

UUW54

Developer Services Business Plan

October 2023

Chapter 8 supplementary document

This document demonstrates how United Utilities' approach to offering developer services meets the expectations of developers, whilst encouraging sustainable development and supporting the progress and operation of effective markets.

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1. Developer Services

1.1 Key messages

- **Easy to do business with:** Tailored experiences for developer customers and their supply chain utilising digital platforms supported by individual customer case management.
- **Supporting growth:** United Utilities understands the need for development within the region and what needs to be done to support growth through the delivery of industry leading developer services.
- **Best value services and choice for developer customers:** Delivered through a cost reflective and transparent charging approach.
- **Delivering incentives for sustainable development:** We support initiatives to deliver sustainable homes by incentivising developers to build homes that use less water and effectively manage surface water.
- **Competing fairly and engaging positively:** We offer effective support of the development and operation of developer services markets and take our responsibilities seriously.
- **Avoiding unwelcome bill volatility:** Non-section 185 diversions should be excluded from the price controls as the proposed inclusion has the potential to create unwelcome customer bill volatility.

1.2 Structure

- 1.2.1 The purpose of this document is to demonstrate UUW's approach to offering developer services in the context of providing best value and cost reflective services to developers. We want to offer developers, builders and their supply chain choice whilst encouraging sustainable development.
- **Section 2** introduces the construction market within the North West, providing regional insight into growth through new development, forecasting new connections and setting charges.
 - Details on the UUW approach to setting charges, incentivising sustainable development, its contracts and how United Utilities recovers costs is explained in **Section 3**.
 - **Section 4** provides detail of our engagement with different types of customer, how UUW seek to continuously improve its customer offering through feedback and providing choice and its track record whilst operating within a competitive market.
 - **Section 5** describes how growth is facilitated through supporting national objectives to deliver new infrastructure for transport and cleaner energy. In addition this section highlights significant issues with the proposed approach to the treatment of non-section 185 diversions and our view that they should continue to be dealt with outside the price control, in line with the approach at PR19.

2. Development in the North West

2.1 Introduction

2.1.1 This section sets out the context within which United Utilities Water developer services business operates. It describes the construction industry within the North West, providing regional insight into growth through new development, forecasting new connections and confidence in our assumed costs, our charges and recovery.

2.2 Supporting the North West construction industry

2.2.1 The North West has a diverse geography from densely populated urban centres such as Manchester Liverpool and Preston as well as rural areas in places including Cumbria, Lancashire, the Pennines and Cheshire. All of these areas have high demand for new homes from registered providers (social housing), the private rental sector and mortgageable properties.

2.2.2 New homes and properties are provided by a range of organisations from FTSE 100 companies such as Barratt Developments, Persimmon and Taylor Wimpey, large, locally based home builders such as Story Homes and Wain Homes through to a range of smaller builders. General construction also continues to contribute to the North West with construction companies developing commercial and industrial premises as well as high density residential developments, usually in city centres.

2.2.3 United Utilities' role across developer services is complex in that there is a need to focus on ensuring good quality assets are constructed, providing a quality service, supporting the development of effective markets and providing a service in competition with alternative providers. U UW is conscious of all of these factors in Developer Services activity alongside other obligations that arise because of its role as an Appointee under the Water Industry Act and broader requirements such as compliance with competition law.

2.2.4 U UW has been successful in balancing all of these factors, having a positive relationship with developers, Self-Lay Providers (SLP) and New Appointments or Variations (NAVs). The North West has a highly successful, well established competitive market for developer services where SLPs operate and successfully compete. We have taken positive steps over many years to support an effective self-lay market and the North West shows consistently high levels of SLP activity, as well as a rapidly growing and maturing NAV market in the region.

2.2.5 Developers within the U UW region have choice as to who builds their water and wastewater infrastructure. This is now being complemented by the emergence of NAVs providing developers with further choice in respect of asset adoption. Following Ofwat's Review of Incumbent Support for Effective Markets (Project RISE), a number of internal actions were identified to continue our strong support for SLPs and the NAV market. These actions and support provided to the development and operation of effective markets are detailed within Section 4 - Competitive markets.

2.2.6 United Utilities continues to focus on improving the service provided to developers, SLPs and NAVs by utilising innovative technology and embracing a continuous improvement culture. Working to offer rapid, but right first time, services, provide clear and consistent advice and guidance to customers as well as giving customer's choice. Our goal is to be the top-performing water company within the D-MeX rankings.

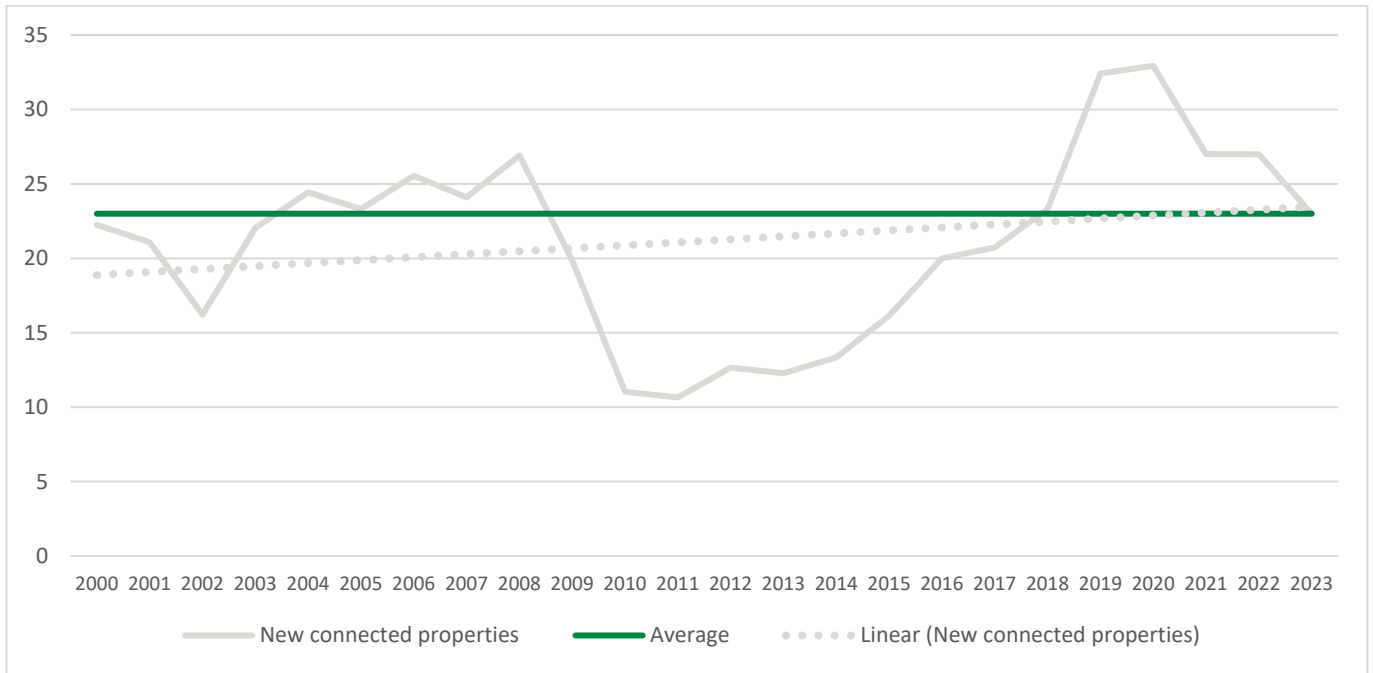
2.3 Connection volumes (new connected properties)

2.3.1 The rate at which new properties were connected within the North West increased by over 50 per cent since the beginning of AMP6 from around 16,000 to a peak of 33,000 in FY20. In recent years, economic factors such as the impact of Covid, Brexit and the cost of living crisis appears to have reduced the rate

of connection, with connections reaching roughly 27,000 properties in FY21 and FY22 and 23,000 in FY23.

2.3.2 New connected properties is one of the key indicators for forecasting and understanding developer activity. Previous year’s trends highlight where wider economic challenges have impacted the development industry. Figure 1 below shows three trends including the impacts of the financial crisis of 2008/09 followed by a the 10 year recovery of the development sector, which was in part driven by government ambitions of producing 300,000 new homes per year nationally. New connected properties have returned to just above the historic average of 23,000. We expect new connected property volumes to recover by the middle of AMP8 before stabilising in line with historical trends and economic recovery.

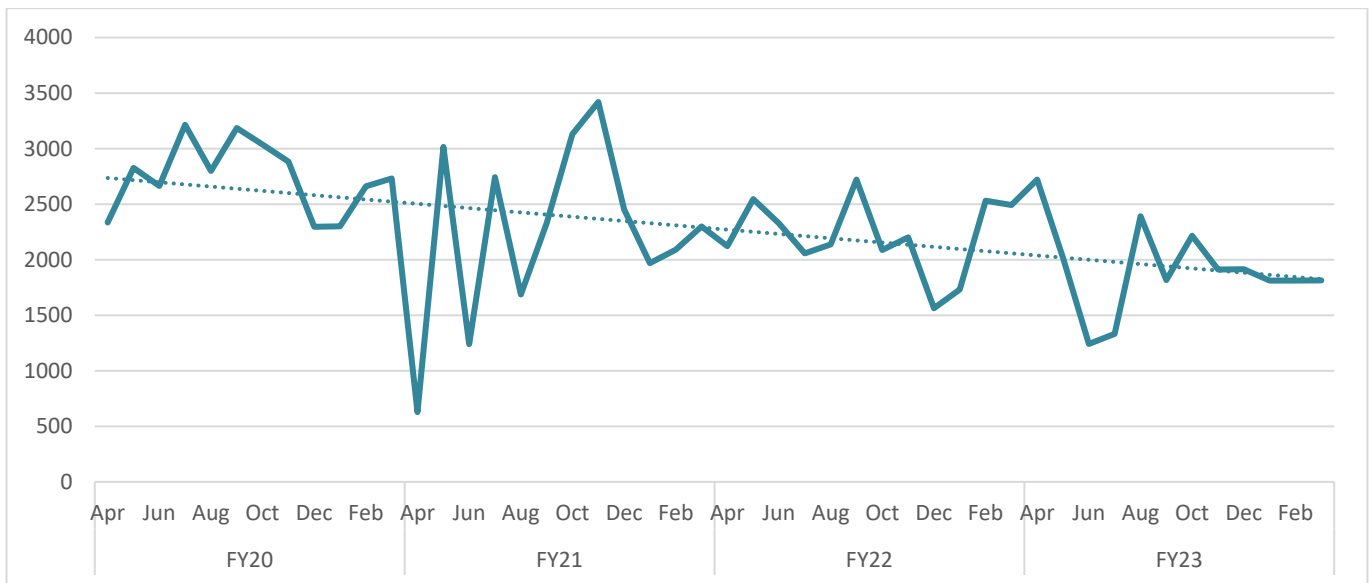
Figure 1: New connected properties per year 2000 – 2023 with average and trend line



Source: Data from APR data table 4Q ‘Developer services - New connections, properties and mains’

2.3.3 Figure 2 below shows the variable month on month volumes within the North West which have appeared to fluctuate further since the Covid 19 pandemic. Developers have informed us that other factors including Brexit (affecting the availability of materials), the removal of the Government’s help to buy scheme as well as the cost of living crisis have affected new home completions.

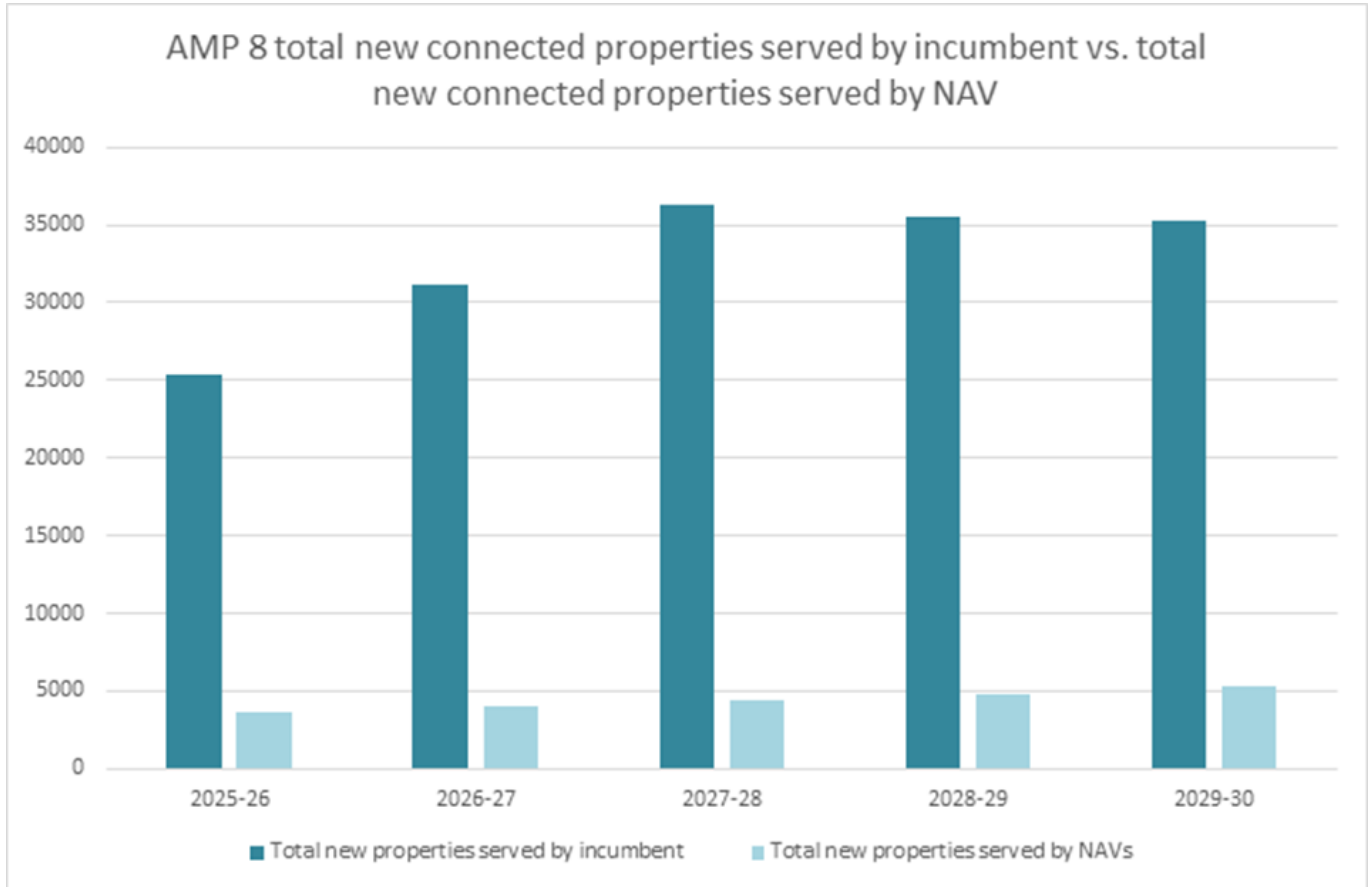
Figure 2: New connected properties FY20, FY21, FY22 and FY23



Source: Data used for APR data table 4Q ‘Developer services - New connections, properties and mains’ submissions.

- 2.3.4 It is important for United Utilities to understand the short, medium and long term ability and ambitions of developers to deliver new homes. This is undertaken by engaging with developers to understand their annual targets and forecasts, engaging with land agents to understand the supply of land for both residential and commercial use. Additionally proactive engagement is carried out within the planning process to identify allocated sites that form part of local authority plans and any ‘windfall’ sites that developers may obtain outside of their more strategic purchase agreements.
- 2.3.5 The forecast for the number of new properties is based on the assumption that the current economic climate will sustain for the next 2 years meaning minimal change within the housing sector. It is also assumed that home building will increase in line with economic recovery into AMP8 with profiles set against this forecast. The total volume of new residential connections is aligned with overall WRMP forecast volume. Given the forecast population increase and government ambitions for house building it is expected that the number of connections will return to the long term trend of increasing levels over time. Adjustments have been made for forecasting year on year connected property volumes and also increasing NAV activity at the assumed rate of growth of 10 per cent year on year as shown in Figure 3 below.

Figure 3: AMP8 total new connected properties served by incumbent vs. total new connected properties served by NAV



Source: PR24 Data table submission DS4.

2.3.6 Developer services charging arrangements are set prospectively based upon volume forecasts informed by previous year activity, mix of work types, volumes and developer engagement. These forecasts remain sensitive to wider economic factors that inform commercial decisions taken by developers.

3. Developer charges and cost recovery

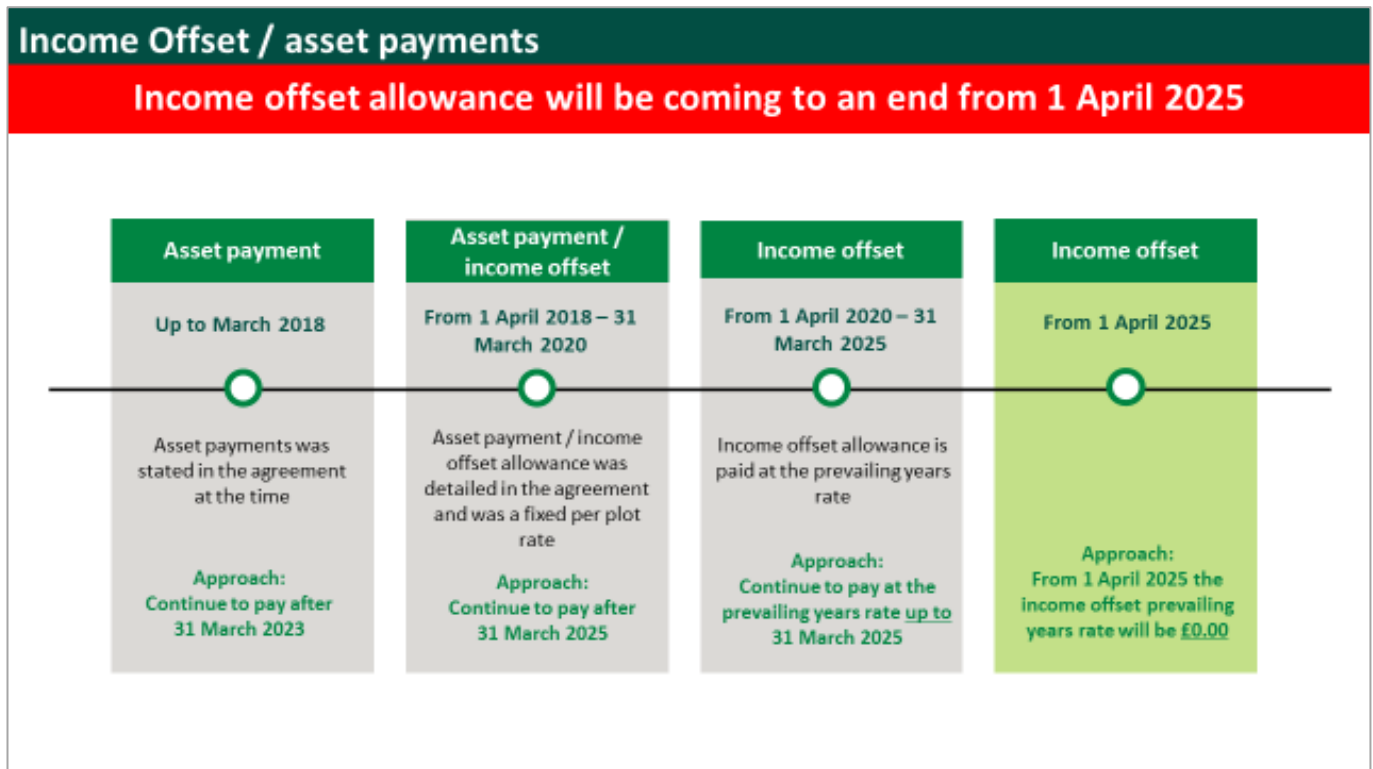
This section details our approach to setting charges, incentivising sustainable development, our contracts and how we recover costs.

3.1 Setting charges

- 3.1.1 In 2022 United Utilities extended our current developer services contract and took the opportunity to incorporate changes to improve cost granularity. At this time the majority of these cost reflective charges were transitioned into our 2023/24 charges scheme. By AMP8 they will all have been transitioned to aid with better cost recovery. Significant investment has been made into new systems to provide better data on our quoting processes to ensure full cost reflectivity by the end of AMP7. These changes will ensure that United Utilities is well positioned for the proposed changes to the developer service price control model.
- 3.1.2 Our developer services charges scheme includes charges for all activities that are carried out by developer services and ensures that charges can be levied at the correct time to better support total cost recovery. Charges are prepared in line with Ofwat's charging rules and principles, which include fairness and affordability, transparency and customer focussed service, stability and predictability and environmental protection. A new principle was introduced in 2021 on 'cost of relevant service' and applied to charges for FY23.
- 3.1.3 Our charges scheme is developed with external stakeholder engagement through events such as our annual charges forum, charges focus panels and technical forums. These events provide the opportunity to discuss charging issues, gain feedback and signal change. This engagement has been particularly important to support changes to charging rules and principles, Further details of our engagement approach can be found in Section 4.2 We continue to receive good attendance and feedback from the development community at these events.
- 3.1.4 Following Ofwat's consultation on the scope and balance of developer charges and incentives¹ in April 2021, United Utilities began engagement with developers and SLPs on the potential impacts of this and the removal of the ability to pay income offset. Developers have previously stated that their preference is for stable and predictable charging arrangements and the importance of plenty of notice of any significant change. It was in the spirit of stability, predictability and transparency that discussion was begun on the potential removal of income offset to spread awareness and allow them to build this risk into their plans. Once removal of the income offset was signposted in Ofwat's PR24 draft methodology United Utilities started informing developers and SLPs of our intended approach. Figure 4 below is a slide extract from our 2022 developer day shared with all stakeholders and is being included in all stakeholder events.

¹ ofwat.gov.uk/consultation/a-consultation-on-the-scope-and-balance-of-developer-charges-and-incentives/

Figure 4: Approach to the removal of income offset (stakeholder presentation)



Source: Slide produced for our 2022 Developer Day and subsequent stakeholder engagement sessions.

- 3.1.5 In our annual charges forum held in January 2023 customers were reminded about the removal of income offset as well as changes to our charges for the coming year. In order to understand if the messages had landed, the group were surveyed and 90 per cent of the people attending answered yes to the question: “Do you understand how your developments will be affected by the removal of income offset and when this will happen?”. An open question and answer session was held using both an interactive mobile application and taking direct questions to help customers with any further queries. It is expected that the removal of income offset will have a significant financial impact for developers, and this impact will vary greatly dependent on the scope and scale of the development.
- 3.1.6 At the end of this session, feedback was requested on our approach to communicating charges with customers. Comments received (via a mobile app) included:
- “Plenty of notice for changes and adjustments”
 - “Great approach – open room and informative”
 - “Well delivered”
 - “Invaluable – a lot clearer than other water companies with regards to not confusing Income offset with environmental incentives”
 - “Better than other water companies”
 - “Upfront and honest”
 - “Informative and helpful”
 - “Sessions are very useful”
 - “Always plenty of communication when changes occur”
 - “Good to have posted charges prior to 1st Feb”
 - “Helpful and engaging”

3.2 Environmental incentives

- 3.2.1 United Utilities has been offering environmental incentives since 2018 and welcome the coordination of such incentives across the industry. Our existing incentive scheme encourages developers to build homes that consume less than 100 litres per person per day (lpppd), surpassing the optional standard in Part G of the building regulations. By raising the bar and encouraging further innovation in water-efficient fixtures and fittings, the aim is to foster continuous improvement in water consumption reductions within new homes.
- 3.2.2 Furthermore, we have been offering wastewater incentives to developers who choose not to connect surface water to existing public sewers. This is particularly relevant for many new developments, especially larger ones, and it aligns with our commitment to sustainable drainage systems. Additionally, United Utilities has an incentive offering for non-household customers, allowing them to benefit from reduced bills by incorporating sustainable drainage systems on their sites to manage surface water effectively.
- 3.2.3 Our experience with incentives in AMP7 began with a water efficiency target that properties are built to use a potential consumption of 110 lpppd, in line with the optional building regulation standard. Initially, the uptake was slow, but through continued promotion at stakeholder engagement events with developers and SLPs uptake has increased. By 2020, approximately 17 per cent of new connected plots had benefited from the scheme. To encourage greater innovation in water efficiency the threshold was lowered to 100 lpppd. Between FY18 and FY23, 27.5 per cent of plots have cumulatively benefited from the incentive.
- 3.2.4 Initially, it was anticipated that compliance would be managed through building control, but it was realised that building control bodies were not assessing information related to Part G of the building regulations. Consequently, an inspection regime was devised to establish whether the correct fixtures and fittings were included in new plots benefiting from the reduced infrastructure charge. Through inspections, it was found that in several cases, incorrect fixtures and fittings were being installed, and key items like flow regulators were omitted from taps.
- 3.2.5 Over several months, United Utilities engaged with developers to understand why the compliance rate was low. Developers informed us that they relied on contracted plumbers and suppliers to provide and fit the correct products. It was emphasised to developers, both verbally and in writing, that it is their responsibility to ensure each new plot accepted onto the incentive scheme complies with the requirements. It was also agreed that if alternative fixtures and fittings were used, United Utilities would not submit a failed audit notice, as long as the products achieved the correct flow rates.
- 3.2.6 As the compliance rate remained lower than desired, all developers benefiting from the incentive were informed that a two-strike approach would be adopted for future audits. Any new plots across any of their developments failing the audits would be suspended from applying for future incentives for 12 months.
- 3.2.7 After each audit, a written report and photographic evidence is provided to the developer and there is an opportunity to discuss any elements of the report as appropriate.
- 3.2.8 As United Utilities seeks to improve our scheme, the plan is to streamline the processes and utilise technology to shift the burden of proof to the developer. This will be achieved by requiring evidence for each plot through a video technology system.
- 3.2.9 Currently, United Utilities is developing improvements to our incentive scheme to influence developer behaviour towards building more sustainable homes. Developers interested in going beyond our current incentive scheme requirements have been engaged to help inform it of the type of technology they may be willing to incorporate into new homes, including flow limiters, water butts, and property level SuDS (e.g., rain gardens, raised planters, and permeable paving). Developers have identified the main incentives for them as:

- (1) Neutral cost.

(2) Contribution of maintenance cost to their customers.

(3) Recognition.

- 3.2.10 Large developers in our region have stated that they do not currently consider rainwater harvesting or grey water reuse as a viable option in the homebuilding market. They believe it places a maintenance burden on new homeowners and lacks significant financial incentives to the customer, with payback periods exceeding five years.
- 3.2.11 However, it is our intention to develop an environmental incentive offering that includes these elements to potentially encourage some developers to adopt more reuse technology. United Utilities is exploring opportunities for offsetting against existing housing stock within the new development locality or linked to the new development through customers buying new homes and vacating existing homes. This may also present an opportunity to encourage free meter options before customers move out of their old properties.

3.3 Developer services contract

- 3.3.1 In 2022, United Utilities had the opportunity to extend our developer services contract with a current provider. This contract primarily covers site specific developer services inclusive of new mains and connections to the network. It is our intention to go through a full retender process for the provision of developer services activity in AMP8. Some of the feedback received from Ofwat following the review of incumbent support for effective markets (project RISE) has informed our extended contract design and future tender.
- 3.3.2 The design of the contract extension included the ability to obtain additional information on cost drivers, such as geography, geology, topography, contamination, site type (Brownfield/Greenfield), population density, labour, materials, and traffic management. This helps understand the levels of cost and flexibility within the contract as well as identify opportunities for efficiencies. A benchmark clause was included to enable United Utilities at any point to commission a third-party review of rates against the market. With the ability to request adjustment if required to ensure the service benefits from competitive costs, a revised set of KPIs was included with pain/gain and potential annual deductions of up to £150,000. These KPIs incentivise both efficiency and performance.
- 3.3.3 A new operating model was included with our contractor to review all quotes, which provides reduced risk and cost certainty for us and customers. The risk of unexpected costs was reduced by redefining working hours and out-of-hours options, plus reduced options for cost variation on a per item basis.
- 3.3.4 Finally, the rates were reviewed to improve the granularity of charging. This included separating out a charge for two way lights. The cost of this activity was previously included as part of the connection rate. This ensures a more cost-effective contract that can be replicated within our developer service charges.
- 3.3.5 The developer services contract will be tendered with an expectation that the contract will be in place by 2025 and the provisions outlined above will be carried through into the future contract.

3.4 Cost recovery and operation outside of price controls

- 3.4.1 Effective cost recovery encompasses various aspects of our activities, including the application of developer services charges, contractor management, billing and reconciliation as well as contracting performance. It also involves managing developer services costs and overhead. Incumbent water companies are obligated to act as the provision of last resort, providing connections to developers upon request, and cannot refuse these services. As a result, the distribution of work between the water company and SLPs can vary significantly and is often impacted by the size of development sites.
- 3.4.2 In our experience, SLPs tend to compete for larger development sites that require substantial main laying activity. In FY23, SLPs laid 90 per cent of the new mains constructed in the North West. The

average length of a new main laid per property by SLPs was 9m, while for UUW, it was 2m. Both SLPs and contractors favour high-volume on-site main laying activity compared to small volume and offsite works at least in part due to the higher risks associated with working within the highway. These risks will be reflected in our contract costs, as the profile of activity UU undertakes materially differs from that undertaken by most SLPs which tend to focus on the most advantageous developments.

- 3.4.3 The majority of large SLPs offer a multi-utility service, including electricity, gas, telecommunications, and water. Thus, it becomes mutually beneficial for the SLP and the developer to combine these activities and achieve cost savings.
- 3.4.4 Developer services costs can also be influenced by broader regulatory requirements, such as administrative duties that involve facilitating new connections (whether contestable or non-contestable connection works), processing information like new meter details and legal agreements, publication of charging documents, regulatory reporting, and compliance.
- 3.4.5 Given the competitive nature of this market, United Utilities must acknowledge our position and understand the increased costs of operation to provide these services while striving for operational efficiencies, such as leveraging technology.
- 3.4.6 100 per cent cost recovery is difficult to achieve within each financial year and needs consideration when operating outside of the price controls. We must assume that in any given year there will be an element of either over or under recovery of costs. This will be due to factors such as; debt, volumes and mix of work, broader operational costs i.e. employee remuneration, unrecoverable construction costs due to asset location or damage, contingency planning to maintain supply, quote validity periods and construction activity spanning multiple charging years and contract periods.
- 3.4.7 Developer services charges remain sensitive to wider economic factors and in order to maintain stability in charges an allowable margin will be calculated and applied that is fair and transparent. This will ensure that factors affecting costs can be managed across a number of years reducing the immediate impact on charges. There will be incorporation of a margin within our charges for AMP8 to help maintain stability of developer charges.
- 3.4.8 United Utilities Water welcomes the publication in August 2023 of a consultation on proposed modifications to Condition B, under Section 12A and 13 of the Water Industry Act 1991, as it provides some clarification as to the scope of activity excluded from price control. This consultation also highlighted the proposal to allow to lapse the exclusion of non-section 185 diversions from the controls. United Utilities Water does not support this and to avoid unnecessary customer bill volatility non-section 185 diversions should remain outside of the price controls. Further detail as to the argument for this exclusion is provided within section 5 of this document.

4. Competitive markets

4.1 Introduction

4.1.1 Section 4 describes our engagement with customers and competitors, how we seek to continuously improve our customer offering through feedback and providing choice and our track record whilst operating within a competitive market.

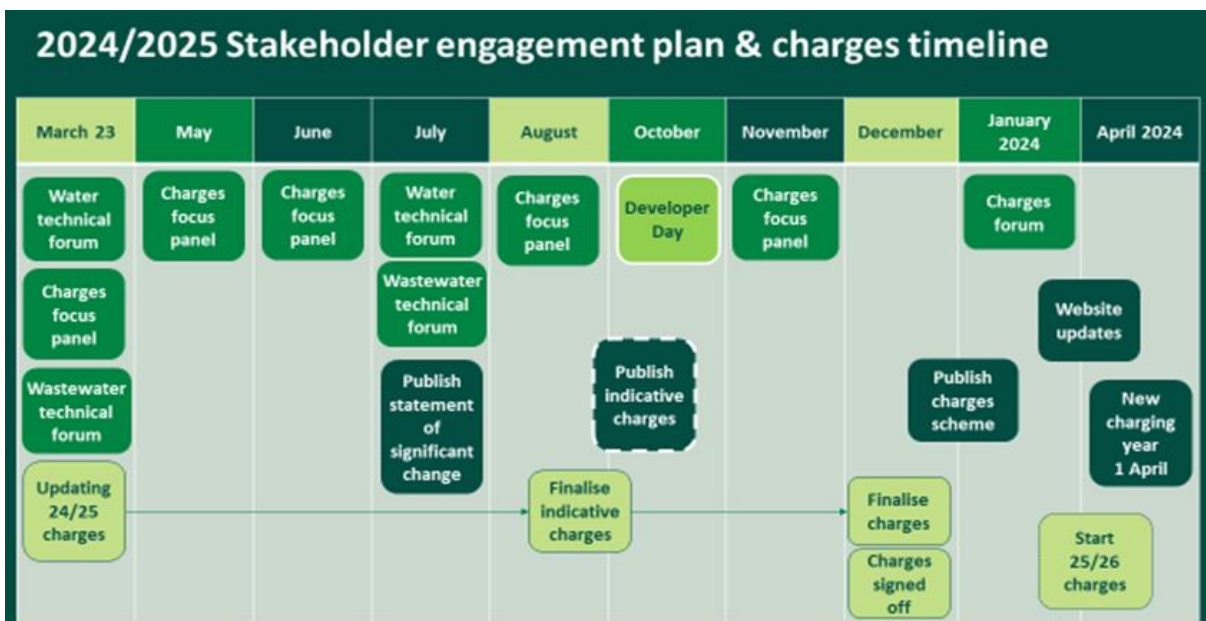
4.2 Engagement

4.2.1 United Utilities has maintained a very proactive approach to customer engagement and we continue to develop our approach. Following Project RISE an action to continuously review our engagement plan based on how the perspectives of others were considered and approaches adopted by others was adopted to suggest potential improvements to existing methods. In addition it was considered how best to offer a “tailored” offering to SLPs. The aim of this was to ensure that feedback from this engagement continues to improve service and therefore the experience of developers and SLPs recorded through D-MeX. In order to achieve successful engagement time has been taken to understand and appreciate the requirement to not just engage with a developer, but to also build effective relationships with their supply chain including organisations such as SLPs, consulting engineers and road and sewer contractors.

4.2.2 This improved engagement is delivered through a tailored engagement plan acknowledging the different disciplines involved in construction from planning through to design and delivery. Figure 5 below is an example that is shared with stakeholders at every session to articulate the process and key points for developing future charges schemes. This provides stakeholders with an understanding of when they will have opportunities for face to face discussion on service, technical matters and charges as well as have an opportunity to input into ideas.

4.2.3 Our well established approach has meant that United Utilities is able to engage with customers quickly on key issues. This was particularly helpful during and following Ofwat’s consultation on changes to the balance of charges rule and the ability for companies to pay income offset. The removal of income offset will significantly affect developer bills, therefore we needed to engage early with them to provide signalling of this change. These forums also provided us with the opportunity to hear their concerns and relay them in our consultation responses as well as in our handling strategy.

Figure 5: 2024/2025 Stakeholder engagement plan and charges timeline



Source: Slide produced for our stakeholder charging events such as water and wastewater technical forums, charge focus panel and developer day.

- 4.2.4 Our direct engagement sessions are complemented by a range of other activity to ensure that messages can be communicated effectively to a broad range of customers as well as provide opportunities for feedback and discussion.
- 4.2.5 Table 1 below provides an overview of the type of activities that take place to ensure the best possible engagement with stakeholders.

Table 1: Stakeholder engagement

Stakeholder event	Invitees	Frequency	Content
Water Technical Forum	Developers, SLPs and trade bodies	At least twice per year 20-30 attendees	Technical and procedural and charging updates. Customer feedback.
Wastewater Technical Forum	Developers, consulting engineers, contractors and trade bodies	At least twice per year 20-30 attendees	Technical and procedural and charging updates. Customer feedback.
Charges Forum	Developers, SLPs, consulting engineers, contractors and trade bodies	Once per year, following publication of charges (usually Jan/Feb) 20-30 attendees	Review of new charging publication including any changes, additions, removals and feedback.
Charges Focus Panel	Volunteers from developers and SLPs	4-5 times per year 5-10 attendees	Discussion and consultation on ideas, proposals for forthcoming charging schemes and feedback
Developer Day	Developers, SLPs, consulting engineers, contractors and trade bodies.	Once a year – usually autumn 200+ attendees	Business, industry, technical, procedural, charging updates and customer feedback. Wider business engagement. Attended by UUW executives and guest speaker.
Newsletters	Developers, SLPs, consulting engineers, contractors and trade bodies	Quarterly	Technical and procedural and charging updates. & key messages.
NAV Day	NAVs	Annually	Business, industry, technical, procedural, charging updates and customer feedback. Wider business engagement.
NAV Engagement meetings	As requested or required	As required	As requested or required i.e. site progress discussions, contract updates, general help, support and advice
Email updates	Targeted as appropriate - Developers, SLPs, consulting engineers, contractors and trade bodies	As required	Reserved for urgent updates between engagement sessions or key messages for all stakeholders
KDM meetings	As requested or required – Developers, SLPs, consulting engineers, contractors and trade bodies	As required	As requested or required i.e. site progress discussions, legacy adoption, general help, support and advice

Stakeholder engagement plan.

- 4.2.6 At each session we seek feedback about our service from attendees. This feeds into continuous improvement on all aspects of developer services including customer experience and charges. Table 2 lists some of changes implemented into our processes and charges based on customer feedback.
- 4.2.7 In December 2022 United Utilities held our first NAV Day and invited all NAVs operating within our area to attend so we could update them on business changes such as future charges (as discussed with developers) and also a workshop on our processes to harvest feedback on improving the customer journey. The day was well attended and positive feedback was received from NAVs on our approach (as shown in Table 2 below). Support continues to be offered including meetings through our NAV and Asset protection team which is a growing function due to the increase in NAV activity within the North West.

Table 2: Customer feedback from stakeholder sessions and outputs (2021 – 2023)

Customers said	We did
Ability to sign adoption agreements digitally to speed up process	Introduced DocuSign to allow all parties including developer, landowner, SLP and UUW to enter into agreement without paper copies
Some water applications can take longer due to payment being required upfront	Combined application and administration fees in a processing fee which is applied with other non-contestable charges later on as to not hold up design approval or quoting
Allow more contestable work for SLPs and developers i.e. branch connections	Expanded our contestability summary to allow SLPs to carry out 63mm under pressure connections Introduced more 'lay-only' charges for connections so SLPs and developers can carry out their own excavation work and we can facilitate more collaborative working under highway notices
Send us pictures of pipework to save arranging as site visit	Implemented video technology for customers to allow them to submit videos of their site to avoid waiting for inspections
One engineer to look after my site	Implemented end-to-end responsibility for sites by engineer from pre-development to adoption
Tell us what you need to adopt SuDS	Produced customer friendly assessment sheets and guidance to help simplify the requirements of the Design and Construction Guidance and CIRIA SuDS Manual and make adoption applications easier
Simplify the process for applying for sustainable incentives	Introduced bulk submissions for developers building same housing types

Notes captured from stakeholder engagement sessions between 2021 and 2023.

4.3 D-MeX


- 4.3.1 United Utilities is committed to continuously improving our customer service by seeking feedback and developing more efficient ways of working. This includes integrating new technology into our processes to expedite transactions and enhance the customer journey. Our approach has yielded positive results in both quantitative and qualitative aspects, which will be built upon in AMP8.
- 4.3.2 During AMP7, United Utilities underwent significant organisational transformation based on customer segmentation to offer tailored services. United Utilities takes pride in the distinct offering for homeowners and builders, providing higher levels of interaction and support through designated case managers. Customers have the flexibility to apply for new connections via a traditional application form, online submission, or over the phone. Developers are offered bespoke quote packs containing all the necessary information and costings for the new connection, including details on contestable activity if they choose to use a SLP. Additionally, video technology is utilised for customers to submit key information, saving over 5,000 administrative hours and receiving positive feedback.

Figure 6: Example of customer correspondence to support virtual inspections

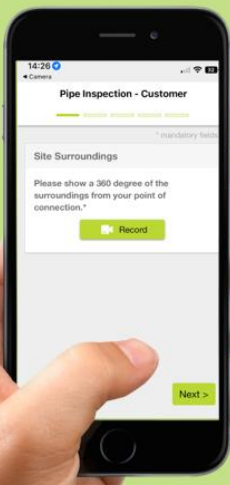

Submit a video report of your pipe inspection to speed things along

It is really easy to use and can be done from your mobile device or tablet.

Just scan the QR code below to get started. It will take approximately 3 mins total to complete



Simply send us a video of your installation and one of our inspectors will review this within **1 working day**.

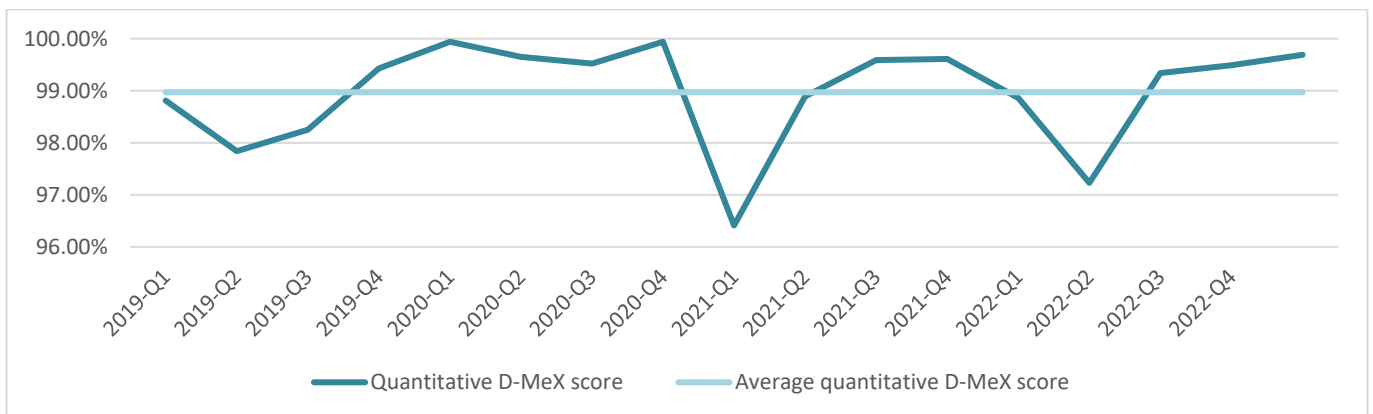



Please note you will need a good internet connection and a camera and microphone to show us what you have done.

Example of customer literature provided during site visit for new connections.

- 4.3.3 United Utilities provides specific offerings for large developers, SLPs, and NAVs, operating on a business-to-business basis. This service includes direct contact with our technical staff, relationship management, and valuable technical guidance. Our model focuses on site ownership, covering both water and waste water, allowing designated engineers to handle applications from planning to design approval and adoption. This consistent point of contact has been well received by customers.
- 4.3.4 Looking ahead, United Utilities will continue to review our processes and contestable activity to enable SLPs to carry out as many connections as possible while ensuring the protection of existing customer supplies. Our commitment to being stronger, greener, and healthier remains at the core of our business values.
- 4.3.5 The aim is to maintain our high level of compliance with the quantitative component of D-MeX while improving our performance in the qualitative component. Since 2019 we have maintained a 98.97 per cent average as shown in Figure 7 below.

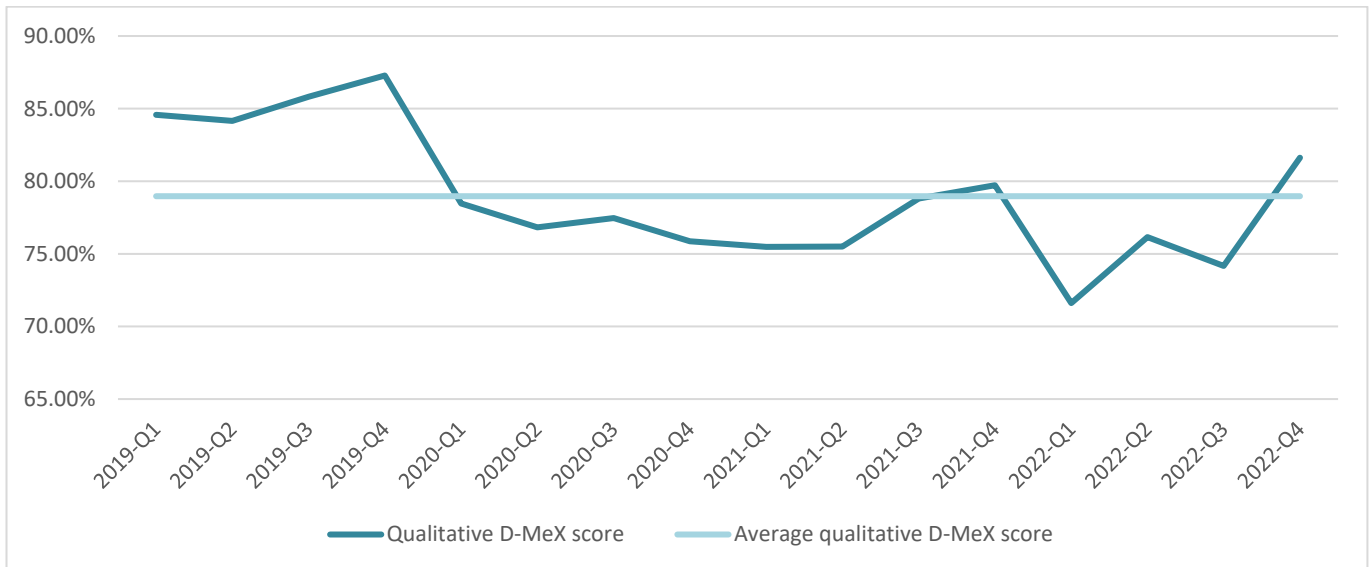
Figure 7: UUW quarterly quantitative D-MeX score with average 2019 to 2023 (Q1)



Data as submitted to Water UK levels of service system for D-MeX ODI return

4.3.6 United Utilities continues to strive for improvement in both the quantitative and qualitative aspects of our service and improved performance across the qualitative metrics for greatest improvement in our overall D-MeX position. As shown in Figure 8 we have averaged a score of 78.97 per cent since 2019 until 2022 and are working to improve and maintain that average to over 80 per cent.

Figure 8: UUW Qualitative quarterly D-MeX score with average 2019 to 2022



Data as submitted to Water UK levels of service system for D-MeX ODI return

- 4.3.7 United Utilities is committed to delivering the best possible service for customers and have a strong track record of performance on customer service metrics.
- 4.3.8 At the time of submission, the AMP8 definitions of these measures are yet to be finalised. In line with Ofwat’s extended timelines for the definition of AMP8 customer and business retailer experience measures United Utilities is working with Ofwat and the industry to develop and refine the MeX incentive suite. UUW will determine our relative performance targets for this measure as and when the details of it are finalised. UUW will be aiming to build on our improving customer service performance to deliver an excellent service experience for all customer groups.

4.4 Markets and track record

- 4.4.1 United Utilities underpins its role in a vibrant developer services market with a culture of compliance, collaboration and support. Since the early stages of development of the self-lay market, our priority has been to ensure that the infrastructure which is built is of a good standard.
- 4.4.2 Whilst United Utilities competes with SLPs, many SLPs provide an offering that covers a broad range of services across different utilities which we do not. Our focus is to ensure that the assets developed are effective, irrespective of the route of delivery, be it incumbent, developer or competitor. In following this approach we have worked closely with self-lay providers and continue to proactively engage with them and gather feedback on customer service experience, process, charges and other regulatory change.
- 4.4.3 In August 2020 Ofwat published a Review of Incumbent company Support for Effective Markets (RISE). The publication set out a view of the how incumbent companies had supported the development and operation of markets including developer services. Following this, UU responded by setting in train a number of actions to ensure that UUW continues to facilitate competitive markets. Table 3 below highlights some of these actions. United Utilities provided support to the Water UK working group on workforce accreditation which helped address stakeholder concerns about workforce mobility.

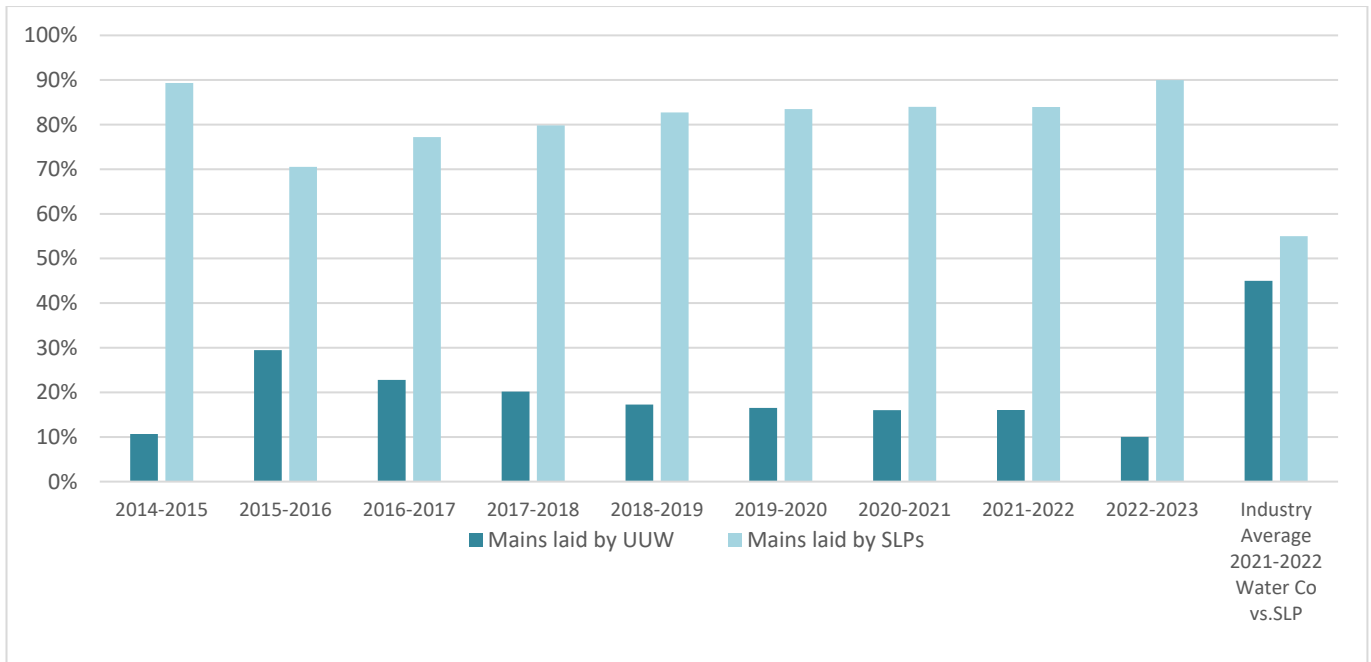
Table 3: UUW internal actions following Project RISE feedback

Project RISE action	Outcome/delivered/what we did?
When undertaking the next procurement for connections work to ensure that appropriate further steps are taken, beyond the tender process, to enable the demonstration of cost reflectivity. Support from Charges and Tariffs required. (Ofwat letter to UUW p4 and RISE Report p39)	When completing our contract extension for developer services activity we specifically requested information to ensure cost reflectivity by obtaining granular rates with build-up including overheads, cost driver information and a suite of new KPIs to help manage cost and encourage efficiency.
To consider if further action is necessary to assure the cost reflectivity of the current connections contract. Support from Charges and Tariffs required. (Ofwat letter to UUW p4 and RISE Report p39)	We extended our existing developer services contract with significant amendments to improve cost reflectivity and granularity.
To improve service provided to NAVs by reviewing, documenting and improving processes for applications (covered by levels of service) and frequent interactions. This includes utilisation and development of developer services portal. (Ofwat letter to UUW p4 and RISE Report p33-34)	We documented our NAV processes and evolved them with NAV input. An internal corporate audit was scheduled and completed for June 2023 which identified some minor opportunities to consider potential system improvements for tracking workflow.
Produce a specific stakeholder engagement plan for NAVs, which is inclusive of other developer and SLP engagement activity. (Ofwat letter to UUW p4 and RISE Report p34)	During a reorganisation of developer services in 2020, we established our Developer, SLP and NAV function. This was supported by the NAV engagement plan which provides opportunities for direct contact with our NAV team and regular review meetings. We also held our first NAV specific engagement session in December 2022.
Review SLP engagement approach, how we consider perspectives of others and approaches adopted by others to suggest potential improvements to existing methods. Consider how we can offer a “tailored” offering to SLPs. Ensure that feedback from this engagement continues to improve service and therefore the experience of developers and SLPs recorded through D-MeX. (RISE Report p31 and p34)	We take a proactive and comprehensive approach to engagement with SLPs. SLPs can opt for regular scheduled meetings with our technical managers, relationship manager and senior operational manager, arrange ad-hoc meetings (as required) as well as attend our stakeholder events. We also manage an extensive stakeholder contact list with email addresses.
Adoption Code (water sector guidance) work must be moved to implementation phase ASAP. Continue with customer engagement on this matter. (RISE Report p31 and p33)	The sector guidance was implemented with thorough stakeholder engagement and we have also held a position on the adoption code panel (water) since its inception.
Review the engagement process for developer services charges scheme when charges are updated and consider what improvements could be made to the consultation process to allow stakeholders to participate more effectively. Support from Charges and Tariffs required. (RISE Report p34)	In 2020 we introduced a Charges Panel to complement our other larger stakeholder events. The panel is open to Developers and SLPs and is used to engage with them on matters before sharing with a wider audience. We hold three to four sessions per year and use the panel as a safe space to test ideas and generate their feedback. We have discussed things like contestable work, income offset removal, environmental incentive compliance and ideas.

Summary of completed actions following Project RISE report

- 4.4.4 Figure 9 shows that SLPs have provided over 70 per cent of the new mains constructed within the UUW region since 2015. In comparison the industry average for SLP main laying was still at 54 per cent in 2021/22. In 2022/23, SLPs constructed 90 per cent of the new mains within the UUW region. This highlights the strong track record United Utilities maintains in facilitating competitive activity. Given this industry leading levels of competitive activity the North West seems well served, and well placed, to embrace the changes stemming from the removal of Developer Services from the price control.

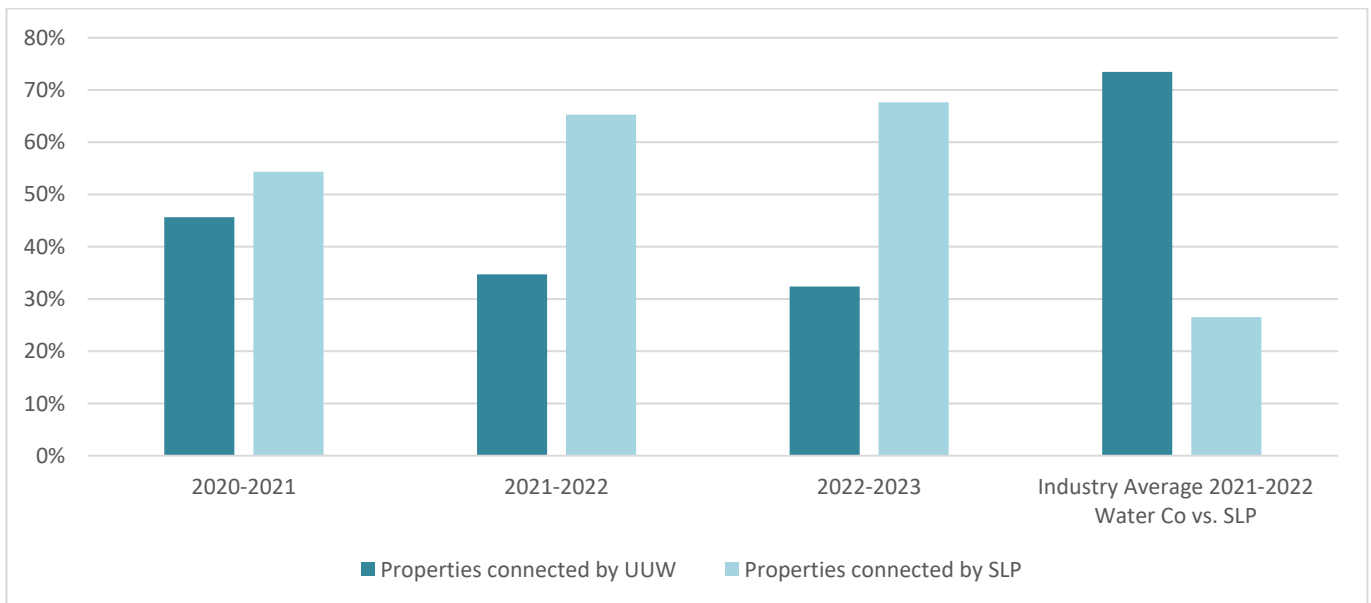
Figure 9: Percentage of mains laid by UUW vs. SLPs with comparison against the industry average for water co. vs. SLPs 2021/22



Source: Data obtained from UUW and other water company APR data tables 4Q ‘Developer services – New connections, properties and mains’ (UUW data pre-2020/21 internal records).

4.4.5 Figure 10 below shows the percentage of new properties connected by UUW and SLPs which is also evidence of the high level of competitive activity for developer services activity in the North West.

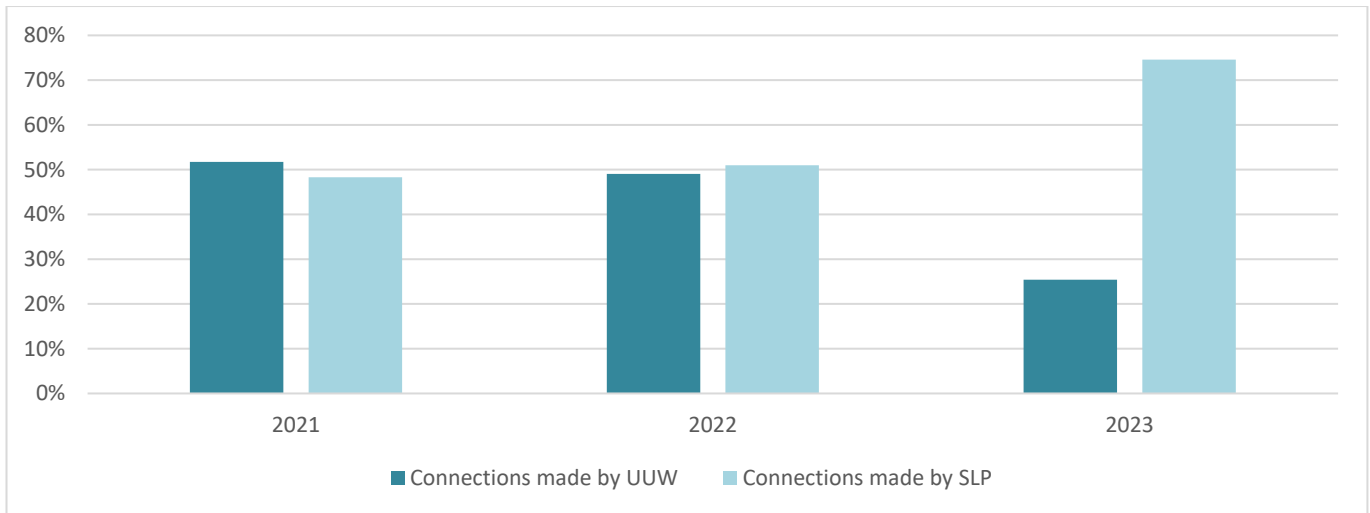
Figure 10: Percentage of new properties connected by UUW vs. SLPs with comparison against the industry average for 2021/22



Source: Data obtained from UUW and other water company APR data tables 4Q ‘Developer services - New connections, properties and mains’

4.4.6 The majority of new connected properties carried out by SLPs are associated to larger sites with new mains, but there is also an increase in SLP activity on smaller sites as shown in Figure 11. There has been an increase from 50 per cent to 75 per cent of connections made by an SLP in developments of 11-25 since the 2022 RFI submission. This is encouraging as it indicates a broader range of customers benefiting from choice, not just large volume house builders.

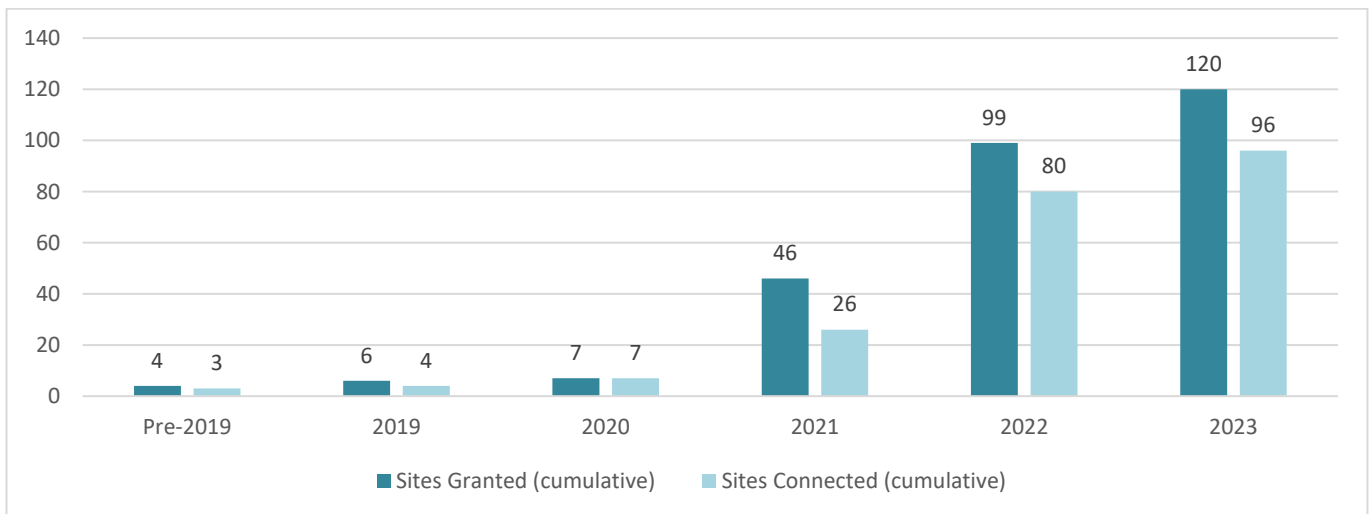
Figure 11: Percentage of connections made on development sites of 11-25 plots for sites fully completed within years 2021 - 2023 (Developer Services RFI data)



Source: Data obtained from UUW submission to Ofwat request for information from Developer services for FY21, 22 and 23.

4.4.7 There continues to be significant growth in NAV activity in the North West, see Figure 12 below. United Utilities understand that this activity is being facilitated by SLPs who are entering into strategic arrangements with NAVs on the basis that they are the provider of choice and can choose to ‘offer’ new assets for adoption to either UUW or a NAV. Developers have informed us that they are benefiting from ‘asset payment’ type incentives from the NAV, making their quote from the SLP more commercially attractive.

Figure 12: Granted and connected NAV sites in UUW region



Source: Internal data held on NAV sites within the UUW region

4.4.8 United Utilities has also worked closely with industry groups to define standard agreements, offer emergency service agreements as well as wastewater pumping station adoption options. We will continue to develop the NAV offering through a collaborative approach that maintains developer choice for asset adoption.

5. Diversions

- 5.1.1 In this section we discuss new connection, diversions and asset protection activity that is associated with:
- Diversion of critical assets under s185 of the Water Industry Act 1991
 - Diversion of assets to facilitate new roads under the New Roads And Streets Works Act 1991
 - Diversions and connections for other significant infrastructure such as HS2 and decarbonisation projects such as HyNet North West (HyNet)
 - Asset protection
- 5.1.2 United Utilities is committed to supporting national objectives and the sustainable growth agenda in the north west of England for delivering new infrastructure as part of urban regeneration, transport and energy projects. This is evidenced through our ongoing support for high profile, high value schemes such as HS2 and HyNet alongside a much wider portfolio of Asset Protection, Assurance and Diversion projects being developed and delivered on behalf of a wide range of key Stakeholders which includes Local Authorities, National Highways, Network Rail, Transport for Greater Manchester, Ministry of Justice, Environment Agency as well as private developers such as McDonalds and Peel Holdings.
- 5.1.3 By its nature this external client driven programme of activity is variable and volatile therefore it is difficult to predict with any certainty the likely impact on our assets during the early stages of assessing enquiries. However through extensive planning and stakeholder engagement, including working closely with our external clients, United Utilities has looked to identify, define and deliver value for money solutions that meet their requirements, alongside our own maintenance and resilience improvement programmes. During AMP7 the number of complex project enquiries that we receive has steadily increased and currently averages around 8 per month, with over 100 live projects typically being assessed or delivered for external clients at any one time.
- 5.1.4 Many of the projects undertaken are highly complex and have to be carefully managed and co-ordinated to address multiple stakeholder interfaces and often conflicting requirements. The projects range in value from relatively modest amounts (tens of thousands of pounds) to significant sums (HS2's impact on United Utilities is likely to be significantly in excess of £150 million.). This presents a substantial scalability and resourcing challenge, particularly as the external clients drive and control the programme demands. Rigorous change control processes are in place to ensure that any design and construction changes are logged and evaluated before recommendations are approved and implemented.
- 5.1.5 United Utilities Water welcomes the clarity provided by the August 2023 consultation under sections 12A and 13 of the Water Industry Act 1991 on proposed modifications to Condition B: Charges. Overall the proposals successfully identify, at a high level, the site specific activities that would be expected to be removed from the price controls. As is appropriate the licence changes do not cover the detail that is thought necessary to ensure consistency between different water companies as to the excluded charges. Therefore United Utilities would support the creation of a RAG4 supplementary appendix to provide additional clarity to be confident of a consistent approach being taken by all companies.
- 5.1.6 It is important to ensure that costs recovered through developer services are equivalent for both appointed entity and competing organisation operators. Without this equivalence the associated competition and therefore the market would be less efficient and reduce the benefits for customers. Conversely ensuring an equally efficient operator could compete is obviously necessary, and to support this the incumbent cannot be cross subsidised from the control. These excluded costs should include all equivalent costs covering use of shared services such as finance or HR, administrative costs, construction activities, margin and any other costs related to delivering the site specific developer services.

- 5.1.7 The proposal set out within the PR24 Final Methodology to include non-section 185 diversions, including HS2, within the price control appears inconsistent with the interests of customers. This type of activity is inherently variable and volatile in its nature. Inclusion within the price controls means that United Utilities Water is required to estimate the level of this activity and are potentially penalised for failing to accurately predict the level of this activity. In addition should the level of activity vary from predictions this could lead to year on year variability in customers' bills. Ofwat's proposed end of period reconciliation for 3rd party services may address to some extent the impact on UUW, but details of this mechanism have yet to be published by Ofwat. Also, any ex post reconciliation mechanism will not prevent the unnecessary bill volatility that customers would be subject to, if there are material in period variances in diversions activity. **Therefore we continue to propose that non-section 185 diversions should be excluded from the price controls.**
- 5.1.8 This point was raised within our response to the draft proposed excluded charges in May 2023 and also within our response to the consultation on the Revenue Forecasting Incentive (RFI) for the period 2025-2030.
- 5.1.9 The points made within our response to the draft proposed excluded charges in May 2023 have not been sufficiently addressed within subsequent consultations. The current exclusion of non-section 185 should be extended until 31 March 2030 for the following reasons:
- Non-section 185 diversions are not part of the day to day operation of the company, they are bespoke third party projects and are inherently difficult to predict both in terms of cost and timing with the potential to create significant disruption to customer bills if included in the price control
 - Including non-section 185 diversions in price control creates additional wholesale price control complexity by introducing in period volatility that will then be adjusted by an end of period mechanism, details of which are yet to be published
 - A natural mechanism to cope with this volatility is already available by keeping non-section 185 diversions outside of the price control.
- 5.1.10 At PR19 United Utilities made significant representation to ensure non-section 185 diversions were kept outside of the price control due to the significant unpredictability of these third-party projects. They are not part of the day-to-day operation of the company and have the potential to create significant disruption to customer bills if included in the price control. Ofwat agreed to this in PR19.
- 5.1.11 The draft PR24 methodology proposed to "maintain the same regulatory approach at PR24", acknowledging that non-section 185 diversions expenditure is "relatively uncertain, meaning that actual expenditure could be significantly different from forecast" and highlighting that the "risk was magnified in the 2020-25 period because of the large forecast increase in non-section 185 diversions expenditure because of High Speed 2" (HS2). The potential scale of HS2 for the period 2025-30 is significantly greater for United Utilities and our customers than 2020-25. Therefore given that the risk is greater at PR24 it should be expected that non-section 185 diversions remain outside the price control for the period 2025-30. It is noted that an end of period reconciliation mechanism is mooted, however this would not address issues of year on year customer bill volatility stemming from the inclusion of non-section 185 diversions within the control.
- 5.1.12 As with other aspects of our Developer Services programme there are some non-recoverable costs that are incurred on these complex projects that are determined according to the underpinning legislation. For example New Roads and Street Works Act (NRSWA) road and railway projects require UUW as the statutory undertaker to make a significant cost share contribution as set out by the Highway Authorities and Utilities Committee (HAUC) (UK). United Utilities operates on an accounting open book basis with our clients and seek as a principle to recover all of our reasonably incurred costs in accordance with the relevant legislation. To ensure value for money our projects are delivered via our competitively tendered frameworks, but open market tendering is also used for non-standard or specialist schemes.

- 5.1.13 United Utilities is committed to continuing with its proactive support for developments in the North West and to successfully deliver what is an unpredictable and volatile investment programme. United Utilities will continue to work with our key stakeholders to understand their requirements and to share ideas and best practice to ensure our delivery processes remain efficient and effective..

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Water for the North West