ENGAGEMENT WITH DEVELOPERS, SELF-LAY PROVIDERS, AND NAVS

Research Report

January 2021

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EXECUTIVE SUMMARY

When new properties are built, Developer Services describes new connections or diversions to traditional (or 'incumbent') water and wastewater company networks. Some activities, such as increasing the capacity in the current network, can only be undertaken by the incumbent. However, other aspects of developing and connecting sites have been open to competition. Developers can choose between the incumbent, an accredited self-lay provider (SLP) or a new appointee (NAV) to provider lay pipework and make connections. They can also choose between the incumbent and NAVs for who will provide water and wastewater services to the site afterwards. NAVs and SLPs are often 'multi-utility', i.e. they are able to lay not only water pipes, but power cables, gas pipes and broadband fibre.

The market for services to developers for both household and non-household developer services has been open to new entrants for some time. Ofwat recently reviewed the market and wrote to incumbent water companies to encourage them to further support the market. Refinements are being made to the ground rules to make it as fair as possible.

Between November 2020 and January 2021, researchers from the Economic Regulation team in Northumbrian Water Group (NWG) conducted one-to-one interviews with four large developers (all housebuilders), eight SLPs and three NAVs. The aim of the project was to understand any barriers to greater market activity for alternative providers in our regions and how the Developer Services team could improve their customer experience.

Participants were pleased that we were reaching out to them in a collaborative way.

Developers' priorities

Developers want the lowest possible **price** and **fastest** delivery, to the **right standards**. They need the costs and timescales of a project to be **certain** as early as possible. Cost certainty allows developers to reflect the cost of servicing development land in the prices they pay landowners. Because water is the **deepest asset** in a multi-utility trench, any delays have knock-on effects for other utilities that need to be laid. Developers dislike paying lump sums up front if they can pay by completed plot.

Some developers saw our use of contractors and our competing priorities (like our need to repair bursts and leaks) as offering them less certainty However, others felt that dealing directly with incumbents gave them more certainty because we have the ultimate say. This is a slight misconception because all parties are working to a nationally agreed code of practice.

Benefits of using alternative providers for developers and customers

No participants identified any benefits to end customers when developers use alternative providers. They identified the following benefits for developers:

A key benefit of NAVs and SLPs is that they offer a '**one stop shop'** for liaison with incumbents, designs and a multi-utility laying service. They also offer **shorter timescales** and are able to respond to developers' demands **more flexibly**. For example, when there are changes to dates, or requests to lay small amounts of pipe.

Lower costs are potentially associated with a site being limited to one design for all utilities and one trench, but not all developers are seeing significant cost savings.

Using alternative providers can also **avoid risking delays** to other utilities. Water incumbents can take a long time to come and/or cancel due to emergencies elsewhere.

Alternative providers also predicted that increased competition would result in **improved customer service and potentially lower costs** for developers and alternative providers with incumbents – forcing internal teams to work more closely together.

Awareness and usage of alternative provision

Some developers were not willing to make the **effort** to investigate alternative provision. Large developers who were aware of alternative providers were very **satisfied** with the service they receive from Northumbrian Water (NW) and Essex & Suffolk Water (ESW), and some could not see enough benefit to the effort and risk involved in changing how they work. The story has been quite different with some other incumbents. According to SLPs, developers are also less aware of the option to use SLPs for water designs in our areas. As incumbents take a significant time to approve designs, developers need the design to be right first time so are minded to use incumbents for designs anyway, which **makes it harder for SLPs to pick up later work** on the project. Water companies could raise awareness among developers that some SLPs are accredited to design networks for our approval.

Small and private developers were said to be **less aware** that SLPs can lay water, despite some SLPs actively targeting this market segment. Water companies could make the self-lay option prominent in their correspondence to smaller developer customers.

There is **low (1 in 4) awareness of NAVs** among developers in the NW region. This may be due to the small sample size. However, NAV business development teams have been busy and are seeing an uptick in interest (partially due to changes Ofwat made to Asset Value payments in April 2020) and are in the early stages of trials with most large housebuilders.

While developers often use SLPs for dual fuel (i.e. gas and electricity) lays and SLPs are promoting water laying as part of their package, not all developers are using them for laying water. Some developers were avoiding using SLPs for water because of **issues in the past**, such as poor communication with incumbents around meters.

All participants agreed that some developers perceived the SLP and NAV route to be more complex and involve more administration, but this is not a reality for developers because the processes are taken on by SLPs and NAVs. Some developers who were trying the NAV route were starting to see less effort needed from them.

Barriers to increased market activity

The market is seen as a lot more open than it was two to three years ago, i.e. more transparent and less weighted in favour of incumbents. However, in addition to developer's **inertia** towards sticking with their established **relationships** with incumbents and their lack of **awareness** of the benefits of alternative providers mentioned above, the following barriers were identified:

SLPs and NAVs would like more works to be **contestable** (work that they could compete for rather than only incumbents being allowed to do it by the regulator), as in the power industry. Some of the activities they mentioned were contestable but can be subject to a risk assessment in advance of permission, and contestability is now defined by the Water Codes for Adoption. The activities SLPs wanted more chance to do included branch connections, connections to mains, diverting mains, reinforcement, meters, design approvals, leak repairs on SLP-laid pipes, and inspections. NAVs mentioned that they could do branch connections and install boundary meters. While ESW were perceived by SLPs to be quite open to letting SLPs do a lot of work, some other incumbents allow SLPs to do more. The timescales and contestability of designs and design approvals by incumbents were particularly important, because these are at the start of the process and therefore subsequently there is some inertia towards alternative providers delivering other work.

There is **equal opportunity** for all providers to win contracts with developers. However, the **removal of income offsets (Asset Value payments)** has affected SLPs' ability to compete since Ofwat's rules changed in April 2020. Respondents also cited some of the **regulatory requirements** (legal agreements, obtaining the right to serve a site from Ofwat, etc.) and **regulatory and incumbent timescales** for self-lay and NAV services as a barrier to greater market activity – particularly for small, newcomer or national companies. Having to give a lot of **information up front** for pre-development enquiries was a common complaint.[1] There are also more **non-standardised processes** between incumbent companies compared to the power industry, especially at the design/modelling stage. SLPs hoped that Ofwat's new codes of adoption and design specifications would reduce this complexity. In addition, one large NAV mentioned that the **margins** Ofwat allowed them were very slim, and that their billing should be allowed to reflect their own costs rather than incumbents'.

The high level of **training required** to lay water, coupled with a **shortage of water skills and manpower** in the North East (i.e. few local SLPs) was cited as another barrier to developers using alternative providers more. Some developers have concerns about some SLPs' ability to respond to their needs quickly because some are based away from development sites or **work nationally**. SLPs are also perceived as **riskier** because if a developer used an SLP for all utilities they could be left stranded if the SLPs get overloaded with work, relationships break down or the SLP goes out of business. There was also some criticism of NW about redirecting construction resources to serve other areas of the business to deal with emergencies, leakage etc., or just a lack of resource generally for construction work. Some of the **rules around working in wastewater** are also not practical for small SLPs to manage. An example given was teams having to wait three days until they can work on clean water after foul. The majority were therefore sticking to laying clean water only. Water companies could educate SLPs about opportunities and rules around working in wastewater.

All participants agreed that existing **relationships** between developers and incumbents were a barrier to markets growing, but only when the incumbent was delivering a good service. SLPs that work regularly in our areas also have advantageous relationships with our teams, e.g. designers, so will know how everything works and can answer developers' questions more quickly than **newcomers**.

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[1] Nationally, customers were consulted on what they wanted from pre-development and Point of Connection enquiry responses. The outputs of that consultation formed the basis of substantive responses water companies are required to provide. These requiremetns are specified in the D-MeX and Codes metrics. If water companies don't get the minimum information, they can't comply with the output requirements under the Code of D-MeX, so they need to ask customers to provide them.

Some incumbents are not providing **good service to SLPs**. The incentives attached to D-Mex performance measures and targets are hoped to help ensure some incumbents deliver to timescales for SLPs and NAVs because there's now a financial penalty attached.

How NWG could further support and champion these markets

Many participants were **incredulous** that we were asking this question. They found it difficult to understand from their commercial backgrounds. However, there is an expectation from Ofwat that we "promote" the alternatives. While NAVs accept that it is their responsibility to sell and market their services, some SLPs seem to want incumbents to **promote** alternative providers to developers, e.g. by looking at how information is presented and proactively mentioning alternative options. NW/ESW already do this in many cases but could look to improve things further.

The most radical suggestion was for us to **withdraw from the market** completely and say we no longer provide networks. However, we have a duty to provide these services by law. More moderate options mentioned included developing **partnerships** with alternative providers, or even buying an SLP, and **recommending** providers to developers to deliver projects and services on our behalf like subcontractors, e.g. for operational maintenance services, meter reads and sampling.

Several SLPs and some developers suggested that we **signal** to developers that we are comfortable with them using alternative providers. One way of doing this is to provide **simple and accessible information** about how developers go about using self-lay on our websites – particularly on the initial enquiry pages – and make it obvious that alternative providers are an option at every point in the process. We could also design our **forms** to naturally guide developers down the self-lay route and **order** the application forms on our website so that ours is relatively less prominent. In addition, we could **share contacts** for alternative providers with developers. Water companies could give developer customers improved access to information about alternative providers to ensure their services are on an equal footing to their own. NW/ESW already do this in many areas, but could make improvements.

SLPs and NAVs suggested **shortening our timescales**, particularly for design approval, Point of Connection (POC) and Point of Discharge (POD) quotations, and **guarantee service levels** with incentives. We could do this by **reducing the information** we require from alternative providers before we answer their initial questions. However, this would be working against our D-MeX requirements (see footnote on previous page). We could also take a more c**ollaborative approach to designs** to avoid 'tennis' between us and providers when developers use alternative providers. NW/ESW have just trialled peer to peer meetings between designers at an appropriate frequency.

To meet developers' needs for certainty, alternative providers requested that incumbents provide **simple, transparent and firm timescales** (one NAV mentioned) **and costs** (rather than a range or budget – SLPs and a NAV mentioned). We could improve the clarity and transparency of POC quotes, reinforcement activity and major infrastructure construction we are doing to support the developments.

To simplify the processes which alternative providers must deal with across different incumbent areas, we could try to **align our approach with other incumbents** to drawings, our rules/processes and required materials. This could include allowing the use of **equal/approved materials**, e.g. boundary boxes, meters, wall box, pipe, sand instead of pea gravel, etc. The industry's Codes work aims for greater consistency of

approach between incumbents. We will continue to collaborate on sector driven initiatives that will improve consistency.

Incumbent water companies have all the **information** developers need at their fingertips. This enables us to provide developers with more clarity and certainty, when SLPs have to make assumptions, e.g. around where points of connection to the mains will be. Therefore, some participants said they would like greater access to our systems to **self-serve**. This included locations of assets, mains records, pressures, flows, sewer capacity and cost calculators. One NAV also suggested introducing a mechanism for alternative providers to **self-determine** Points of Connection so that they don't need to apply for our approval.

Some SLPs thought we should drop Point of Connection and meter admin **charges**. Infrastructure charges also seem odd to some SLPs because these mean that they are paying us to give us customers. Our PoC charges are cost reflective of the activity we are required to undertake. The alternative is to recover our cost through an indirect charge. However, that would possibly lead to cross subsidies from customers who do not require the PoC service. We will consider bundling charges together. This would reduce transparency of charging in favour of simplicity and goes against our current approach of being as transparent as possible.

SLPs and NAVs also questioned whether **boundary meters** were necessary, stating where these would be located was a key uncertainty, and faster information about and servicing of these from us would assist them. They are also a large cost that we can absorb and in the power industry these have already been dropped. At present, incumbents decide whether to require installation of a boundary meter on a NAV site.

Improvements to our customer experience

Most developers and alternative providers said that they did not have any issues with our websites and managed to find everything they needed online. They were also complementary of the Developer Services team and how well we serve them. However, as mentioned above, alternative providers need to be able to **self-serve** more of our information. This could also assist with the other point mentioned above about quicker turnarounds on requests for information, service dates and approvals, but could involve security risks.

Alternative providers often find **portals** much easier and straight forward for managing their processes. Providers suggested **reminders** for any outstanding documents we need to for designs. Developers would like to be able to see all their service **dates and engineers** with contact details in one place, and potentially the ability to select preferred dates.

They would appreciate **account managers** by geography (for sites) and/or provider (office-based teams). This would include single points of contact who are real people (not a mailbox) so that a relationship can be built. NAVs requested a support desk for them. Alternative providers would like to have proactive and **regular update meetings**, and some would like us to organize **forums** where common issues could be worked through.

One small SLP suggested that we provide an email bulletin to help small providers keep track of any changes happening in industry standards, regulations and Health and Safety risks. We will consider ways that communications could be improved through different channels.

Suggestions from alternative providers on how the wider industry could support these markets:

1. Improve visibility of alternative providers in **industry directories** because developers using Line Search, Think Before you Dig, etc. to search local utility owners automatically see incumbents listed at the top. Lloyds List may also need to be more segmented/filterable because developers can only see which areas of the country SLPs work in;
2. Require incumbents to, and inspect whether incumbents are, **informing developers** of other options and ensuring they understand the potential benefits;
3. **Simplify and align/standardise processes** across areas/incumbents and ensure they're fair;
4. Continue to **standardise rules** and Technical Documents across the country for mains lay, service lay and connections;
5. P**romote the direction** of the market more**,** i.e. more competition, and **provide guidance about NAVs** to/for developers – particularly to industrial developers;
6. Require incumbents to **publish all enquiries** they receive from developers so SLPs can actively quote for them;
7. **Regulate charges more** so that alternative providers can calculate exact figures;
8. Regulate incumbents' **developer services timescales** more [Although we "*aren't too bad*"];
9. Provide an **independent advocate** who SLPs/NAVs can go to outside water companies to escalate an issue if it's taking too long to resolve;
10. Increase the amount of **work classified as contestable;**
11. Ensure NAV tariffs offer a reflective and appropriate level of **margin** to cover what it costs them to serve end customers, and
12. Simplify and shorten the **licensing process** for NAVs.

Next steps

Various actions could be taken by NWG and the wider market, which are fully listed in the conclusions and recommendations section.

NWG can improve how it signals its support for these markets to developers and the information and functions it makes available to alternative suppliers to enable this. Further research is also needed by NWG to better understand the users of their Developer Services, and tailor their offer accordingly.

Regulators can look at ways that they can reduce market frictions by reducing the regulatory load, improving price allowances, considering closer regulation and scrutiny of incumbents, shortening timescales and driving collaboration to align processes and requirements for alternative providers nationally. We will share our findings with Ofwat.

INTRODUCTION

Our vision is to provide an unrivalled customer experience for all developers and supply chain partners throughout the whole project life cycle. Our 2020-25 business plan states that we will improve developer awareness of self-lay and the benefits it can bring. This includes supporting the use of markets for delivery, which means we must ensure that self-lay providers[2] (SLPs) and new appointments and variations (NAVs)[3] have an equal opportunity to win contracts.

We have planned this project to engage with SLPs, NAVs and developers to help us to understand why SLPs and NAVs aren't finding a foothold in our areas.

BACKGROUND

We are aware that there is a relatively low activity of both SLP and NAV activity in our areas, compared to the rest of England. In our areas, we connect around 90% of new developments to the water and wastewater networks ourselves, with around 10% delivered by SLPs. Elsewhere in England, SLPs deliver much higher percentages of connections, on average.

This was highlighted to us in a recent letter from Ofwat and also in Ofwat's consultation document Charging arrangements for new connection services for English companies: Comparative analysis and consultation published in May 2020. The consultation notes inconsistencies across the industry, including divergent charging levels which have administrative implications for developers who may work in more than one water company area. This brings problems for SLPs and NAVs.

The consultation includes that in the Northumbrian Water and Essex & Suffolk Water (NES) areas, 10% of connections are made by SLPs – amongst the lowest in the industry, despite our charges being mid-range. Therefore, we need to do more to demonstrate to Ofwat, and the industry, that we welcome and support SLPs and NAVs in our areas.

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2 Defined by Ofwat as an independent contractor who installs water main or sewers on new developments with the water company adopting adopt self-laid pipes that meet the terms of its agreement with the developer or self-lay organisation (SLP) that carries out the work.

[3] Defined by Ofwat as a limited company which provides a water and/or sewerage service to customers in an area which was previously provided by the incumbent monopoly provider. A **new appointment** is made when a limited company is appointed by Ofwat to provide water and/or sewerage services for a specific geographic area. A new appointee has the same duties and responsibilities as the previous statutory water company. A **variation** is where an existing appointed company (an "appointee") asks Ofwat to vary its appointment so it can extend the areas it provides services to. A NAV, therefore, involves **one company replacing another as the appointee** for a specific geographic area.

Figure 3.1: Comparison of SLP market share and water companies' on-site charges

Ofwat's letter also criticised Northumbrian Water Group (NWG) for not being able to demonstrate formal engagement with NAVs.

This project engaged developers, SLPs and NAVs to gain a full understanding of the barriers to the SLP and NAV markets growing and concludes with recommendations on how we can encourage more SLP and NAV activity in our areas.

We anticipate that an increase in SLP and NAV activity in our areas would bring three key benefits:

- **Choice for developers:** We wish to support developers in our region. If SLPs or NAVs can provide a service that is more efficient or effective than the one we offer, we welcome developers choosing this. Choice can often drive innovation and improvements, which we support.

- **An improvement to our quantitative DMeX score[4]:** Companies that score well on this measure have a higher proportion of new connections made by SLPs. Our overall D-Mex score (Ofwat's measure of satisfaction and service for developers and SLPs) currently ranks within the top three companies. However, our quantitative scores sit in the lower quartile and could potentially be improved if SLPs delivered more work, by taking that activity outside of our control.

- **Financial de-risking:** There is no financial benefit to us laying pipes ourselves. Our position is that, provided a lay meets Water UK's Self-lay Code of Practice , we have no preference who delivers it. In some respects, more self-lay could benefit us by eliminating some of the financial risk that comes with installations (i.e. if a scheme costs more to deliver than estimated).

We have received criticism from SLP representatives that the market for self-lay isn't open in our areas. There are several reasons why developers may be choosing us over SLPs and NAVs. Historically we've asked developers (but not SLPs or NAVs) why this is, and they gave the following reasons:

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4 We need to be mindful that this could have a negative impact on our strong qualitative scores (First in shadow year and currently second)

- **Bureaucracy:** A general perception that the self-lay route comes with increased bureaucracy;

- **Relationships:** Developers valued our 'open-door policy' and our approach to collaboration during the full development cycle. They also valued our knowledgeable and approachable employees in the Developer Services Team. Because of this, some developers are more comfortable working with us and are not motivated to explore working with SLPs and NAVs, and

- **Charges:** Our charges are reasonable, which may act as a barrier to SLPs or NAVs getting a foothold in our areas. (However, this could mean that competition is working.

EXISTING INSIGHT

When developing our new charging arrangements for 2018, we engaged with a wide range of developers and SLPs to listen to their views and better understand each sector's needs. We asked them how we could better support the delivery of self-lay schemes. We consistently heard that developers want:

- Us to make self-lay options easier for them and that a single point of contact within our company would facilitate this;
- To see greater transparency in our cost estimations and greater flexibility in our resources to respond to development activity, and
- Improved timescales and more resource for a range of activities (e.g. pre-development enquiries and vetting of sewers).

Our review of other companies' business plans following Ofwat's 2019 Price Review (PR19) revealed that:

- **Wessex Water** conducted research with developers and found a strong desire for greater transparency, with a clear indication of contestable charging options;
- **Severn Trent** engaged with developers who were using a mix of Severn Trent and self-lay companies to lay pipes at new housing developments. All respondents said they would consider using Severn Trent, rather than, or as well as, self-lay companies in future. There was no single key driver for this. Developers were looking for a combination of low cost, enough resources, timeliness, a low admin burden and a strong working relationship, and
- **Thames Water** were planning to introduce a dedicated team for self-lay providers. This was to include account executives and a dedicated field team to provide support to key processes and service delivery. When they submitted their business plan, Thames had started customer journey mapping as part of its future transformation plans.

Key points from Ofwat's Review of Incumbent Support for Markets (August 2020) included:

- Yorkshire, South West and Thames were the best performers overall. Affinity, Sutton & East Surrey were the worst;
- There were wide differences in SLP market shares between incumbent regions, and Ofwat expressed concern about low market shares in Portsmouth, South West and NWL areas. Higher market shares were quoted for Severn Trent and Anglian;
- Incumbents offered variable services to SLPs, with some companies (none named) slower to respond to SLPs than to other customers;
- Incumbents needed to engage effectively to improve their offer and customer experience, and
- Incumbent's charges for developer services need to be transparent and cost reflective.

The company-specific letter to us which accompanied Ofwat's August 2020 review also highlighted that:

- We perform well against Water UK Levels of Service metrics;
- We appear relatively well prepared to implement Codes for Adoption;
- Our website is easy to navigate for developers, NAVs and SLPs;
- Our response to their charging review questions was clear and demonstrated effort to scrutinise our charging arrangements;
- We provided a very clear, well-evidenced explanation of derivation of charges, and
- Ofwat were pleased to see that we had consolidated our different agreements with NAVs into a standard Bulk Supply Agreement and a standard Bulk Discharge Agreement. Their review found that most companies had not done so.

We have recently engaged with Ofwat to state that:

"We believe that developer services should be removed from the single till from PR24. As Ofwat recognised in the PR19 DSRA, the PR14 determination created a disincentive for companies to encourage new development, due to the 100% capture of developer income but the 50% allowance for the associated costs. Whilst the DSRA goes some way to rectify this, it adds a further complex model calculation at the end of the period and does not cover new non-household connections. Given the advancement of market competition and the charging guidance requirements for companies to make cost reflective charges, we feel that, from 2025 onwards, developer services income and costs should be removed from the price control, with market forces and charging guidance adequately protecting developers instead."

We have also compared incumbents' D-MeX scores against their SLP market activity for the six months beginning on 1 April 2020 (as we have no D-Mex qualitative data beyond that point).

We used the number of service connections made by incumbents and the number made by SLPs in their areas to calculate a measure of SLP market share. Three incumbents - Southern, South East and Sutton & East Surrey had reported no SLP activity for this metric, so this should be viewed with caution.

This graph shows the D-MeX qualitative score versus SLP market share:

D-MeX Qual v SLP market share
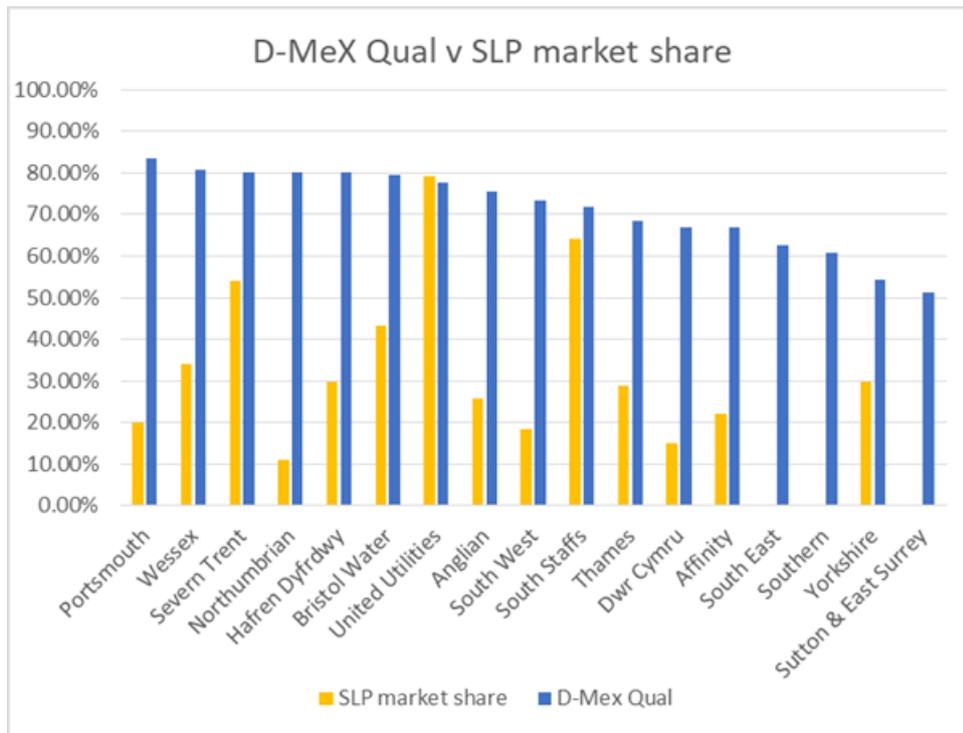
The graph below shows the overall D-MeX score (qualitative plus quantitative) versus SLP market share:

D-MeX total v SLP market share
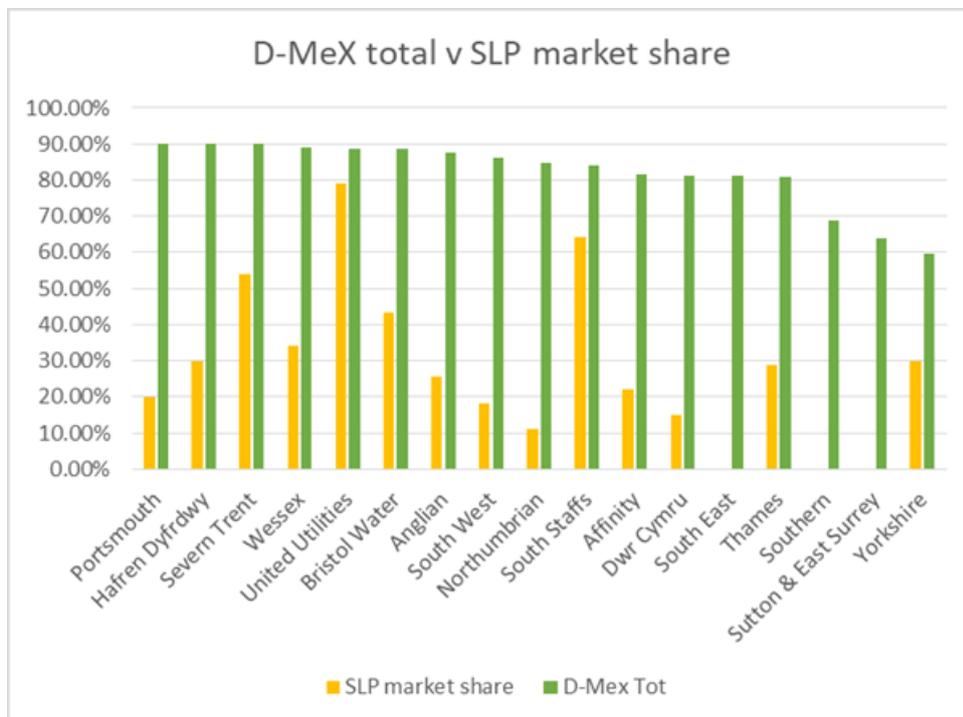
These charts do not demonstrate a relationship between satisfaction with incumbent developer services and SLP market share.

AIM AND OBJECTIVES

The aim of this research was to gain insight into why the self-lay market wasn't growing quickly in our areas. Engaging developers and self-lay providers on these issues would also help to signal our commitment to supporting the delivery of self-lay schemes to our regulator, Ofwat.

We engaged SLPs, NAVs and developers to explore what we could do encourage and increase competition in the market. This included:

- How we could make self-lay and NAV options more accessible to developers, within the bounds of Ofwat's Code for Adoption Agreements;

- How we could support and champion the use of SLP and NAV markets. For example, ensuring that all our guidance notes, application forms and web pages clearly highlight the role that alternative providers can play;

- Our PR19 business plan states that we will introduce key account managers for developer services. We also plan to introduce digital self-serve options to improve the customer experience of developers, SLPs and NAVs. To understand whether these are service touchpoints that developers, SLPs and NAVS want and would prioritise the development of, we will explore:
  - What the ideal customer journey looks like to a developer, SLP and NAV, with focus on our current customer journey and potential improvements which could be made at all stages, such as:
    - Initial application;
    - Award, and
    - Ongoing relationship;
  - Whether or not key account managers are wanted, and, if so, the role they are expected to play, and
  - The digital experience and portals: Options for developers to build their own quotations online, select a preferred date for the work to take place, and receive automated updates on progress.

SAMPLE

We completed 15 interviews between mid-November 2020 and early January 2021. Three were with NAVs, four with developers and eight with SLPs. Job roles included heads of compliance, heads of technical, design engineers, and heads of business development.

SLPs	NAVs	Developers
Sample: 8	**Sample: 3**	**Sample: 4**
We spoke to four SLPs who regularly operate in our NW area and four in ESW. We also tried to engage with SLPs who operated within or close to our borders, but who had not yet successfully tendered for work in	There were four active NAVs in our areas – one of which is another incumbent water company. All of these have historically been water-only.	All developers were regional technical leads for national developers who use our lay services. All respondents were NW based.

SLPs	NAVs	Developers
our areas. We consulted the Lloyds Register (accrediting body) of SLPs to identify potential companies and contacted them via email and follow-up telephone calls.	We spoke to the three NAVs.	

METHODOLOGY

The Developer Services and Wholesale teams 'warmed-up' potential participants who we had an existing relationship with and encouraged them to participate in an interview. This was followed up with direct email and phone contact. Where more than one person in an organisation wished to be interviewed, we conducted joint interviews.

We conducted qualitative, one-to-one interviews with all participants on the platform of their choosing (i.e. Zoom, Teams, or telephone call). Interviews were conducted in line with the Market Research Society Code of Conduct and our Privacy Policy. All interviewees were given appropriate assurances about confidentiality and data retention and consented to the according terms and conditions before participating.

We audio recorded all interviews with the consent of individual interviewees, and these texts form the data from which this draft report was produced.

The discussion guide covered topics in the following order. The full guide can be found in the Appendix to this report:

- Awareness of SLP and NAV options among developers in their areas

- Use of SLP and NAV options by developers and whether they prefer incumbents or alternative providers

- Perceptions of the size of the market for SLPs and NAVs in our areas

- Barriers to the market growing in our areas, with specific prompts on:
    - Perceived increased complexity with the alternative provider option
    - Established relationships with incumbents
    - Ofwat's charging rules

- Whether participants felt there was an equal opportunity for alternative providers to win contracts in our areas
- What developers look for in providers
- Benefits of increased use of SLPs and NAVs in our areas
- What more we can do to champion and support SLP and NAV markets
- What the water industry can do to champion and support SLP and NAV markets
- What we could do to improve participants' experiences of NW/ESW as customers. Prompts included:

- The application process *(forms etc…)*
- Our guidance notes *(website content)*
- Cost estimation and charges *(clarity, availability, accuracy, accessibility of information)*
- Self-serve, the digital experience and portals *(Options for developers to build their own quotations online, select a preferred date for the work to take place, and receive automated updates on progress)*
- Account managers/single point of contact *(Are account managers wanted? What role would they be expected to play?)*
- Timescales
- Ongoing relationship.

FINDINGS

This research has given all developers, SLPs and NAVs active in our areas the opportunity to engage with us to help shape the market and improve our services to them. This has had a positive impact on their perceptions of us as a company and our willingness to encourage the market to develop:

"It feels more now that water companies want to be involved in the change and help move things forward" (SLP).

"This would never have happened a couple of years ago." (SLP)

We also shared our initial findings with Ofwat, to assist with their market review, in January 2021.

It should be noted that while alternative providers had often worked with us, this may not have been very recently, and therefore many were speaking about water companies in general rather than NW or ESW specifically. Any comments made specifically about us have been labelled as such.

What developers look for in providers

Developers' top priorities are delivering completed sites, on time, for the best value for money. Some developers are more focussed on speed, while others are more focussed on achieving the lowest cost. However, none suggested they would compromise on standards, because they do not want issues after the site is completed. They want to be able to move on to delivering the next site:

"Developers are well run, competent, very commercial businesses so they like to have the most competitive offer." (NAV)

"Most developers just want to know that the job's done and won't come back to bite them." (SLP)

"They like to keep everyone on their toes." (SLP)

Some developers are focussed on getting cash back into their business through home sales as soon as possible after they've paid for the land. An easy, simple process for water enables this – especially if the developer, SLP or NAV does not have regional teams. For the same reason, developers dislike paying up front or in bulk for services that are delivered piece-meal:

"Developers don't like infrastructure charges for the whole development up front. They prefer by house completed." (SLP)

"With NW we pay the requisition fee; pay the connection charge; occupy the first house and have only spent £3k. SLPs may ask for money for the whole site up front." (Developer)

Developers work to annual, half year and even quarterly completion targets. Alternative providers are often more willing to rearrange dates, so that developers can catch up if a site falls behind schedule. However, not all developers are aware of this benefit in our areas.

"We aren't so hidebound by the forms and functions of delivering connections." (NAV)

"We're responsive to the developer's time demands. We're purely there for the developer and don't have to worry about repairs and maintenance, leaks, bursts, knocking off an estate down the road..."

(SLP)

Because developers are so focussed on cost control, they prefer cost certainty as early as possible, which is slower to obtain via an SLP. They would like fixed costs at the sketching layouts stage, rather than a range to budget against:

"We can judge the apparatus to be laid, we already know NW's costs for a certain number of plots, but we don't know the SLPs' ones until we ask for a quote." (Developer)

Developers are also looking for certainty about when services will be provided and how much they cost. As NAVs are still relatively new especially in our NW area, they can seem riskier.

Smaller private developers and consultants appreciate more of a personal touch. They are more likely to be unfamiliar with processes and therefore require more support.

Developers' awareness of alternative providers

Developers are generally aware of SLPs. Multi-utility SLPs are promoting water services as part of their package and are already laying electricity, gas and broadband in our areas for developers. Large, national SLPs like GTC are growing in our areas, as are their NAV roles with their sister company Independent Water Networks Ltd (IWNL).

However, not all developers have experience of using SLPs for water in our NW area, and SLPs think some developers are less aware of the option to use SLPs for water designs in our areas. Smaller, private developers and consultants were said to be less aware of SLP options, but some SLPs are actively targeting these clients.

Developers have low or no awareness of NAV options, especially in the North, but NAV business development teams have been promoting their services and are starting to see more interest from developers since April 2020. Most developers in the north were trialling NAV sites:

"I think they're all pretty clued up these days, mainly because the people doing this work are probably knocking on their door, trying to get work off them and opening their eyes to who is out there providing this self-lay service." (SLP)

Do alternative providers have an equal opportunity to win contracts in our areas?

Most participants felt that the market had become more open in recent years:

"It's a lot more open than it was 2-3 years ago. More transparent and not pushing people in one direction." (SLP)

"On the surface, yes. I don't see why there should be a difference. I don't have any evidence for things going on underneath." (NAV)

However, but many participants felt there was further to go before the market was completely fair. NAVs felt that they did not have a level playing field because of the complexity of the processes when dealing with incumbents and Ofwat. They also felt that their margins were not allowed to reflect their own costs. (Please see detailed comments below.)

Developers don't have much experience with NAVs yet, so they can be unsure how the process will work, which can lead them to delay trying NAVs. However, some NAVs were confident that they would be able to explain the process and persuade developers to give it a try. Some developers were already starting trial projects with NAVs:

"Yes. That's down to us and our ability to sell and demonstrate our services. It's entirely within our gift."
(NAV)

Some participants mentioned that SLPs which had already completed projects in an area have an advantage over newcomers to an area, because they had experience of working with the area's incumbent water company:

"We should do [have an equal opportunity] but no. The SLPs that work regularly in your area will have relationships, e.g. with your designers. They'll know how everything works and can answer questions much more quickly. There's always things that are slightly different to the design manual and they'll know those from experience." (SLP)

"It's purely on your reputation in the market. If you've done a good job, there's no reason why you can't be successful." (SLP)

Some SLPs felt that the market was still skewed in incumbents' favour:

"NW could easily win a site if they wanted to." (SLP)

Some SLPs mentioned that the AV payment change in April 2020 has made it more beneficial for developers to use NAVs than SLPs. Using SLPs costs developers more up-front, when they prefer to pay later:

"Removal of AV this year will continue to make a big difference. It used to be given to the SLP, who then took it off their quote or infrastructure charges. Now the up-front price looks more expensive for SLPs than the host water company to do the work because we've also got the non-contestable charges." (SLP)

The change in AV payments in April 2020 made SLPs feel that NAVs were more attractive to developers than SLPs. This could be remedied by SLPs working for NAVs, and some already were:

"SLPs used to get a 20% up front, then a nice increment depending on the number of units. We now have to outlay at our cost and risk until it's connected and drawn off it. That's a big risk, especially with Covid at moment. We're quite established (100 staff - grown from 6) so we can afford to bankroll the next job. We invoice on 90-day terms with developers that we know pay on time. Other SLPs relied on the AV. The NAV option will become more of a selling point." (SLP)

"It used to be unfair to NAVs but now it's a level playing field. SLPs can now work for NAVs." (NAV)

The introduction of D-Mex was seen as something that could improve the ability of SLPs to compete with incumbents because it creates financial penalties if water companies do not meet their promised timescales:

"The timescales of water companies are longer than SLPs', and [before D-Mex] we didn't have any redress if they didn't meet them." (SLP)

Use of alternative providers in our areas

In the NW area, some developers were reluctant to try using SLPs and NAVs. There are not many alternative providers based in the North East region, and developers said they want certainty that there is adequate resources and skills nearby. However, some developers have 'relented' to the sales forces of their dual fuel providers and are starting to trial NAVs:

"Not yet. I'm not familiar with any [NAVs]. What do they do?" (North East based housebuilder)

"We're running some trial sites with NAVs." (Developer)

In the ESW area, participants over-estimated the market share of alternative providers, assuming that around 50% of the market for water was currently laid by SLPs, some of whom are now starting to subcontract for NAVs. Participants were aware that developers had been slower to use multi-utility providers in our areas than elsewhere in the country:

"A lot of developers are aware we can do the water. There's a slight reluctancy because initially there were issues - Some just aren't interested." (SLP, NW)

"The NAV market's been slow to grow but developers are becoming more aware. We work with all the major housebuilders. Multi-utility has been less prevalent in ESW until now. Some developers are reticent until they're confident that everything will run smoothly, but it's not going to take very long." (NAV)

"Larger developers are starting to default to NAV options." (NAV)

Some SLPs and developers avoid including fibre broadband in their multi-utility package because of issues they've had with it in the past. One national developer had even started their own company to lay fibre broadband because they had so many issues with BT. In addition, some NAVs have group agreements with utility providers for broadband, which can discourage developers from using them for broadband:

"Doing fibre was a big step for us but everyone was having big problems with BT. They owed a lot of money. [Developer] took them to court and we just said: 'We're not getting involved in this. We're setting up our own company.' We've got our own brick and tile factory …because there was issues getting hold of bricks a few years ago with a bit of a cartel going on." (Developer)

Developers' preferences for alternative providers or incumbents

SLPs are judged on their previous performance, with some developers avoiding using SLPs for water lays because they've had a bad experience with one in the past:

"They're only as good as their last job. We're approaching bigger SLPs now. We have about 50/50 NW versus SLPs now." (Developer)

"When the site manager was trying to book things in, it didn't gel well. My boss told us to not go down that route again." (Developer)

Developers are often happy with the service they are receiving from NW and ESW, and some SLPs feel like they only get the chance to win water lays because they already provide the other utilities:

"We only get the water because they come to us for the gas and electric." (SLP)

Some developers choose their provider purely on cost, so they have no preference between NW/ESW and alternative providers:

"Large developers are well aware of self-lay and don't care that much about who does the water, as long as it gets done on time. There are some who know more about water than we do, and others that know nothing, but they're all happy to let us do it. It's our standard service." (SLP, ESW)

Because water is the deepest asset and must go into the trench first, incumbents can cause delays for other utility lays. On the other hand, some developers prefer to use incumbents for water because they're worried about issues:

"It's horses for courses really – they [NW and SLPs] are very similar. Fastflow are an easy target to blame for project delays. They're easy to work with but over-subscribed at this busy time of year (December) so can take longer. And we don't have a contractual relationship with Fastflow where we could lean on them like we can with SLPs. On the other hand, off-site connections are always difficult to achieve in the public highway. They're reliant on Fastflow so timescales can't change." (Developer)

Developers did not seem to have a preference between using NAVs or incumbents yet. This is because many developers don't yet fully understand the process and don't have a full experience of working with a NAV.

Benefits of alternative providers for developers and customers

All participants could see marginal to no benefit to the end customer who buys a property from a developer. One example was given by an SLP from the power industry where they perceived that IDNOs actually make power more expensive for customers because of how the Asset Value is calculated and adding their margin.

Some developers and alternative providers were able to cite the following benefits to *developers* of using SLPs and NAVs:

1. Multi-utility SLPs and NAVs take a lot of the administration and 'pain' away from developers. Developers benefit from having a single point of contact for all their utilities. NAVs can handle the whole process as a package for developers, including all the payments. They also work across different geographies, so a developer may only need to deal with one NAV for the whole country:

"We don't want to be getting involved in paying for infrastructure charges, so we're not just putting pipe in the ground - we manage the whole process. We're actually managing the developers' payments. We build that into our quote and then we do all that work behind the scenes for them. When they call off, we're doing the payments for infrastructure costs, planning it in…" (NAV)

2. In addition, SLPs and NAVs can have shorter timescales and can be more flexible for developers. One NAV claimed they could deliver a design within a week. Alternative providers can quickly respond to changes in timescales, and are also willing to lay small amounts - rather than doing the whole site in one go like incumbents often dictate. This flexibility particularly benefits small developers who self-fund and therefore need to complete each plot as soon as possible:

"We can respond very quickly, which is a key thing. If a developer says, 'I need 10 connections next Thursday,' we can make it happen." (NAV)

"Turnaround times for NW are really quite slow. We are more flexible. We may have a team on a different job and the developer rings us to ask if we can lay some main at the same time as they're putting a drain in - It could only be 20 to 30m of pipe, half a coil - We can have someone there the next day. You can't do that with NWL and Fastflow and that. It's regimental. If you're booked in for Tuesday, you're booked in for Tuesday. On the bigger developments you've got the sewers and that...but with the smaller developers (20 houses) it's really hard for them. They have to fund it themselves." (SLP)

"I would almost pay more for reliability of water on site on a certain date, as it impacts on the ongoing cost, e.g. trenches needing to be re-dug after rain and the cost of disposal." (Developer)

"We are more reactive, innovative and nimble, whereas water companies offer a much more basic 'vanilla' service." (NAV)

"It's never perfect. There's always going to be hitches now and again. Things aren't always as planned. But we're pretty good at overcoming those as well. If things do go wrong, we're pretty good at getting people back there, at short notice to get that thing moving again." (SLP)

3. There are cost savings to digging one trench for all the utilities, which can be passed on to developers. SLPs and NAVs cited 'substantial' cost efficiencies from excavating one slightly wider trench at the same time for all utilities, rather than several trenches:

"I always laughed when I was first in the job because there used to be a beer advert where everybody turned up to be in the hole at the same time …and literally we were offering that package." (SLP)

"There's a saving available with SLPs/NAVs unless it's a very large scheme (1,000s of plots). The ideal range for SLPs is 50 to 1,000-plot projects." (SLP)

"We can come up with one design that suits all utilities. "They all have to compromise a bit but otherwise you can end up with multiple trenches, all crossing roads at different points, on different sides of the road for different utilities etc." (SLP)

However, not all developers are seeing significant differences in costs. In theory, increased competition for incumbents could drive prices down, but not all are sure prices are going down in practice (Ours are).

One NAV suggested that NAVs partnering with incumbents could potentially achieve efficiencies of scale. Incumbents could make money in different ways, e.g. by offering contracts for operational maintenance services, meter reads and sampling to NAVs "*but incumbents don't see the opportunity and benefits of doing this.*"

4. Additionally, there are benefits to coordinating employees from one organisation rather than several, because if one utility is delayed or cancels then the others are all affected, which can cause further delays.

"90% of the time you would get a cancellation when you're working with multiple organisations." (SLP)

"For six or seven houses, it can take a morning to dig, we can lay all the cables and pipes and fill it in the next day. If you're using incumbents, then you're waiting three or four times. You're not going to get all them lads working in the trench at the same time. You have to wait until each team finishes. Water goes in first because it's the deepest. In bad weather the trenches can collapse. If a trench collapses, then it's harder to dig out again because you've already got a utility in there." (SLP)

Despite the benefits cited, some developers claimed not to have noticed a big difference between incumbents and SLPs:

"They slim down the admin slightly, but I've not noticed a difference in cost." (Developer)

And some developers saw using incumbents as more efficient/direct:

"The design for water drives the gas and electric anyway." (Developer)

5. Using alternative providers reduces the risk of delays because SLPs and developers are never sure whether the incumbent will turn up on the day they've booked, as incumbents can be called out to emergencies:

"From the Project Manager's point of view, there's a perception that it's always an 'emergency' because you're never quite sure if it's true or not – This may be a legacy thing. Unfortunately, if you met a developer Project Manager, nine times out of ten they think alike. There's a lack of trust there. It's the same for power companies. It's a cultural thing." (SLP)

Greater choice of provider also allows developers to avoid pinch points in the year, when one provider may not be able to meet demand:

"NW is oversubscribed at key points in the year, e.g. December, March." (Developer)

6. Some alternative providers cited improved customer service for developers as a benefit:

"It's a cultural change. It's forced some incumbents to think about their relationships with developers and find out why they're so keen not to deal with them. When we first started out with electric, the biggest draw card was that we weren't the incumbent [not NW/ESW]. *Developers hated dealing with water companies. So, we'll take that pain away."* (NAV).

"It will make water companies look at their internal processes and ensure that their networks teams are working harder and better with their developer services teams." (SLP)

7. Competition was also thought to have the potential to assist in standardising the water industry across geographies:

"Making the process much more fluid." (SLP)

"NAVs only have to stick to one set of rules." (NAV)

8. Apart from the benefits of only one trench, only one NAV mentioned any potential innovations as a benefit, which was more sustainable solutions.

"It's evolution not revolution, and more to do with the regulatory environment than physical on the ground activities. There's only so many ways we can deliver water to customers." (NAV)

Market share

Participants mentioned that the housing market is currently growing very quickly because of a historic shortage of supply, government demands to increase supply and reboot the economy, and changes to planning laws.

In terms of the market for alternative providers of water connections, many over-estimated the proportion of self-lay activity, assuming that around half of residential plots were currently self-laid – usually on the larger sites with larger developers[5]. One incumbent area [not one of ours] was cited as an area where most sites were self-laid.

Commercial and industrial sites were thought to be mostly laid by incumbents, which was thought to also be the case in the power industry.

One SLP mentioned that nationally the WIRS register for SLPs has grown substantially (to currently about 170 providers). However, there is still a large discrepancy between the WIRS register and the much longer list of SLPs who provide power. This suggests that there are still structural reasons why SLPs are not undertaking water projects:

"Not many companies that do power can pick up water. It seems more niche, but companies that do water can pick up the other utilities more easily. Water's quite a governed area with different rules to follow in each geographical area. That's where NAVs might help newcomers, as they'll be more used to this." (SLP)

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[5] Data provided by companies to Water UK does not show this. Incumbent connection work is still greater than SLP work except in United Utilities, South Staffs and Seven Trent areas.

In both of our regions, NAVs were at the trial stage with developers, but the larger NAVs were confident that they will grow their market share:

"What's available to us is how many new houses are built in a year. The NAV share is tiny at moment but will grow significantly." (NAV)

"We've only been in a truly open market for about nine months now… Lots of SLPs are starting to come into the southern market from the north. If the market hasn't grown to 50% in the next five years in NW's area, I'd be shocked." (NAV)

One small NAV expressed interest in partnership opportunities with incumbents to create efficiencies of scale. They thought that incumbents could make money in different ways by offering contracts for operational maintenance services, meter reads and sampling to NAVs, but they'd found that incumbents don't see the opportunity and benefits of doing this.

Barriers to markets growing

1. The main barrier cited by participants to both the self-lay and NAV markets growing was that some developers were not aware of, or did not recognise, the benefits of using SLPs or NAVs.

2. Some developers were not willing to make the effort to investigate alternative provision because they were happy with the service they received from us, and perceived alternative providers as riskier:

"If we were looking to go into it, then we'd start finding out about it, but because there's nothing that needs fixing, we're happy with how it is really." (NE Developer)

"I don't know a lot about it, and there's effort involved in going away and finding out how that whole process works. If you're not used to it and you don't know what the process is, then you're less inclined to pursue it, because why fix something that's not broken? We know what the costs are going to be from NW, apart from the mains contribution - which we can decently estimate." (Developer)

3. Several participants suggested that the low number of SLPs in the NW area could be down to the high level of training required to lay water and a shortage of water skills and manpower in the North East. Companies based in the site's region provide developers with more confidence that they will deliver:

"Local relationships are a good thing and knowing the area." (Developer)

"It's hard to find people who can understand the processes and have experience unless they've come from a water background." (SLP)

"I heard that Fastflow were thinking about going multi but had to have a rethink and decided just to stick with the water side. All the multi-utility companies [in the North East] seem to have ex NPG or NGN operatives but they don't want to retrain to do the water." (Developer)

"SLP teams need very stringent level of training to deliver water, whereas water company staff don't seem to be as highly trained. We're always being audited by Lloyds and we have to have certain certifications, but we still aren't allowed to do certain things. Planning-wise, that hinders us quite a lot." (SLP)

"It's that local resource. You always have guys in the area. That's the main attraction. The SLPs will try to hit us for aborted visits. Their rate is per hour and it can start adding up, whereas NW's is a standard rate for an aborted visit if we've done something wrong." (Developer)

In the ESW region, there could be the opposite issue. One SLP mentioned that incumbents were struggling to hold onto their water teams because SLPs pay more:

"[Incumbent water company] only have 10 to 15 laying teams, so are restricted on how long it takes them to reach a site. Our teams are guaranteed to get to site within 10 to 20 days, so it's a no-brainer for developers." (SLP)

4. In addition, some of the rules around working in wastewater, such as teams having to wait three days until they can work on clean water after foul, are not practical for small SLPs to manage.

5. Developers know that they need the design for the water lay to be approved by the incumbent before work can begin. As incumbents take a significant time to approve designs, developers need the design to be right first time. Therefore, they tend to go to incumbents for the design, even though SLPs can do it. Once the developer has gone to the incumbent, this makes it harder for the SLP to pick up later work on the project:

"It's like the developer's being led down the incumbent route." (SLP)

6. The need for a legal contract between developer, incumbent and SLP/NAV before they can start work can hinder SLPs. Developers sometimes don't realise the delays they cause if they don't sign the contract quickly, so projects can fall behind.

7. Participants mentioned that poor communication between SLPs and incumbents can cause delays, e.g. after finishing connections so that water meters can be booked in. Several participants mentioned that some developers may perceive that incumbents might inhibit projects, even though there is no evidence of this happening in practice.

8. SLPs also mentioned that some alternative providers had closed their businesses in recent years, which developers could perceive as making using SLPs riskier. Large developers may not want to consolidate their risk by using multi-utility companies in case SLPs get overloaded with work, relationships break down or the SLP goes out of business.

"Developers are cautious because it would put them into chaos. They don't like to put all their eggs in one basket." (SLP)

9. SLPs and NAVs also cited that the processes that only NW/ESW or other water companies are allowed to do (incontestable) were a barrier, and that there were more of these in water than in the power industry.

Some of the activities they mentioned were contestable but can be subject to a risk assessment in advance of permission. The activities SLPs wanted more chance to do included branch connections, connections to mains, diverting mains, reinforcement, meters, design approvals, leak repairs on SLP-laid pipes, and inspections. NAVs mentioned that they could do branch connections and install boundary meters. ESW were perceived by SLPs to be quite open to letting SLPs do a lot of work, e.g.

simpler source of water connections, inspections, meter fits, and designs. Some other incumbents also allow some SLPs to assess where the final connection will be and make it. However, not all SLPs are interested in off-site work.

One water company was reported to allow some SLPs to assess where final connection will be and make it.

"We have to engage NW to do the branch connection from their existing mains. I don't see why that couldn't be developed so that we could do most of the connection and not have to rely on NW to get it done. [Incumbent water company] will let us do some. We've got the same certificates and qualifications as your people." (SLP)

"NW should release the connections after you've been signed off. What happens is NW do the first connection onto the main, then we get it signed off, then we can do all our connections. After you've jumped through all the hoops and proved yourself and been audited all the time (daily whereabouts etc), they should allow that first connection to be done by approved contractors." (SLP)

"We already fit gas meters. Once you've fitted 30 houses, put main in and put meters in, I think NWL should release/provide the meters to the SLPs and maybe a plot plan for where each one should go. As long as we fill in the meters correctly for each property then we should be able to fit them. We could provide data logging/photo/ geotagging to prove it's there. When the test certificates are back and contracts in place etc we shouldn't have to wait for NW's meter fitter to come out. I can understand why it's like it is - because of theft of water etc - but if the developer could prove they have a water contract in place...(SLP)

Complexity barriers

10. All participants agreed that some developers perceived the SLP and NAV route to be more complex and involve more administration. Those who had tried the NAV route were aware that it could in fact be less complex:

"[NAV] are selling it as less complex to developers. There's just a little more admin around agreements. My team's role is to sell our benefits. The admin work is on us, not the developer. So it seems at least as easy - not harder – for developers to use us."" (NAV)

"With our NAVs, the pre-development stage has been very quiet so far." (Developer)

"The client pays us a fee to do that [handle complexity] *for them."* (SLP)

"We go out there, get the information, jump through the hoops to make it happen...Just sometimes it's frustrating." (NAV)

It's a perception but not a reality for SLPs [and developers]. *It is a reality for the NAVs, but not as much as you think once you get to understand it."* (SLP)

Especially for small or national companies, incumbents' processes aren't a good fit and can feel repetitive and slow:

"Unnecessarily complex, repetitive, not transparent and like a 'black box' (unlike telecoms, which is much more straightforward)." (SLP)

"It's far more complex - It just seems to be a form filling exercise sometimes, especially for services - One to say you're going to do something; another to say you've done it; putting meters in... Because they're on site, they've already advised that they're going to do the services. We turn up and the developer will change which plots they want us to do. As long as we give the water company the information they need to create a billing account, it should only be one form." (SLP)

"You don't tend to get what you need from a first contact with an incumbent. It's a long-winded process and getting access to information takes a long time." (SLP)

"I have my doubts sometimes whether if the developer went straight to the water company they would have to provide as much detail [Not NW though]. You never quite know whether the developer's just trying to pull the wool over your eyes." (SLP)

Having to give a lot of unnecessary information to incumbents up front when submitting a pre-development enquiry was cited as bureaucratic:

"I don't need to give my inside leg measurement to get what I need to know. They can ask for the size of the site in hectares and you think 'Why do you need to know this?' It's not necessary at that stage. Maybe it's a legacy issue. Developer Services functions used to deal directly with developers and take a monopoly position. They've simply taken that approach and put 'NAV' on top of it. I don't think it's deliberately anti-competitive. The outcome might have an impact in the wider market, but it doesn't stop us. (NAV)

There are also more non-standardised processes between incumbent water companies compared to the power industry, especially at the initial stages:

"Our processes have been set for a couple of years, so it's not a barrier for us. It's standard practice now, but I can see how it could be difficult for newcomers." (SLP)

"I have to go through all the different incumbent websites, they're all in different formats and it takes me ages to find what I'm looking for. A simpler process is needed, but sometimes it's too simple and we need to detail all the timescales and costs." (SLP)

SLPs hoped that Ofwat's new codes of adoption and design specifications will improve things.

Relationship barriers

11. All participants agreed that existing relationships between incumbents and established providers were a barrier to markets growing:

"Getting your foot in the door can be difficult if the developer is comfortable working with NW." (SLP)

"We had the same thing with NPG years ago. We only went to X for the gas because [gas incumbent] were shocking. The only things that switched us to dual was cost, as [electricity incumbent] were

overcharging. With NW we can't see any benefit to going with multi-utility. Your costs have come down over the last few years if anything.” (Developer)

Relationships can cause inertia and risk aversion when developers are receiving a good service from us:

“We're set in our ways and like working with NW.” (Developer)

“Some developers we talk to say they are used to one thing and will stick with that. They see a NAV or SLP as a gamble or risky and see water companies as financially stable, who've got enough staff to deliver (even if they take two weeks longer).” (SLP)

“Maybe NW are doing a really good job. If developers find it cost effective and easy to deal with the incumbent…” (NAV)

“If it's not broken don't fix it. I can't see the benefit or how it'd be streamlined.” (Developer)

“That's an enormously powerful thing. Look how many of us hold onto our energy or bank accounts when they're not actually the best thing available. The inertia. You might call it a relationship. It's definitely going to be a factor…Companies you've worked with for a long period of time, know who to contact, how to get things done, who to request things from if they need to get things moving, and they wouldn't want to give that up too quickly.” (NAV)

However, not all other incumbents provide a good service to developers:

“We've got a really good relationship with NW on both the drainage and water side - I can ask their team to help out on any issues with Fastflow. They're great to work with. Other engineers around the country have said other water companies can be a nightmare.” (Developer)

“It's purely down to the developers' historical experiences of getting connected. If it's been successful with the self-lay company, then they're probably prepared to go again with us.” (SLP)

There can be quite large differences between office based and site-based teams:

“For developers, the person signed up with ESW in the technical team wouldn't be the team that have a relationship with ESW on site. It's not the main reason.” (SLP)

“It's more the site issues. End November/start of December we try to get all the houses connected ready for year end. With NW, I can just get on the phone if we've dropped a ball and they can make things happen.” (Developer)

“Commercial engineers worry about cost and site managers worry about time.” (SLP)

Some SLPs bypass the relationship barrier by specialising further:

“It's not an issue for me because I fly under the radar, getting the 10-30 plot jobs for the private lads and let the others fight for all the big multi-utility jobs [3-500 homes].” (SLP)

Some developers may also be concerned that using alternative providers would damage their relationship with us, and thereby affect our delivery of other services to them. However, respondents stressed that this has never happened in practice:

"Developers don't realise that NW is quite open to working with us as well. There's a perception that NW would be obstructive and close the door and they'd lose that relationship if they moved away." (SLP)

In addition, one large developer had exclusive agreements with power suppliers and was unsure how that could work with NAVs for water.

Are Ofwat's charging rules a barrier?

Ofwat's charging rules were cited as a barrier by some but not all participants.

Alternative providers think that developers still incorrectly perceived that performance and upstream costs were lower with incumbents, because they were unaware of recent changes to the rules concerning upstream reinforcement and discounted asset payments:

"No not now. It's hard to get the message across to developers that there's really no difference in performance or upstream costs any more. It could be difficult when we would get hit for any upstream reinforcement, where the developer wouldn't, and when companies wouldn't offer us a discounted deficit payment (asset payment). It's a hard one to get over. It's a case of educating. (NAV)

"Don't think so. Your non-contestable prices have just dropped. The way we sell it to developers is that no matter what happens, you've got these [non-contestable] fees up front. It doesn't matter if NWL do it or we do it. I know they subsidise it off the job, but we've never had a problem with it. The developers just know they've got to pay it now. It would be better if it was cheaper, but you've got to pay for your sewerage and extra stuff coming into your systems haven't you." (SLP)

One SLP found some of the charges they had to pay incumbents illogical and potentially unfair:

"It's really odd. It's the only industry where the client has to pay the company (NW) for giving them customers. That's a customer for life. You're talking 50-60 years minimum. It's bizarre. I'm new to multi utilities. They try to say the infrastructure's there to pay for the network, but you need that network to supply the public and the customer anyhow. That's all part of the water charges for the water coming through the meter. It's like someone charging people to come into their shop to help pay for building it."
(SLP)

"The POC is from the nearest main of adequate size, whether or not it's got capacity, so a POC's almost irrelevant. It just guides developers down the water company path." (SLP)

"It depends whether developers understand the rules. All the charges should be published but sometimes you can't work out all the costs. I'm not sure whether this is true of yours." (SLP)

SLPs mentioned that the April 2020 changes to Asset Value payments could make developers less inclined to try them out. The AV payment change in April 2020 made it more beneficial for developers to use

NAVs than SLPs. This is because using SLPs now costs developers more up front when they prefer to pay later. Some larger SLPs can bankroll this but smaller ones relied on the AV payment:

"Yes, because of the change in AV payments. If you hadn't already used an SLP it's unlikely you'd start now because there's no visible financial benefit. Now the NAVs are more forthcoming, you might see a little bit of it, but that's another party to bring in, which may cause a developer some problems further down the line." (SLP)

As mentioned above, one NAV mentioned that they required higher margins than Ofwat's rules allowed:

"There's more work to be done. Some NAV charging varies by water company. Some are more reflective of the appropriate balance of costs a NAV should bear. Upstream water companies should bear some. I'm not sure about NW/ESW. You sell us bulk water /waste services at the boundary. Our bill to the consumer should be no more than you charge. Our margin is based on what you charge us and what we're allowed to charge the customer. The margins should be enough to reflect the customer services that we're now doing. There needs to be transparency as to how those costs are apportioned. What's included and not included, e.g. pumping station costs to serve. NW have a fleet of pumping stations in one area and we may only have one, so our cost to serve is massively higher. The NAV charges should be based on our costs - not your costs." (NAV)

How the industry could support these markets

There were many suggestions from alternative providers about how the wider industry could support these markets, as follows:

1. Alternative providers could benefit from legislation encouraging developers to take up more sustainable options which NAVs and SLPs are better placed to deliver:

"More could be done on the legislative side to promote the green and sustainability benefits of choosing a NAV." (NAV)

2. Ofwat could also consider allowing incumbents to withdraw from the market. At present they are required to participate by law. Some incumbents appear to be almost removing themselves from the market for certain services already:

"The wholesale part now has a different focus. Water companies are realising they can get rid of a lot of the problems with sites and just sell at the boundary." (NAV)

"If you want to be really radical about it you can say 'We no longer provide networks.' I'm not sure you could legally do that. Under the Water Industry Act you have to respond to a requisition." (NAV)

3. NAVs mentioned that Ofwat should reduce the large amount of information they require about alternative providers, who had smaller teams to service these requests than incumbents.

"Ofwat are data hungry, which introduces delays…NAVS are licensed water companies but aren't treated as such by Ofwat and the EA. Instead they are treated as a private operator (second class). Ofwat and the

EA need to build their trust and confidence in NAVs and grant a range of pre-approvals for access to information and other processes." (NAV)

4. In particular, Ofwat's timescales were cited as a significant barrier to NAVs' success. It can take them six months to approve a licence for one site, even for NAVs with multiple other sites where they are already licenced:

"Ofwat's licencing timescales are nonsensical (85 days for a determination for a development). This situation doesn't exist in power. We're a universal provider in gas and electric everywhere. We've never had a licence rejected. We're a fit and proper company. We own an awful lot of connections in power and we're licenced. Why are we doing all this piecemeal licencing? I understand it's enshrined in the Water Act, but Ofwat will not be able to cope. We're going to be building 300,000 houses a year in 2 years' time, maybe 5,000 developments a year. They're assessing our financial stability for every location. We've got x NAVs up and running so why are we not OK this time? It's a nonsense." (NAV)

5. One SLP expressed the hope that D-Mex would help water companies improve their relationships with SLPs and NAVs, and thereby make it easier for alternative providers to do the work.

6. Developers can be nervous about the metering process. Developers had been let down by SLPs not resolving issues with incumbents for several months. One example was when meters get mixed up or commercial meters were set up with the wrong SPID number on the retailer's system.

7. One SLP found it helpful when developers received the AV payment directly because it incentivised them to ensure that sites were well looked after once utilities had been installed. This will become irrelevant as asset payments are no longer payable on self-lay schemes that started after 1 April 2020.

"We're not the ones on site who are responsible for finishing off final surfaces and things like that, which I have no control over. Damage to assets is a particular problem if you're trying to claim Asset Values and agents aren't happy with the condition the site's been left in." (SLP)

8. Ofwat could consider enabling more of the work to be contestable. Some alternative providers thought they should be enabled to deliver branch connections, diverting mains, connections to mains and boundary meters, as well as repairing leaks on the network they've just installed.:

"Now we can do the design ourselves (like power). But we still have to go to the incumbent for lots of things that are more open in power. It still has some way to go." (SLP)

"If you're on a site that's been handed to NWL and there's a leak then you'd have to get NWL to fix it, even though we laid it and know exactly what that's feeding." (SLP)

ESW were perceived by SLPs to be quite open to letting SLPs do a lot of work, e.g. simpler source of water connections, inspections, meter fits, and designs. However, not all SLPs are interested in off-site work:

"Off-site work creates the potential for issues I don't need: Mains not being where they're supposed to be, not the size they're supposed to be, council notices taking a long time... The statutory undertakers are much better organised at that kind of thing, getting it done, and leaving me with something within site or at a site entrance where I don't have to worry about what happens off-site. It's a labour of love to me. It's more money in one sense, but it doesn't always go to plan. And it's a headache thereafter quite often to

then put right. If there's an issue, the developer can talk to you and not me about it. I've got more control over on-site stuff that we deal with. If that's in my hands, I can be responsive to that with my contractors. Anything I've got in my power on that site I can. Off-site, it's somebody else's network, somebody else's assets. I have not got the power to do things at short notice that really might be able to avert long term problems." (SLP)

9. Incumbents can offer more clarity and certainty than SLPs can at present. Participants suggested that incumbents should be obliged to publish more self-serve information to help with this. (See how NWG could support the market section below).

"NW/ESW can answer all a developer's questions. They get the final say in the design and can also design it. We have to make assumptions about whether it's ok to lay somewhere. We don't want to get hit with a huge variation later, but we don't want to pay a massive charge up front either." (SLP)

10. Another SLP suggested that the new Code of Practice could be developed further to help align how self-lay works across different incumbent areas, in a similar way to power:

"We could do with the same set of rules (i.e. Technical Documents the same across the country) for mains lay, service lay and connections." (SLP)

"You have a different set of criteria to achieve for each water company, so depending on who you deal with, you've got a different set of processes. Overall, they're all the same thing - applying for water connections, notifying them of works and things like that. But it's about understanding the individual addendums, so that you're working within their processes and their requirements. The regulator could simplify them and say whether they're fair." (NAV)

"You've got to re-acquaint yourself with the incumbents' processes when you get a job in a new area." (SLP)

11. Developers using directories to search for local utilities like Line Search and Think Before you Dig will find that they automatically show incumbents because they own most assets. Developers won't see alternative providers at the top of the page because they don't own the assets. The industry could look at redesigning such directories to make alternative providers as prominent as incumbents.

One SLP suggested that Lloyds Register could also be improved to make it more filterable. At present it only shows the areas of the country that alternative providers work in, but information about the types and sizes of sites serviced and services offered may make it easier for developers to find the right provider for their needs.

12. Ofwat could require incumbents to ensure developers understand alternatives:

"Incumbents informing developers of other options and ensuring they understand could be a requirement just like the GDPR information at the start of this interview." (NAV)

13. SLPs suggested that Ofwat itself could also promote the direction of the market more, i.e. ensure developers are aware that they want more competition and provide guidance about NAVs to/for developers. One suggested that they target industrial developers with information, as these are very likely to go to incumbents first.

One SLP even suggested that Ofwat could require incumbents to publish all the enquiries they receive from developers so that SLPs could actively quote for them.

14. An SLP commented that some incumbents did not provide enough detail or clarity in their charging documents, so Ofwat should regulate charges more:

   "The charges are published but I often can't get the exact figure or get them to match." (SLP)

15. SLPs found incumbent timescales long and inflexible. Therefore, Ofwat could regulate the timescales which incumbents must meet for developer services to NAVs and SLPs more:

   "NW aren't too bad, but when we are dealing with a potential client and they press go, we have to get stuck in quite quickly." (NAV)

16. One SLP also said it would be useful to have someone they could go to outside of water incumbents to escalate an issue if it's taking too long to resolve, *"because you can go quite high up in water company and still nothing happens."*

17. One large NAV thought that their costs were not fairly considered when Ofwat decided how much to allow them to charge their customers. Instead it was assumed that their costs were similar to incumbents', when in fact they had higher costs to serve due to having sites spread out across the country:

   "Ensure NAV tariffs offer a reflective and appropriate level of margin for the amount of work and money it costs them to serve end customers." (NAV)

How NWG could support and champion these markets

Some participants were incredulous that NW/ESW was asking this question. They found it difficult to understand because of their commercial backgrounds why we would want to give business away.

"You're a business. Comply with the rules, but you still want to keep the business if you can." (NAV) "Why would you want to do that?!" (SLP/developer) "I would find it difficult to do that if you asked me to though." (NAV)

(laughs) "I'd have to ask somebody in NW why they would want to do that. I mean, why would you want to lose your business to somebody else? It's just a legacy thing that you were the old footprint water company. I mean, I don't have to go and promote other companies do I, and say 'There are other self-lay operators out there?' But you don't want to be handing work over to people." (SLP)

1. Many developers and alternative providers suggested that NW/ESW could **ensure that all players in the market are aware that the company is genuinely comfortable with the self-lay market**, doesn't have any issues, and that using a self-lay provider will not affect other services from the incumbent, e.g. wastewater for NW customers.

   Incumbents could include pointing out the benefits to themselves of SLPs providing them with end customers. This was suggested to help give developers the confidence that they are not going to be penalised and NW/ESW aren't going to take offence for them using alternative providers:

"If we used an IDNO then the engineers at Northern Power Grid used to make it feel like you were robbing them of work." (Developer) *"I'd like a clear policy from NW on NAVs and SLPs. What is their preferred way forward - would they like to slim down?"* (Developer)

"There's always a lot of resistance in the beginning to independents from incumbents when a market opens up. They think "They're stealing our customers" and find it hard to accept. Most eventually realise that it's great to not have the last mile and only deal with one customer. Their business is about keeping the water flowing and taking wastewater away. It isn't about getting a call on Friday afternoon asking them to connect one property because Mrs Miggins is moving in the next day. It's emotional because it's about customers that people have served for hundreds of years so I get it. This doesn't necessarily apply at all to ESW/NW." (NAV)

"[Incumbent water company] weren't comfortable with self-lay in the early days as they were worried people would lose their jobs, but it hasn't come to that. We're all more of an add-on to each other. [Incumbent water company] ask us to help them and we're now someone they can rely on as a contractor - not just as a self-lay operator." (SLP)

"Show that NW/ESW welcome NAVs coming into the market. All the developers ask 'How is NW or [Incumbent water company] taking that?" and we tell them there's no issue. It's Ofwat and the water companies that are driving the competition. There will be hiccups and bumps in the road because it's new, but there's nothing untoward about it. It's just getting that message across. Even selling the benefits that NW get so it makes sense why they're welcoming NAVs." (NAV)

2. Water companies could do more to promote alternatives by **making sure that information about how developers go about using self-lay is simple and accessible on their websites** – particularly on the initial enquiry pages. Clearly pointing out which points in the process developers can use alternative providers for would help drive the market, providing simple diagrams comparing processes side by side and identifying how they differ, where service standards come in, risks, etc.:

"Making it clear where the NAV's work stops, and NW's takes over." (NAV)

Although most developers and alternative providers said that they did not have any particular issues with our websites and managed to find everything they needed online, many mentioned that the websites of water companies generally can be difficult to navigate and unclear.

Our Developers' Guide was described as having a lot of text and not many images and that text takes longer to digest and can be confusing. Therefore, some SLPs suggested simplifying our documents for developers. Examples included a diagram of where boundary boxes and wash outs should go, a flow chart showing the design process, and a picture of how a chamber cover should look in the ground.

While our forms and cost estimation guidance were described as easy to follow and better than some incumbents', it would be easier for SLPs if they were aligned with other companies.

SLPs felt that developers were obliged to go to the regional water company at the start of a project, so the way information is presented to them on incumbent websites and in person is very important. For example, we could review the order in which application forms are displayed:

"Host water company forms are at the top of the page generally, and you have to scroll right to the bottom to find the SLP ones." (SLP)

We could also mention alternative providers when developers make contact via other methods like phone calls and emails:

"Say 'Yes, we can do that. Have you considered the self-lay and NAV markets?' If you're the first point of contact, that's the first chance they get to consider doing it a different way." (NAV)

Some water companies are already actively directing developers towards alternative providers when developers make enquiries:

"[Incumbent water company] will recommend us and other SLPs due to our quicker pace. They can then concentrate on R&M work and the next AMP they're preparing for. Their priorities are leak repairs." (SLP)

"Gas tell you to go and look at SLPs. Water still feels a bit us and them - I understand that, as it's new and it's a food source. You've got people who've been at the water board 40 years and think they should be the only ones doing it. It is coming but it's slower than gas and electric." (SLP)

"If you want to be really radical about it you can say 'We no longer provide networks.' I'm not sure you could legally do that. Under the Water Industry Act you have to respond to a requisition." (NAV)

Alternative providers suggested that we could go further by sharing contacts for alternative providers with developers. From signposting to Lloyds' List of accredited providers (as NGN and NPG do), to mentioning or recommending SLPs and NAVs we've already worked with or approved contractors.

3. Some water companies could **reduce the amount of information they require from initial applicants** before they provide any information:

"Don't ask for everything up front. Some people are just exploring. They just want to know the general terms, how long it'll take..." (NAV)

"Two simple diagrams side by side comparing processes and identifying how they differ, where service standards come in, risks etc." (Developer)

"The most difficulty we have is gathering all the bits of information the incumbent may ask for." (SLP)

4. SLPs suggested we **host developer days, inviting SLPs and NAVs to participate**, and focussing as much on their role as ours, as well as giving the opportunity to meet the teams. We could include break-out groups to work on how to tackle and improve specific scenarios. One incumbent water company runs these quarterly.

"Some incumbent utilities will just touch on SLPs yet talk a lot about their own processes, so SLPs aren't remembered as much." (SLP)

"[Incumbent water company] are more open to NAVs and SLPs. They don't publicise it but when they present or something they always give that general feeling that they welcome competition and are really open and leading the way." (SLP)

5. One SLP suggested that we consider **allowing alternative providers to use equal or approved rather than specific materials**, e.g. meters, wall boxes, pipes and boundary boxes. Apparently, ESW have different boundary boxes to everyone else:

> *"NW differ to other water companies by insisting on pea gravel surrounding the mains, which is an additional cost and we use sand everywhere else. It's also a secondary material, as we use sand for gas and electric. You end up with two visits to site with two different materials which does put our costs up. Scottish Water don't like pea gravel because leaks follow it and create lines in the road, so it makes it very difficult to find leaks."* (SLP)

> *"We've got 10 different types of boundary boxes depending on what area we're going in on one day.* (SLP)

6. Participants would welcome **guaranteed service levels for our services**, e.g. design approvals, with associated incentives/penalties:

> *"If SLP designs still have to be approved by NW, is that regulated i.e. Guaranteed service levels? Otherwise we'd be at the mercy of the incumbent. We want 8-12 weeks for roads and water - 10 weeks until we can put a spade in the ground. From when the land's bought, the clock's ticking on getting cashflow back into the business."* (Developer)

They would also welcome **shorter timescales for our services**, for example site status, Point of Connection and Point of Discharge quotations. One NAV mentioned that we should take a "common sense, collaborative approach" to designs to avoid providers having to resubmit:

> *"21-day turnaround times...Come on, I just asked a simple question like site status. It doesn't take three weeks to search your records. Three days would be reasonable."* (NAV)

> *"5 days to reply to an email is a long time. Picking up the phone would've helped."* (SLP)

> *"A few months ago, before Covid, ESW only asked for five days' notice before we went to site to do anything, but it seems to have increased to 15 days. We're aiming at a maximum 10 day call off from when a developer phones us."[6]*

> *"It's still nice to pick up the phone and ask something (e.g. urgent). Email is not the right way to discuss an issue sometimes and it takes longer."* (SLP)
> *"Most of our multi-lay is based around the water. The pressure's on for the water design more than anything, because then we measure the gas and the electric around it in whatever way we need to. Developers leave accepting the job until the last minute, and design approval can take time when they want to get moving. We don't do it tentatively before they've engaged us, so we have to push for designs to get speeded up."* (SLP)

7. SLPs and NAVs need **more open, 'self-serve' access to our information**, e.g. locations of assets/mains records, pressures, flows and sewer capacity, as they already have in the power industry:

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[6] N.B. This is a comment about a deterioration in service. We are still visiting within the required timescale in the Code. It's taking us longer due to Covid.

"It's like they're [us] the boss. SLPs are reliant on NW because that's who they're connecting to. They're more in control of more things in the network." (Developer)

There needs to be equivalence around the service offering with NAVs. We're back to back at the boundary anyway. (NAV)

"You have the benefit of a consolidated, focussed geographical knowledge over many years of experience." (NAV)

"Simplicity and transparency of connection timescales and costs… It's very useful to know how much it's going to cost to service this network, what's the upstream cost going to be, difficulties we could face with drainage etc." (NAV)

8. Developers and alternative providers would also like **more certainty and precision/clarity/transparency in the information incumbents provide** to minimise incorrect assumptions, e.g. in POC quotes, dates for reinforcement activity and major infrastructure activity we are doing to support the developments.

    They'd like incumbents to provide firm costs and dates rather than budgets and date ranges, as well as a mechanism for self-determination:

    "I'd like application forms which don't leave anything open to interpretation – that are clear and decisive, maybe including some design FAQs rather than adding them to the full design criteria." (SLP)

"We've got engineers, the pipes are a certain size, through the infrastructure charge we've got to do the reinforcement anyway, so we should be able to determine what size of pipe is needed and self-serve, as we have in the gas industry. We just serve a notice on [power incumbent] and tell them we're going to connect to that main and how and they go 'Fine.' There's no need for an application to the incumbent to do it." (NAV)

"Developers are driven by delivery programmes. Giving them a range of dates just isn't good enough. [Unsure whether NW/ESW do this] If engineering works on the NW/ESW network are required that mean our site can't be served, then we need transparency and certainty on the timescales for that." (NAV)

Some developers were interested in us enabling them to build their own quotations online, but some are already managing with our current publications:

"I use the charges document; the mains contribution we can get a good idea from the appraisal e.g. by checking water records and understanding the bore of current mains – we get good cost certainty at present." (Developer)

One incumbent water company was reported to have a spreadsheet of costs and charges called their 'ready reckoner' where SLPs and developers can calculate all their non-contestable charges, including details such as whether application fees include VAT:

"It's brilliant. We and developers can calculate the exact cost. If the design approval differs, we can compare costs and see what's different." (SLP)

Developers said that being enabled to select their preferred date for works could be very useful. However, they would not wish to specify a date too far in advance as unforeseen events like heavy rain can delay timescales by a week:

"It depends on lead times and when we would need to specify that date. Four weeks would be OK but not 10 weeks. (Developer)

9. **Boundary meters** are a large cost that NW can absorb (about £10k per development) because it's part of the NAV process, but one NAV perceived that this was not necessary and potentially unfair:

"Putting meters on the boundaries is exactly what the electricity operators did when they adopted networks from SLPs when they first came in. But after a couple of years they decided to get rid of them because it's a waste of money. All the water companies want boundary meters, but it slows the programme down. It's our biggest question: Where is it going?" (NAV)

10. Alternative providers would like us to **create a more uniform approach within regions by aligning rules and formats between incumbents**, e.g. ESW and Anglian Water. This would give everyone more confidence that same process needs to be followed:

"ESW is a better incumbent. Your prices are quite clear and well-defined – I've never had too many issues. I will get your standard lead time. Others may not ask for things they need, so you end up waiting weeks going back and forth." (SLP)

Streamlined and consolidated admin processes across incumbents. Currently it's different for each area. (NAV*)*

"With regular contact and work with an incumbent, you become familiar with their processes, but if work drops off then you will need to reacquaint yourself with it - get the addendums out, which is the most laborious part. It's not necessarily difficult, but time consuming." (SLP)

11. SLPs and developers would appreciate **the ability to keep all their information in one place that was easy to access and had automatic updates** built into it.

Most SLPs find using portals a much easier and straightforward way of keeping track of where they are in the processes:

Anglian Water's portal (called Inflow) provides alerts, e.g. when questions are asked or answered and when approvals are received. Severn Trent's was also rated by SLPs. Few participants had used more than one portal, but among those who had, Anglian Water's was cited as the best. Affinity's was thought clunky.

"It's hard to keep track of everything, like when I'm waiting up to 30 days for a quote (You usually find that it comes back on the last day). By day 20 I've forgotten I've applied for it. Because it's all done through people, you're playing tennis all the time - back and forth." (SLP)

"Service dates always make me nervous…An online system showing all my dates and engineers would be mint - but would be even better if I could see all my sites in the country. The HBC (House Builders' Federation?) portal is very good." (Developer)

"Everything's in one place." (SLP)

There was one exception who had bad experiences with portals:

"I find them a nightmare. I've got enough trouble with my own systems, let alone learning somebody else's." (SLP)

It was suggested that such a portal could proactively chase documents we need in order to deliver or approve designs, e.g. if we need a signed developer and SLP agreement first.

One small SLP suggested that NW or the industry could provide an email bulletin to help small providers keep track of any changes happening in industry standards, regulations and Health and Safety risks.

"We get one from IGEM and I roll it out in toolbox talks with the lads. We may only see an inspector once a week." (SLP)

12. There may be a need to improve communication between some of our internal teams, such as between site and office-based employees. An SLP in the ESW area mentioned that decisions made on site don't always get through:

"Mistakes do happen and everyone's improving but one mistake, even when rectified, doesn't always get passed onto the DS team to avoid it happening again." (SLP)

13. Developers and alternative providers thought a **single point of contact or account manager** for them within incumbents (a real person not a mailbox so that a relationship can be built) would be a good development, and these could be by SLP/NAV (office based) or geography (site managers). However, many cited their generally good relationships with NW/ESW, that they already know who their relevant contacts are and that there is good continuity with experienced employees:

"[Incumbent water company]'s sites were an absolute nightmare, and everyone says it. You can't speak to no-one. They're all hidden behind emails and call centres. You don't know who you're dealing with day to day. Whereas with you guys even if someone leaves or moves on then you know who'll be in their place. You've got that contact. They help out. It can be our site managers who've missed things out and not got booked in, so I have to call in a favour." (Developer)

"You can build your relationship and understand what they'd expect." (SLP)

One developer and one SLP also suggested that they would like a link with a senior person in operations or engineers:

"Like it works with Richard Cheeseman who can make things happen. [Employee name] does all they can, but they aren't in direct control of Fastflow." (Developer)

Providers and developers often mentioned that they prefer a contact phone number for queries, as sometimes these can be quite urgent:

"I struggled to find a number on your website to ring when I was chasing something urgently. I had to go into another job just to find the number to ring. The website just directed me to a general switchboard for customers. Some water companies give leaflets with individual engineer's details." (SLP)

"Who is behind the email address. What do they do? Do I know that anybody is actually dealing with anything? It's not quite a name… I know it's gone somewhere, but who's actually responsible? How many people are behind that email address? Are there 20 or are there two? If there's two, have they got it? And if it's 20, they've definitely got it. But who is dealing with it? (SLP)

"A support desk geared to NAVs – especially for emergencies." (NAV)

However, developers and providers were complimentary of our customer service:

"I've always found it quite easy to deal with NW. If I want to know something I give [employee name] *a quick bell and they're very responsive."* (NAV)

"The timescales for getting this point of connection are delayed. But it's not through lack of will and it's not through a lack of resource. And historically, I've rarely had issues with getting work done when I need it to be done. If anything, sometimes it might be that we've not quite completed what we needed to complete. It might have been us hindering the process anyway. (SLP)

"NW is fine. We don't have any issues. We've worked with NW for a long time, so we know the processes so can work around it and have a working relationship. Maybe a new-comer would have teething troubles and notice how things could be easier. It works quite well compared to other companies. NW come across as quite a small company with niche contacts. You don't get pushed onto lots of different people. You're quite contactable, the same person, they know your schemes and a good bunch to work with." (SLP)

"We've done lots of applications to ESW and NW this year and POCs/Ds are coming back within timescales. We have a very good experience with you - especially compared to other areas." (NAV)

14. Some SLPs suggested that we consider dropping our charges for POCs and the administration fee they pay us when informing us of meter information for new properties:

"We buy the meter off you and install it then pay an admin charge of £20 to give you a customer." (SLP)

15. Alternative providers suggested that we should offer proactive catch up sessions with them. Many water companies are offering regular, short one-to-one meetings to sort out queries via Teams or in person since D-Mex started. Some also run SLP/NAV forums.

"I'd like to know who to contact and understand your processes before we come to bid for work in your area." (SLP)

"Monthly account catch-ups and reviews between incumbents and NAVs." (NAV)

CONCLUSIONS AND RECOMMENDATIONS

NW and ESW are offering a good service to developer customers, and this can cause them to hesitate before investigating or using SLPs. While there is low awareness of NAVs, most developers are trialling this process.

There are many things we could do to further support markets, which the Developer Services team could consider:

Communications:

1. Signal that we support alternative providers delivering projects in our areas at every opportunity;
2. Ensure the information on our website for developers and alternative providers about the two alternative processes is simple, clear and uses diagrams where possible;
3. Look at the order and manner that information is presented on our websites to ensure it is not biased towards the incumbent route;
4. Review our charges and how they appear, e.g. meter admin fee and infrastructure. It may be that we are simply being more transparent by separating certain charges out but that this does not have any benefit to us reputationally;
5. Signpost developers to alternative providers at various points in the process – particularly before and after the design stage;
6. Organise/host developer days in partnership with SLPs and NAVs to work on scenarios and improvements and show our support;
7. For small providers/developers, consider producing an email bulletin updating them on regulatory and industry changes and our services;

Operations:

1. Evaluate which information we could publish on our websites to further enable alternative providers and developers to self-serve and/or self-determine certain processes with certainty and clarity – e.g. asset maps and costs;
2. Develop a portal for developers and alternative providers which will avoid repetitive form filling, keep all their information in one place and proactively interact with them, e.g. send reminders for missing documentation or next stages in the process;
3. Ensure our approach to design is collaborative with SLPs and NAVs, to help them get it right first time and avoid delays due to missing information or designs not meeting our criteria;
4. Consider how we could reduce any of our timescales for SLPs, NAVs and developers;
5. Think about introducing or strengthening guaranteed standards for alternative providers, ensuring that developers are aware of these;
6. Ensure our team are reachable by phone, and that we use named individuals where possible rather than shared mailboxes. A single point of contact may not be necessary but having people who specialise in NAV or SLP processes would be beneficial;
7. Consider allocating a senior person who can 'make things happen' who providers and developers can escalate issues to quickly and/or improve communication between internal teams;

Collaboration:

8. Continue to collaborate nationally on aligning criteria, standards and processes with other incumbent water companies, and
9. Offer proactive review meetings for alternative providers (and possibly developers).

Further research recommendations:

10. Follow up this research with telephone contact or online questionnaire to give those who couldn't take part in this project within the timescales the chance to give their views;

11. Quantitative online survey (with email and telephone engagement to encourage completion) to understand:
    - Customer attributes and segments (e.g. regions, employee teams, number of connections and spend)
    - Satisfaction;
    - How important different components of D-MeX and other services/issues are to each segment;
    - Their top priorities for how we could improve our services;
    - Top performers that we could learn from, from outside the sector, e.g. power, local authorities, broadband, and
    - How developer services customers prefer us to engage with them.
      This survey could be run as a continuous tracking an annual basis.

12. The outcomes of one to one regular catch ups could be written up and trends identified;

13. Record and analyse feedback from developer days, including from anonymous evaluation surveys given at the end of each workshop;

14. SLPs and NAVs are interested in user testing any new digital offers, such as a portal and other self-serve options, and

15. Potentially run a Rant and Rave type survey after every transaction (depending on outcomes from stage where we ask how they want to us to engage with them).

We will share our findings with participants and Ofwat to support a more level playing field in these markets. Suggestions for how regulators and government could further support the market include:

Legislation/regulation:

1. Consider legislation/regulation which directs developers towards more sustainable options which NAVs and SLPs may be best place to deliver;
2. Adjust legislation to allow incumbents to withdraw from these markets;
3. Reduce the administrative burden for NAVs and SLPs and reduce regulatory timescales;
4. Consider widening the range of services that are contestable
5. Review how the prices that NAVs are allowed to charge are set, to allow them to cover their costs to serve rather than what the incumbents' costs would be;

Influencing incumbents:

6. Set the expectation that incumbents will collaborate to align criteria and rules in these markets across the country;

7. Oblige incumbents to publish the information developers, SLPs and NAVs require to self-serve. This includes continuing to scrutinise and critique incumbents on their charges documents to ensure they are simple, clear and precise;

8. Consider imposing shorter timescales for incumbents to service requests from developers, SLPs and/or NAVs;

Influencing developers:

9. Promote the direction of the market through direct communications with developers and trade media. Consider holding information briefings for developers – particularly in regions where SLP and NAV take-up is low;

10. Reflect on whether an independent advocate could be established who SLPs and NAVs could escalate any issues to when they are not being successful with incumbents, and

Industry bodies:

11. Encourage directories such as Lloyds List to refine the information they hold to allow developers to target alternative providers more precisely to take some of the effort out of finding the right SLP or NAV for their site, and to present SLPs and NAVs equally to incumbents.

APPENDIX – TOPIC GUIDE

INTRODUCTION

- Thank you for taking the time to talk to me.
- Introduce self and role as a researcher (independence, confidentiality)

CONSENT AND RECORDING

- Let's start by checking that you're happy with why we're talking today [*take any questions and*
- *share any background information required before verifying consent*
- Double check that the participant has completed the online consent form and consents to T&Cs

Re-iterate any aspects of consent necessary:

This research is being conducted by Northumbrian Water[7] to help us understand what we can do to support and champion the SLP and NAV markets in our areas.

The interview should last about one hour *(Confirm interviewee has time and offer to re-schedule if necessary)*

We're conducting around 15-20 interviews with developers, self-lay providers (SLPs) and new appointments and variations (NAVs) organisations.

This interview will be conducted in line with the Market Research Society Code of Conduct.

Taking part in this interview is completely voluntary. You may choose not to participate or to withdraw at any time.

If you are interested, we can share a final version of the report with you. Please note all responses, including yours will be anonymised in our report.

If required share link to NWG's data protection and privacy policies.

Recording (Zoom)
We would like to record the focus group, using the 'record' option that is built into Zoom. The recording will capture video and audio.

While we are taking every measure to ensure your data is protected, we do not have control over Zoom or what they do with the data that will be processed by the application. By taking part, you are giving consent for your data to be processed via Zoom. If required share link to Zoom's privacy and security measures.

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[7] Northumbrian Water Limited (NWL) is a company registered in England and Wales with company number 02366703 and whose registered office is at Northumbria House, Abbey Road, Pity Me, Durham, DH1 5FJ.

- With your permission your responses will be audio recorded, transcribed and analysed, by us, alongside those of the other interviewees. We intend to use direct quotes in the report and will anonymise these, unless you would prefer your name to be attached to the points that you make?

- We would like to share clips from the focus groups with our Northumbrian Water colleagues. We will not publish clips on any external publicly accessible platforms (e.g. social media). We may use clips on our own platforms and publications. We will hold the recording on our company intranet for up to one year but will share it with you or delete it upon your request.

When we begin recording you will receive a notification and can either consent to stay on the call or leave.

(If permission to record denied ask permission to take notes)

Recording (Telephone)
With your permission your responses will be audio recorded, transcribed and analysed, by us, alongside those of the other interviewees. We intend to use direct quotes in the report and will anonymise these, unless you would prefer your name to be attached to the points that you make?

(Confirm consent and note if member would like their responses anonymised or not)
IF CONSENT GIVEN: Your audio file and the transcript and notes we make from it will be stored on our company intranet. We will hold the recording for up to one year but will share it with you or delete it upon your request.

(If permission to record denied ask permission to take notes)

ABOUT YOU

ALL
Q1) Please begin by telling me a little about your role and the business you work for

AWARENESS OF SLPS AND NAVS AMONST THE DEVELOPER COMMUNITY

Developers	SLPs	NAVs
D1. Are you aware of any **SLPs** offering services in the areas you work in? ➢ What do you know about them? (Prompts: services offered, reputation) D2. Are you aware of any **NAVs** offering services in the areas you work in? ➢ What do you know about them? (Prompts: services offered, reputation)	S1. Do you think developers in your area are aware of the option to use SLPs? ➢ E.g. Do you think the option is generally considered as part of project planning?	N1. Do you think developers in your area are aware of the option to use NAV organisations and SLPs? ➢ E.g. Do you think the option is generally considered as part of project planning?

USE OF SLPS / NAVs

Developers	SLPs	NAVs
D3. Roughly speaking in what ratios would you say your company contracts NW/ESW vs. SLPs/NAVs D4. Do you have a preference towards appointing NW/ESW or SLPs/NAVs? (Prompt for reasons) D5. Can you compare your experience of working with NW/ESW vs. SLPs/NAVs?	S2. Do you think developers have a preference about who they use – SLPs or the area's water company? ➢ If yes: Prompt interviewee to explain the preference (query the regulatory regime's influence)	N2. Do you think developers have a preference about who they use – NAVs or the area's water company? ➢ If yes: Prompt interviewee to explain the preference (query the regulatory regime's influence)

BARRIERS TO THE SLP AND NAV MARKETS GROWING

ALL
Q2) What is your perception of the size of the self-lay/NAV markets in [North East/ESW] area?
Q3) Do you think anything is stopping the SLP/NAV markets from growing? [Prompt for explanation of barriers]

Q4) Anecdotal evidence we've heard suggests that there are two main barriers to the SLP and NAV markets growing. I'd like to share them with you and hear any thoughts you might have:
  a. <u>Complexity:</u> That the self-lay/NAV route comes with more administrative work and complexity.
  b. <u>Relationships:</u> That some developers have established relationships with NW/ESW and aren't interested in exploring SLP/NAV options.

Developers	SLPs and NAVs
D6. Does the market charging regime (Ofwat's charging rules) in any way act as a barrier to increasing your use of SLP/NAVs?	Q5) Do you think Ofwat's charging rules in any way acts as a barrier to developers using SLPs/NAVs?

AWARDING CONTRACTS

Developers	SLPs	NAVs
D7. Do you feel like all competing parties – SLPs / NAVs and NW/ESW have an equal opportunity to win contracts?	S3. Do you feel that as a SLP you have an equal opportunity to win contracts against other SLPs and NW/ESW?	N3. Do you feel that as a NAV you have an equal opportunity to win contracts against other NAVs and NW/ESW?
D8. What do you look for in a provider? *[Prompts: cost, sufficient resources, timeliness, admin burden, strength of working relationship.]*	S4. What do you think developers are looking for in an SLP?	N4. What do you think developers are looking for in a NAV?
D9. Of the things which you look for in a provider which are the most > least important?	S5. Of those things which you think developers look for which are the most > least important?	N5. Of those things which you think developers look for which are the most > least important?
D10. Is there anything NW/ESW can provide that a SLP/NAV can't? Vice versa.	S6. Is there anything NW/ESW can provide that you can't? Vice versa.	N6. Is there anything NW/ESW can provide that you can't? Vice versa.

PERCEIVED BENEFITS OF INCREASED MARKET ACTIVITY

All
Q1) What do you think the benefits to customers and developers would be of increased SLP and NAV activity in the NW/ESW areas? *[Prompts: efficiencies? Innovation? Improvements]*

WHAT MORE CAN NW/ESW DO TO CHAMPION AND SUPPORT SLP AND NAV MARKETS?

All
Q2) Is there anything that we could do to make self-lay and NAV options more accessible to developers?
Q3) What we could do to support and champion the use of SLP and NAV markets and to highlight the role that alternative providers play within the market?
Q4) Of everything we've talked about what is the single most important thing **NW/ESW could do** to support and champion the SLP and NAV markets?

WHAT MORE CAN THE INDUSTRY DO TO CHAMPION AND SUPPORT SLP AND NAV MARKETS?

All
Q5) Of everything we've talked about what is the single most important thing **the wider industry (industry bodies, regulators etc.)** could do to support and champion the SLP and NAV markets?

(e.g. regulatory systems, procedures, systems) |

CUSTOMER EXPERIENCE

All
Q6)   What could we do to improve your experience as a customer of NW/ESW? (i.e. what does the ideal customer journey look like?) Prompts: • Application process *(forms etc…)* • Our guidance notes *(website content)* • Cost estimation and charges *(clarity, availability, accuracy, accessibility of information)* • Self-serve, the digital experience and portals *(Options for developers to build their own quotations online, select a preferred date for the work to take place, and receive automated updates on progress)* • Account managers/single point of contact *(Are account managers wanted? What role would they be expected to play?)* • Timescales • Ongoing relationship

CLOSE

ALL
Q7)   Final question – before we finish is there anything else you'd like to add to what we've spoken about?
THANK AND END RECORDING