Developer Services New Connections Charging Arrangements 2022/2023 – Consultation Response

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Affinity Water

Introduction

Affinity Water

We are the largest water-only supplier in the UK, and we are committed to delivering a high-quality water service to all our customers.

We provide on average 900 million litres of water each day to a population of more than 3.6 million people in parts of Bedfordshire, Berkshire, Buckinghamshire, Essex, Hertfordshire, Surrey, the London Boroughs of Harrow and Hillingdon and parts of the London Boroughs of Barnet, Brent, Ealing and Enfield. We also supply water to the Tendring peninsula in Essex and the Folkestone and Dover areas of Kent.

Each year, around 13,000 new properties are connected to our network. Most properties are connected to our existing water mains while others require our network to be extended (and sometimes reinforced) to facilitate connection.

Our developer services team are committed to providing water supplies to new developments, enabling growth in our region and supporting effective markets.

Purpose of this document

Each year we publish our new connections charging arrangements for developer customers, to explain the charges associated with services which support growth and new developments in our region. This includes undertaking pre-planning assessments, new connections, new main designs, construction of new mains, as well services offered to New Appointments and Variation (NAV) companies and accredited Self-Lay Providers (SLPs). As part of this process, we consult with our customers to understand their views on any proposed changes, as well as feedback on best practice across the industry.

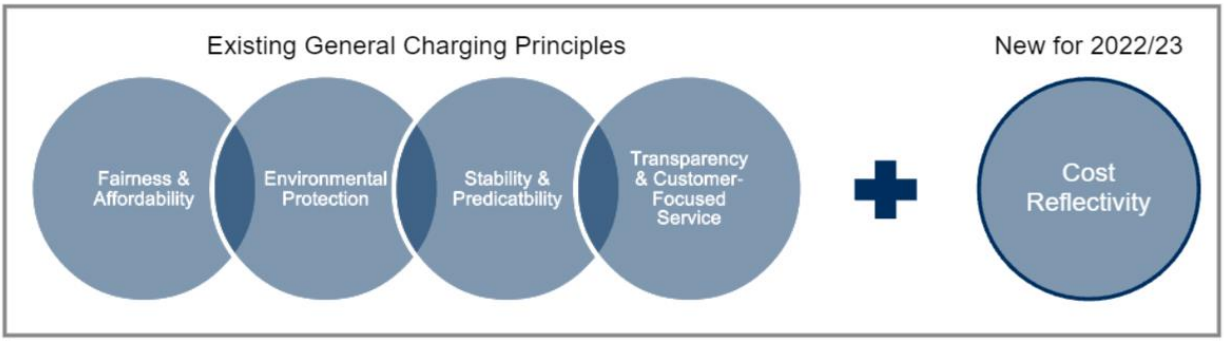
On the 13th of October we commenced a formal consultation process on our developer charges for 22/23. Our consultation can be found here. Although there are few significant changes to the charging rules for 22/23, we reached out to our customers to seek feedback on a number of areas of focus:

a) The charging principles
b) Pre-planning services;
c) Environmental best practice;
d) Application, administration and design fees;
e) Infrastructure charge and income offset;
f) Transition arrangements; and
g) Traffic management

This document summarises the information provided during consultation, the customer feedback we obtained throughout the consultation period and our position for 22/23 considering all responses.

The charging principles

Companies are required to determine charges in accordance with the general charging principles outlined below.



We have included a new general charging principle that Ofwat are currently consulting on for inclusion in 2022/23 and beyond. This principle aims to ensure that water company's charging arrangements meet the Department for Environment, Food and Rural Affairs (Defra) guidance to Ofwat that developer charges should:

- Reflect costs, support fairness and affordability across companies' different sets of customers;
- Be transparent, benefit customers and, by supporting markets, offer developers greater choice;
- Incentivise developers and third-party providers to help meet long term challenges, particularly through developing water efficient new homes and sites with sustainable drainage.

We understand that the introduction of this charging principle around cost-reflectivity may create some tensions with other principles, particularly stability and predictability. With customers at the heart of our business, we want to ensure we have focused on the right areas, considered the balance of principles appropriately and understood those most important to you.

To help guide us in building our charges, we are asking how you would rank the principles in order of importance to you and why.

Questions on charging principles for 2022/23

Q1) Please rank the following principles in order of importance, starting with the most important. Please provide comment as to why you have ranked them in this way.

- Fairness & Affordability;
- Environmental Protection;
- Stability & Predictability;

- Transparency & Customer-Focused Service, and
- Cost Reflectivity

Responses

On average, respondents ranked fairness and affordability as their most important principle with stability and predictability second. Respondents expressed that it was important, particularly for longer-term works, for cost certainty and the ability to accurately project future costs.

Respondents were pleased with the introduction of cost-reflectivity as a general principle for new connection charging. It was clear respondents were interested to see how we would manage tensions between principles to ensure a balance between them all is achieved. Respondents were clear that all the general charging principles are of great importance and should all individually be considered throughout charging reviews.

AFW conclusions

We understand the need for balancing all principles, and find the feedback received useful to inform our approach for charging review of 22/23 and beyond.

In light of the focus on the affordability and predictability principles, we are pleased to outline the following measures we are taking to enhance our customers experience in line with what's most important to them:

- Commitment to maintaining our open approach to methodology calculation of income offset and infrastructure charge. We provide this information further in this document, as well as in our charging arrangements document.
- Further clarifying our build up methodology for charges, particularly application, administration, and design fees in our charging arrangements document.
- Commitment to use the industry standard worked examples, which more clearly show the cost differences for developer customers seeking to explore self-lay or NAV routes.
- We will build in an additional worked example to reflect our approach to upsizing for self-lay customers. This will be published in our charging arrangements.

Throughout the consultation process, it was clear that there is an opportunity to define the principles more clearly. With the introduction of the new cost-reflectivity principle, it has in some cases caused some confusion on the differences between that and the pre-existing fairness and affordability principle. We acknowledge this, however,

appreciate that this is a matter for Ofwat to provide further clarification around these definitions.

Pre-planning services

We are committed to supporting growth in our region and would like to encourage developer customers to talk to us at the earliest stages of planning their development using our pre-planning service. This is so that we can understand how water can be provided to the proposed development in the most efficient and timely way. Early engagement ensures we can fully appreciate our customer requirements and plan for any infrastructure requirements in the best possible way.

Our pre-planning service will help you to understand the costs involved in serving the site, the most appropriate point of connection and if there are any existing water assets within your development area which may need diverting. It will also inform us where reinforcement may be required to support your development.

We would like to continue to encourage developer customers to engage with us at the earliest stages of planning their development by continuing to offer this service free of charge. Early discussions can help prevent potential delays in the latter parts of the process but also gives us opportunities to better plan for growth, and in turn make more cost-effective decisions in applying solutions for your development.

We do, however, appreciate that this service has an associated cost. As a business we feel maintaining this open and accessible service is necessary, and by encouraging early engagement with us, we will reduce costs in the longer term. Therefore, we suggest retaining this service free of charge, with the view to recover through cost-avoidance.

Questions on pre-planning services for 2022/23

Q2) Do you agree with our proposed approach to charging for pre-planning services?

Q3) Is there anything else we could do to reduce the barriers to early engagement?

Responses

Respondents considered that we were operating in an open and transparent manner in relation to pre-planning services and that the current approach reduces barriers to early engagement between us, as the incumbent, and our customers.

One respondent suggested introducing a deposit for pre-planning services activities undertaken by us, which would be charged at the beginning of the customer journey; a value which would be deducted from the cost advice once works progressed through to official application.

AFW conclusions

We are pleased to see that our efforts for open and transparent communication with our customers is working.

At this time, we do not feel a re-introduction of this charge would be appropriate whilst we aim to encourage developer customers to engage with us at the earliest stages of planning their development. To clarify our position, pre-planning services are provided to developer customers free of charge, and the cost associated with these activities are offset against the avoided cost which would be applied if we are consulted later in the process, where less efficient solutions may then be the only option. As outlined in our consultation, early discussions can help prevent potential delays in the latter parts of the process and provides opportunities to better plan for growth, which in turn allows for more cost-effective decisions to be made in applying solutions for your development.

Environmental best practice

As water companies, we have a responsibility to ensure we are protecting the environment which we work in. In addition, we have a general charging principle we should consider around environmental protection.

In Ofwat's recent consultation on balance of charges[1], there was clear signposting around the importance of environmental incentives, and how, as we move into AMP8 and beyond, there may be stronger ways for water companies to support sustainable development. In the meantime, the increased focus on our environment provides us with an opportunity to explore unchartered greener avenues and gauge levels of support for investigation into alternative and additional environmental protection activities and/or incentivisation programmes.

Last year, we introduced an £80 water efficiency discount off the infrastructure charge for developers who achieved a per person consumption target of 110 litres per day. While we appreciate this is a new incentive scheme, uptake on this has not been substantial. We do, however, propose to maintain this approach for a discount against the infrastructure charge, with an uplift for inflation. However, we are keen to understand the barriers to this, and whether there is any best practice we can learn from and incorporate into our charging structure. We are also keen to understand whether the target of 110 litres per person per day is appropriate and whether there should be a larger discount applied for developments which go beyond this.

Questions on environmental best practice for 2022/23

[1] https://www.ofwat.gov.uk/wp-content/uploads/2021/04/Balance-of-charges-consultation.pdf

Q4) Do you agree with our approach for a water efficiency discount and what barriers, if any, do you see to this?

Q5) Are there any green incentives or best practice you would like to see Affinity Water consider?

Q6) To what extent do you support further work on investigating environmental incentives?

Responses

Respondents expressed their support for the continuation of the water efficiency discount. One respondent highlighted that an obstacle to the uptake of this discount may be rooted in the method of communication related to the incentive, and that action could be taken to improve the visibility and understanding of the water efficiency discount.

Respondents suggested they would be interested in a greater range of incentives which could be used by all developer customers. One respondent specifically proposed a grey water harvesting incentive to be available on new developments.

All respondents expressed support for the investigation into further environmental protection incentives. One respondent highlighted the relationship between incentives and cost savings, of which they were keen to see be passed through the supply chain for all stakeholders to benefit from.

One respondent was keen to explore the opportunities which lay within the infrastructure charge and income offset mechanism to determine if there were other missed opportunities for additional or greater discounts to be provided by us. A suggestion was also provided to investigate water neutrality incentives and how we may increase their activities to encourage these types of developments.

Aside from those identified above, no other specific incentives were suggested, however, there is support to see us do more to incentivise additional and more inclusive environmental and efficiency discounts.

AFW conclusions

Our water-efficiency discount is currently set at £80 per plot discount against the infrastructure charge, for developments or homes which meet 110 litres per person per day or less. It is our intention following review of the feedback to retain the incentive, with an uplift for CPIH, at the same level of 110 litres per person per day.

As a result of the comments received in relation to our approach and what barriers may currently exist which could inadvertently cause a reduction in uptake, we have reviewed how and where we currently promote this incentive. We intend to make changes to our website and portal to better inform and promote our existing water efficiency discount, which in turn, should result in a greater take up of this incentive. They key outcome for us is that these incentives deliver a reduction in usage, and that the discount we provide is offset by a reduction in cost of supplying water to new developers as a result of a lower per capita consumption.

We are happy to include grey water harvesting into future considerations for environmental incentives that we, as the incumbent, may be able to offer our customers. We understand implementation of these systems can be costly for our developer customers and therefore, we appreciate any associated incentive would need to be proportionate to that cost. At present, in our view, we are not currently funded to provide such discounts where we cannot evidence a significant reduction in per capita consumption as a result.

We recognise that environmental considerations and protection is not only a core principle but one which is fully supported by all our customer types and the wider community; indicating that there is room for improvement and development of other incentives in which to further promote environmental protection activities. We look forward to the discussions ongoing with Ofwat about how we can better support this ambition as we move into AMP8, through using the income offset value for this purpose.

We are in the process of considering how else we may encourage environmental conservation and we are pleased to see our views align with our customers whom are also keen to investigate environmental incentives and how we may all work together to achieve the protection and longevity of our ecosystem for future generations.

We have recently been successful in an innovation project funded through the Ofwat Water Breakthrough Challenge which aims to trial water neutrality at sites in collaborative efforts with a New Appointment and Variation (NAV). We are hopeful that this world first project will provide a strong evidence base and bank of information from which we can look to develop greater efforts in this area in the future. You can find out more information on this exciting project here.

Application, administration, and design fees

Our portfolio of pre-construction costs and activities has undergone a full bottom-up, cost reflectivity review to ensure we continue to provide a high-quality service whilst supporting an open market and level-playing field.

This cost analysis builds on our adherence to the new charging principle of cost reflectivity. While previous build up information reflected the general costs of work, as required under competition law, we recognised that through our transformation journey over the last 18 months, as well as the introduction of a new organisational design and partner contractors, meant that a full bottom-up analysis activity would be prudent.

There are no significant changes proposed to the structure of our application, administration, and design fees. However, there will be a change to the values because of our analysis and other contributing factors such as inflation.

We continue to aim to structure our charges in a way that is easy for our developer customers to calculate costs associated with their projects.

Our indicative 22/23 charges for application, admin and design fees are as follows.

Self-Lay

Mains

Charge Item	Size	Indicative 22/23 Charge
Application Fee	Small (<50 plots)	£432
	Medium (50-100 plots)	£472
	Large (>100 plots)	£544
Administration Fee	Small (<50 plots)	£518
	Medium (50-100 plots)	£590
	Large (>100 plots)	£663
Design Vetting	N/A	FOC for first design submission and first amended design
Design	Small (<50 plots)	£832
	Medium (50-100 plots)	£1,056
	Large (>100 plots)	£1,265

Services

Charge Item	Unit	Indicative 22/23 Charge
Application Fee	Per plot	£30
Administration Fee	Per plot	£31

Mains and services

Mains

Charge Item	Size	Indicative 22/23 Charge
Application Fee	Small (<50 plots)	£432
	Medium (50-100 plots)	£472
	Large (>100 plots)	£544
Administration Fee	Small (<50 plots)	£936

	Medium (50-100 plots)	£1,044
	Large (>100 plots)	£1,152
Design	Small (<50 plots)	£832
	Medium (50-100 plots)	£1,056
	Large (>100 plots)	£1,265

Services

Charge Item	Unit	Indicative 22/23 Charge
Application Fee	Per plot	£30
Administration Fee	Per plot	£79

Connections to existing mains

Charge Item	Unit	Indicative 22/23 Charge
Application Fee first plot	Per plot	£142
Application Fee subsequent plots	Per plot	£54
Administration Fee	Per plot	£94

Diversions

Charge Item	Indicative 22/23 Charge
Application Fee	£383
Administration Fee	£872
Design Fee	£1,183

While we are not requesting specific feedback in the form of a question, we welcome any comments on our approach.

Responses

Respondents kindly provided additional response comments relating to the information provided in the consultation document and at the engagement event.

One respondent suggested we consider waiving developer driven diversion application, administration and design fees in line with how some other utility providers charge, with the view that the incumbent will likely receive new customers by ways of the impending development within the area.

Another respondent requested additional information be provided against the application, administration, and design fees within the 2022/23 charging arrangement publication to transparently communicate with customers the assumptions around the calculation of fees. There was also a request for us to provide additional explanations for some of the outlined fees where there were increases.

AFW conclusions

We take this opportunity to state that all figures quoted in the consultation and identified above are still subject to change. Further assurance work and adjustments to CPIH are in progress, and therefore the outlined figures above will differ slightly in our final published charging arrangements document.

We are interested in the suggestion of a revision of the application of our associated diversion fees, and one which we are willing to investigate further. It is important to note that the majority of developer services works results in us accruing additional customers which otherwise would not have had access to our services. We are mindful that with the introduction of the cost-reflectivity principle, our charges should reflect the general cost of completing the work. In addition, developer services should remain a net-neutral function, and although we will accrue new customers from new developments, this revenue is accounted for separately. As such, we do not deem it appropriate to remove the fees associated with diversionary works at this time.

We also welcome the feedback to enhance our transparency and communication through our charging arrangements and are happy to include a greater breakdown of the assumptions of activities surrounding our application, administration, and design fees for the coming 2022/23 charging year. We are pleased that these activities and fees have been standardised across the industry in the latest work around terminology and feel this is a good opportunity to review the information we provide in our charging arrangements. This will be available on our website from the 1st February 2022. For the purposes of this consultation however, we include below an example of associated activities on a self-lay scheme.

Administration Fee - SL Mains (50-99 Properties) - Medium Example
Payment processing (review and processing of application form, completion of system updates and preparation for accounts receivable, invoicing post construction for IC)
Project management including instruction/coordination of works and financial monitoring plus key contact time with SLPs as required
Project management office administration for organisation and monitoring of required paperwork (including meters into charge information)
Produce vesting certificate
Designer administration to organise site visits, obtain streetworks quotations and other relevant surveys
Other general administration and customer support

With regards to the request for further information relating to some fees where there were increases, following a conversation with the respondent, we understand that there were concerns relating to the self-lay application fees. We welcome the opportunity to provide further clarity on the information used to create this fee and provide the table below to illustrate the build-up and % change from 21/22.

Application Fee - SL Mains (100+ Properties) – Large Example			
Description	**21/22 Rate**	**22/23 Rate**	**% Change**
Application triage (check all attachments, check correct application, customer liaison (if req), accept/reject, processing app fee and system checks) by Project Admin Team			
Technical Review by Mains Project Manager			
Review by Designers for feasibility & CDM info (PCI and CPP)			
Onsite survey (including travel, survey and survey form completion)			
Cost advice generation (translation of survey information into customer charges & self-lay agreement generation)			
WQ & Ops Review for feasibility & any impact to I2S			
Total	**£450**	**£550**	**22%**

We would like to reiterate that all such fees have been through a full bottom-up analysis to ensure reflectivity of the cost of the activity. In addition, we have aligned self-lay mains application fee with the standard mains application fee for which both now reflect appropriately the activities undertaken in relation to the work required during this part of the process. This alignment ensures charges are fair for all customers. We do not propose an increase at this time for the standard mains application fee, all three scheme sizes are forecasted to experience a small reduction in cost; please note this is still subject to change as a result of the November publication of inflation.

Whilst we have not included our construction rates within this consultation, we would like to take this opportunity to notify our customers that as a result of the wider societal and global market shifts, namely the pandemic and Brexit, in conjunction with the change in our contracted supplier, we have recently become aware of an increase in material and fitting costs. We are currently in discussions with our suppliers and are monitoring the situation very closely. Any necessary increases will be included as a fair and reasonable reflection of increased costs we experience. It is important that we carry out this work, as increases in supply chain cost will affect SLPs, and to ensure we are enabling effective markets in our area, we must reflect those increases in our charges, giving opportunity for SLPs to compete.

Infrastructure charge and income offset

Infrastructure charge

The purpose of an infrastructure charge is to enable a charge to be levied to reflect broadly the expected additional load placed on our network by the connection of premises not previously connected to it. Infrastructure charges do not relate to the costs of reinforcing, upgrading or otherwise modifying existing network infrastructure to address pre-existing deficiencies in capacity or in capability.

In line with Ofwat charging rules, we have reviewed our infrastructure charge for 2022/2023 alongside our forecasted connections volumes for AMP7, beside the future expected expenditure for network reinforcement.

Our infrastructure charge is set at a flat rate per property connected for domestic purposes.

Ofwat require the infrastructure charge to be fully forward looking, however we expect advice on this to be clarified in the upcoming decision document by Ofwat, following the recent statutory consultation.[2]

At present, we have calculated our indicative 22/23 infrastructure charge using the following values:

- Five-year forecast total expenditure for network reinforcement
- Five-year forecast total number of connections
- Inflation forecast to be applied to the 22/23 calculated charge

To ensure we have used appropriate and reasonable forecasts for the above calculation, we have undertaken additional supporting assurance using historic actual values. All calculations have been done with the most up to date information and based on Ofwat information relating to methodology for setting the infrastructure charge as of September 2021.

21/22 Infrastructure Charge	Indicative 22/23 Infrastructure Charge
£249	£403

Questions on infrastructure charge for 2022/23

Q7) Do you agree with our methodology for calculating the infrastructure charge?

[2] https://www.ofwat.gov.uk/wp-content/uploads/2021/08/August-2021-Statutory-consultation-on-changes-to-our-charging-rules.pdf

Responses

Some respondents agreed with the methodology of determining the infrastructure charge for 2022/23, where others requested further information to be provided before determining whether agreement on the calculation could be given. Respondents were clear that stability in these charges should be a priority.

Concern was raised from all respondents regarding the outcome of the net position of the infrastructure charge and the income offset. In previous years, customers retained credit from us on a per connection basis. The charge as proposed for 2022/23 would result in an outstanding payment levied to customers on a per connection basis.

One respondent requested we ensure they remained transparent and provided bill stability as far as possible when looking at schemes which commonly run over multiple charging periods. Another raised concern about our compliance with the charging rules in relation to several principles such as, transparency and stability and predictability. A follow up discussion on this point was useful to provide further clarification and requested detail on this.

AFW conclusion

Our aim is always to provide information transparency and guarantee compliance with the latest version of the Charging Rules for New Connection Services.

We already provide an in-depth calculation of the income offset in our charging arrangements, and we are one of the only water companies to do so. We have also reviewed the level of detail we provide to support transparency on the methodology of our infrastructure charge calculation and provide a useful table below.

We believe our approach is open and transparent. We always try to provide an appropriate level of detail and background during our consultation and engagement events to ensure our customers understand and feel comfortable in the approaches we propose to implement for the coming charging period. We are, however, obviously cautious not to provide some figures during consultation which have not yet been through appropriate internal assurance processes. Our aim was to avoid confusion and manage expectations without providing information which was subject to change. However, after reviewing the responses to this consultation we will endeavour to provide greater clarity in any future consultations pertaining to our new connections charging process and proposals.

The below table outlines the detailed methodology of the infrastructure charge calculation; please note these numbers remain subject to change as we move through our assurance processes and finalisation of our charges.

Total cost of Network Reinforcement (growth) in forward 5-year period	£27,672,822.10
Total connections in forward 5 year period	79,050
Proposed Infrastructure Charge	£350.07
CPIH - Predicted November 21 @ 4.5%	£15.75
Proposed Infrastructure Charge - 22/23	**£365.82**

Since publishing our consultation we have undertaken further review of our connections forecast, takin into consideration an additional two months' worth of data from 21/22. In addition, we have completed a further review of the total cost of our network reinforcement work forecasted over the next five years. Although the calculation approach is no different from that which we originally consulted upon, the subsequent changes from the reviews have resulted in a lower forecasted infrastructure charge for 2022/23, as indicated in the table above. In our charging arrangements the value will be rounded to the nearest pound for ease.

Income offset

We are required to maintain a balance between the contribution developer customers make and household customers for the provision of infrastructure. To maintain that balance, an income offset value was used between 2018 and 2020 to reduce the charge for developer customers on requisition of water mains. In 2019, Ofwat published a consultation on widening this to SLPs, NAVs and customers completing connections to existing mains. As a result of the subsequent charging rule changes, to comply, we moved the income offset to the infrastructure charge, which was paid by every customer type and applied it against each new connection for a supply of water to the premises connected to a water main, where an infrastructure charge is applicable.

During last year's charging arrangements consultation, we simplified the process of applying infrastructure charges and income offset so that this was provided at the point of the cost-advice generation; removing the need for consolidation payments upon completed connection and scheme finalisation. We propose to maintain this process through 22/23 under the view that it provides the best customer experience and remains the most appropriate.

Following a review of best practice, we propose to use the following methodology for calculating the income offset to maintain the balance of changes as required under the Charging Rules.

Step Number	22/23 Proposed Methodology
1	**Identify mains cost forecast for 21/22**
2	**Identify the % self-lay onsite works based on 20/21 %**

3	**Calculate the total main laying cost** (Forecast / remaining % Self-Lay works)
4	**Identify the Affinity contribution pre 2020** @ 90% of total costs to ensure balance of charges is considered
5	**Forecast connections for 22/23**
6	**Calculate the income offset** (Affinity contribution/forecast connections + inflation)

In turn, our indicative income offset figures are illustrated below:

Income Offset 21/22	Indicative Income Offset 22/23
£387	£324

Questions on income offset for 2022/23

Q8) Do you agree with the approach for the income offset calculation?

Responses

Most respondents agreed with the methodology of determining the income offset for 2022/23, where some requested further information to be provided before determining whether agreement on the calculation could be given. Support for the methodology of the income offset calculation was not without disappointment in the reduction of the overall net position of the infrastructure charge and the income offset.

One respondent referenced the need for the balance of charges to be maintained using more historic information than that which was provided during consultation, questioning compliance with the charging rules.

AFW conclusions

We will continue to publish a detailed version of the income offset within our charging arrangements, the next of which are due to be published by 1st February 2022. We are currently one of the only water companies to provide this information in our charging arrangements. We will ensure we take action to establish greater communication of our calculation for the income offset prior to the publication of our new connection charges.

We understand that during consultation processes, detail is important. As such, below is an expanded version of the calculation table we included in our engagement event and consultation paper. We will endeavour to provide this earlier in the consultation period in the future.

Row	Description	Calc	% Uplifts	£ Excluding VAT
A	Mains cost forecast 21/22			£3,219,480.00
B	% self-lay onsite works based on 20/21 (Avg across connections and mains)			31.5%
C	Total main laying cost	=A/(1-B)		£4,699,970.80
D	Affinity contribution @90% (pre-April 2020)	=C*90%		£4,229,973.72
E	Forecasted connections for 22/23			14,370
F	Calculated income offset	=D/E		£294.37
G	CPIH		4.5%	£13.25
H	**Proposed income offset**	**=F*(1+G)**		**£307.61**

After discussions with our customers and reviewing the feedback from our consultation we have completed two cross-check calculations on our income offset approach to ensure we broadly maintain the historic balance of charges. All our calculations and methodology decisions will be reviewed and verified by several layers of internal and thorough external assurance processes over the next few months.

The first check determines what the forecasted income offset value for 2022/23 should be if the average total income offset as a percentage of the total main laying cost was maintained from 2018/19 to 2021/22. Each year uses actuals for total main laying cost, income offset value and connections which in turn is used to calculate the total income offset as a percentage of the total main laying cost. The average percentage for all historic years was compared against the forecasted income offset. This indicated our income offset should be higher than that originally outlined at our engagement event and in our consultation paper.

The second check aims to balance the total forecasted income offset as a percentage of the forecasted total cost of developer services work inclusive of connections, mains requisitions and gross network reinforcement in line with historic actuals back to 2018/19. This check to ensure our income offset broadly maintains the historic balance of charges also indicated the value for 2022/23 should be higher than that originally outlined at our engagement event and in our consultation paper.

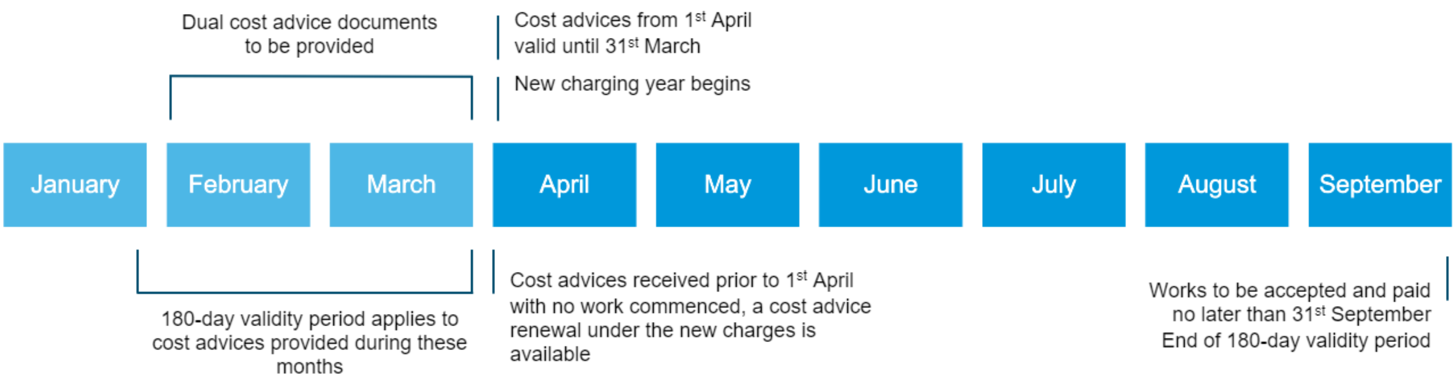
As a result of this work, we are proposing a higher income offset value for 2022/23 moving from £307.61 to £348.63. To note, these values remain subject to change until our final charges are published in 2022.

Transitional arrangements

We appreciate that the introduction of new charging regimes can add complexity from an administrative perspective for many of our developer customers. We are keen to seek your views on this area to ensure we are doing as much as possible to simplify the process of moving to a new charging year.

As a result of the consultation we held last year, for 21/22 charges, we introduced:

- Provision of dual cost advice (customer receipt of multiple documents for the same works based on two different years' charges) between 1st February – 31st March.
- Extended validity period increasing from 120 to 180 days for cost advice documents issued between 31st January – 31st March.



Our 2022/23 charges will be published by 1st February 2022. Although our new charges will come into effect for work commencing on or after 1st April 2022, we understand that some schemes will be at different stages of the scheme lifecycle. Our aim is to continue to provide you with useful, easy to use tools and helpful options all whilst improving your experience with us.

For our 22/23 charges, we propose the following approach:

- Maintenance of the 180-day validity period
- Maintenance of the provision of dual cost advice documents
- Simplification of the timeline for provision of dual cost advice documents and the start from which the 180-day validity period begins by using a single start date of 1st February in any given year.

Questions on transitional arrangements for 2022/23

Q9) Do you agree with our approach to transitional arrangements?

Q10) To what extent do you support the provision of dual cost advice documents? If so, how can we improve this?

Responses

Respondents were supportive of the simplicity of our transitional arrangements proposed in our consultation, however, one respondent did raise several queries regarding the transition of work schemes with longer durations and the application of mains costs, services, infrastructure, and income offset charges over an extended period of time.

One respondent requested a review of the 180-day validity period and the months at which it is applied, namely for cost advice documents provided through February and March. It was suggested that there should be a rolling 180-day validity period for all quotations prior to February, whereby the expiration of the validity of the quote is accepted as the latter of the two options, either the 180-day period or the end of the charging year as currently used for all cost advice documents provided outside of February or March.

Respondents supported the provision of dual cost advice documents where it provided customers with the option of selecting a lower quotation for their applied scheme of works. However, where the activities to develop the ability to provide this dual cost advice service were at a greater additional cost for customers, one respondent was clear this functionality would not be supported.

One respondent outlined that although the provision of dual cost advice documents was beneficial to smaller customers, particularly those who did not have organisational processes to adhere to, a gap remains in providing greater flexibility for those larger sized customers where works are requested prior to 1st February and the limited validity period applies.

AFW conclusions

We are pleased that in general there is support for the simplicity of our approach to transitional arrangements. We understand the need for greater clarification regarding schemes that bridge multiple charging years. In our 2022/23 publication we will aim to include additional clarification around the specific application and expectations of the usage of charges to schemes which are expected to be completed over a longer time frame.

We would like to assure our customers that the dual cost advice offering does not significantly impact our charges as it is a small sub-section of our annual charges system update. However, we are grateful for this insight, and we will continue to monitor the cost of this service.

After reviewing the latest release of the Charging Rules for New Connection Services, particularly paragraph 49 which refers to the validity period of quotations provided by the incumbent to its customers we are confident that the structure of our proposed approach and the application of the 180-day validity period throughout February and March is suitable and compliant.

We will be pleased to consider a rolling 180-day validity period for the next charging period of 2023/24. The complexity associated with required system changes and impact analysis has not been considered for 2022/23 and if required, may inadvertently increase the resulting charges for 2022/23. We do not believe this is in the best interests of our customers at this time.

We are reviewing how we may enhance our customers' experience and develop proactive helpful milestones during the validity period. We are exploring additional notification processes to ensure we clearly communicate to our customers the remaining time left on their quote validity.

In addition to improved communication and visibility of the quotation validity period, our aim is to:

- Update our developer services website to improve customer usability and more clearly communicate important notice information
- Review the information provided on our cost advice documents to ensure we clearly identify key information surrounding expected future cost increases
- Hold a February customer engagement event to inform customers on the finalised 2022/23 charges and build upon this consultation informing customers of expected increases for the next charging year
- Publish a customer newsletter early in the new year outlining forecasted cost increases and expected impacts

We are pleased to see that our efforts to provide open, clear, and transparent communication with our customers is working to allow for greater understanding of our charges.

Traffic management charges

We want to continue to ensure our customers can easily identify all potential charges associated with their projects prior to applying to us. Last year, we separated out our traffic management charges from our construction charges to ensure maximum transparency of costs, but also to ensure fairness in the way the charge was applied at a scheme level. We want to build on this for 22/23.

Traffic Management Charge	Indicative Charge 22/23
2-Way Traffic Lights (Automated)	£861
3-Way Traffic Lights (Automated)	£1,056
4-Way Traffic Lights (Automated)	£1,251
1 person – Manually Operated Stop/Go	£1,190
2 person – Manually Operated Stop/Go	£1,785

Road Closure	£2,384

We propose to simplify the road closure charges into a single average charge whilst still maintaining the inclusion of council TTRO charges, which were implemented as a result of last year's consultation.

Our position on additional case-by-case costs incurred in relation to lane rentals, bus stop suspensions and parking suspensions will remain as a reconciliation of the upfront fixed costs to ensure all costs are appropriately recovered.

Questions on traffic management for 2022/23

Q11) Do you agree with our approach to setting traffic management charges?

Responses

Most respondents supported the proposed approach of maintaining a simple and easy to understand suite of traffic management charges and recognised the impacts such charges can have on smaller one-off connections.

Clarification has been requested to be provided in relation to when each traffic management charges would be incurred so that customers can more easily and accurately estimate the cost of potential schemes.

One respondent suggested a new and open discussion between self-lay providers and/or their representatives and us, to be organised in relation to the inclusion of self-lay providers and their ability to utilise our streetworks noticing arrangements.

AFW conclusions

We are pleased to see that our efforts to provide simple, clear, and transparent communication with our customers is working to allow for greater understanding of our traffic management charges.

We are currently undertaking works to develop our cost estimator tool in which it includes a brief guide on which traffic management costs ought to be applied to the scheme being estimated. We are pleased to see that our project is in line with the needs of our customers, and we hope that this helps to provide greater clarification of the application of our charges. We are expecting this tool to be live in December 2021.

With regards to the sharing of our street opening noticing arrangements with our self-lay provider customers, we understand that this is currently on the agenda as a wider industry conversation. We look forward to seeing the outcome of these important conversations and will ensure we are part of this conversation to move this forward.

Summary & next steps

We'd like to offer our thanks to all those who attended the October engagement event and provided valuable feedback throughout our consultation process. We hope to build on this moving forward and encourage others to join future events. We'd like to remind our customers to keep an eye out for our quarterly customer newsletter with all the latest information related to charging.

The next steps related to our 22/23 charges review are as follows:

December

- Completion of new connections charging assurance
- Release of November CPIH (inflation) and update of all charges

January

- Internal sign-off of charges
- Publication of New Connections Charging Arrangements and associated supporting documents

February

- Dual cost advice service available*
- Customer engagement event

April

- 2022/23 charging period begins

*Available for the period prescribed within our charging arrangements document