

# HBF Technical Conference 2022

## Developer services – proposals for PR24

Phillip Dixon  
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# Agenda

Introduction to PR24

Developer services proposals

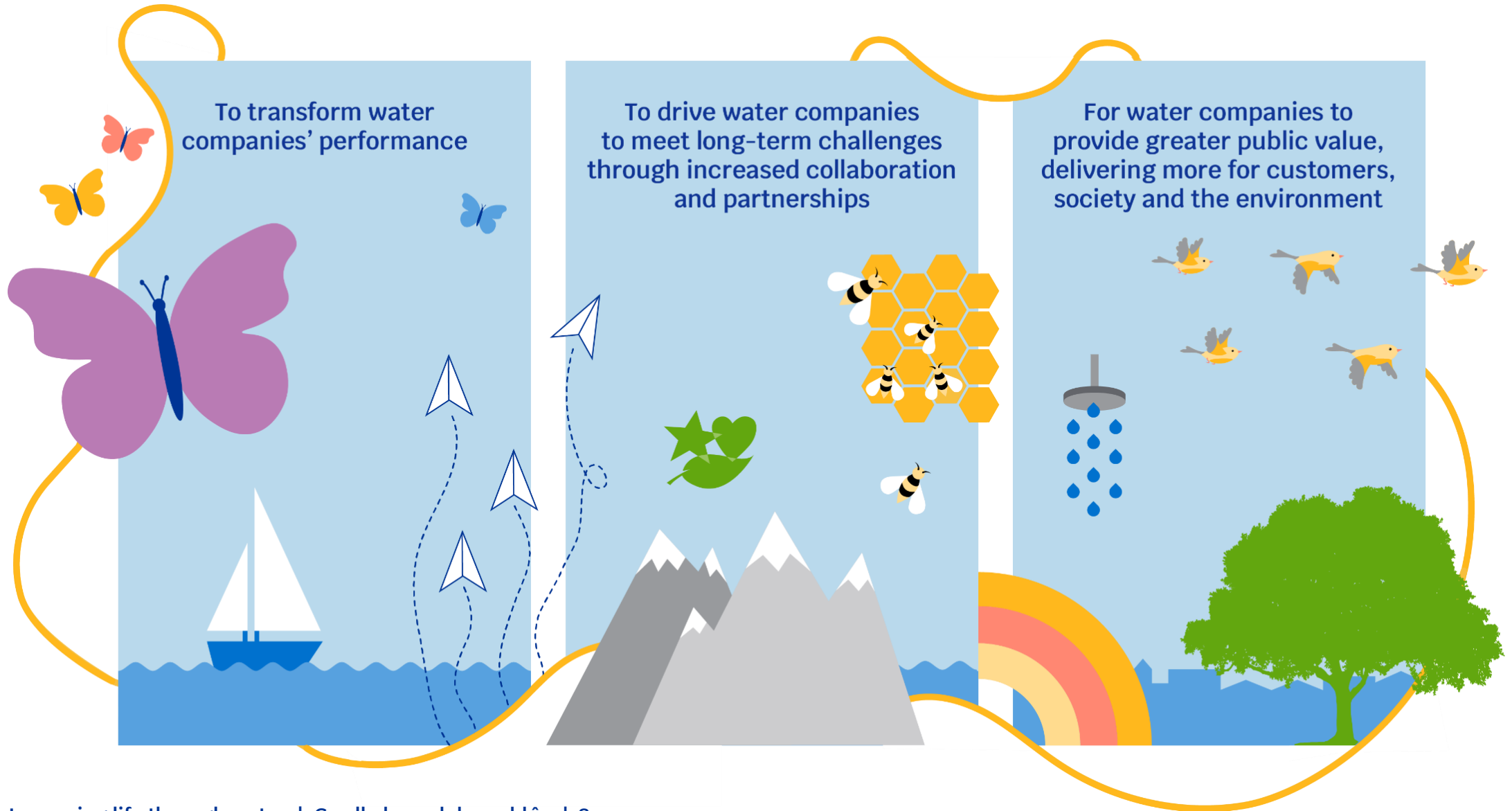
Nutrient neutrality

Environmental incentives

Q&A



# Our strategic goals



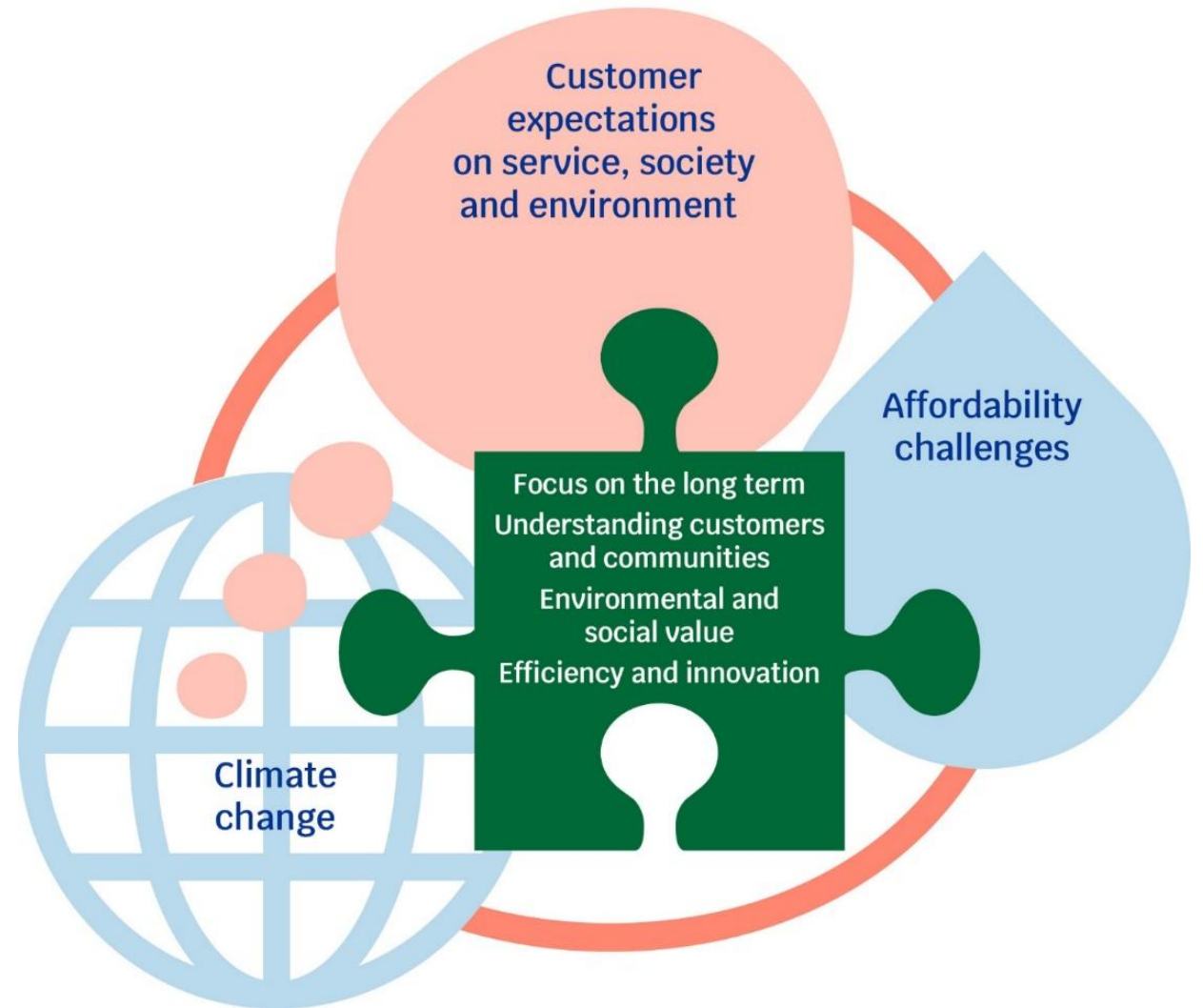
# Ambitions for PR24

The sector faces several interrelated challenges:

- Climate change
- Evolving customer expectations
- Affordability

To help meet them, we've set four goals for PR24:

- Focus on the long term
- Deliver greater environmental and social value
- Reflect a clear understanding of customers and communities
- Drive improvements through efficiency and innovation



# The 2024 price review (PR24)

## The process by which we set levels of service and bills, including:

- How much it will cost to keep services running efficiently
- how much money should go to protecting the environment and meeting future water needs

Every five years – current price review (PR24) is for the period 2025 to 2030

PR24 draft methodology: 7 July – 7 September

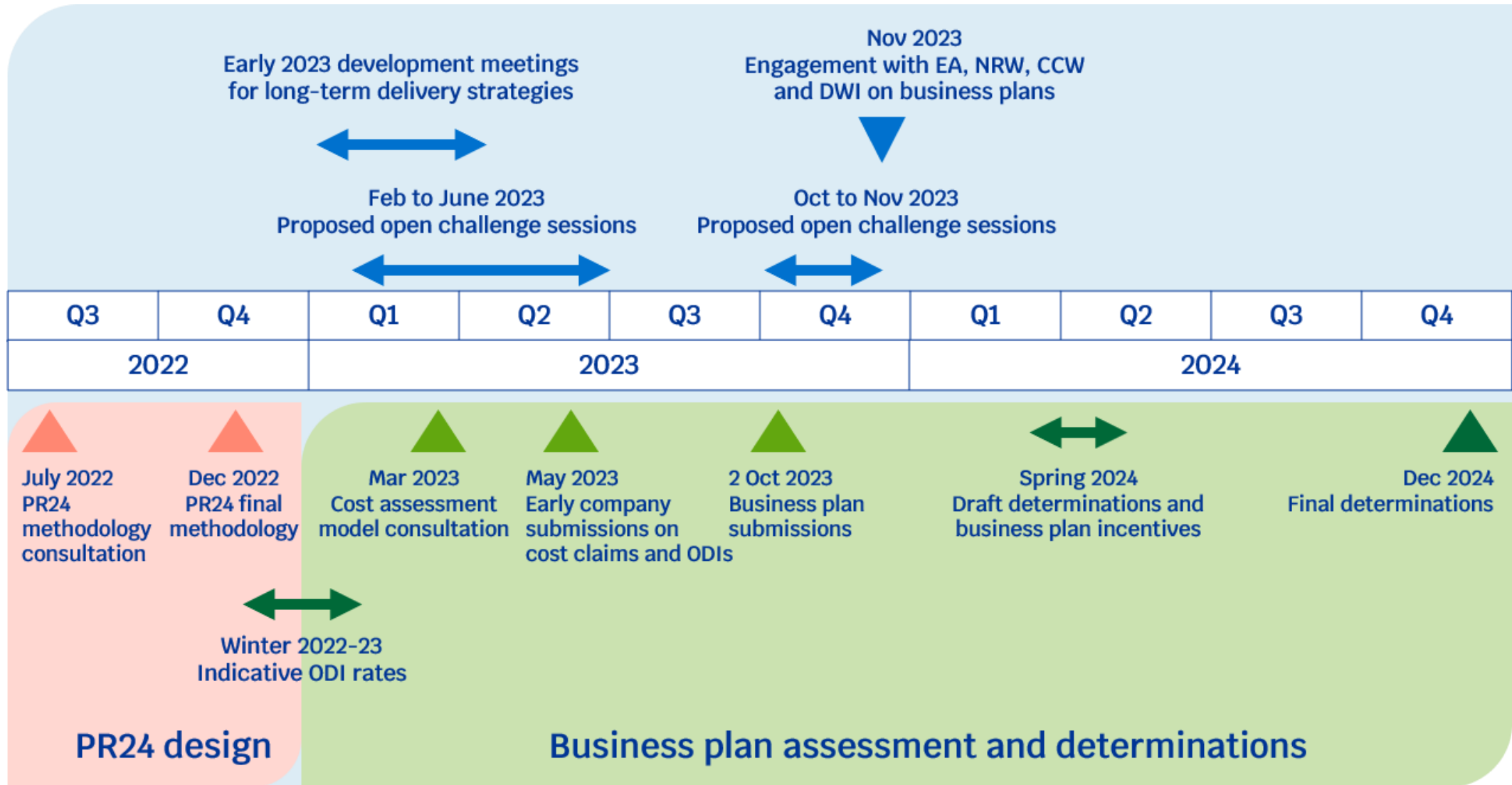
Final methodology: December 2022

## You can find more information on our proposals in:

- [Chapter 3 of our consultation document](#)
- [Appendix 3 – Developer services](#)
- [Appendix 9 – Setting expenditure allowances](#)



# PR24 timeline and next steps





# Developer services proposals

## Treatment of developer services at PR19 (for 2020 to 2025)

The key elements of our PR19 approach to developer services (DS) are summarised below:

- Revenue is included within scope of wholesale network plus revenue controls
- Costs were assessed alongside other incumbent water company costs
- Developer services measure of experience (D-MeX) incentive was introduced
- A developer services revenue adjustment (DSRA) mechanism was introduced. This adjusts allowed revenue if the actual number of connections is more or less than forecast, reducing the importance of the new properties forecasts used at the price review

We also protect the needs and interests of developer services customers through:

- Charging Rules for New Connection Services (English Undertakers)
- Code for Adoption Agreements (English Undertakers)
- Dispute determination powers under the new connections charging regime for Welsh water companies

We said we would revisit our regulation of developer services at PR24





## How we developed our proposals

To arrive at robust proposals, we collected more granular data to better **assess the state of competition in developer services**. We have also **reviewed our current approach** to developer services regulation

### Lessons learned from developer services regulation at PR19 include:

- Including DS in the price controls causes potential cost cross-subsidy with water bill payers, which may distort the market. It can also cause water bill volatility
- DS costs are more difficult to assess than other costs
- Incumbent water companies have a financial incentive to encourage SLPs and New Appointees to carry out DS services work
- The DSRA does not account for in-period changes to the mix of high- and low-cost work

### Our review of competition in developer services found that:

- Almost all wastewater site-specific developer services are delivered by developers and SLPs rather than incumbents
- The amount of water site-specific developer services work delivered by SLPs and New Appointees is growing, but remains limited in some regions and market segments, particularly in new developments of 25 properties or fewer

**We used these findings to develop our proposed PR24 approach to regulating developer services**



# 1. Proposed treatment of developer services in the price control at PR24

## Network reinforcement

We propose that network reinforcement remains in the water and wastewater network plus controls at PR24

We are collecting additional network reinforcement cost driver data from incumbent water companies, with the aim of improving our assessment of network reinforcement costs at PR24

We are seeking stakeholders' views on whether to apply a reconciliation mechanism to network reinforcement investment requirements similar to the DSRA at PR19

## Responses

- Broad agreement from companies and other stakeholders that network reinforcement should remain in the price controls
- Some note the absence of market forces to drive efficient prices, given these are non-contestable activities
- Some comment about potential to remove from price control in the future, if competition was stronger
- Mixed response from stakeholders on whether a separate reconciliation mechanism for network reinforcement investment requirements is required

## 2. Proposed treatment of developer services in the price control at PR24

### Wastewater site-specific developer services

We propose that wastewater site-specific developer services are excluded from the wastewater network plus price control because nearly all are delivered by SLPs or the developer

We will consider whether any changes to charging rules are needed to protect customers in cases where developers can only use the incumbent wastewater company (eg sites with access issues)

### Responses

- Broad agreement from wastewater companies, noting most wastewater services are fully competitive and these are usually built by the developer
- New Appointees, developers and their representatives generally against, citing absence of widespread and strong competition. Also note caution about the potential impacts that removing wastewater services could have, eg on sites that require the wastewater company's powers to access private land

## 3. Proposed treatment of developer services in the price control at PR24

### Water site-specific developer services

Our analysis of granular developer services data provided by incumbent water companies highlighted strong competition for large developments, but relatively low competition for small developments

**We propose to exclude new developments of more than 25 properties** from the water network plus price control. But propose to introduce transitional arrangements for companies with low levels of third-party activity in this market segment

**We propose that new developments of 25 properties and below should either:**

- remain in the water network plus control; or
- be removed from the water network plus control but with alternative protections to protect developer services customers in this market segment

### Responses

- Most companies in favour of removing >25 property developments from the price control, and many in favour of removing <25 property developments too
- If some sites were to remain in price control, no consensus over threshold (types or sizes of sites)
- Most non-water company respondents were against the removal of any types of water new connections from the revenue controls, mainly citing the lack of a properly functioning and mature market in many areas, and the additional regulatory risk / burden removal could bring





**Nutrient neutrality**

## 4. Nutrient neutrality

Natural England (NE) requires that new development should not add to the nutrient burden at protected sites.

NE's position: investment driven by the need for wider environmental improvements cannot be also used for mitigation

- This is intended to prevent double counting of benefits
- Reduces the need for mitigation by improving 'baseline' river quality
- Would be funded by customers

Investment undertaken by water companies may be used as mitigation if it is primarily for NN purposes

We propose to allow funding through the price review if water companies are required to go beyond environmental requirements due to NN in England

- Customers would initially fund all costs of investment, generating 'credits'
- Developers buy credits to pay for any nutrient mitigation they require over time

### Responses

- Several respondents noted Defra's announcements on NN published after we issued the draft methodology
- Some wastewater companies and other stakeholders emphasised that NN is a multi-sector issue, not just for the water sector to address – all parties need to contribute
- Several respondents noted the need for a catchment-based approach, including nature based solutions, rather than chemical- and carbon-intensive WWTW upgrades
- New Appointees, developers, their representatives and other stakeholders queried whether the Ofwat approach was consistent with Defra's stated policy





# Environmental incentives

# Environmental incentives

## Water and wastewater efficiency

We want water companies to do more to incentivise water efficiency and sustainable drainage

One way they can do this is by offering developers environmental discounts for sustainable developments, or surcharges for developments that do not promote water/waste efficiency

Any discount or surcharge included in charges for new connection services reflecting environmental or social issues should have a clear rationale and should not be funded by general customers. Instead, any discount will be funded by other developer services customers

### Responses

- Few respondents commented, but broad support from those who did





# Thank you and questions

Phillip Dixon

[phillip.dixon@ofwat.gov.uk](mailto:phillip.dixon@ofwat.gov.uk)

[ofwat.gov.uk](http://ofwat.gov.uk) | [discoverwater.co.uk](http://discoverwater.co.uk) | [open-water.org.uk](http://open-water.org.uk)

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