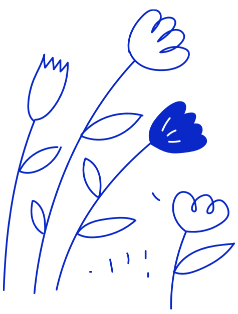
Charging Consultation Response for 2023/2024

Development Experience New Connections

December 2022

Contents

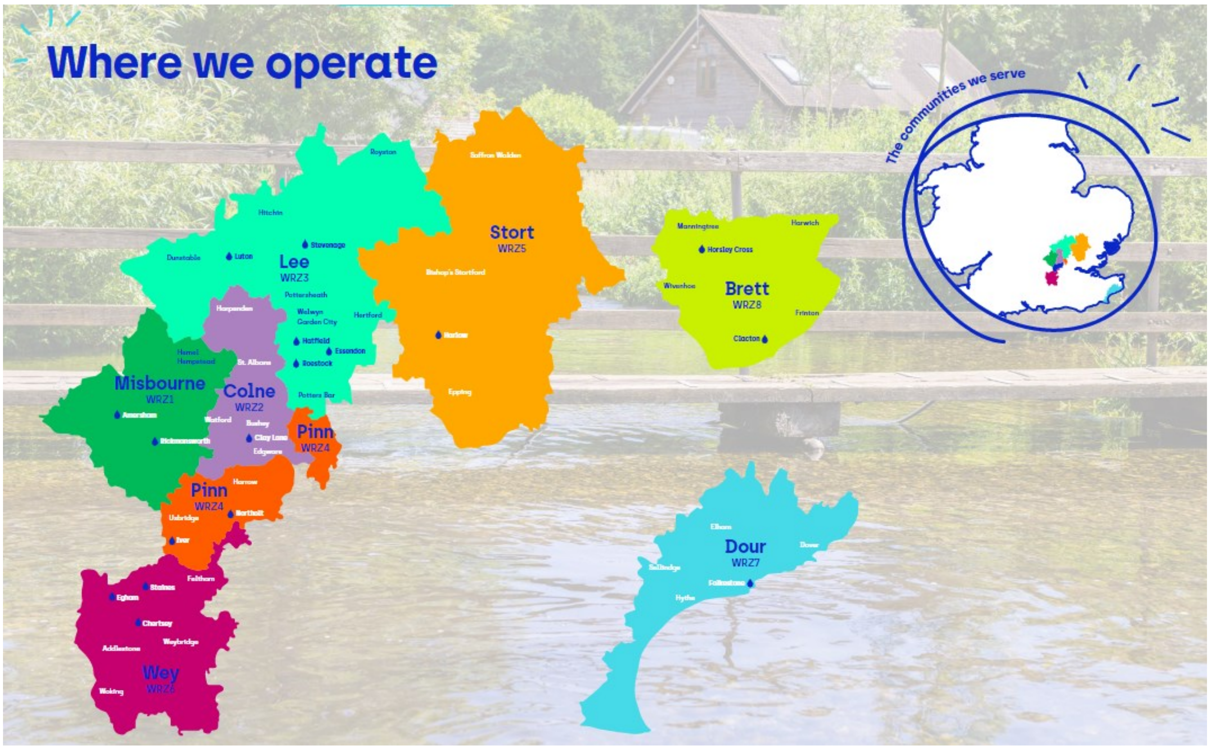


Introduction

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 936 million litres of water each day to a population of more than 3.8 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 12,000 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 development experience team are committed to providing water supplies to new developments, enabling growth in our region, and supporting effective markets.

Purpose of this consultation

From 1 April 2018, the basis for charging for the new connections services we provide changed. From this date, water companies are required to set charges in accordance with rules made by Ofwat.

There are two sets of rules that we must follow in setting our charges for the period 1 April 2023 to 31 March 2024:

- Ofwat's Charging Rules for New Connection Services (English Undertakers)[1]
- Charges Scheme Rules issued by the Water Services Regulation Authority under sections 143(6A) and 143B of the Water Industry Act 1991[2]

The new connections charging rules underwent consultation during 2021, with the changes now included in the above reiterations. The rules apply to the provision of water mains and new connections provided for domestic purposes as well as the diversion of water mains situated in private land. They do not apply to:

a) requests for a supply of water for non-domestic purposes,
b) requests made by a water supply licensee for the connection of premises to our network, or other steps in respect of that system; or
c) charges under an agreement to provide one or more water undertakers with a supply of water in bulk.

Each year we publish our new connections charging arrangements for development 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.

As above, Ofwat consulted on additional changes to their rules which impact charging arrangements from 2022 onwards[3]. This consultation featured the introduction of a new general charging principle around cost-reflectivity. We are required to determine our charges for new connections services in accordance with the principles that charges covered by the rules should reflect. These are:

a) fairness and affordability;
b) environmental protection;
c) stability and predictability;
d) transparency and customer-focused service; and
e) reflect cost of the relevant service.

While no significant changes were made to the charging rules for 2023/2024, we would like to receive your feedback on the following areas of focus for our annual charging review:

- Infrastructure charge;
- Income offset;
- Environmental best practice;
- Transitional arrangements;
- Application, Design and Administration fees; and

[1] https://www.ofwat.gov.uk/wp-content/uploads/2021/10/Charging_Rules_For_New_Connection_Services_Effective_April_2022.pdf
[2] https://www.ofwat.gov.uk/wp-content/uploads/2021/10/Charges_Scheme_Rules_Effective_April_2022.pdf
[3] https://www.ofwat.gov.uk/wp-content/uploads/2021/08/August-2021-Statutory-consultation-on-changes-to-our-charging-rules.pdf

- Traffic management

We are passionate about providing an outstanding level of customer service and recognise the importance of gaining feedback on our strategic direction.

This document summarises the information provided during the consultation period and our position for 2023/24 considering all responses.

1. Infrastructure Charge

The purpose of an infrastructure charge is to enable a charge to be levied to broadly reflect 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 capability.

We have calculated our forecasted infrastructure charge in line with Ofwat charging rules, with a fully forward-looking perspective. We consider forecasted connections volumes for AMP7 and into AMP8, alongside the future expected expenditure for network reinforcement to support our regional growth.

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

At present, we have calculated our indicative 2023/2024 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 2023/2024 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.

2022/2023 Infrastructure Charge	Proposed 2023/2024 Infrastructure Charge	% Change
£366	£419	15%

Table 1: Infrastructure charge comparison

As a result of the current unsettled political climate and the subsequent effect upon our national economy we have seen a slow decline of new connections being made to our network throughout 2022/2023. With uncertainty remaining, our aim is to reflect these latest unexpected changes in our forecasted data to ensure the values we propose, and will later finalise in our February 2023 publication, are accurate and representative of the developments and growth in our region.

As requested during our 2022/2023 charging consultation, we outline below the detailed build-up of how the forecasted infrastructure charge has been calculated. Table 2 is a replica of that published in our current charging arrangements[4]. It will be finalised and included in our 2023/2024 charging arrangements published by 1st February 2023.

[4] https://www.affinitywater.co.uk/docs/developer/2022/New-Connection-Charging-Arrangements-22-23.pdf

Calculation of Infrastructure Charge		
Description	**% Uplift**	**Values**
Total cost of network reinforcement (growth) in forward 5-year period		£23,470,398.51
Total connection volume in forward 5-year period		61,182
Initial infrastructure charge		£383.61
Forecasted November 2022 inflation	9.3	£35.68
Proposed infrastructure charge for 23/24		**£419.29**

Table 2: Calculation of infrastructure charge

Within Table 2, we have included an uplift to reflect our forecasted CPIh (Consumer Price Index – housing) inflation value for November 2022, which will be confirmed and released around mid-December 2022; until then, this value is subject to change. Last year, we saw inflation rise to a surprising 4.6% when setting our new connection charges, and with a larger step change predicted for this year we note this can be unsettling when considering charging predictability and stability.

In addition to the significant changes seen to the levels of inflation over the last few years, we have also seen a change in the charging rules and the methodology by which incumbents must calculate their infrastructure charges and our own data adjustments to rectify historic assumptions. All of which have contributed to the impacts on the level of our infrastructure charge over the years.

With this in mind, we would like to take this opportunity to gather your thoughts on fixing infrastructure costs for the remainder of AMP7, until 2025.

Q1: To what extent would you support infrastructure charges to be fixed for two years?

Responses

Respondents had varied levels of support for the consideration of an infrastructure charge to be fixed for the remainder of AMP7 out to 2025. It was expressed that such a fixture would provide predictability for infrastructure charges over an extended period helping to ensure cost certainty.

It was noted that this approach may impact later years where required reinforcement versus contributions made by developer customers may become misaligned.

One respondent highlighted that fixing the infrastructure charge for multiple years would subsequently prevent the potential for infrastructure charges to be reduced if it so resulted from the annual recalculation. This was specifically outlined with consideration of the fluctuation in the current economic market and the uncertainty in future levels of inflation.

AFW Conclusions

We are committed to providing services which align with the needs of our customers and after evaluating the responses which provided varying levels of support for the fixture of our infrastructure charge, we are pleased to confirm we will continue to calculate and provide infrastructure charges under the current methodology. This will result in our infrastructure being set only for a one-year period lasting for the duration of the 2023/24 charging period.

Table 1 aim to summarise the potential change in infrastructure charge from that published in 2022/23 and the proposed 2023/24 value. Table 2 offers a breakdown of the calculation against which the proposed value for 2023/24 was calculated. The methodology remains the same as was used to determine the charge for last year.

The calculation in table 2 utilises revised forecast values of network reinforcement and connection volumes over a forward-looking five-year period. It is a different five-year period from that used last year. The slight variances in forecasted works resulted in the difference between the current infrastructure charge at £366 and the pre-inflated proposed charge of £383.61 as shown in table 2.

2. 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 the 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.

In 2021, we simplified the process of applying infrastructure charges and income offset so that this was provided at the point of the cost-advice generation, for connections only schemes; removing the need for consolidation payments upon completed connections and scheme finalisation. We propose to maintain this process through 2023/2024 under the view that it provides the best customer experience and remains the most appropriate.

Earlier this year, in July, Ofwat released a paper[5] confirming the removal of income offset from 2025 onwards. With care, consideration and in the interest of providing stable, predictable, affordable, and transparent charges for our customers we would like to take this opportunity to outline several approaches we are currently exploring in light of this regulatory decision. The following options are more detailed explanations of the options mentioned in our charging consultation video.

Option 1: Preferred Approach

This option aims to maintain the same level of discount off the infrastructure charge as previous years, with a continued provision of the balance of charges as required by Ofwat in the latest version of new connections charging rules[6].

We propose to calculate an appropriate total discount value by using the same methodology as last year to determine the relevant income offset. Our consultation last year gained support from customers on our new methodology reflecting an approach which significantly improved our accountability for difficult economic and unprecedented occurrences such as the Covid pandemic. We would propose to use this same methodology to determine the overall discount level to achieve the balance of charges.

We propose to then adjust the level of income offset to reduce in conjunction with a significant increase in the water efficiency credit, of which is already available to our customers. The reduction in income offset would not be anticipated to reduce by more than half with the view that we could, if supported by our development customers, reduce it further in 2024/2025

[5] https://www.ofwat.gov.uk/wp-content/uploads/2022/07/Appendix-3-Developer-services.pdf

[6] https://www.ofwat.gov.uk/wp-content/uploads/2021/10/Charging_Rules_For_New_Connection_Services_Effective_April_2022.pdf

providing a smooth and fair glidepath to prepare for the removal of income offset completely at the start of AMP8 (2025/2026).

The below graphical illustration aims to provide clarity on the proposed concurrent reduction in the income offset value and the increased water efficiency discount when compared with a stable infrastructure charge. Values provided in the below graph are for illustrative purposes only and do not represent actual or fixed costs for any of the included elements.

For example, the income offset could see a 50% reduction in 2023/2024, and then a further 50% reduction in the following year; while at the same time we would suggest the environmental discount match the 2023/2024 level of income offset and then be increased by a further 50% in the following year.

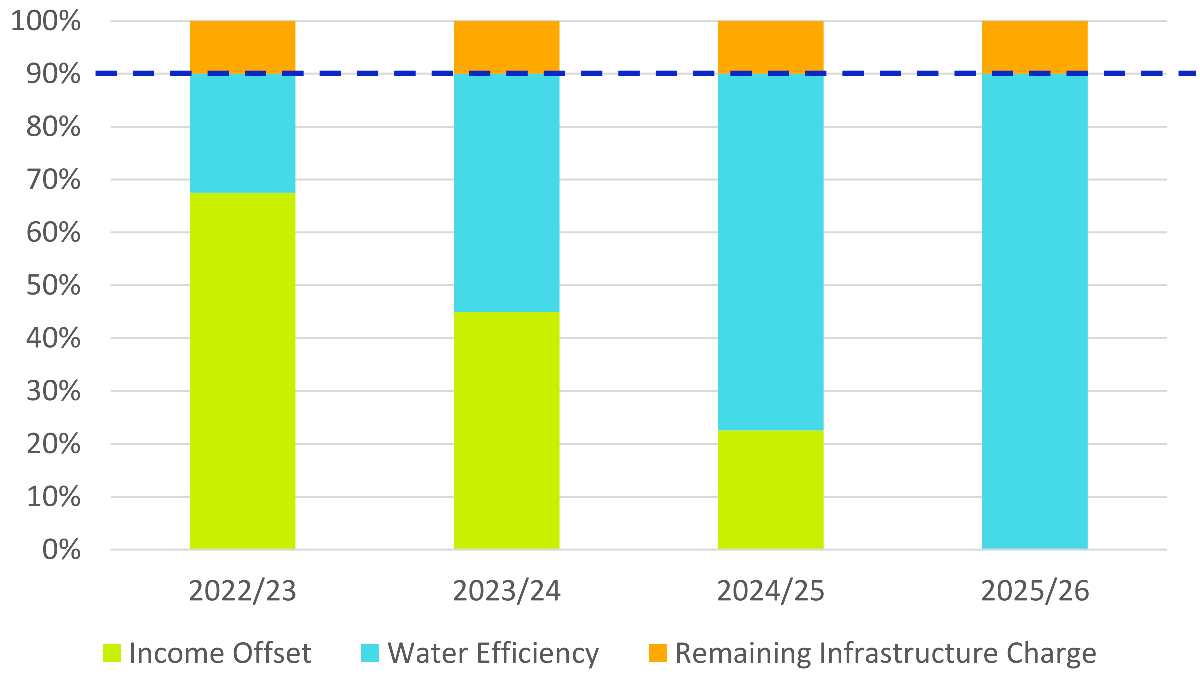


Figure 1: Option 1 glidepath illustration

We believe this option is an innovative approach to handling income offset and related challenges as previously outlined earlier in this section. We hope this option provides:

- a stable discount against the infrastructure charge for the next two years
- encouragement for our development customers to explore more water efficient connections
- a reduction in the impact which otherwise could be felt in 2025 when the removal of income offset is enacted
- a continued balance of historic development charges for the protection of customers
- a simple, easy to understand, and predictable structure of our development charges

Option 2: Maintain our current approach

With the understanding that the removal of income offset will not come into play until 2025/2026, the option remains for incumbents to continue to provide such a discount against the infrastructure charge. Although the new connection charging rules do not require an incumbent to offer an income offset, we have historically offered this discount to our development customers.

This option proposes the continuation of the income offset calculation and selected methodology to remain in place and be used to determine the discount against the infrastructure charge for 2023/2024.

As a result of our consultation in October 2021, there was support for our reconsidered income offset approach and assurance checks accompanying it. Therefore, we would not propose any changes to this calculation methodology. To align with the needs of our customers, we outline below a draft income offset calculation table to provide early indication of the value of this discount.

Calculation of income offset	
Description	**Values**
Total cost of new connections forecast for 23/24	£8,655,415
Total cost of mains requisitions forecast for 23/24	£2,722,991
Total cost of gross network reinforcement forecast for 23/24	£4,653,668
Total forecasted cost	£16,032,074
Balance of income offset % of total cost	25%
Total income offset	£4,008,019
Connections forecast for 23/24	11,548
Proposed income offset for 23/24	**£347.06**

Table 3: Calculation of income offset

2022/2023 Income Offset	Proposed 2023/2024 Income Offset
£344.70	£347.06

Table 4: Income offset comparison

Option 3: Water Neutrality Initiative

This option is our most innovative and challenging approach currently being considered. This would effectively remove income offset from our development charging structure and replace it with a water neutrality initiative, similar to that of the Ofwat innovation fund.

We propose to maintain our current water efficiency discount for customers who may not be in a position to submit a project funding request to the Water Neutrality Bank. In addition to this discount, we would like to work in partnership with those customers who want to play a greater part in protecting our environment and develop enhanced water efficient properties or water neutrality within our region. We hope this balance will allow for progress to be made across our entire customer base when considering development works to align with our industry and national drive to improve environmentally friendly delivery.

Under this option, we propose to provide our development customers with an opportunity to apply for funding for customer driven innovative, advanced, or more challenging environmental initiatives. We would hope to improve the ability for development customers to deliver more easily, with our support, for schemes which truly inspire and embody the spirit of being stewards of our environment and taking care of our water for the future. The details of this process are yet to be finalised as we understand this should be developed in association with our customers.

This option aims to be a truly collaborative, forward-looking approach which will innovatively utilise the opportunity for change under the consideration of income offset transformation. Challenges remain around how to transition this initiative into the new world of AMP8 whereby income offset funding will no longer be subsidised by household customers and instead development customers and, the arena in which we operate, would have to move to a fully self-sustaining model.

Your thoughts on feasibility, future-proofing and potential projects are greatly welcomed. We anticipate holding further workshops and engagement events with our customers if this option receives significant support.

Q2: Please rank our income offset approaches in order of preference (first being your preferred choice)

- **Option 1: Pair reduced income offset with increased wate**
- **Option 2: Maintain income offset with no amendment to water efficiency credit**
- **Option 3: Replace income offset with new water efficiency and neutrality initiative**

Q3: Please provide comment as to why you have ranked them in this way

Q4: Do you agree that our preferred option (#1) provides a greater environmental incentive than that currently in place?

Responses

On average, respondents ranked option 1, pairing a reduced income offset approach with an increased water efficiency discount, as their top choice. The least supported approach was option 3, to replace the income offset with a new water efficiency and neutrality initiative.

Respondents supported option 1 stating it would best prepare customers for the removal of income offset charging outlined by Ofwat to take effect from 2025. Comments highlighted other utilities may operate in a way which aligns reduction of consumption with billing incentives and suggested additional effort be spent on tackling how to improve customer messaging and education on individual efficiencies.

In some cases, where option 1 was not ranked as first preference, it was noted that further information on what this approach and option 3 would practically mean for customers would have been helpful in allowing a more accurate submission of income offset approach preferences.

In response to question four, 100% of respondents agreed that option 1 provided an increased environmental incentive for developer customers than currently in place. It was specifically noted that the incentive would work two-fold; whereby the discount would be significantly higher and therefore be more likely to engage a greater number of developer customers, while also providing an opportunity for developers to have increased funding available to explore more efficient, and potentially more expensive, fixtures and fittings.

One respondent was keen to understand the criteria around which customers would qualify for the water efficiency discount.

One new appointment and variation (NAV) respondent requested clarification regarding the removal of income offset and the subsequent handling of pre-2025 bulk supply agreements but where plots may be connected after the regulatory rule change.

AFW Conclusions

We are grateful for the thorough responses for the income offset section of this consultation. We are pleased to receive good levels of support for implementation of option 1, which was our preferred approach to help prepare developer customers for the changes to regulation set to start in 2025.

As such, we will be happy to introduce a balanced income offset with our water efficiency discount. We appreciate the importance of detail to fully understand change proposals, and as such hope the below provides greater clarity of how we may provide the balance of charges where customers engage in our water efficiency initiative.

For example, purposes only, we outline below a potential charging breakdown for the application of income offset and water efficiency discount. For the example below we have used proposed charges for 2023/24 as outlined in this consultation.

Proposed charges for 2023/24	Option 1 without water efficiency discount	Option 1 with water efficiency discount
1 x infrastructure charge	£419	
1 x income offset	-£173.53	
1 x water efficiency discount	-£0	-£265.53
Total	**£245.47**	**-£20.06**

Table 5: Income offset option 1 exploration

2022/2023 Water Efficiency Discount	Proposed 2023/2024 Water Efficiency Discount	% Change
£84	£266	217%

Table 6: Proposed increase to water efficiency discount for 2023/24

We do not propose to amend our qualification criteria for our water efficiency discount. It is our intention to maintain discount eligibility for residential properties whereby the requirement of 110 litres of water per person per day can be achieved and evidenced. This falls in line with the Building Regulations part G. For more information on our eligibility criteria and required evidence, please visit our website.

Income offset will continue to be applied on a per plot basis as is currently the case. Provision of income offset will not be affected by the application of water efficiency discount(s).

With regards to the bulk supply agreements made prior to the rule change of the application and provision of income offset by incumbents, we will take this point away for further in-depth discussion to ensure we can provide an accurate and fair response which will affect all new appointment and variations in our region. We will aim to conclude this item by close of the full consultation period.

3. Environmental best practice

As a water incumbent, we have a paramount and unwavering responsibility to ensure we are protecting the environment in which we work. To support this, one of our new connection charging rules ensures we continue to deliver with consideration of such. This area is only growing in focus and importance and one we take seriously, as outlined throughout our earlier consultation sections.

In April 2021, Ofwat consulted on the balance of charges[7], which included clear signposting around the growing importance of environmental incentives, and how, as we move into AMP8 and beyond, there may be stronger requirements for incumbents to support sustainable developments.

During our 2021 consultation it was confirmed that there is strong support for greater and more prominent environmental initiatives to be offered to our development customers. In response to the information kindly provided within the responses, we are keen to showcase much greater visibility of the availability of our water efficiency credit. Shortly after the consultation last year, we amended our customer portal to ensure we more clearly signposted and informed customers during the application process that water efficiency credits were available for all water efficient plots connected to our network.

To continue building on this and align with Ofwat's guidance on best practice from their review paper[8] published in September 2022, we have made substantial changes to our development customer website[9]. We now have:

- a dedicated banner on our landing page to provide a consistent reminder to our development customers (see below)
- a dedicated water efficiency credit information page[10] with a focus on informing our customers about available credits
- more clearly defined and customer-friendly information on how to qualify for our water efficiency credit
- improved communications for our development customers to explain when and what our efficiency credit is

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[7] https://www.ofwat.gov.uk/wp-content/uploads/2021/04/Balance-of-charges-consultation.pdf
[8] https://www.ofwat.gov.uk/wp-content/uploads/2022/09/Environmental_incentives.pdf
[9] https://www.affinitywater.co.uk/developing
[10] https://www.affinitywater.co.uk/developing/water-efficiency-credits

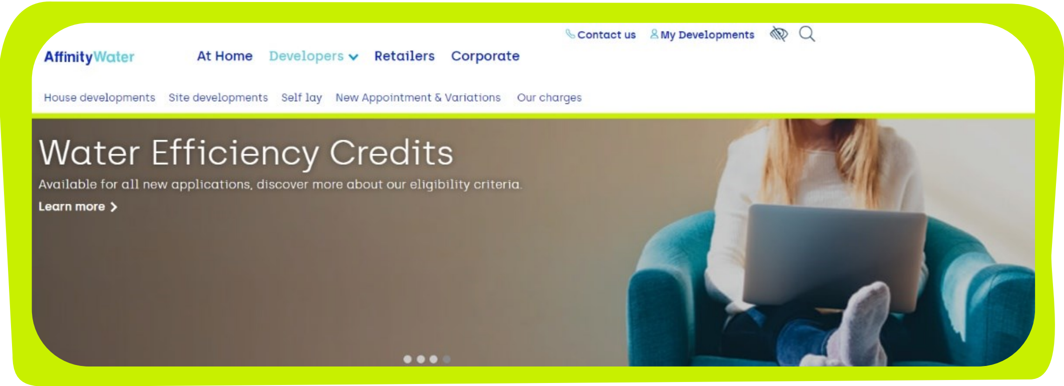


Figure 2: Water efficiency credit informative website banner

Although we are not proposing any other changes than those previously outlined under earlier sections of this consultation, we are still keen to explore best practice and encourage environmental protection suggestions for consideration when developing our charging approaches in the future.

Q5: To what extent do you support increased focus on environmental protection? And, are there any green incentives you would like to see Affinity Water consider?

Responses

All respondents supported Affinity Water's increased focus on environmental protection. There was also wider support for the industry and the development it has made toward trialling water efficiency initiatives. One respondent specifically encouraged the exploration of potential trials investigating behavioural changes triggered by changes to charges and the impact on increased water efficiency.

Respondents identified the need for water efficiency discounts and incentives to be clear and simple so as to improve understanding and uptake. It was highlighted that clarification around discount requirements, qualification criteria and expected benefits should be provided.

Other comments included a desire to see increased river restoration projects and for a step change to be implemented to reduce the discharge of non-potable water into rivers.

AFW Conclusions

We are pleased to see the continuation of support from our developer customers around investigating further environmental incentives. We remain open to opportunities whereby we may participate in leading the way for trialling more innovative solutions to water efficiency and neutrality.

It is our hope that by retaining the current structure of environmental incentives and continue to utilise the same qualifying criteria as we have for the last few years that this meets the needs of our customers.

Affinity Water has an excellent environmental department dedicated to ensuring we meet a vast range of criteria for protecting and improving our local biodiversity and ecosystem including consideration of river restoration projects.

We understand the concern around discharging non-potable water to our vital water ways, however, appreciate that this is a matter for wider industry discussion which may be better influenced by water and sewerage companies. Affinity Water is a water only company.

4. Transitional arrangements

We understand that the introduction of new charging periods and the transition of schemes from one year to the next can increase complexity and administrative challenges for many of our development 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.

Our 2023/2023 charges will be published by 1st February 2023. Although our new charges will come into effect for work commencing on or after 1st April 2023, we understand that some schemes will be at various stages of their delivery lifecycle. Our aim is to continue to provide our customers with clear information, intuitive tools, and helpful options all whilst improving their experience with Affinity Water.

We propose, for the transitional period commencing 1st February 2023, to continue the following successful approaches:

- provision of dual quoting services throughout February and March 2023; whereby our customers may be provided with quotations for their applied works under our 2022/2023 and 2023/2024 published charging arrangements
- ability for customers to request secondary quotations under the newest charging arrangements; our aim is to always provide our customers with the most cost-effective quote in the first instance
- automated email reminders for development customers when their applied scheme reaches the halfway point of their quote validity period; this notification is sent to all parties associated with the scheme
- simplification of the transitional timeline as was introduced last year following support during our consultation period
- continuation of improvements and clarification around our transitional arrangements within our published new connections charging arrangements

We are confident that the continuation of the above transitional arrangement approaches will provide a smooth journey for all our customers who apply throughout these more challenging months.

With the aforementioned uncertain economic environment yet to move toward a more stable and predictable setting we propose to amend the validity period for transitional quotes to better protect the provision of high-quality service for our customers. Currently transitional quotes, those received during February and March under the older of the charging arrangements, are valid for 180-days.

Our proposal for 2023/2024 is to amend this to a 90-day validity period thereby encouraging development customers to commence works within or as close to the year in which they applied. This approach will see an improvement in the fairness of charging, across the entirety of our development customer base, where some may narrowly miss applying within the transition period or whose applications would naturally be submitted in the early months of the new charging period.

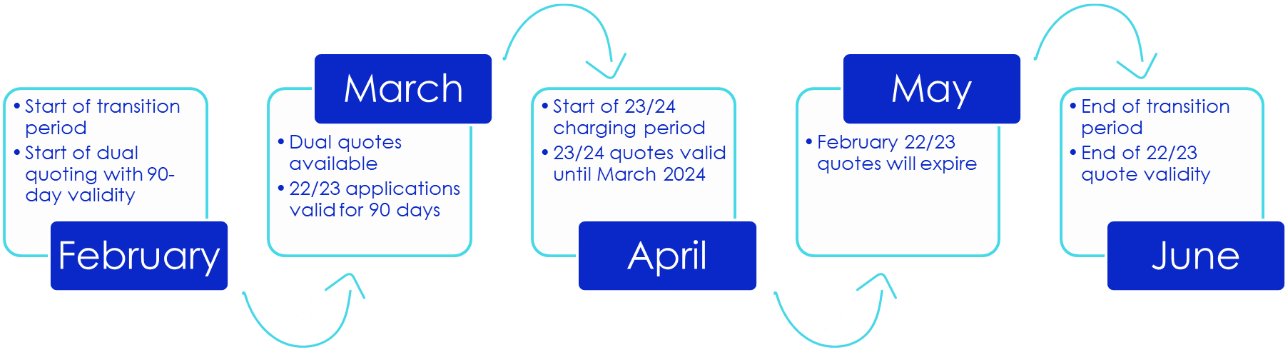


Figure 3: Transitional arrangements proposed timeline

To provide new, additional protection and forewarning for quotations nearing the end of the amended validity period, we propose to introduce further customer notifications to ensure acceptance is received within plenty of time. We are considering expanding our communication avenues to improve our customer journey and make it easier to view notifications by utilising our text messaging functionality alongside our automated emails currently in place.

Applications and quotations provided under the 2023/2024 charging arrangements will be valid, as standard, until the end of the charging period on 31st March 2024. We do not propose to change this.

Q6: Do you agree with the amendment to the transitional quote validity period?

Responses

The majority of responses received, across a range of customer types, were not opposed to the proposed amendment to the transitional quote validity period outlined above.

One respondent did not agree with the proposed change and noted that it may lead to an increased risk of customers missing the transitional cost advice acceptance deadline. It was also highlighted that the proposed change may limit the opportunity for developer customers to take advantage of potentially more favourable rates.

AFW Conclusions

We are pleased to see there is support for the proposal of our amendment to the transition quotation validity period. We appreciate, as with any deadline, that there is a risk that if missed, may impact some of our customers. We continue to investigate ways in which we can improve our communication and provision of information pertaining to important customer deadlines.

Our aim is to protect our customers and offer them every chance to make the most of available, fair, and reflective charges relevant to their requested works. It is our intention to continue:

- early warning messaging,
- customer consultation on transitional arrangements,

- including clear parameters of validity periods on all quotations,
- provision of email notification when quotation validity is halfway through,
- utilisation of multi-channel communication for further quotation validity notifications,
- on-hand personable staff available to support customers with their quotation journey and available options,
- dual quoting services with advanced predictable charging alternatives,
- transparent transitional arrangements outlined in our new connections charging arrangements.

We believe that delivering a reflective and competitive charging approach will encourage growth in the market and support our customers by generating greater opportunities for supplier choice. As such, we will introduce a 90-day validity period commencing from 1st February 2023 for transitional period applications.

5. Application, Design, Administration Fees

Our portfolio of pre-construction costs and activities underwent a full bottom-up, cost reflectivity review during the development of 2022/2023 charges to ensure we continue to provide a high-quality service whilst supporting an open market and level-playing field. This cost analysis built upon our adherence to, what was the newly introduced, charging principle of cost reflectivity.

This year, we are proposing to move away from an alternative charging approach for phased works. We intend to align these with standard scheme journeys whereby each phase will incur relevant and appropriate application, design, and administration fees in addition to the delivery construction costs. We hope this methodology will provide more simple, transparent, and predictable charges for our development customers.

As we adapt and learn through each year of service and delivery, we always hope to make improvements to ensure we can continue to provide our development customers with a personalised, high quality, and bespoke experience. With this in mind, we propose to amend the size of which our diversion fees apply, moving from 315mm to 180mm diameter. No structural changes will be made to our diversion fees.

Outside of the small amendments outlined above, there are no other significant changes proposed to the structure of our fees.

As previously mentioned in earlier sections of this consultation, we aim to uplift our charges closely in line with inflation, and as a result our charges will not remain at the same level as 2022/2023. We could also potentially see increases linked to material and supplier costs, as we did last year, but our procurement teams are working hard to minimise and where possible mitigate such impacts.

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

Q7: Do you agree with the alignment of fees for phased and standard schemes?

Responses

All respondents agreed with the proposed phasing amendments. One respondent suggested the introduction of a remobilisation fee to be included within our new connections charging arrangements.

One respondent was keen to understand more detail surrounding the fees relating to diversions proposed to be moved outside of Affinity Water's charging arrangements, those over 180mm.

AFW Conclusions

We are pleased to receive support for the alignment of our fees for phased and standard works. It is our hope this will make phasing simpler and easier to understand.

Last year we introduced a remobilisation fee for aborted works which can be found published in our current live new connection charging arrangements under Table 14. It is our intention to publish a revised figure for this service in our 2023/24 charging arrangements.

We do not anticipate changing the process by which we determine charges for diversions which fall outside of the new connections charging arrangements. For 2023/24 this will now cover diversions of over 180mm. Diversions which require separate charging will incur charges developed in conjunction with our delivery partners, which will include a different design fee from that outlined in our new connections charging arrangements publication.

Diversions which fall outside of the standard new connections charging arrangements will continue to be costed by exception upfront and reconciled using actual costs post-completion.

6. Traffic Management

Our aim is to continue to ensure our customers can easily identify all potential charges associated with their works prior to applying with us. In 2021/2022 we moved to separate our traffic management costs from our construction costs to ensure maximum transparency.

We built on the simplicity of our charging approach in 2022/2023 by reducing our road closure traffic management charge from three sizes to one, single, clear value which received consultation support from our development customers. We do not propose to change the approach for traffic management charging this year. We intend to maintain the inclusion of council TTRO charges within our traffic management costs to avoid any unknown charges being incurred by our customers.

We propose to keep the following traffic management items to be reviewed on an ad hoc basis and remain as part of a reconciliation of the upfront fixed costs to ensure all costs are appropriately recovered:

- Lane rental;
- Lane closure;
- Parking bay suspensions; and
- Bus stop suspensions.

Our only suggested change for 2023/2024 traffic management charges is to clarify our new connections charging arrangements for when such fees are due. We intend to move this in line with our delivery partner contract whereby all traffic management fees in the table below will be included in our provided quotations for all works undertaken on roads with speeds greater than 30mph.

Our proposed traffic management charges are as follows (please note that all costs provided within this consultation are for indicative purposes only and are subject to change):

Proposed indicative traffic management fees		
Item	**Unit**	**Charge (£) excluding VAT**
2-Way Traffic Lights (Automated)	Each	1,062
3-Way Traffic Lights (Automated)	Each	1,272
4-Way Traffic Lights Automated	Each	1,355
1 Person - Manually Operated Stop/Go	Each	1,375
2 Person - Manually Operated Stop/Go	Each	2,016
Road Closure	Each	2,659

Table 7: Proposed indicative traffic management fees

Q8: Do you agree with the amendments to our traffic management charging approach?

Responses

The majority of responses were supportive of the proposed traffic management approach. One respondent highlighted the clear and simple structure of Affinity Water's traffic management enabling developer customers to more effectively self-serve charges.

One respondent requested clarification around the criteria against which 2-way lights would be charged and requested Affinity Water ensure costs are provided upfront for extraordinary charges such as lane rentals, lane closures, parking bay suspensions, and bus stop suspensions.

Concern was raised around the quantity of traffic management items charged within our quotes in relation to phased traffic management and requirement of multiple traffic management services.

One respondent requested traffic management charges to have associated out of hours uplifts to mirror where such costs would be incurred by self-lay providers. Clarification was also requested surrounding the process by which Affinity Water determines relevant traffic management services for schemes.

AFW Conclusions

We are pleased to receive support for the proposed traffic management approach and acknowledgement of the suitability and ease by which our customers can self-serve traffic management costs. It is our aim to continue to provide easy to understand, clear and transparent charges.

In order to align with our delivery partner and contractual rates model, only 2-way traffic lights required for 30mph roads will not be charged. All other traffic management services will be costed in line with our final published traffic management table in our new connections charging arrangements.

Our current process aims to ensure appropriate and required extraordinary charges including lane rentals, lane closures, parking bay suspensions, and bus stop suspensions are captured during the survey process. This is completed prior to the generation of a cost advice and therefore, where required, will be included in the subsequent quotation. We believe the provision of upfront extraordinary charges as per our current process is sufficient, transparent and meets the outlined requirements.

We endeavour to always be thorough in our cost advice generation to reflect all appropriate and related traffic management services required for completion of works. We understand the position of self-lay providers and the requirements placed on them for provision of traffic management. Where works require multiple traffic management services these are reflected in our quotations, along with reviewed quantities of each service required throughout the duration of works.

We have three layers of traffic management assurance with multiple checkpoints to maximise accuracy prior to the customer receipt of a cost advice. Our staff are trained in varying levels of NRSWA Streetworks accreditations in line with their roles and responsibilities. We believe our teams have a wealth of construction and traffic management knowledge making them best placed to provide suitable and accurate traffic management recommendations.

Summary

We hope you enjoyed our consultation video and found this written accompaniment interesting and helpful in anticipating how we propose to structure our development customer charges for 2023/2024.

If you have something you would like to share with us that does not sit under the questions included throughout this document, we have included a final question to provide you with this opportunity.

Q9: PLEASE USE THIS SPACE TO PROVIDE ADDITIONAL COMMENTS ON OUR CONSULTATION

Responses

Respondents kindly provided additional comments surrounding the general approach to our developer charges. It was requested for out of hours costs to be included on our quotation documents, with specific reference to total out of hours cost.

Cost certainty was a clear area of focus for respondents, specifically for larger schemes which span multiple charging years and the uncertainty which comes with costs associated at time of connection for connections related to a mains and connections scheme; primarily infrastructure charge, income offset and water efficiency discounts. It was suggested that mains and connections quotations could be netted and therefore costs provided to and accepted by the customer would cover all costs itemised within the quotation.

One respondent requested for Affinity Water to consider the exclusion of the following costs from our suite of rates and for each to be provided on an ad hoc basis:

- cost of grouting mains during abandonment of mains
- cost of diverting telemetry cables during diversions
- cost of installing thrust blocks and designing thrust blocks

AFW Conclusions

We are pleased to note that as of April this year, we introduced out of hours uplifts to our new connection charging arrangements, for both construction elements and traffic management services. Such uplifts are applied to our quotations in the first instance on separate lines for ease of identification and understanding of our cost breakdowns. We do not propose to remove this from our charges in 2023/24.

We appreciate the ongoing emphasis around cost certainty for our developer customers and continue to try and develop charges in a fair, stable, and predictable way. Where possible we have consulted on elements, we believe would bring additional steadiness, with a considerable focus around income offset and improving cost preparedness for all our customers.

We are grateful for the suggestions submitted regarding mains and connections quotation amendments. We will take this under advisement, review this in line with our regulatory requirements and in conjunction with optioneering exploration for the development of how we produce our customer mains and connections quotations.

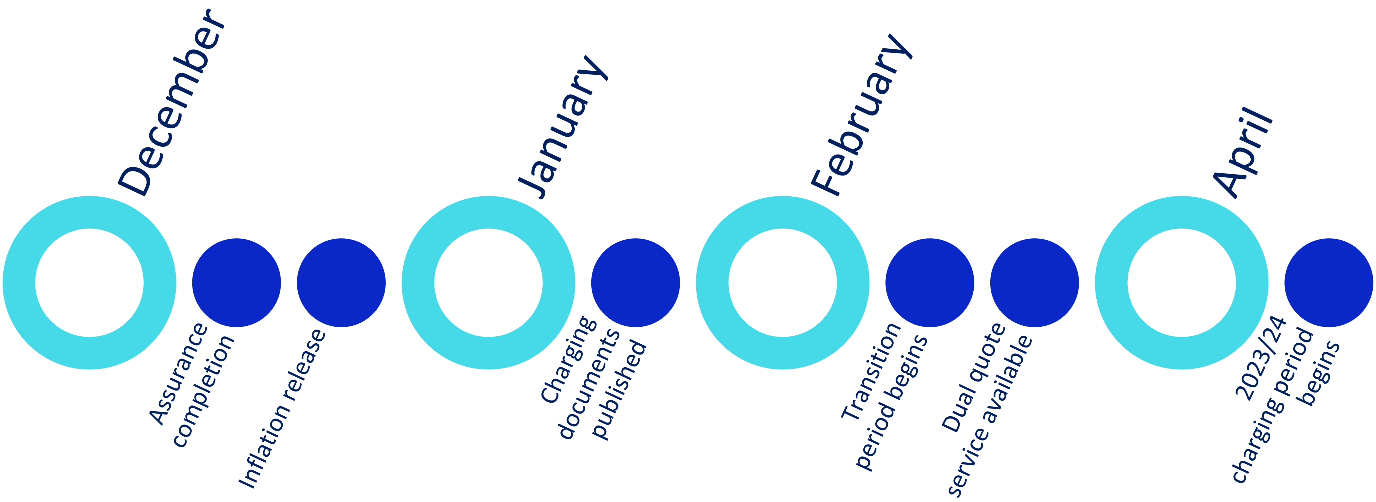
We would like to take this opportunity to clarify that we do not include costs of grouting mains for abandonment works in our standard rates. These costs are currently, and proposed to continue to be, calculated and applied, where appropriate, on a per scheme basis. The same methodology is also true for costs relating to the diversion of telemetry cables under diversionary works.

Where we continue to align more closely to our delivery partner contract structure and simplify our charges, we will continue to include the provision and installation of thrust blocks in our new connection charging arrangements. Our talented in-house design team will continue to be responsible for generating high quality designs in relation to works which fall under the new connection charging arrangements, the cost for such work is captured under the range of published design fees.

Next steps

We would like to thank those who provided valuable feedback throughout our consultation process. We hope to build on this moving forward and encourage you to continue sharing your opinions and comments with us so we may continue to work collaboratively.

We are open to receive final responses in regard to our comments included in this publication. Please feel free to contact us via our email address: charges@affinitywater.co.uk



Tables and Figures