

AffinityWater

Charging Consultation for 2025/2026

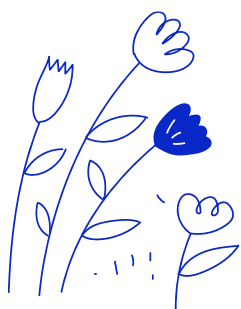
Development Experience New Connections

October 2024



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Introduction

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

Affinity Water is committed to ensuring that its charging structure for the 2025/26 period is fair and meets the latest regulatory requirements set by Ofwat. This overview highlights important updates in Ofwat's guidelines, including a strong focus on transparency, cost alignment and environmental incentives. These changes will play a significant role in shaping our pricing strategy.

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

We will publish our final charges for new connections services and infrastructure charges by 1st February 2025. The proposed charges in this consultation document are for consultation purposes only and may differ from our final charges. An inflation figure has been applied to charges in line with forecast, to ensure figures are as reflective as possible at this stage.

As part of this consultation, we invite you to share your feedback on the following questions:

1. **DO YOU BELIEVE AFFINITY WATER'S ENVIRONMENTAL INCENTIVE TIERED SYSTEM OFFERS A FAIR AND EFFECTIVE WAY TO ENCOURAGE WATER-SAVING PRACTICES? IF NOT, WHAT CHANGES WOULD YOU SUGGEST?**
2. **WHAT ARE YOUR VIEWS ON OFWAT'S FITTINGS APPROACH METHODOLOGY TO ENCOURAGE WATER EFFICIENCY?**
3. **WHAT ARE YOUR VIEWS ON GROUPING HIGHWAY AUTHORITIES SET OUT IN OPTION 2 FOR ROAD CLOSURES?**
4. **TO WHAT EXTENT DO YOU AGREE WITH THE INTRODUCTION OF THE 'MANUALLY OPERATED LIGHTS' CHARGE AS A NECESSARY STEP TO ENSURE COMPLIANCE WITH AUTHORITIES?**
[STRONGLY AGREE, AGREE, NEITHER AGREE NOR DISAGREE, DISAGREE, STRONGLY DISAGREE]
5. **TO WHAT EXTENT DO YOU AGREE WITH APPLYING THE SITE VISIT CHARGE PER PLOT FOR SELF-LAY PROVIDERS WHO FAIL TO SUBMIT METER DETAILS WITHIN THE REQUIRED TIME FRAME?**
[STRONGLY AGREE, AGREE, NEITHER AGREE NOR DISAGREE, DISAGREE, STRONGLY DISAGREE]
6. **WHAT ARE YOUR OPINIONS ON THE TETHER RATIOS SET BY OFWAT?**
7. **TO WHAT EXTENT DO YOU SUPPORT THE DECISION TO UNBUNDLE METER CHARGES IN OUR WORKED EXAMPLE SCENARIOS IN LINE WITH OFWAT'S PROPOSAL?**
[STRONGLY AGREE, AGREE, NEITHER AGREE NOR DISAGREE, DISAGREE, STRONGLY DISAGREE]
8. **DO YOU HAVE ANY ADDITIONAL COMMENTS OR SUGGESTIONS YOU'D LIKE TO SHARE WITH US?**
9. **WHERE DID YOU COME ACROSS THIS CONSULTATION?**
[WEBSITE, LINKEDIN, EMAIL, OTHER]

Responding to this consultation

Each year we publish our new connections charging arrangements for development customers, to explain the charges associated with services which support growth and new efficient developments in our region. 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.

We will take on board your feedback, to ensure our charges for next year reflect what is important to you. All feedback will be anonymised and published in a decision document towards the end of November 2024. Your opinions and comments on our proposed changes are greatly appreciated and are key to helping shape our future.

We invite you to share feedback by completing our [online response form](#), it's quick and easy to do, it should only take about five minutes! If you'd prefer to email us, please send your response to charges@affinitywater.co.uk.

The deadline for submissions is 17:00 on Friday, October 25th, 2024.





1. Environmental Incentives

In line with the guidelines set out by Ofwat's Environmental Incentives Common Framework consultation¹, we are introducing an environmental incentive discount tier system to developers who prove to be water efficient to promote sustainability and efficiency from April 2025. This acts as a financial reward mechanism for developers who incorporate water-saving methods. Developers will be expected to meet specific standards and regular auditing to ensure compliance with water efficiency targets.

The revenue generated from the environmental incentive will be collected through the environmental component, a charge applied to all properties once the connection is made. The charge will be applied for all cost advice issued from 1 April 2025.

Affinity Water will not financially profit from this incentive, as all funds received from the component will be allocated towards the environmental incentive, which will be regulated by Ofwat with a revenue cap as a cost neutral position. Figure 1 below illustrates the proposed mechanism for funding².

Environmental Incentive and Component

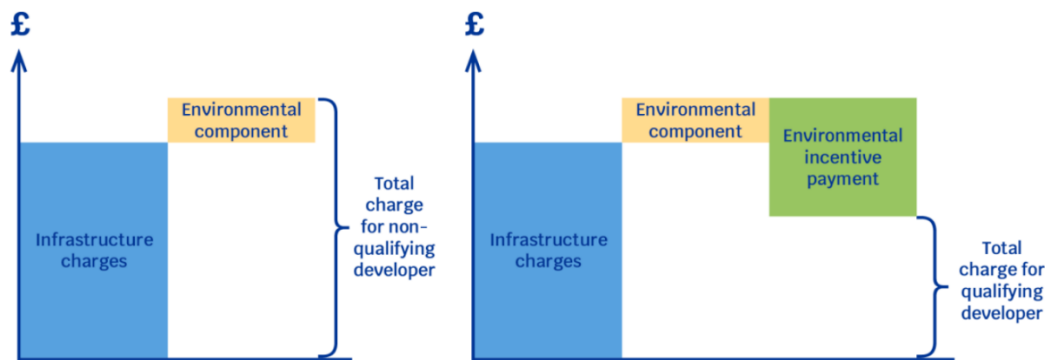


Figure 1: Environmental Incentives Mechanism

Our environmental incentive proposal features a standard three-tier system: 'Basic', 'Enhanced' and 'Premium' alongside a bespoke incentive for customers achieving 'Water Neutral'. Under this structure, all categories will pay the same amount towards the environmental component. However, the higher the category, the greater the environmental incentive payment. Those who do not meet the minimum criteria for achieving water efficiency will pay the most and will not receive any environmental incentive credit. The 'Basic' category will receive the lowest environmental credit with increasing amounts for 'Enhanced' and 'Premium'. Our bespoke incentive for the 'Water Neutral' category, whereby customers achieve either water neutrality or positivity will receive the highest environmental credit, equivalent to the combined value of all our standard tiers (table 1).

¹ <https://www.ofwat.gov.uk/wp-content/uploads/2024/07/Consultation-on-an-environmental-incentives-common-framework-v2.pdf>

² <https://www.ofwat.gov.uk/wp-content/uploads/2023/06/Consultation-on-Environmental-incentives-to-Support-Sustainable-New-Homes.pdf>

| Environmental Incentive Tier System | | | |
|-------------------------------------|----------------------|--------------------------------|------------------------------------|
| Ofwat Tier | Category | Environmental Incentive Credit | Water Efficiency Level |
| | None | None | No water efficiency commitment |
| 1 | Basic | Small environmental credit | Low level of water efficiency |
| 2 | Enhanced | Medium environmental credit | Moderate level of water efficiency |
| 3 | Premium | Large environmental credit | High level of water efficiency |
| Bespoke | Water Neutral | Maximum environmental credit | Highest level of water efficiency |

Table 1: Environmental Incentive Discount Tier System

This tiered structure incentivises developers to adopt more sustainable practices, by offering greater rewards as they progress towards achieving Water Neutral status, which represents the most significant dedication to conserving water resources. The Environmental Incentive Credit will only apply to newly applied schemes from 1 April 2025 onwards and will not be applied retrospectively to any developments or schemes initiated prior to this date.

Ofwat is proposing a standardised methodology, referred to as the ‘fittings approach’¹ (table 2), for measuring water efficiency across all English water companies when offering incentives for new developments. This approach is based on the specifications from the Future Homes Hub (FHH) report on water-efficient new homes but includes more ambitious efficiency standards, particularly for washing machines and dishwashers, as the current standards in building regulations are outdated.

Key aspects of Ofwat’s proposal include:

- 1. Common Methodology:** All water companies must adopt the fittings approach to measure water efficiency. This approach focuses on the specific water consumption of fixtures and fittings such as WCs, showers, basin taps, baths, and kitchen taps.
- 2. Efficiency Bands:** The proposal sets out various bands of water consumption such as 100, 90 and 80 litres per person per day, with corresponding specifications for fixtures and fittings that must be met for a development to qualify for incentives.
- 3. Evidence Requirement:** Developers must provide evidence that the installed fixtures meet the specified efficiency standards to qualify for incentives. If a development does not include appliances such as washing machines or dishwashers, these will not be part of the efficiency assessment. However, all other fixtures must comply.
- 4. Flexibility in Incentives:** Water companies can choose which levels of efficiency they incentivise, provided these levels are more ambitious than the mandatory standards in the current building regulations.

This approach aims to encourage developers to install water efficient fixtures and fittings for new developments from the outset through the mandatory incentive mechanism across the sector.

Water Efficiency Fitting Approach Methodology

| Bands (L/P/D) | Contender Specifications | WC (litres) | Basin Taps (L/min) | Bath (litres) | Shower (L/min) | Kitchen Taps (L/min) | Washing M/C (litres) | Dishwasher (litres) | Key Fittings Requirements | Water reuse | Estimated Extra cost |
|---------------|--------------------------|-------------|--------------------|---------------|----------------|----------------------|----------------------|---------------------|--|---------------|----------------------|
| 100 | 1.1 | 4(2.6) | 5 | 170 | 8 | 6 | 6 | 1.1 | Reg 36(2) water fittings approach 110 L/P/D | None | None |
| | 1.2 | 6(3) | 6 | 180 | 6 | | | | Shower may need air boosting | None | £350 |
| | 1.3 | 4(2.6) | 3 | 180 | 8 | | | | Proposed new water fitting approach | None | None |
| | 1.4 | 4(2.6) | 6 | 180 | 6 | | | | Shower may need air boosting | None | £350 |
| 90 | 2.1 | 6(3) | 3 | 180 | 5 | | | | Enhanced spray (inc Air boost) shower | None | £350 |
| | 2.2 | 4(2.6) | 3 | 180 | 5 | | | | Enhanced spray (inc Air boost) shower | None | £350 |
| 80 and lower | 3.1 | 1.4 | 3 | 180 | 5 | | | | Enhanced effectiveness of flush WC (inc Air assist) + Enhanced spray (incl Air boost) shower | None | £750 |
| | 3.2 | 4(2.6) | 3 | 180 | 8 | | | | Proposed new water fittings approach | Rain 25 L/P/D | £1000-3000 |
| | 3.3 | 4(2.6) | 3 | 180 | 1.5 | | | | Recycling shower | None | £400 |
| | 3.4 | 1.4 | 3 | 180 | 1.5 | | | | Enhanced effectiveness of flush WC (inc Air assist) + Enhanced spray (incl Air boost) shower | None | £800 |
| | 3.5 | 4(2.6) | 3 | 180 | 5 | | | | Enhanced spray (inc Air boost) shower | Rain 25 L/P/D | £1000-3350 |
| | 3.6 | 6(3) | 3 | 180 | 5 | | | | Enhanced spray (incl Air boost) shower | Grey 30 LPPPD | £1250-3350 |

Table 2: Water Efficiency Fitting Approach Methodology

In response to the new environmental incentive mechanism introduced by Ofwat, we have decided to ensure a smooth transition from our current Water Efficient Credit. At this stage, we are anticipating to grant the Water Efficient Credit for any applications made during the 2024-25 charging year.

Q1: DO YOU BELIEVE AFFINITY WATER’S ENVIRONMENTAL INCENTIVE TIERED SYSTEM OFFERS A FAIR AND EFFECTIVE WAY TO ENCOURAGE WATER-SAVING PRACTICES? IF NOT, WHAT CHANGES WOULD YOU SUGGEST?

Q2: WHAT ARE YOUR VIEWS ON OFWAT’S FITTINGS APPROACH METHODOLOGY TO ENCOURAGE WATER EFFICIENCY?

2. Traffic Management

Affinity Water currently implements unbundled traffic management charges, in line with Ofwat's guidance for 2025/26³. Current traffic management structure:

1. **Upfront Fixed Charges:** Developers receive clear, upfront costs for traffic management, covering tasks like setup, monitoring, and removal of systems, plus signage and equipment rental. These charges are detailed separately in cost estimates.
2. **Standard Traffic Light Charges:** Costs for two-way traffic lights on roads up to 40 mph are included in standard rates. However, more complex setups, such as three-way lights or manual operations, incur additional charges.
3. **Road Closures and Other Disruptions:** Fixed costs for road closures are provided upfront, helping developers budget effectively. Additional charges apply for lane closures, parking bay suspensions, and bus stop disruptions, with final costs potentially adjusted based on actual expenses.
4. **Out-of-Hours Charges:** Extra charges are added when traffic management activities occur outside regular working hours which is determined by the local authority.

Affinity Water is considering an alternative option for structuring traffic management charges for road closures. We want to ensure that our pricing is both transparent and fair, whilst also being manageable for developers. Below are the options we are proposing:

Option 1: Maintain the Current Structure

Under this option, we would continue with the existing traffic management charges structure as outlined above. This approach provides developers with upfront fixed charges across all authorities for road closures, ensuring simplicity and predictability across authorities.

Option 2: Grouping by Authority

We propose grouping the highway authorities into two categories, 'London Boroughs' which includes Transport for London (TfL) areas, and 'Outside London', setting an average price for road closures within each group. This would allow us to provide more tailored, cost-reflective pricing, whilst still keeping the process simple across authorities.

We are introducing a new charge, 'Manually Operated Lights' as part of our Traffic Management charges. This is a mandatory requirement from local authorities and ensures compliance with traffic management regulations where applicable.

Q3: WHAT ARE YOUR VIEWS ON GROUPING HIGHWAY AUTHORITIES SET OUT IN OPTION 2 FOR ROAD CLOSURES?

Q4: TO WHAT EXTENT DO YOU AGREE WITH THE INTRODUCTION OF THE 'MANUALLY OPERATED LIGHTS' CHARGE AS A NECESSARY STEP TO ENSURE COMPLIANCE WITH AUTHORITIES?

[STRONGLY AGREE, AGREE, NEITHER AGREE NOR DISAGREE, DISAGREE, STRONGLY DISAGREE]

3. Site Visits

We have encountered challenges with Self-Lay Providers failing to submit correct and timely meter details after installation. This delay negatively affects customer experiences as it prevents the setup of their water bills. Consequences include additional administrative workload, potential revenue loss, and disruption in leakage reporting due to unmetered water loss.

To address this issue, we will implement a site visit charge per plot to Self-Lay Providers if a technician is required to obtain missing meter information. Self-Lay Providers will be sent a reminder in the portal to submit details within 5 days of installation. If information is still missing after 14 days, a technician will be dispatched to the site to collect the information, and the charge will be applied.

Q5: TO WHAT EXTENT DO YOU AGREE WITH APPLYING THE SITE VISIT CHARGE PER PLOT FOR SELF-LAY PROVIDERS WHO FAIL TO SUBMIT METER DETAILS WITHIN THE REQUIRED TIME FRAME?

[STRONGLY AGREE, AGREE, NEITHER AGREE NOR DISAGREE, DISAGREE, STRONGLY DISAGREE]



4. Tether Ratios

Ofwat's charging consultation proposes several changes to its charging rules to better protect customers in the new developer services framework³. This includes the introduction of 'tether ratios' to cap the difference in charges between sites with varying levels of competition. Ofwat suggests using worked examples published in the 2024-25 charging arrangements to calculate these ratios and excludes certain charges, such as infrastructure charges, traffic management costs and environmental incentives from the calculation. The ratios would be set and reviewed as necessary by Ofwat but remain generally fixed.

Table 3 below outlines the tether ratios for different scenarios under Ofwat's options for the 2024/25 period. These ratios reflect the relationship between the set maximum charge per property and the actual charge expected for each property type. Across all scenarios, the data shows that Affinity Water remains below the threshold set by Ofwat.

| Tether Ratios Worked Example Scenarios | | | | |
|--|--|------------------------|---------------------------|-----------------------------------|
| Ratio of Scenario | Scenario | Max Ratio set by Ofwat | 2024/25 Charge £/property | Maximum Allowed Charge £/property |
| 1:4 | Scenario 1 - single connection to house | 1.44 | 3385 | 4537 |
| 1:6 | Scenario 1 - single connection to house | 1.84 | 3385 | 5798 |
| 2:4 | Scenario 2 - single connection to block of flats | 0.44 | 852 | 1206 |
| 2:6 | Scenario 2 - single connection to block of flats | 0.56 | 852 | 1535 |

Table 3: Tether Ratios Worked Example Scenarios

Although this proposal is driven by our regulator, we would like to take this opportunity to understand your opinions on such an approach.

Q6: WHAT ARE YOUR OPINIONS ON THE TETHER RATIOS SET BY OFWAT?

³ <https://www.ofwat.gov.uk/wp-content/uploads/2024/05/Changing-Ofwats-charging-rules-to-further-protect-customers-in-the-new-developer-services-framework.pdf>

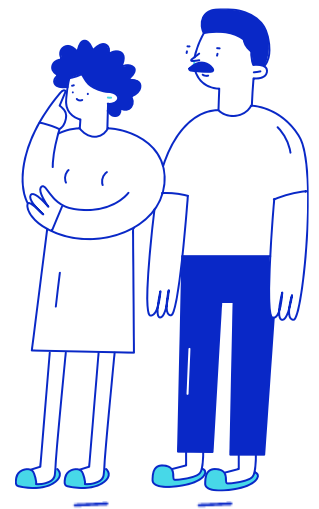
5. Unbundling Meter Charges

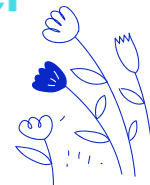
Ofwat has proposed to unbundle charges to enhance transparency in the developer services market³. Specifically, it requires water companies to separately list charges for various components involved in service connections. These components include administration fees, design fees, application fees, meter costs, meter installation, traffic management, and service connection pipework.

Affinity Water already unbundles charges for all other services except from meter charges. To align with Ofwat's unbundling proposal, we have decided to unbundle meter charges for meter costs and meter installation in our worked example scenarios.

Q7: TO WHAT EXTENT DO YOU SUPPORT THE DECISION TO UNBUNDLE METER CHARGES IN OUR WORKED EXAMPLE SCENARIOS IN LINE WITH OFWAT'S PROPOSAL?

[STRONGLY AGREE, AGREE, NEITHER AGREE NOR DISAGREE, DISAGREE, STRONGLY DISAGREE]





Summary

We hope you found this consultation interesting and helpful in anticipating how we propose to structure our developer charges in 2025/2026.

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 two final questions to provide you with this opportunity and an insight into how you found us!

Q8: DO YOU HAVE ANY ADDITIONAL COMMENTS OR SUGGESTIONS YOU'D LIKE TO SHARE WITH US?

Q9: WHERE DID YOU COME ACROSS THIS CONSULTATION?

[WEBSITE, LINKEDIN, EMAIL, OTHER]

Next steps

Your opinions and comments on our proposed changes are greatly appreciated and are key to helping shape our future.

We invite you to share feedback by completing our [online response form](#), it's quick and easy to do, it should only take about five minutes! If you'd prefer to email us, please send your response to charges@affinitywater.co.uk.

The deadline for submissions is 17:00 on Friday, October 25th, 2024.

Following the review of feedback, we will publish a decision document on our website by the end of November 2024.

Tables and Figures

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About Affinity Water

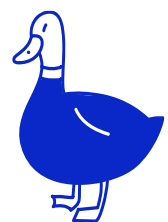
We are the largest water-only supplier in the UK, and we are committed to delivering a high-quality water service to all our customers.

We provide on average 950 million litres of water each day to a population of more than 3.8 million people across three supply areas in the southeast of England.



Figure 2: Affinity Water area of supply

Each year, around 10,000 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.



Background

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 2025 to 31 March 2026:

- Ofwat's Charging Rules for New Connection Services (English Undertakers)⁴
- Charges Scheme Rules issued by the Water Services Regulation Authority under sections 143(6A) and 143B of the Water Industry Act 1991⁵

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.

This consultation also featured the introduction of a new general charging principle around cost-reflectivity⁶. We are required to determine our charges in accordance with these principles which are as follows:

- 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.

Ofwat recently consulted on developer charges in May 2024, which outlined several proposed changes, which will come into effect at the start of the new asset management period, in April 2025³.

⁴ https://www.ofwat.gov.uk/wp-content/uploads/2021/10/Charging_Rules_For_New_Connection_Services_Effective_April_2022.pdf

⁵ https://www.ofwat.gov.uk/wp-content/uploads/2021/10/Charges_Scheme_Rules_Effective_April_2022.pdf

⁶ <https://www.ofwat.gov.uk/wp-content/uploads/2021/08/August-2021-Statutory-consultation-on-changes-to-our-charging-rules.pdf>