# 2020 charging changes.

## Latest thinking and customer feedback.

Developer Services

Weds 10 July 2019

# About this deck.

This deck contains the slides presented to a focus group of developers (our ‘developer scrutiny panel’) on 10 July 2019. They summarise the feedback from our customer charging workshop on 13 June 2019, and ask for further comment on our latest thinking.

Subsequent to the meeting, we’ve added slides in each section to give an overview of the questions and comments raised by the panel.

Please remember that this slide deck was used as a basis for discussion and feedback, and so **much of the contents are proposals and may not be definite**. Please don’t hesitate to speak to us if you need any clarity - we’re here to help. You can email our customer engagement team at keyaccounts.strategicpartnering@thameswater.co.uk

# Objectives / Expected Outputs from this session

## Objectives

Share outputs from our Customer Charging Workshop on 13 June 2019 and show how these are shaping our current thinking on New Connections Charging for 2020 .

## Expected Outputs

Feedback from the panel on latest options and preferences so that they can be fine-tuned for our independent consultation in September 2019.

# Workshop Re-cap

## Who did we speak to?

The companies in attendance represented 10,797 connections out of a total 90,113 in 2018/19 – 12% of our entire connections market

40
attendees

14
developers representing 10 companies

10
engineering consultants representing 9 companies

2
representatives from Ofwat

3
NAVs representing 3 companies

10
self-lay providers representing 8 companies

1
representative from another water company

# Workshop Re-cap

## Helping us shape our independent research for the 2020 new charging rules

### Workshop context

Ofwat recently published changes in charging rules for all water and wastewater companies to follow when setting charges for connections effective from 1 April 2020.

We explained that the new rules **mean income offset and asset payments have to go away and be replaced by a credit against Infrastructure Charges**

They also require us to reflect the below principles:
**Fairness and affordability**
**Environmental protection**
**Stability and predictability**
**Transparency and customer-focused service**

### Approach

Customers attended a workshop on 13 June to help us shape our independent consultation in September.

**We discussed six key topics** and will use the insight learnt to support the research to be proportionate, timely and effective.

# Workshop Re-cap

## What were the six topics discussed

### Balance of charges

*Infrastructure credit eligibility and calculation versus previous allocation of income offset and asset payment*

### Cash flow

*When infrastructure charges and credits will be due versus previous timing of income offset and asset payment*

### Transition

*What arrangements are appropriate to transition between old and new charging?*

### App fees

*Are proposals to separate out Mains App & Design fee appropriate?*

### Zonal charges

*Should TW be considering zonal infrastructure charges?*

### Water efficiency credits

*Can charging arrangements drive water efficiency improvements?*

# Workshop Re-cap

## Headline outputs

| Consultants | Major housebuilders | Self-lay providers | NAVs |
|---|---|---|---|
| **Cash flow** - Keen to understand change so that we know how it will impact our costings | | **Cash flow** - Keen to understand change so that we can prepare our businesses commercials | |
| **Balance of charging – difficult to please all** Agree that sharing the charge is fair in principle however each want a balance of charge to suits their individual business needs | | | Thames need a NAV proposition |
| **Transition** – scenarios are needed to give effective feedback Transition could drive an influx of application pre change | | | |
| **Zonal infrastructure charges** - are not expected to change behaviour | | | |

# Refining the options

Balance of charges

Cash flow

Transition

App fees

Zonal charges

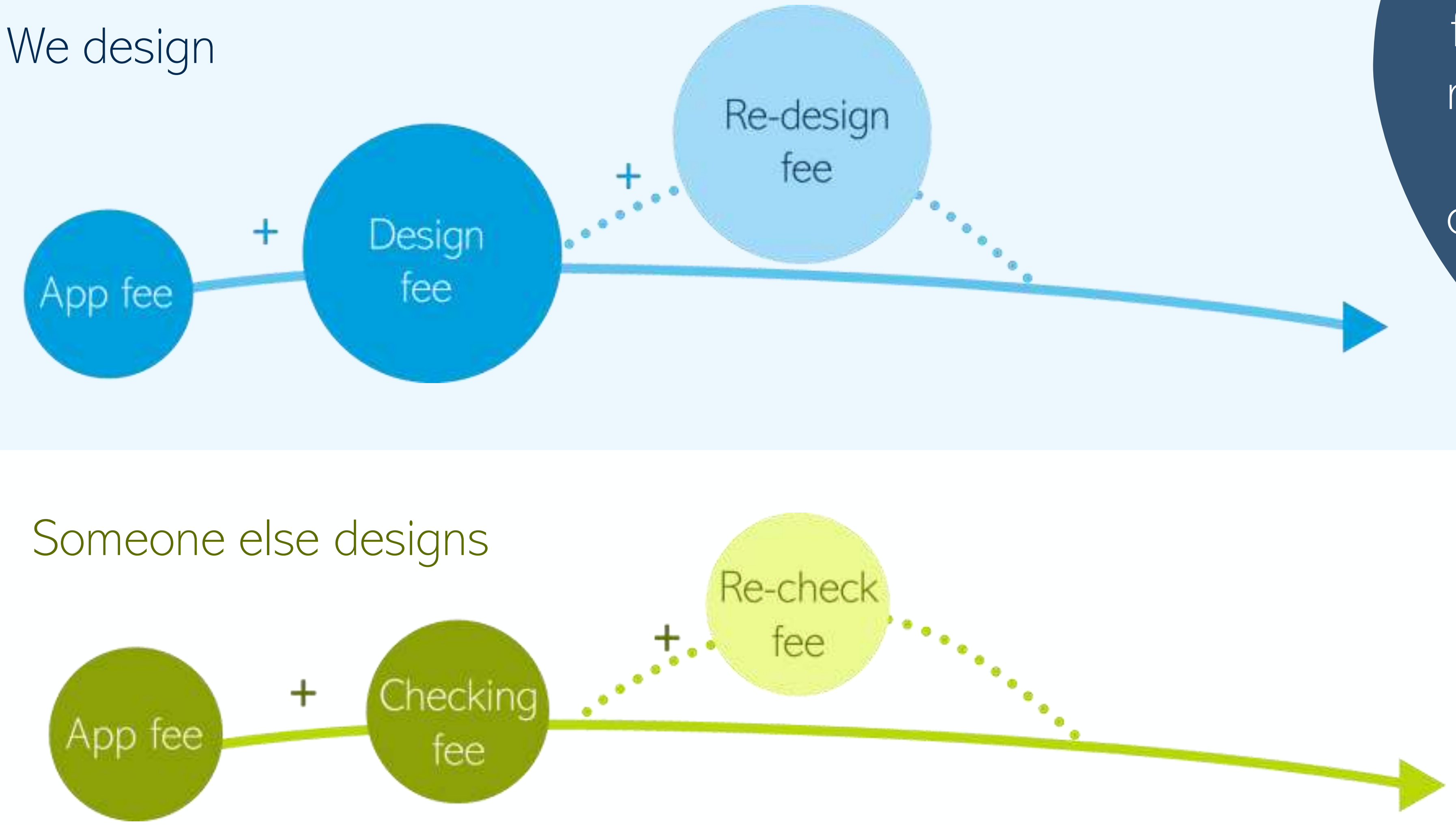
Water efficiency credits

1. Share what came out of the workshop
2. Share the current options TW are considering including preferences
3. **Group discussion / feedback from Scrutiny Panel on latest thinking**

# Mains Application & Design Fees

## App fees

# Workshop Discussion – App & Design Fee




The introduction of fees should be cost neutral if we design the main, while others could do this cheaper

Fees would be payable upfront, at the application stage

# Workshop Feedback – App Fee

| Consultants | Major housebuilders | Self-lay providers | NAVs |
|---|---|---|---|
| Fine with cost - concerned about extra admin causing a delay | | | Budget estimates in pre planning need to stop |
| Cost should reflect size of development | | Fine with cost - concerned about extra step causing a delay | |
| Would like a discount if multiple applications are submitted for the same site | | | |
| Transparency of cost is good | | Considering own design however Thames need to make **time a benefit** in this scenario | |
| Would use third party design if there is a **time benefit** | | | |
| Redesign should be called ‘**amendment**’ and the cost should be smaller than original design fee | | | |

***Key Points**: Admin needs to be slick, there should be a discount for multiple applications & “redesign” should be considered differently than “amendment”*

# Current options being considered

| Elements | Application Fee | Design Fee | Checking Fee | Re-design / Amendment Fee |
|---|---|---|---|---|
| Charging Arrangements | 1. Flat fee<br>2. Scaled | 1. Flat fee<br>2. Scaled | 1. Flat fee<br>2. Scaled | 1. Flat fee<br>2. Scaled |
| Billing | 1. Collected in advance<br>2. Part of quote | Part of Quote<br>(depending on what option they have requested on their application form) | | Collected later if applicable |

**Preference (in green) driven by…**

**Key Points from workshop**: Admin needs to be slick, there should be a discount for multiple applications & "redesign" should be considered differently than "amendment"
**Other considerations:** For redesign / amendment fee this should be a flat fee for a small amendment (to be defined) and same as design fee if major changes (also to be defined)
Checking fee should be supported by an efficient "slick" process

# Summary of panel discussion on upfront fees for mains applications

- It was clarified that the fee is not an additional charge – it's just separating the existing costs of application and design out into an upfront payment.

Points raised by panel members:

- Concern that introducing an upfront fee will delay applications. Developers rarely have a company credit card to pay on, so require a VAT invoice to pay against - their experience is that getting this can add two to three weeks on to the process. They're already seeing a similar delay today with upfront fees for service connections. The panel recommended looking at how to make the admin process as slick as possible – for example, could a VAT invoice be auto-generated on application? Alternatively, could developers deposit a 'pot' of money that Thames Water could draw fees against over the course of a year?

- The cost of checking a self-lay or NAV design should be substantially less than the design fee for Thames Water doing the design. Queried if the NAV fee might be cheaper than the self-lay fee, because there is seemingly less to check?

- There need to be clear mains design guidelines to which self-lay providers and NAVs can refer.

- Panel members supported the approach of scaling design fees, e.g. larger sites have to pay a larger sum upfront.

- Whatever the fee structure is, keep it simple so it's easy to understand and remember.

# Infrastructure Charges & Credits

Balance of charges

Cash flow

Zonal charges

3 things to consider for Infrastructure Charges & Credits

# Worksop Discussion – Balance of Charges

## What it means for Thames

- We're considering looking at the total value of income offset and asset payments made in 2017-18
- We'll divide by the number of infrastructure charge payments made
- & apply this value as a credit per infra charge going forward

## What it means for you

- Credits will be lower than current income offsets/asset payments if you are building on sites where you are laying new mains
- But… credits will be given to sites only requiring a service connection

# Workshop Feedback – Balance of Charges

| Consultants | Major housebuilders | Self-lay providers | NAVs |
|---|---|---|---|
| The credit shouldn't max out | | | The calculation should be based on more than one year's data |
| Agree with our interpretation | | | Want a consistent approach for all customer segments |
| Balance of charges will impact housing and land prices. Concerned about what Ofwat are trying to strategically achieve | | | |
| A reverse incentive for greenfield development or to build outside of London | | Replacing the asset payment with infra credits will reduce margins - Big commercial changes will need to happen | |

***Key Points**: Divided feedback*. ***Main points considered:** Agree with TW interpretation, should use more than one year, should be a consistent approach*

# Workshop Discussion – Cash Flow

**Today**

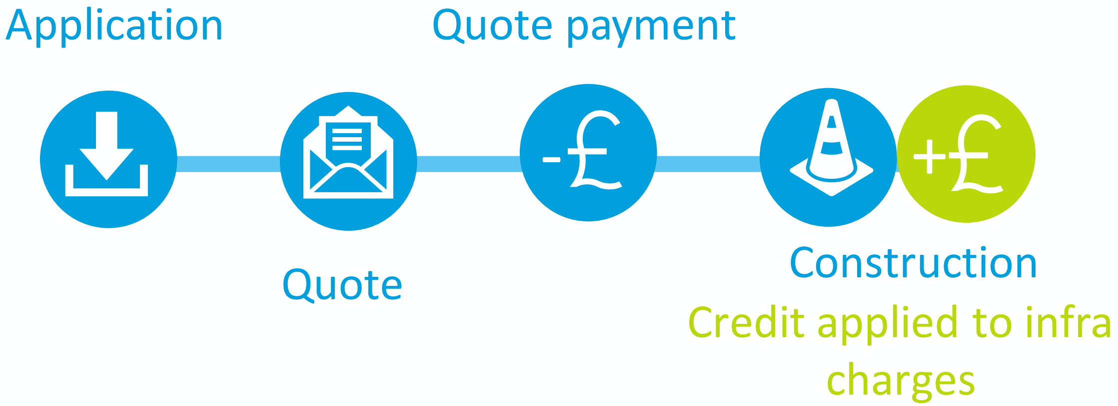
- Income offset given at the quote stage
- Option to pay infrastructure charges before or after connection


Currently income offsets are payable upfront and asset payments are payable at the point mains are vested. In future:

- Credits against infrastructure charges will be made once the connection is made
- If a developer chooses to requisition incumbent companies there will be cash flow implications
- There's an opportunity for Self-Lay Providers and NAVs to innovate and create alternative solutions

**2020:**

- Credit given after connection
- Infrastructure charge may not be able to be paid upfront



# Workshop Feedback – Cash Flow

Consultants | Major housebuilders | Self-lay providers | NAVs

**Consultants / Major housebuilders:** Keen to understand change so that we know **how it will impact overall cost**

**Self-lay providers / NAVs:** Keen to understand change so that we can **prepare our commercial changes**

**Consultants / Major housebuilders / Self-lay providers:** Upfront and combined charges with credit are favoured (lock in current prices) however we are the only water company that offers this

**Consultants / Major housebuilders:** Early certainty is more important than lower cost

**Self-lay providers:**

- Allows SLPs to be innovative with own charging. Some early considerations to become a NAV
- Extra admin for you is extra admin for us

**NAVs:**

- Want credit options of upfront and staggered payments to suit developers
- Concerned about future funding if developers lock in

***Key Points**: Certainty is critical, want flexible payment options **Other point:** developers locking in too long could impede competition (see transition)*

# Workshop Discussion – Zonal Infra Charge

Table discussion

Scaling of infrastructure charges so that zones with greater network reinforcement needs have higher prices

Homeowners would be impacted

Would this be transparent & how easy would it be for developers and customers to follow?

Would this act as an incentive for where to build?

# Workshop Feedback – Zonal Infra Charge

Consultants | Major housebuilders

- Not expected to change behaviour unless infras are set at an outrageous level – other important factors when choosing a site
- Uncertainty of this model seem to override the intent of fairness
- Some businesses are not set up to deliver growth in other areas
- Reverts back to the old way of Developers funding network reinforcement

Self-lay providers

- Not relevant as SLPs don't directly pay infras

NAVs

- If our charges are higher than NAVs this is good for competition
- Could be fixed if you own your own land
- Concerned if it's fair for homeowners

***Key Points***: *Zonal not expected to change behaviour*

# Current options being considered

| Elements | Infrastructure Charge | Infrastructure Credit |
|---|---|---|
| Charging Structure | 1. Flat fee per connection<br>2. Zonal | 1. Flat credit on all connections<br>2. Scaled credit<br>3. Credit only on larger developments |
| Billing | 1. Choice of Payment in Advance OR Payment in Arrears<br>2. Payment only in Arrears<br>3. Staggered Payments | 1. Credit applied at same time as infrastructure charge payment*<br>2. Credit always applied on connection |
| Tariff Calculation | Expected cost of network reinforcement + adjust for 5 year rolling average / expected number of connections | 1. Using total amount of income offset / asset payments made in 2017/18<br>2. Using an average amount of income offset / asset payments applied in 2-3 year period<br>3. Calculating total credit required to maintain balance of charges |

**Current preference based on feedback**:

***Key Points from Workshop:***

*Agree with TW interpretation, should use more than one year, should be a consistent approach*

*Certainty is critical, want flexible payment options*

*Zonal not expected to change behaviour*

# Summary of panel discussion on infrastructure charges and credits

Points raised by panel members:

- Concern that the example methodology shown at our charging workshop on 13 June 2019 for calculating the new ‘credit’ would unfairly penalise mains-layers. The panel felt the principle of a scaled credit against infrastructure charges seemed fairer. Panel advised that it would depend on the detail, and it was hard to comment fully without seeing further worked examples.

- The panel liked the ability to receive the credit upfront if they paid their infrastructure charges upfront.

- Panel concurred that zonal infrastructure charges would be very unlikely to influence decisions of where to develop.

- Advised that (for transparency) our current mains quote could set out the income offset more clearly, as well as our excavation costs. Highlighted that UK Power Networks break excavation charges out as a third column in their charging arrangements.

# Transition Arrangements

Transition

# Workshop Discussion - Transition

## Handling new connections under the old rules when the new rules are live

## Avoiding double payments in the changeover

- We can't offer an income offset/asset payment *and* also a credit under the 2020 model

## Length of time

- We'll need to set a length of time for the changeover period to run

## Administration and cost

- A longer transition process would increase our admin burden and make our service more expensive

We need to minimise disruption to ongoing schemes while reducing overhead and confusion

# Workshop Feedback - Transition

| Consultants | Major housebuilders | Self-lay providers | NAVs |
|---|---|---|---|

Need scenarios to give effective feedback

Need a proactive transition like 2018:
Quote under new rules and let Developer's choose
If phased work – lock in after payment
Run transition for 2-5 years

We should honour the lifecycle of the development on the original agreement

Keep transition simple

Need to develop own transition arrangements for quotes based on Thames process

IO arrangements prior to 2020 should be honoured to prevent legal challenges

Need a firm price to enable negotiation with Developers

***Key Points***: *Keep it simple but consider phased works, honour agreements & need to co-ordinate with SLP and NAV arrangements*

# Current options being considered

Amended to correct error spotted on the day

## Service Connections & Mains

| Option A | Option B | C (Additional Parameter) |
|---|---|---|
| 1. Works that are both quoted, paid for and commencing on or after 1 April 2020 – **NEW RULES** | | |
| 2. Works quoted and paid for and commencing before 1 April 2020 **– OLD RULES** | | |
| 3. Works quoted and paid for before 1 April 2020 but not commencing until after 1 April 2020<br>**CHOICE OF RULES** | 3. Works quoted for before 1st April 2020, paid for before expiry but not commencing until after 1 April 2020<br>**OLD RULES** if accepted/paid for before expiry of quote<br>**NEW RULES** if not accepted /paid before expiry and/or requote requested (fee applicable) | Works quoted for before 1st April 2020 and not commencing within 365 calendar days of acceptance - **NEW RULES**<br><br>***In addition to A&B*** |

**Current preference based on feedback**:
***Key Points from workshop***: *Keep it simple but consider phased works, honour agreements & need to co-ordinate with SLP and NAV arrangements*

# Current options being considered

## Self Lay / NAVs

| Option A | Option B | C Additional Parameter |
|---|---|---|
| 1. Works for which you enter in to a self lay or bulk supply agreement on or after 1 April 2020 – **NEW RULES** | | |
| 2. Works for which you enter in to a self lay or bulk supply agreement and work commences before 1 April 2020 – **OLD RULES** | | |
| 3. Works for which you enter in to a self lay or bulk supply agreement before 1 April 2020 but TW work commences after 1 April 2020<br>**CHOICE OF RULES** | 3. Works for which you enter in to a self lay or bulk supply agreement before 1st April 2020 and TW work not commencing until after 1 April 2020<br>**OLD RULES** | Works for which you enter in to a self lay or bulk supply agreement before 1st April 2020 and TW work not commencing within 365 calendar days of agreement<br>**NEW RULES**<br><br>***In addition to A&B*** |

**Current preference based on feedback**:

***Key Points from workshop***: *Keep it simple but consider phased works, honour agreements & need to co-ordinate with SLP and NAV arrangements*

***Other Considerations***: *Will require co-ordination with self lay / Navs in order to provide like for like quotes to developers pre April 1st*

# Summary of panel discussion on the transition between old and new charging rules.

Points raised by panel members:

- The proposed transition model seems fair. An important thing is that it is simple to understand.

- When you changed your charges in April 2018, you sent out quotes in Feb 2018 showing the price under the old rules and the new rules. This was very useful.

# Water Efficiency

Water Efficiency

# Workshop Discussion - Water Efficiency

Table discussion

We already encourage efficiency measures through visits and devices

Making a new incentive big enough to genuinely change developer designs may not be possible

This cuts across all of the charging principles:

- Fairness and affordability
- Environmental protection
- Stable and predictable charges
- Transparent and customer focused charging

Where do we strike the balance?

# Water Efficiency

| Consultants | Major housebuilders | Self-lay providers | NAVs |
|---|---|---|---|
| Incentive is too small to give a sufficient incentive<br>Only regulations can change behaviour | | No incentive to change | Anglian have a water calculation paying a per connection incentive to install shower head and fitting |
| Severn Trent have scheme – mixed views | | | |

**TW current thinking is to drive change through policy, not charges**

# Summary of panel discussion on water efficiency

Points raised by panel members:

- Panel agreed that using charges to drive water efficiency would be very unlikely to influence decisions, and it's policy that is the primary factor.

# What's next?

**13 June 2019**
Today's workshop
Your feedback on **initial proposals**

**10 July 2019**
Developer Scrutiny Panel
Update on latest thinking

**Sept 2019**
Independent consultation
Four weeks long & open to all customers

**25 Sept 2019**
Self-Lay workshop
Update on latest thinking

**30 Oct 2019**
Developer Scrutiny Panel
Update on latest thinking

**Nov 2019**
NAV workshop
Update on latest thinking

**Dec 2019**
We publish our latest plans
Published on website, explaining what we're intending to do

**1 Feb 2020**
Final charges published

**Feb 2020**
Annual Developer Day

**1 April 2020**
New charges go live

# Independent charging consultation

## Two way research

- Held in September
- Representing all large scale customer groups
  - Homebuilders
  - Consultants
  - Self-Lay providers
  - NAVs
- Format
  - Sign up – late July
  - Pre-read – September
  - Phone call or email research – September

## Open published document

- Hosted on our website and open to all customers – September
- Results collated independently

1. Can we sign your company up?
2. Who is best to participate? (which job role)

# Summary of panel discussion on consultation.

- Panel were supportive of providing a contact who'd be willing to participate in the research

# Thank you.