PR24 Data Table Commentary

Section 8. Developer services

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2. DS1e – Developer services revenue (English companies)

We have completed this data table using Ofwat's guidance as we believe is the best fit, aligning revenues and costs where relevant to the type of activity the line definitions relate to. However, we stress that when using the data from the table, readers may need to recognise the limitations in how Ofwat has structured this data table. We have concerns that where a revenue type is 'inside' a price control for AMP7 but 'outside' a price control for AMP8, due to decisions Ofwat has made in how it regulates Developer Services, these entries appear on the same line over the AMP7 into AMP8 period. With that in mind, please find our table commentary for specific lines below.

AMP7 forecast for final 2 years

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AMP8 – 2025-26 – 2029-30

Growth

Our AMP8 forecast revenue data is based on actual revenue numbers published in the company APR from FY18 to FY23 to provide an accurate forecast of average annual future revenues. Our forecasts are based on flat growth rate of 2% and do not include possible peaks and troughs in any given year. The new property forecasts used in our modelling (DS4) are based on Developer Services forecasts which have proven more reliable for Developer Services in AMP7 than the models based on values produced by the ONS on household projections (not aligned to new houses constructed) used in the wider programme when looking at demand.

Water Forecasts

The majority of water revenue lines in Table DS1e (including **DS1e.1, DS1e.2, DS1e.3**) are difficult to forecast with any certainty due to their unique profiles based on specific diversion jobs which are raised in a particular year. As such these revenues are based on a weighted average FY18-FY23 APR revenue and calculated using property forecasts set out in Table DS4 to apply a proportionality. The weighted average revenue from FY18 to FY23 is based on revenues reported in the company APR Table 2E and inflated for each year by CPIH to get to FY23 prices.

DS1e.4 infrastructure charge revenue (AMP8) has been forecast using a model that is used to build annual regulated charges. Our modelling uses forecast properties (**DS4**) and the revenue earned will comply with the in-year regulated charging rules throughout AMP8. Our revenue forecast assumes we will increase the total value of infrastructure charges (water, foul and surface water drainage) each year to recover revenue required for capital reinforcement work (**DS2e.1**).

DS1e.7 The income offset for legacy mains schemes prior to FY19 has been forecast by scheme code; there are four remaining schemes which will be completed by April 2025.

DS1e.9is the value from infrastructure charges that will be funding the water environmental incentives applied to developer customers and matches APR Table 2K. The incentive is earned by customers who can demonstrate per capita usage for new developments below 110 l/p/d. This attracts a 20% reduction in water infrastructure charges (IC) for the connected property, which for FY23 is set at £80 per property connected – representing a £16 discount/property at FY23 over 595 properties.

The line **DSe.11** AMP8 line for 'New Connections charges' revenue has been calculated from a bottom-up calculation and reflects the average cost to serve for a new connection job at FY23 prices (£600). The assumption for this number is that ferrule only jobs, which are the main volume of connections, range in price from £386 for the most common 25-32mm connection up to £415 for connections made to blocks of flats.

The average cost of the majority of annual connections has three components - an Application Fee at £155, a Checklist Fee at £20 and a Construction charge at £327. **Total = £502**. The annual population of jobs falls into this price bracket however there are more expensive construction options for larger diameter and barrier pipes which would increase an individual job cost and the FY23 average price per job has been estimated at £600. Our FY23 charges can be found in our Developer Services published charges.

The modelling for line **DS1e.12** uses historically weighted average unit revenues, (by property) and AMP8 property forecasts from Table **DS4** to forecast future revenues. The decline in revenues through AMP8 reflects our predictions for the increasing share of the market served by competitive market participants – i.e. we forecast mains laying activity will be further served by self-lay providers and New Appointment and Variations organisations (NAVs) and will reduce the revenue we earn in future.

For line **DS1e.13** – Other developer services, we have ascribed no related activities and zero forecast revenues for the AMP8 period.

Waste Forecasts

The AMP8 lines for waste revenue **DS1e.16, DS1e.17, DS1e.19** reflect the average cost of diversions services delivered, weighted to FY23 prices.

Line **DS1e.19** is waste revenue we are forecasting from sewer adoptions where we recover 2.5% of the construction costs of applicable schemes for the costs of processing the application and carrying out the technical assessment of the design proposal.

The revenue collected as a 2.5% contribution for S104 sewer adoption schemes in DSe.19 is a regulated charge and is published in our new connection charging arrangements.

Line **DS1e.18** waste infrastructure charge revenue has been built by its own model (used to build annual regulated charges) and reflects forecast properties (**DS4**) and revenue expected to be earned which will comply with the in-year charging rules for regulated charges during AMP8.

The AMP8 lines for waste revenue **DS1e.25 and DS1e.26** reflect the average cost of waste requisitions and diversions at FY23 prices. Waste requisitions are large-bespoke schemes and the AMP8 revenue uses the profile of historical unit revenue (FY18-FY23) and future revenue based in forecast properties in Table **DS4**. The requisition revenue profile is based on expected increase in NAV activity during AMP8 which will reduce our revenue.

The minor waste diversion price of £375 has been verified to FY23 developer charges and applied as the base charge for AMP8 compared to the FY23 charge (£347) and FY24 charge (£379). The AMP8 base price (£375) reduced from FY24 to FY23 prices has been agreed upon as a management decision.

The differences between revenue and costs in the tables DS1e and DS2e are due to timing differences where revenue is collected. Costs are incurred in different financial years depending on the build out rates for new developments. This is typical for large new water mains schemes which can have a phased construction programme that lasts several years.

3. DS2e - Developer services expenditure (excluding diversions) - water (English companies)

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AMP8 – 2025-26 – 2029-30

Our AMP8 forecast costs in table DS2e (excluding infrastructure spend) are based on actual expenditure related to our internal operations and partner construction costs. The revenue for these costs is generated from our detailed published charges.

Our cost forecasts use published APR costs from FY18 to FY23 as an accurate forecast for future expenditure. The confidence grade for our forecasts is B3 (excluding infrastructure spend D2). Our forecasts are built using growth forecasts applied to numbers of new properties in Table DS4. They have been built with a flat growth profile of 2% per annum.

We do not account for plan peaks and troughs in new properties and costs during AMP8 and there are no year-on-year material variations.

DS2e.1 Infrastructure network reinforcement .
AMP8 costs are based on known network reinforcement/growth schemes and a reactive block allocation for unknown growth which may emerge in AMP8. This block is based on historic expenditure.

DS2e.2 Asset payments associated with legacy agreements
The Asset value payments have been forecast on a by scheme code to be paid before the end of AMP7 at £2m per annum with a residual balance in Year 1 of AMP8 £377k.

DS2e.3-7 Cost of connections activities with and without new mains
The forecasts % splits of costs to build new connections and mains schemes in AMP8 have been based on prior year actuals using the number of properties forecast in Table DS4 where total cost is based on a multiplication of the average cost per property and total number of properties forecast and use numbers from Table CW1. Our forecast reflects the trend for greater market share increase by NAV's compared to us as the incumbent (DS4).

4. DS3 - Developer services expenditure (excluding diversions) - wastewater (English and Welsh companies)

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AMP8 – 2025-26 – 2029-30

Our AMP8 forecast costs in table DS3 (excluding infrastructure spend) are based on actual expenditure from the Annual Performance Report 2018 to 2023. The costs were incurred from the activities delivered from the payment of charges which can be found in our published Developer Services charges. This has given us a confidence grade of B3 (excluding infrastructure spend D2).

We do not account for plan peaks and troughs in new properties and costs during AMP8 and there are no year-on-year material variations.

5. DS3.1 Infrastructure network reinforcement

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Line DS3.2 has a nil value as there are no Opex infrastructure network reinforcement costs.

DS3.3-3.5

Developer services expenditure for AMP8 has been based on forward forecasts of costs reported in the APR in Table 4O lines 1-6 for the periods FY21 to FY23. The costs have been inflated to FY23 prices. Cost lines match to table CWW1 and CWW1a.

The forecast costs for the items in the Table for FY25 to FY30 (AMP8) are based on the number of properties forecast in Table DS4 where total cost is based on a multiplication of

the average cost per property and total number of properties forecast by individual year in AMP8. Expenditure related the sewer requisitions declines as more of the market is expected to be taken by NAVs.

There are no costs reported in line DS3.5 as we do not deliver any other Capex site specific services.

DS3.7-3.9

There are no costs reported in lines DS3.7-DS3.9 as we do not deliver any activities that generate Opex costs.

6. DS4 - Developer services - New connections, properties and mains

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AMP8 – 2025-26 – 2029-30

Assumptions. Our AMP8 new connection and property growth forecasts in Table **DS4** use a linear 2% per annum increase. Our 2% cumulative growth forecast is based on Developer Services knowledge and the following assumptions:

- 2% growth is based on our most recent stable years property growth. The years have been FY20->FY23 when growth was 3%
- previous average growth FY18->FY20 was 4%
- for FY24 onwards our growth has been downgraded to 2% to reflect government legislation and lower growth forecasts due to the economy and feedback from stakeholder engagement.

We have not used projections or forecasts sourced from third parties, such as the ONS, as we have found these to be unreliable in the past or inappropriate for such use for what they represent.

Year on Year Variations. There are no year-on-year variations in growth built into Table **DS4** as it is difficult to forecast annual variations due to unknown future economic conditions.

State of Competition. We are forecasting growth in the market shares of self-lay providers (SLPs) and new appointees (NAVs) in water connections and properties for the reasons documented below.

- NAV solutions are becoming more attractive to developers as a 'one stop shop' for all scheme infrastructure and they also offer asset value payments.
- A NAV's wider organisation may have the capability and licence in place to adopt and operate gas and electricity assets in the role of an Independent Network Operator (IDNO) and/or Independent Gas Transporter (IGT). This may enable the NAV able to offer a multi-utility solution to developers which may be more commercially attractive than using the services of a water incumbent.

7. DS4 Waste Commentary – from guidance

Assumptions. Our growth includes a 2% cumulative increase in new connections and properties per annum. Our forecasts are based on Developer Services knowledge rather than ONS data or local authority forecasts (WRMP) used for PR24 growth used elsewhere in the programme. We have found third party projections to be unreliable in the past or inappropriate for such use against what they represent.

Year on Year Variations. There are no year-on-year variations in our growth due to the difficulties in forecasting the impact of future economic conditions.

State of Competition. We also are forecasting growth in waste NAV market share in AMP8 for similar reasons as the water market. However we are expecting less NAV uptake in the waste market, compared to water, as solutions are less attractive due to cost and risk and are more likely to stay with us as the preferred route.

8. DS5 Network reinforcement costs

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AMP8 – 2025-26 – 2029-30

The total pound(£) value included on DS5 is generated from two sources; known large developments planned at Maltkiln and Howden, plus an allowance for network reinforcement due to new connections expected in SUP1A.

Where the details of the scheme are known these costs have been allocated to pumping and storage vs foul and combined, for example Maltkiln is a new Sewage Pumping Station (SPS) and rising main solution, whereas Howden is an online storage and sewer upsize solution.

The general connections allowance has been allocated to foul and combined as per historic data. Year on year changes are based on expectations of the construction timescales of these schemes.

9. DS6 Network Reinforcement drivers – potable mains, sewers, pumping stations and pumping capacity

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AMP8 – 2025-26 – 2029-30

DS6 is not currently included in the APR. But companies were asked to provide historical outturn data requested in DS6 as part of the network reinforcement May 2022 data request.

Line DS6.1 Length of new potable mains laid
We have applied a proportional allocation.

Line DS6.2 Length of new potable mains laid
We have applied a full allocation.

AMP7 forecast for final 2 years

Based on forecast data in PR24 Data table CW6.4 Total length of new potable water mains. The split is based on proportional % of previous year.

Line DS6.3 Length of potable mains upsized - proportional allocation
Line DS6.4 Length of potable mains upsized - full allocation
None

Lines DS6.5 to DS6.8 - Sewer
New total sewer length listed in DS6 is taken from the year on year difference of data in CWW6.21, no historic data was available from the developer services team to determine the split of this data between required categories, as such lengths have been allocated based on clean water mains proportion.

Lines DS6.15 to DS6.19
Typically, we adopt 17 new SPS from developers each year at a total capacity circa 80kW. These historic adoptions figure have been rolled forward during the AMP8 period, with the known exception of Maltkiln development in 2029/30 which add a further 3 SPS. This figure varies from CWW6.3 & CWW6.4 due to table guidance, there were no appropriate section within DS6 to include the 2 SPS (20kW) to sewer out East & West Grinton to Reeth Sewage Treatment Works (STW) as part of U_IMP7 obligation. These are listed in CWW6 numbers but not in DS6 as stated above as they do not fit within the table guidance.

Line DS6.9 New potable water pumping stations built - proportional allocation
Line DS6.10 New potable water pumping stations built - full allocation

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1 new pumping station planned for construction, Hainworth (12kW) to maintain service.

AMP8 Year 5
In year 5 of AMP8, 2 pumping stations are planned for decommissioning, Springhill (12kW) & Stepney Road (6Kw) and replaced with 1 new pumping station Springhill No2 13.5kW (4.5kW) to maintain service.

Line DS6.11 Existing potable water pumping stations upsized - proportional allocation
Line DS6.12 Existing potable water pumping stations upsized - full allocation
None

Line DS6.13 Additional potable water pumping capacity installed - proportional allocation
Line DS6.14 Additional potable water pumping capacity installed - full allocation

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1 new pumping station planned for construction, Hainworth (12kW) to maintain service.

AMP8 Year 5

In year 5 of AMP8, 2 pumping stations are planned for decommissioning, Springhill (12kW) & Stepney Road (6Kw) and replaced with 1 new pumping station Springhill No2 13.5kW (4.5kW) to maintain service. **Zero** entered in this line as no additional capacity.