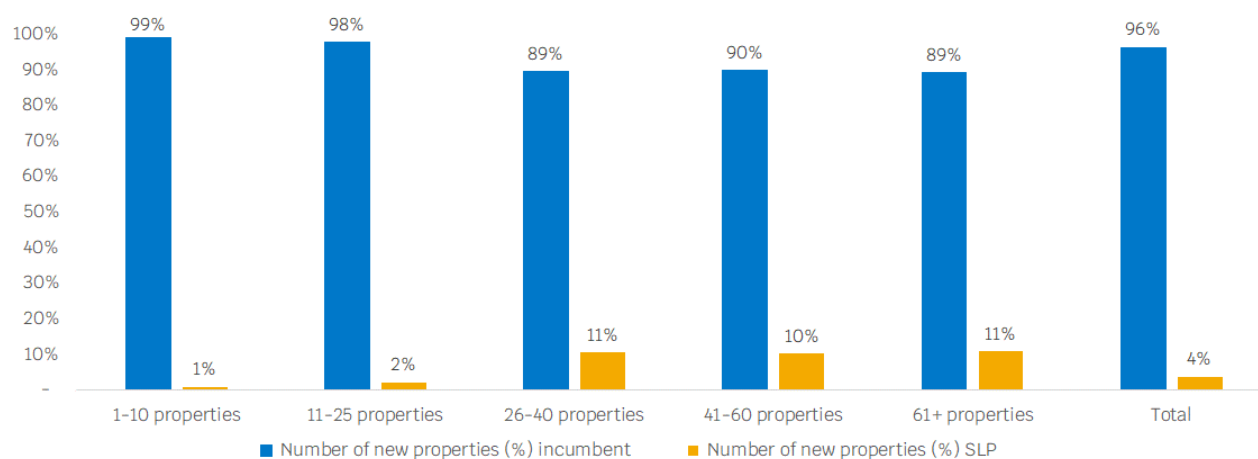
Source: Ofwat analysis of granular 2020–21 developer services data (financially closed new developments that required new requisition mains).

**Table A2.2: Percentage of new properties connected by SLPs by development size in 2020–21 (all financially closed new developments that require new requisition mains)**

	1-10 properties	11-25 properties	26-40 properties	41-60 properties	61+ properties	Total
Affinity Water (AFW)	24%	26%	0%	44%	41%	38%
Anglian Water (ANH)	34%	48%	65%	58%	74%	57%
Bristol Water (BRL)	44%	58%	81%	73%	75%	65%
Hafren Dyfrdwy (HDD)	n/a	n/a	n/a	n/a	n/a	n/a
Northumbrian Water (NES)	25%	25%	21%	20%	9%	14%
Portsmouth Water (PRT)	0%	0%	0%	0%	0%	0%
SES Water (SES)	0%	n/a	n/a	n/a	n/a	n/a
South East Water (SEW)	n/a	n/a	n/a	n/a	n/a	n/a
Southern Water (SRN)	n/a	n/a	n/a	n/a	n/a	n/a
South Staffs Water (SSC)	10%	29%	100%	100%	100%	56%
Severn Trent Water (SVE)	15%	39%	65%	100%	79%	74%
South West Water (SWB)	0%	0%	0%	0%	0%	0%
Thames Water (TMS)	16%	40%	49%	33%	9%	22%
United Utilities (U UW)	48%	79%	80%	92%	96%	90%
Dŵr Cymru (WSH)	0%	30%	0%	21%	35%	26%
Wessex Water (WSX)	11%	17%	34%	32%	n/a	n/a
Yorkshire Water (YKY)	15%	23%	28%	16%	46%	40%
Industry total	23%	44%	56%	52%	52%	48%

Source: Ofwat analysis of granular 2020–21 developer services data (financially closed new developments that required new requisition mains).

**Figure A2.7: Percentage of new properties connected by incumbents versus SLPs by development size in 2020-21 (all financially closed new developments that do not require new requisition mains)**



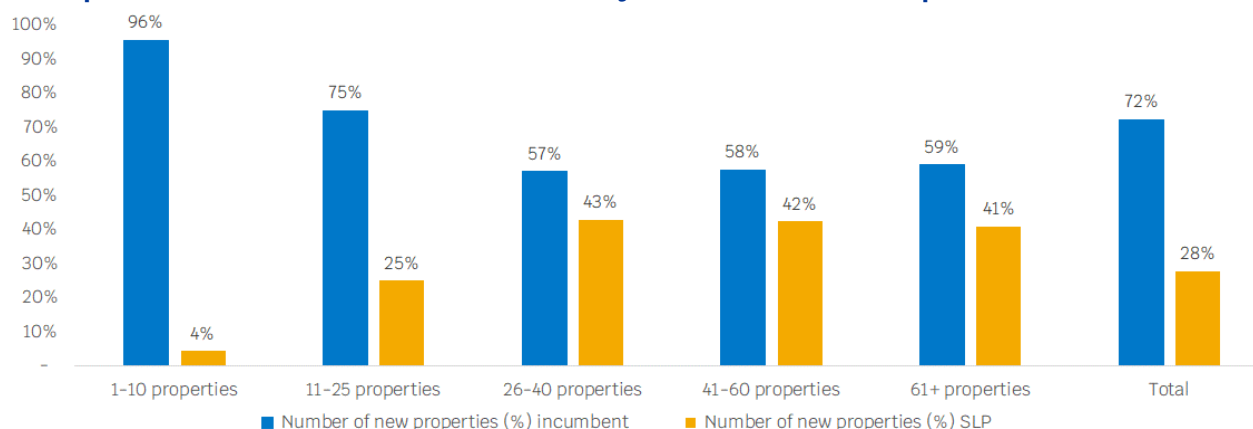
Source: Ofwat analysis of granular 2020-21 developer services data (financially closed new developments that do not require new requisition mains).

**Table A2.3: Percentage of new properties connected by SLPs by development size in 2020-21 (all financially closed new developments that do not require new requisition mains)**

	1-10 properties	11-25 properties	26-40 properties	41-60 properties	61+ properties	Total
Affinity Water (AFW)	0%	0%	0%	0%	18%	2%
Anglian Water (ANH)	0%	0%	0%	n/a	n/a	0%
Bristol Water (BRL)	0%	0%	0%	0%	0%	0%
Hafren Dyfrdwy (HDD)	0%	0%	n/a	0%	n/a	0%
Northumbrian Water (NES)	0%	0%	0%	0%	0%	0%
Portsmouth Water (PRT)	0%	0%	0%	0%	0%	0%
SES Water (SES)	0%	0%	65%	0%	0%	4%
South East Water (SEW)	0%	n/a	n/a	n/a	n/a	0%
Southern Water (SRN)	n/a	n/a	n/a	n/a	n/a	n/a
South Staffs Water (SSC)	0%	0%	n/a	n/a	n/a	0%
Severn Trent Water (SVE)	0%	0%	0%	0%	0%	0%
South West Water (SWB)	0%	0%	0%	0%	0%	0%
Thames Water (TMS)	0%	0%	0%	0%	2%	1%
United Utilities (U UW)	0%	5%	26%	23%	39%	20%
Dŵr Cymru (WSH)	21%	25%	32%	37%	0%	18%
Wessex Water (WSX)	0%	0%	n/a	n/a	n/a	0%
Yorkshire Water (YKY)	0%	0%	0%	0%	0%	0%
Industry total	1%	2%	11%	10%	11%	4%

Source: Ofwat analysis of granular 2020-21 developer services data (financially closed new developments that do not require new requisition mains).

**Figure A2.8: Percentage of new properties connected by incumbents versus SLPs by development size in 2021-22 (all financially closed new developments)**



Source: Ofwat analysis of granular 2021-22 developer services data (financially closed new developments).

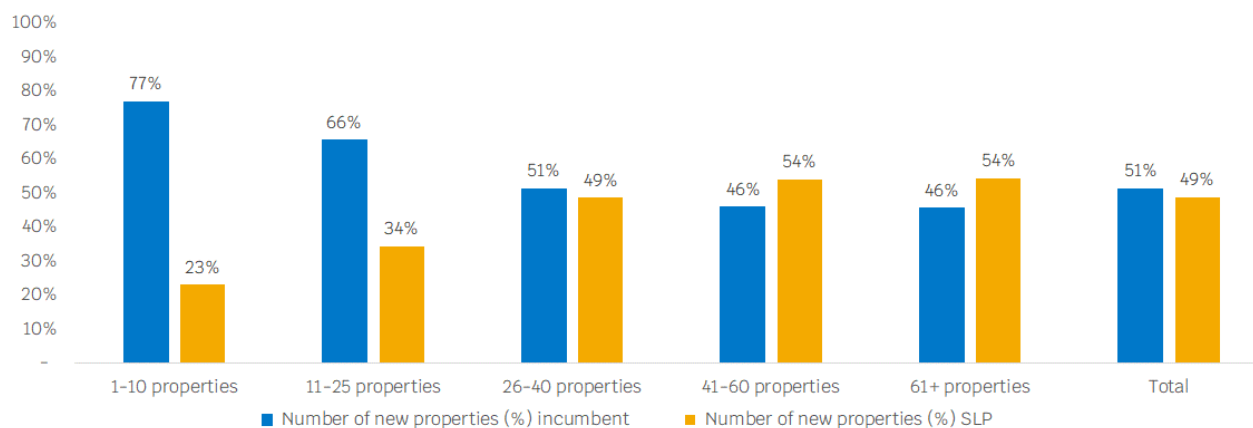
**Table A2.4: Percentage of new properties connected by SLPs by development size in 2021-22 (all financially closed new developments)**

	1-10 properties	11-25 properties	26-40 properties	41-60 properties	61+ properties	Total
Affinity Water (AFW)	8%	29%	32%	42%	45%	37%
Anglian Water (ANH)	10%	32%	47%	52%	54%	41%
Bristol Water (BRL)	2%	0%	0%	0%	100%	8%
Hafren Dyfrdwy (HDD)	0%	0%	0%	n/a	n/a	0%
Northumbrian Water (NES)	1%	14%	7%	23%	85%	15%
Portsmouth Water (PRT)	0%	21%	67%	38%	21%	19%
SES Water (SES)	1%	7%	72%	100%	27%	13%
South East Water (SEW)	1%	6%	22%	20%	56%	32%
Southern Water (SRN)	4%	16%	31%	29%	8%	14%
South Staffs Water (SSC)	1%	10%	61%	41%	100%	30%
Severn Trent Water (SVE)	0%	5%	12%	33%	3%	3%
South West Water (SWB)	0%	8%	0%	0%	0%	1%
Thames Water (TMS)	8%	34%	49%	41%	8%	19%
United Utilities (U UW)	15%	50%	85%	71%	76%	62%
Dŵr Cymru (WSH)	4%	20%	60%	35%	18%	21%
Wessex Water (WSX)	0%	0%	0%	33%	0%	3%
Yorkshire Water (YKY)	0%	0%	10%	0%	7%	2%
Industry total	4%	25%	43%	42%	41%	28%

Source: Ofwat analysis of granular 2021-22 developer services data (financially closed new developments).



**Figure A2.9: Percentage of new properties connected by incumbents versus SLPs by development size in 2021-22 (all financially closed new developments that require new requisition mains)**



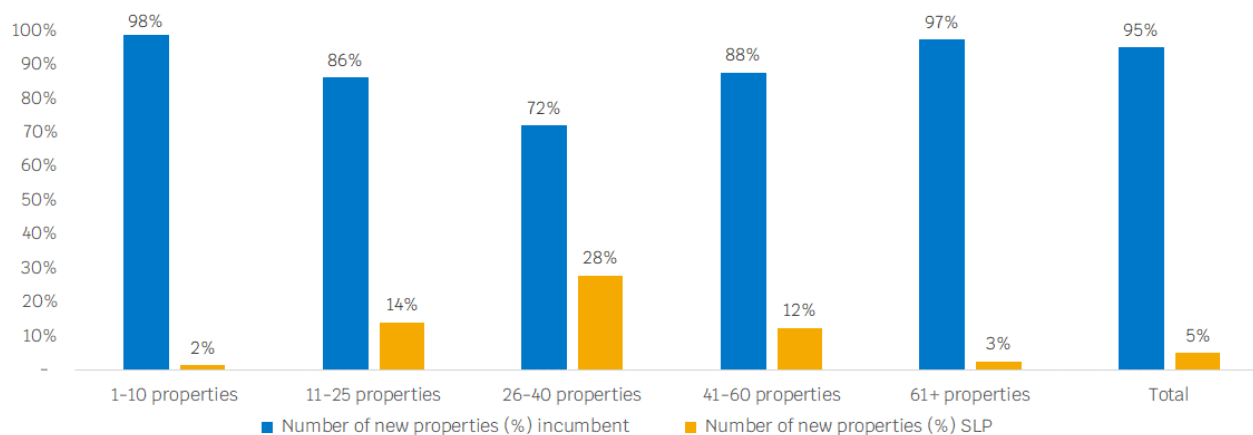
Source: Ofwat analysis of granular 2021-22 developer services data (financially closed new developments that required new requisition mains).

**Table A2.5: Percentage of new properties connected by SLPs by development size in 2021-22 (all financially closed new developments that require new requisition mains)**

	1-10 properties	11-25 properties	26-40 properties	41-60 properties	61+ properties	Total
Affinity Water (AFW)	29%	43%	36%	65%	55%	53%
Anglian Water (ANH)	34%	39%	49%	54%	55%	50%
Bristol Water (BRL)	21%	0%	0%	n/a	100%	37%
Hafren Dyfrdwy (HDD)	n/a	n/a	n/a	n/a	n/a	n/a
Northumbrian Water (NES)	28%	30%	12%	48%	85%	47%
Portsmouth Water (PRT)	0%	65%	67%	38%	21%	27%
SES Water (SES)	14%	26%	100%	100%	100%	65%
South East Water (SEW)	5%	13%	27%	31%	58%	50%
Southern Water (SRN)	14%	21%	34%	69%	27%	28%
South Staffs Water (SSC)	2%	15%	61%	41%	100%	44%
Severn Trent Water (SVE)	6%	19%	22%	41%	18%	20%
South West Water (SWB)	0%	10%	0%	0%	0%	2%
Thames Water (TMS)	47%	62%	85%	75%	27%	48%
United Utilities (U UW)	65%	78%	100%	91%	92%	89%
Dŵr Cymru (WSH)	25%	0%	15%	0%	0%	4%
Wessex Water (WSX)	0%	n/a	0%	100%	0%	31%
Yorkshire Water (YKY)	5%	0%	11%	0%	8%	5%
Industry total	23%	34%	49%	54%	54%	49%

Source: Ofwat analysis of granular 2021-22 developer services data (financially closed new developments that required new requisition mains).

**Figure A2.10: Percentage of new properties connected by incumbents versus SLPs by development size in 2021-22 (all financially closed new developments that do not require new requisition mains)**



Source: Ofwat analysis of granular 2021-22 developer services data (financially closed new developments that do not require new requisition mains).

**Table A2.6: Percentage of new properties connected by SLPs by development size in 2021-22 (all financially closed new developments that do not require new requisition mains)**

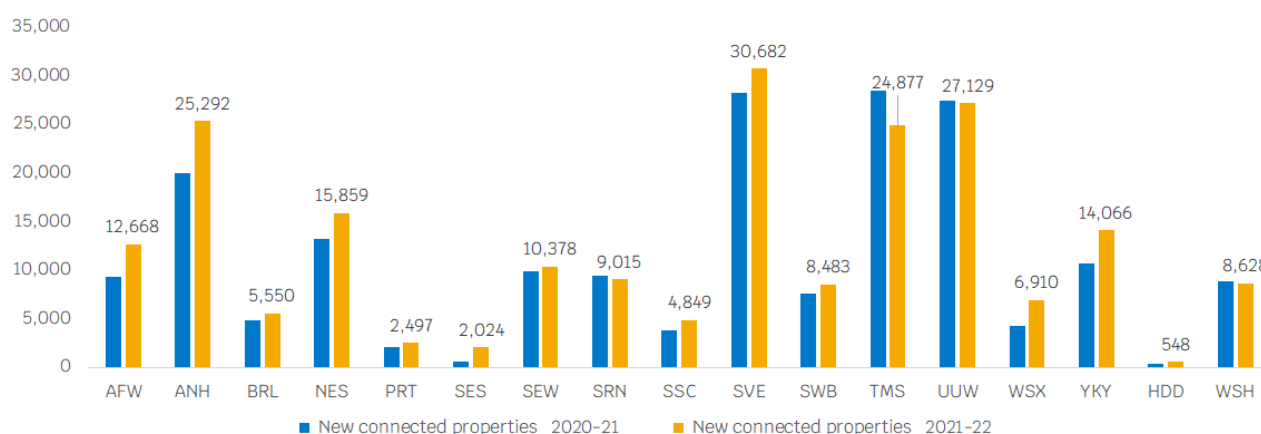
	1-10 properties	11-25 properties	26-40 properties	41-60 properties	61+ properties	Total
Affinity Water (AFW)	4%	13%	23%	0%	0%	4%
Anglian Water (ANH)	0%	3%	0%	0%	0%	1%
Bristol Water (BRL)	0%	0%	0%	0%	n/a	0%
Hafren Dyfrdwy (HDD)	0%	0%	0%	n/a	n/a	0%
Northumbrian Water (NES)	0%	0%	0%	0%	n/a	0%
Portsmouth Water (PRT)	0%	0%	n/a	n/a	n/a	0%
SES Water (SES)	0%	0%	0%	n/a	0%	0%
South East Water (SEW)	0%	0%	0%	0%	0%	0%
Southern Water (SRN)	0%	0%	0%	0%	0%	0%
South Staffs Water (SSC)	0%	0%	n/a	n/a	n/a	0%
Severn Trent Water (SVE)	0%	0%	0%	0%	0%	0%
South West Water (SWB)	0%	0%	n/a	n/a	n/a	0%
Thames Water (TMS)	6%	29%	35%	17%	0%	11%
United Utilities (U UW)	0%	0%	0%	0%	8%	3%
Dŵr Cymru (WSH)	4%	28%	79%	49%	24%	24%
Wessex Water (WSX)	0%	0%	0%	0%	0%	0%
Yorkshire Water (YKY)	0%	0%	0%	n/a	0%	0%
Industry total	2%	14%	28%	12%	3%	5%

Source: Ofwat analysis of granular 2021-22 developer services data (financially closed new developments that do not require new requisition mains).

## Non-price factors may cause differences in SLP activity

- Differences in relationship quality between incumbents and SLPs could contribute to regional differences in self lay provider activity (as discussed in Annex 1).
- Differences in regional demand for developer services, and the location of SLP bases may also drive differences in self lay provider activity (Portsmouth Water has 6 SLPs whereas Severn Trent has 46 SLPs).
- It may therefore not be feasible for incumbents to have the same level of SLP activity.

**Figure A2.11: new connected properties 2020-21 to 2021-22 by company**



Source: Ofwat analysis of annual performance report data.

**Table A2.7: Number of SLPs operating in each incumbent company's area in 2021-22**

	AFW	ANH	BRL	HDD	NES	PRT	SES	SEW	SRN	SSC <sup>35</sup>	SVE	SWB	TMS	UUW	WSH	WSX	YKY
Number of active self lay providers	39	30	14	4	20	6	10	12	7	15	46	18	23	37	10	10	25

Source: Ofwat analysis of granular 2021-22 developer services data.

## Inclusion of developer services in the single till may not play a key role in determining how incumbents set developer services charges

- SIA Partners found there is wide regional variation in the level of connection charges for the same hypothetical development. For example, typical charges for a 50-house development ranges from £39,216 to £147,590.<sup>36</sup>
- SIA Partners found no single cause for this variation. Factors identified included: methodology for generating charges; delivery models; economies of scale; and

<sup>35</sup> Based on 2020-21 data due to problems with reporting this data for 2021-22.

<sup>36</sup> SIA Partners, '[Connection Charges for Developer Services in England. Root Cause Analysis](#)', Table 1 – Summary statistics of costs and charges for the four scenarios, page 9.

overheads.<sup>37</sup> But the inclusion of developer services in the single till was not identified as a factor driving differences in developer charges.

- This supports our understanding that companies set developer charges independently of the price control settlement. This may limit the role the inclusion of developer services in the single till has on developer charges.

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<sup>37</sup> SIA Partners, '[Connection Charges for Developer Services in England. Root Cause Analysis](#)', pp. 2-3.

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