

## Developer Services Charging Arrangements 2020-21 Consultation



# 1 Introduction

## Why are we consulting on our developer charging arrangements?

In July 2019, Ofwat published new charging rules for new connections, that come into effect on 01 April 2020. These new rules are intended to ensure all customer types are treated fairly and that cost transparency is improved between incumbents, SLPs and NAVs.

The key requirement of the new rules is that the income offset is no longer applied to requisition charges, asset payments are no longer made and any income offset is applied to infrastructure charges. Under the new rules, all types of developer customer will benefit from the income offset.

Income offset payments also reduce the transparency of costs. Removing these from requisition charges makes all quotes comparable for all different types of developer customers.

### We want to consult with our developer customers to get feedback on our approach to the:

- new income offset
- transitional arrangements.

### We also seek feedback on two other particular areas of change:

- Application and Administration Fees
- Common unit costs between service laying rates for 'standard' and 'barrier' service pipe.

### Please note that the term 'Developer Customer' throughout this document refers to:

- Developers and builders;
- Individuals wishing to connect, or re-connect, existing or developed properties to our water network;
- Companies that provide infrastructure for developers e.g. SLP and NAV.

Throughout the document, we pose questions relating to our proposals which we would like particular feedback on. We would really appreciate, and value, your comments and opinions.

We shall be holding a forum at our Havant offices on 11 December, where we shall present our proposals outlined in this document and seek Developer Customer feedback. Please send consultation responses to [developer.services@portsmouthwater.co.uk](mailto:developer.services@portsmouthwater.co.uk).

We are seeking feedback on our proposals by 06 January 2020. We will use the feedback to shape our final proposals, which we will publish in our Charging Arrangements by 1 February 2020 for use from 1 April 2020.

## 2 Income Offset

### The current situation (2019-20):

#### For Developers

We provide a discount on the cost of new water mains based on:

- For developments with a total mainlaying cost under £100k – a fixed percentage based on the total scheme cost;
- For developments with a total mainlaying cost over £100k - the amount of new revenue we expect to receive from the new connected properties over the next twelve years.

The discount we provide is called the 'income offset', and is deducted from the new main requisition quotation. Our approach was used to maintain the balance of contributions for this work between developer customers and other customers.

#### For SLPs

When a SLP installs a water main, which is adopted by Portsmouth Water, they are paid an 'asset payment' which is equivalent to the 'income offset' that would be given to developers.

#### For NAVs

A NAV receives a payment equivalent to an income offset for the newly installed onsite mains.

### The drawbacks of the current situation:

- Developer customers laying only 'service connections' on an existing main do not currently receive an income offset.
- The timing of the developer customer receiving the income offset, or equivalent, will vary across the different customer groups.

### The new rules for income offsets (2020-21):

Owat states it's new charging rules will make the process fairer, and increase both transparency and efficiency, for developer customers.

Our aim is to comply with the new rules so that all developer customers are treated equally. To do this:

- We will no longer apply income offsets against the cost of a new main requisitions;
- we will no longer provide an asset payment where an SLP installs the water main;
- The 'new' income offset will be applied to infrastructure charges.

The new income offset will be applicable to all new connections – not just, as currently happens, those customers connecting to a new water main. Whether, you are building a single house, close to our existing water network, or a big development, with a new water main – everybody will benefit from the new income offset.



## 2 Income Offset

We have considered banding the income offset rates, so larger development sites receive a greater proportion of the income offset pot. However, in the interests of fairness and simplicity, we are proposing a flat rate for the new income offset and to share equally across all developers, NAVs and self-lay providers for all connections types, on new and existing mains.

### **The benefits of the proposed approach:**

#### **Fairness**

All customers connecting to our water network will receive an income offset. The income offset being given at the same time as the infrastructure charges are paid is simple, consistent and means the timing rules for receiving the income offset will be the same for all customers.

#### **Transparency**

A flat rate per property means it is simple for customers to understand and calculate the income offset they will receive.

#### **Efficiency**

Promoting effective competition in the new mains market. It will be clear who can provide the best price.

Examples of how the new income offset will be applied can be found in Appendix A.

### 3 Transitional Arrangements

We are aware that transitioning between the current and new charges may cause uncertainty for Developers, NAVs and SLPs, with regards to purchasing land or developing a site.

We recognise that transitional arrangements will be crucial especially at times of significant change. In this section we set out our initial thoughts on proposed transitional arrangements.

#### **Our proposed transitional arrangements:**

- If a quotation is provided and it is still within the validity period of the quotation, then the quotation remains valid if the developer customer wishes to proceed.
- If agreement is already in place, then the terms and conditions contained within that agreement remain valid for the life of the site contained in the agreement.
- If a developer customer applies between the new charges being published (on 1 February 2020) and 1 April 2020, we will send out dual offers and the customer can choose which charges scheme they are quoted on. This provides a period of time between February 2020 and 1st April 2020 to decide whether the customer enters into an agreement with our new charging rules in place or the existing charging rules.
- For existing agreements in place for our NAV customers, then the conditions within the original agreement, will remain valid for the life cycle of the agreement.



## 4 Application and Administration Fees

Since 01 April 2018, we have not been recovering our costs for application and administration fees, associated with new service connections. To adhere to our competition obligations, and to maintain a level playing field, we propose to apply charges for application and administration fees in relation to new service connections in our 2020-21 Charging Arrangements.

These new charges will align us with the approach other water companies have taken on new service connections, and create a level playing field with other service providers, e.g. SLPs.

Our application fee will cover costs associated with reviewing and acknowledging applications, checking to ensure we have all relevant information, preparing a quotation for the works and issuing a response. Our administration fee will reflect costs we incur for planning and organising service connections.

## 5 Common Unit Costs for Service Pipe

For new connections, our current charging arrangements have separate unit costs for both standard PE service pipe and barrier pipe. For simplicity, due to the relatively small cost difference between the two different rates, we are proposing a common unit rate incorporating both types of service pipe. This average cost will be built up based on the ratio between standard and barrier pipe, on all new connections between 01 April 2018 and 30 September 2019.



## 6 Consultation Response

**Please indicate which type of organisation you represent:**

Homebuilder

Self-Lay Provider

Homeowner

NAV

Consultant

Other (see below)

If 'other' please specify:

### NEW INCOME OFFSET

To what extent do you agree, or disagree, with the new income offset being a flat rate per property?

To what extent do you agree, or disagree, with the principle of receiving the income offset at the same time infrastructure charges are due?

Do you consider the changes will have a positive impact and increase competition?

What alternative approaches, if any, would you like us to consider for income offset?

## 6 Consultation Response

### **TRANSITIONAL ARRANGEMENTS**

To what extent do you agree with the transitional arrangements we are proposing?

What alternative approaches, if any, would you like us to consider for transitioning between charging rules?

### **APPLICATION AND ADMINISTRATION FEES**

To what extent do you agree, or disagree, with the principle of us recovering application and administration costs?

### **COMMON UNIT COSTS FOR SERVICE PIPE**

To what extent do you agree, or disagree, with our approach to having a common unit rate for both standard PE and barrier PE pipe for water service connections?

## 6 Consultation Response

**Please let us know of any other comments you have on our proposed changes or our Charging Arrangements in general:**

## Appendix A

The examples below use our charges for 2019-20 to enable a comparison. The charges for 2020-21 will differ from those shown below.

All values for the infrastructure charge and new income offset are indicative, and are shown to indicate the change in methodology. Final values will be determined when our assurance review is complete.

Please note: Application and administration charges have not been included.

### PORTSMOUTH WATER

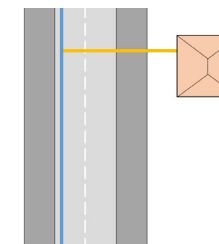
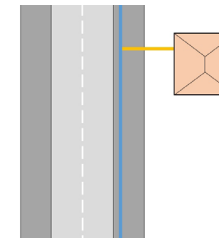
#### SINGLE SHORT CONNECTION

ITEM	CURRENT	NEW
No. of Plots	1	1
Requisition Cost	£-	£-
Service Connection Costs	£658.00	£658.00
Infrastructure Charges	£344.00	£344.00
Income Offset	£-	-£380.00
<b>Total</b>	<b>£1,003.00</b>	<b>£622.00</b>

#### SINGLE LONG CONNECTION

ITEM	CURRENT	NEW
No. of Plots	1	1
Requisition Cost	£-	£-
Service Connection Costs	£2,027.00	£2,027.00
Infrastructure Charges	£344.00	£344.00
Income Offset	£-	-£380.00
<b>Total</b>	<b>£2,371.00</b>	<b>£1,991.00</b>

### SLP



## Appendix A

### PORTSMOUTH WATER

#### SINGLE SHORT CONNECTION 10 FLATS

ITEM	CURRENT	NEW
No. of Plots	10	10
Requisition Cost	£-	£-
Service Connection Costs	£1,009.00	£1,009.00
Infrastructure Charges	£3,440.00	£3,440.00
Income Offset	£-	-£3,800.00
<b>Total</b>	<b>£4,449.00</b>	<b>£649.00</b>

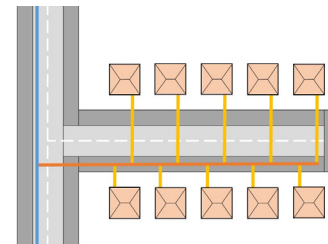
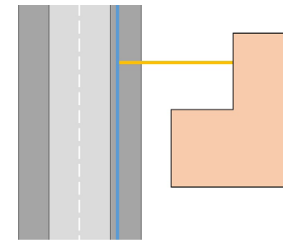
#### SMALL DEVELOPMENT 10 HOUSES

ITEM	CURRENT	NEW
No. of Plots	10	10
Requisition Cost	£2,307.60	£7,692.00
Service Connection Costs	£2,510.00	£2,510.00
Infrastructure Charges	£3,440.00	£3,440.00
Income Offset	£-	-£3,800.00
<b>Total</b>	<b>£8,257.60</b>	<b>£9,842.00</b>

### SLP

#### SMALL DEVELOPMENT 10 HOUSES

ITEM	CURRENT	NEW
No. of Plots	10	10
Asset Payment	-£5,384.40	£-
Service Connection Costs	£210.00	£210.00
Infrastructure Charges	£3,440.00	£3,440.00
Income Offset	£-	-£3,800.00
<b>Total</b>	<b>-£1,734.40</b>	<b>-£150.00</b>



## Appendix A

### PORTSMOUTH WATER

#### MEDIUM DEVELOPMENT 50 HOUSES

ITEM	CURRENT	NEW
No. of Plots	50	50
Requisition Cost	£8,988.30	£29,961.00
Service Connection Costs	£12,550.00	£12,550.00
Infrastructure Charges	£17,200.00	£17,200.00
Income Offset	£-	-£19,000.00
<b>Total</b>	<b>£38,738.30</b>	<b>£40,711.00</b>

#### LARGE DEVELOPMENT 200 HOUSES

ITEM	CURRENT	NEW
No. of Plots	200	200
Requisition Cost	£17,057.75	£151,387.00
Service Connection Costs	£50,200.00	£50,200.00
Infrastructure Charges	£68,800.00	£68,800.00
Income Offset	£-	-£76,000.00
<b>Total</b>	<b>£136,057.75</b>	<b>£194,387.00</b>

### SLP

#### MEDIUM DEVELOPMENT 50 HOUSES

ITEM	CURRENT	NEW
No. of Plots	50	50
Asset Payment	-£20,972.70	£-
Service Connection Costs	£1,050.00	£1,050.00
Infrastructure Charges	£17,200.00	£17,200.00
Income Offset	£-	-£19,000.00
<b>Total</b>	<b>-£2,722.70</b>	<b>-£750.00</b>

#### LARGE DEVELOPMENT 200 HOUSES

ITEM	CURRENT	NEW
No. of Plots	200	200
Asset Payment	-£134,329.25	£-
Service Connection Costs	£50,200.00	£50,200.00
Infrastructure Charges	£68,800.00	£68,800.00
Income Offset	£-	-£76,000.00
<b>Total</b>	<b>-£15,329.25</b>	<b>£43,000.00</b>

