

Developer Services Charging Arrangements for 2019/20



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www.seswater.co.uk

Document revision history

Rev	Purpose	Date
1	To refer to Wholesale Connection Charges following Ofwat's updated Wholesale Charging Rules of March 2018.	May 2018
2	Annual review of published arrangements for charges related to new development activities	Jan 2019

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1. About this document

This document is our Developer Services Charging Arrangements document produced in accordance with the Charging Rules for New Connection Services (English Undertakers) (the 'Charging Rules') issued by the Water Services Regulation Authority ('Ofwat') in December 2018.¹

This document, and the information contained within it, also constitutes our Wholesale Connection Charges in accordance with the Wholesale Charging Rules issued by Water Services Regulation Authority ('Ofwat') in December 2018.²

The Charging Arrangements come into effect on 1 April 2019.

1.1. Introduction

The Water Industry Act 2014 brought in a number of changes to the legal and regulatory framework for charging for new connection related services.

This Charging Arrangements document outlines the charges that will apply from 1 April 2019 for services related to the provision of new connections. Since the prior version we have made minor presentational changes, as a result of feedback received, and updated the charges to reflect changes to the costs that we will incur in providing new connections services. We have not changed our overarching approach and policy in relation to how we charge for the services we provide.

We will update these Charging Arrangements at least once a year and welcome any feedback on its application at any point going forward so that we can reflect on it in future updates.

1.2. Content of this document

In this document we:

- Provide background to the approach to charging for connections
- Describe our approach to application fees; connection charges; requisition charges; income offsets and asset payments; diversion charges and infrastructure charges.

A glossary of terms is provided in Section 8. Section 9 is a statement of Board Assurance of the Charging Arrangements.

¹ [Charging Rules for New Connection Services \(English Undertakers\)](#), December 2018

² [Wholesale Charging Rules](#), December 2018

2. Background

2.1. The legal and regulatory framework

The Water Act 2014 (WA14) made provision for the removal of the connection charging methodologies from the Act and introduced a requirement for Ofwat, the economic regulator for the water sector, to set rules that Water Undertakers must comply with when setting charges for new connection related services.

The provisions in WA14 also require that Defra (Department for Environment, Food and Rural Affairs) issues guidance to Ofwat on the content of the rules it publishes. Ofwat must have regard to this guidance when setting its rules.

Defra's guidance

In December 2016 Defra issued guidance³ to Ofwat. The guidance is structured around the principles that charges should reflect:

- Fairness and affordability
- Environmental protection
- Stability and predictability
- Transparency and customer-focused service.

Ofwat's requirements for Water Undertakers

Following consultation, Ofwat issued its Charging Rules for New Connection Services (English Undertakers) in August 2017 and revised these most recently in December 2018.

The rules set out requirements on Water Undertakers to publish Charging Arrangements that detail the charges, or methods for calculating charges, for new connection related services. Below are some highlights of the rules:

- Charges must reflect the four principles in Defra's guidance as stated above.
- Charges must promote effective competition for contestable work.
- The present balance of charges between developers and water customers must be broadly maintained.
- Charges must be explained either through the publication of a fixed value and how that value was obtained or through the publication of a clear and accessible methodology. Where it is not practicable to set a cost-reflective charge in advance, the Water Undertaker may allow for bespoke charges to be applied.
- The document must make it clear what charges are for contestable work and what are for non-contestable work.
- Requisition charges may provide for an Income Offset. The Income Offset calculation methodology must be clearly explained.

³ [Water industry: guidance to Ofwat for water and sewerage connections charges](#), December 2016

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- Asset Payments must reflect a Water Undertaker's approach to Income Offset.
 - Security can be requested before commencing any work. Interest should be paid on any security held.

Ofwat also issues Charging Scheme Rules, the latest version of which was published in December 2018.⁴ These rules require us to publish Infrastructure Charges in a charging scheme (a document separate from the Charging Arrangements).

2.2. Options for Connection Services

The vast majority of new properties require a connection to the existing water network. We provide a number of different services to developers seeking a connection but developers **can use alternative suppliers**. The scope of work we carry out is dependent on an individual developer's needs.

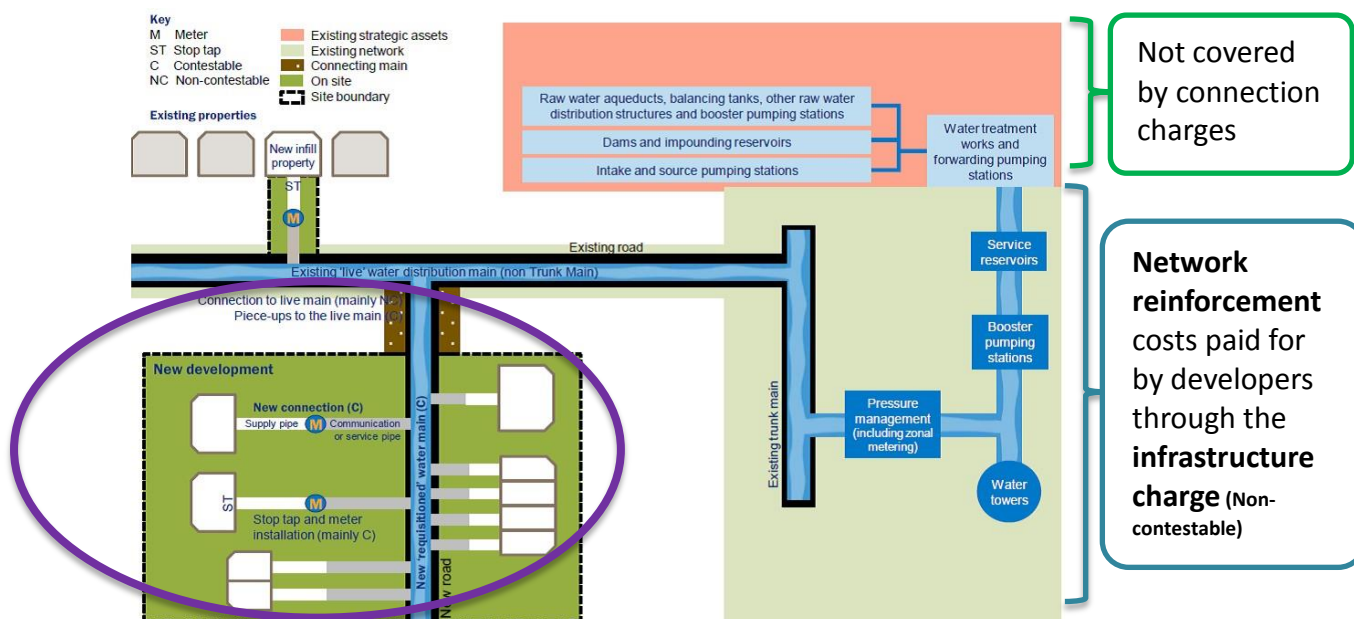
Some work is Non-contestable which means in the area that we supply, only we can carry out this work. **A number of services – Contestable work – can be provided by us or another service provider under one of these two options:**

- **Self-Lay Provider:** a developer can either build the necessary infrastructure itself or contract with a third party, such as a self-lay organisation (SLP). The Water Undertaker then 'adopts' the assets built and, where appropriate, pays the developer or SLP an Asset Payment.
- **New Appointment and Variation (NAV):** a developer chooses a licensed NAV to build and then operate the infrastructure needed to serve the property or site.

Below we provide a simplified example of a connection and how this relates to the new charging framework. The diagram indicates which work is Contestable and which is Non-contestable.

⁴ [Charging Scheme Rules](#), December 2018

Diagram of an example connection



Not covered by connection charges

Network reinforcement costs paid for by developers through the infrastructure charge (Non-contestable)

Connection charge paid by developer. Site-specific works (excluding physical connection) partly recovered from developers in a requisition charge

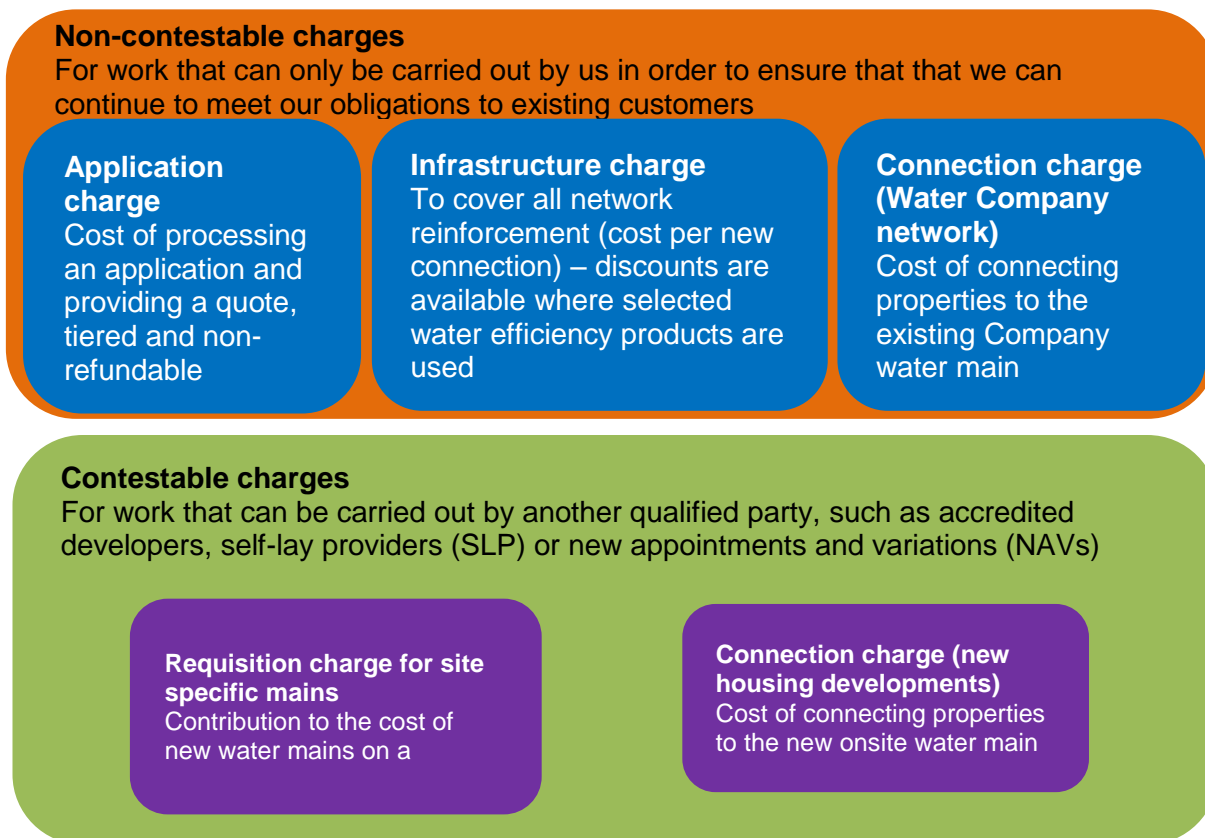
Source: Water UK

Areas of costs we incur are split into three categories:

- Site-specific: Those works undertaken within the dark green shaded areas and brown with white dots. A proportion of the costs of the water mains installed for these works are recovered from developers with offsets for income generated from the development (Income Offset). Site-specific refers to work on, or the provision of, water structures or facilities located on a development up to a point on the existing network where the connecting pipework is of nominal bore internal diameter no larger than that of our existing network.
- Network Reinforcement works: Those works undertaken within the light green area. The costs of these works are recovered by means of infrastructure charges payable by developers.
- Resources and Treatment: Those works undertaken in the pink area. These are funded through water charges to customers and are not recovered through new connection charges.

2.3. Explanation of different charges

The diagram below provides a summary overview of key Non-contestable and Contestable charges:



Main service charges

Application Charge

The cost of an application, design and quotation for a service connection or mains requisition will be charged on the basis of a fixed fee which will be tiered to reflect actual costs.

Infrastructure Charge

All new connections for Domestic Purposes pay a fixed amount which is used to fund investment in the network needed to maintain services under the growing demand created by new developments. As shown in the diagram on page 5 the charges are used to fund investment in the network but do not cover site specific infrastructure (i.e. mains requisitioned).

The charge has been set to cover all network reinforcement work driven by increases in demand from new developments. Infrastructure charges can vary between Water Undertakers as each business has its own challenges to ensure its network can continue to provide consistent water supplies to its customers. This is calculated using the previous five-year rolling average of actual network improvement costs and developers may be eligible for a water efficiency discount.

Connection Charges

A charge for the physical connection of a service pipe from a property to a water main. A water service connection generally involves a connection to a water main, pipework to the boundary of the connecting property and a boundary box with a stop-valve and meter. Where a new connection is required directly onto our existing water network, we consider that this can pose a higher risk to the quality of the water supplied to our existing customers and therefore define offsite connections as Non-contestable. Where you have opted for onsite requisitioned water mains to be installed by a suitably qualified developer or Self-Lay Provider (SLP), then these onsite works are Contestable.

Our [Charging Arrangements Calculator](#) tool will provide upfront guidance on how these charges are set. This will cover the cost of the connections to the existing main or new main.

Requisition Charge

If there isn't an existing water main near the new properties the developer will need a new water main built. The process of a Water Undertaker providing the water main is called a requisition. **The main can also be built by a suitably qualified developer, SLP or NAV.** The costs apply to the infrastructure built to serve a property or development from the existing network to, and on, the development site. It will not cover any wider reinforcement of the existing network used to serve the site.

Income Offset

The developer does not pay the full cost of the new main. The Water Undertaker recognises that it will receive an income from the new properties when they are occupied in the future through payment of water charges. Therefore the Water Undertaker will contribute to the cost of the new requisitioned main based on an estimate of the income it will receive from each individual property over a period of time (normally 12 years of supplying the property). This contribution to the costs is provided through an Income Offset.

Asset Payment

If the Water Undertaker does not build the new water main, then an Asset Payment is made to a developer or SLP when the Water Undertaker adopts the assets. The payment is calculated as the sum of the estimated Income Offset (as above), discounted to a net present value.

Diversion Charge

If a developer needs an existing main moved it can request a diversion.

Additional charges

Costs incurred due to aborted site visits, delays, repeat work or unplanned variations to work caused by the developer will now be charged.

3. Application and additional charges

3.1. Application and design fees

We will charge a fixed application fee based on the number of connections as per the table below. **All charges are subject to the addition of VAT where this is payable under the relevant legislation.**

Services			
Application Fees – based on number of service connections	1-20	£181	Fee is for the total development, not per connection
	21-50	£232	
	51-250	£335	
	>250	To be priced as mains extension	

Mains			
Application Fees - mains/self-lay/budget estimate based on number of service connections	1-250	£573	Includes a budget estimate of the mains requisition and a service connection quotation
	251-1,000	£779	
	>1,000	£1,037	

Application and design fees are required up front of any service provision.

Where full design is provided by the customer a discount will be available to reflect the reduced time required by the Company. A discount is available if we are provided with a layout of the scheme in the form of a schematic drawing clearly showing all properties, future roads and footpaths with points of entry to properties clearly marked. We are still required to carry out network capacity checks, surveys and water regulation inspections and incur general administration costs, the cost of which is covered by the remainder of the application fee.

3.2. Applicable additional charges

We will make additional charges in the event that additional work is identified after we have provided a quote as per the table below.

Services - additional Charges			
Re-quote - services	1-500	£108	Fee is for the total development, not per connection
	>500	£155	
Unplanned phased connections	Demobilise	£181	
	Remobilise	£181	

Mains - additional Charges			
Re-quote - mains/self-lay/budget estimate	1-500	£263	Fee is for the total development, not per connection
	>500	£449	
Unplanned phased main connection	Demobilise	£1362	

Mains - additional Charges		
	Remobilise	£1,362

Others - additional Charges		
Additional site meeting	£134	
Regulations inspection	£91	
Meter existing supply	£384	Installation of a new external meter on an existing supply
Cap off existing	£399	
Back to back sampling	£136	

4. Connection charge

4.1. Connections work

Our [Charging Arrangements Calculator](#) will provide an estimate of the cost of connections work based on the information you enter. Charges are set to recover the costs we incur. In order to provide an indication of your costs using the online calculator, the information you will be required to enter is:

- Number of connections
- Road/ground surface type
- Length of pipe
- Diameter of pipe
- Traffic management requirements.

Property connections are estimated separately from any mains requisition works. Where a development consists of greater than 20 properties, we will undertake additional network capacity checks to consider any localised impact on our existing network.

All traffic management outside of the development site are subject to planning and coordination with the local Highways Authority in accordance with the New Roads and Streetworks Act 1991, as amended by the Traffic Management Act 2004. As such, works may be subject to additional Highway Authority Conditions and charges associated with any such conditions.

There may be site specific environmental issues associated with a development. The Charging Arrangements Calculator does not take into consideration such site specific issues. Any such site will require a survey and quotation from us. Such issues could include, but are not limited to:

- Ground conditions
- Specialist traffic management
- Protected species habitats
- Archaeology
- Water courses
- Rail / Bridge / Motorway infrastructure crossings
- Proximity to schools, hospitals or timing with special events.

Prices are fixed for a period of 12 months and subject to review and change on 1 April each year. Any estimate provided from our Charges Arrangements Calculator, or quotation issued by us will be valid for 90 days.

Additional costs shall be levied for any unplanned phasing of the works, repeat samples and testing, or any unintended restriction of access for the agreed works to be undertaken. Prices for such work are included in section 3.2.

The full cost of the quoted work for connections must be paid prior to works commencing onsite.

In order to provide indicative basic costs associated with new connections (i.e. not taking into consideration special factors listed above) the following table provides three examples

of the cost of installation for a 2 metre long communication pipe connection between the water main and the boundary of the customer premises:

	Verge	Footway	Carriageway
	2.00m	2.00m	2.00m
excavate highway and Lay 2 metre service pipe including tap main, install stopcock and meter and connect to new customer supply	£485.09	£485.09	£485.09
cap off existing service pipe	£249.64	£249.64	£249.64
reinstatement of road surface	£229.97	£273.72	£385.48
total cost	£964.70	£1,008.45	£1,120.21

5. Requisition Charge, Income Offsets and Asset Payments

5.1. Requisition Charge

Our [Charging Arrangements Calculator](#) will provide an estimate for mains requisition work based on the information you enter. Charges are set to recover the costs we incur. The information required is:

- Number of connections
- Road/ground surface type
- Length of pipe
- Diameter of pipe
- Traffic management requirements.

Property connections are estimated separately from any mains requisition works. Where a development consists of greater than 20 properties, we will undertake additional network capacity checks to consider any localised impact on our existing network.

All traffic management outside of the development site are subject to planning and coordination with the local Highways Authority in accordance with the New Roads and Streetworks Act 1991, as amended by the Traffic Management Act 2004. As such, works may be subject to additional Highway Authority Conditions and charges associated with any such conditions.

There may be site specific environmental issues associated with a development. The Charging Arrangements Calculator does not take into consideration such site specific issues. Any such site will require a survey and quotation from us. Such issues could include, but are not limited to:

- Ground conditions
- Specialist traffic management
- Protected species habitats
- Archaeology
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Prices are fixed for a period of 12 months and subject to review and change on 1 April each year. Any estimate provided from our Charges Arrangements Calculator, or quotation issued by us, will be valid for 90 days.

Additional costs shall be levied for any unplanned phasing of the works, repeat samples and testing, or any unintended restriction of access for the agreed works to be undertaken. Prices for such work are included in section 3.2.

5.2. Income Offsets and Asset Payments

Where mains are requisitioned for a development site (i.e. the Developer pays SES Water to lay mains on the development site) requisition charges are calculated based on the cost of mains to be installed on the site taking into consideration the expected income to be

received over a 12 year period from the new customers connected to the main. The DAD's (Discounted Aggregate Deficit) calculation works out the level of charge. This "discount" is commonly known as the Income Offset and is offset against mains installations only.

We offer three alternative approaches to the calculation of Income Offsets and Asset Payments:

- **The developer has the option to appoint their own accredited Self-Lay Provider (SLP) to undertake the installation of the onsite mains and service connections.** We shall work with the SLP to monitor and support compliance for the installation works and shall oversee the process for the final mains connection activity. An Asset Payment for each main that a developer or SLP builds and is connected to our network will be calculated based on the same approach to the calculation of the Income Offset for onsite mains.
- **Site specific Income Offset:** Work undertaken by SES Water. This takes into account the expected wholesale income from the properties on the development site that will be connected to the requisitioned water main over a 12-year period. The agreement cost is the scheme cost minus the expected income. If the expected wholesale income is greater or less than predicted, the developer would be refunded/liable for additional payments within the 12-year period.
- **Fixed percentage Income Offset:** Work undertaken by SES Water. Instead of any liability from income the developer can choose to pay a fixed percentage of 75% of the agreement cost.

A worked example for the alternative cost approaches is provided below.

Quoted cost to lay the main	£10,000
Number of properties	10
Properties constructed in Year 1	10
Occupancy rate from Year 2	10

Option 1: Self-Lay Provider - Where SES Water would make an Asset Payment to the developer for installation of the water main via an accredited party.	£9,012
Option 2: Site specific Income Offset payment to SES Water for the water company to be appointed by the developer for the installation of the water main based on an estimate of income over 12 years.	£988
Option 3: Fixed percentage Income Offset payment to SES Water for the water company to be appointed by the developer for the installation of the water main.	£741

We appreciate that each development will have its own unique situation. Under all options, we offer flexible arrangements and timing of payments. For instance, we will discuss and

agree phased payments to Self-Lay Providers for staged commissioning of the entire project which would be proportional and representative of works substantially complete.

6. Infrastructure charge

In compliance with Ofwat's Charging Scheme Rules⁵ the Infrastructure Charge that will apply in 2019/20 is contained in our Household Charges Scheme published on our website.

For ease of reference we replicate this information below.

6.1. Charge applicable from 1 April 2019

When water is first made available for domestic purposes (including such properties as hotels or offices) then an infrastructure charge is due. This charge is in addition to any charges for connections or site specific mains and must be paid by the person who pays for the connection. The charge is due as soon as the connection to the main has been made and it is capable of providing water for domestic purposes. The purpose of the charge is a contribution to the cost of providing the infrastructure of pipes, pumping stations and treatment works necessary for the provision of water services as a direct consequence of developments. Infrastructure charges do not apply where the water is required solely for process needs.

The level of Infrastructure charge is set on a yearly basis and adjusted to ensure our costs are recovered over a five year period. This means that the infrastructure charge set every year will be based on the latest estimate of the investment required and the number of new connections expected.

We apply a single level of Infrastructure Charge across our supply area, as we plan our water supplies as a single Water Resource zone and have the ability to supply much of the supply area from more than one treatment works. Therefore, although we considered zonal charging, we do not believe it to be appropriate for our community.

An Infrastructure Charge shall be paid on all new connections where water will be used for Domestic Purposes. The fixed amount for the Infrastructure Charge from 1 April 2019 to 31 March 2020 is £350 per premises and therefore remains unchanged from the prior year. (Please note – we also collect Sewage Infrastructure charges on behalf of Thames Water where applicable. These prices are set by Thames Water on an annual basis).

This charge has been calculated based on the overarching principle that infrastructure charges should reflect the costs of the investment we make in the network to increase its capacity to deliver the water needed to supply new properties, while maintaining service levels for all customers. This is the average cost of the infrastructure improvements over the prior five-year period up to and including 31 March 2018. This can be shown as follows:

Predicted Infrastructure charges based on growth estimates and investment proposals							
	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
previous five years average investment for growth (cost of increasing network capacity)	£ 756,400	£ 788,000	£ 852,200	£ 853,800	£ 879,600	£ 809,000	£ 798,400
number of new connections in previous year	2,162	2,250	2,358	2,407	2,449	2,541	2,620
Infrastructure Charge (cost per new connection)	£ 350	£ 350	£ 361	£ 355	£ 359	£ 318	£ 305

⁵ [Charges Scheme Rules issued under section 143\(6A\) and 143B of the Water Industry Act 1991](#), December 2016

Where the Company chooses to increase the diameter of the water main for the purposes of improving resilience to its existing customers, any additional cost shall be borne by the Company and recovered through future Infrastructure Charges.

6.2. Reduced charges for water efficient properties

A discount on the Infrastructure Charge is available for properties built to a higher standard of water efficiency than required by building regulations.⁶ We are offering the following discounts:

- A 15% reduction on the fixed price listed above if all bathroom fittings are 'A'-rated based on the Water Label **OR** rainwater harvesting or greywater recycling is fitted. This equates to a water usage of around 105 litres / person / day.
- A 30% reduction if all bathroom fittings are 'A'-rated based on the Water Label **AND** either rainwater harvesting or greywater recycling is fitted. This equates to a water usage of around 80 litres / person / day.

The developer shall provide evidence of the rating of fittings to be installed. Where rainwater harvesting or greywater harvesting is installed we will require evidence that the pipework connections to the system are installed by a plumber qualified under the Watersafe scheme.⁷ We also require evidence that these systems are maintained under a management contract to ensure they continue to provide water efficiency savings and to minimise the risk of leakage or water quality issues.

6.3. Reduced charges for redeveloped sites

A discount on the Infrastructure Charge is available where a site is developed or redeveloped and there were, within the period of five years before the development or redevelopment began on that site, premises with a water connection (direct or indirect) for Domestic Purposes.

6.4. Charge in future years

In future years the charge will change based on a rolling five-year average of the cost of investing in the network that is triggered by new developments and the additional capacity needed to serve them. The rolling average will be calculated using the latest complete year of data available in the January prior to the year in which the charge will apply.

6.5. Payment

Infrastructure Charges may be paid in arrears upon request but are normally requested prior to the property being occupied and put into charge.

⁶ Building requirements are contained in Part G of the Building Regulations, 2010.

⁷ www.watersafe.org.uk

7. Diversion charge

Our [Charging Arrangements Calculator](#) will provide an estimate for diversions work based on the information you enter. Charges are set to recover the costs we incur. The information required is:

- Length of pipe to be diverted
- Depth of pipe to be diverted
- Number of valves / Washouts and Hydrants
- Traffic Management Requirements.

Due to the complexities associated with any diversionary works, the estimate costs provided are indicative of a straight section of pipe with simple fittings. A full survey and understanding of the developer's requirements will be needed in order to assist with providing a specific quotation for any works.

All traffic management outside of the development site are subject to planning and coordination with the local Highways Authority in accordance with the New Roads and Streetworks Act 1991, as amended by the Traffic Management Act 2004. As such works may be subject to additional Highway Authority Conditions and charges associated with any such conditions.

There may be site specific environmental issues associated with a development. The Charging Arrangements Calculator does not take into consideration such site specific issues. Any such site will require a survey and quotation from us. Such issues could include, but are not limited to:

- Ground conditions
- Specialist traffic management
- Protected species habitats
- Water courses
- Rail infrastructure
- Proximity to schools, hospitals or timing with special events.

Prices are fixed for a period of 12 months and subject to review and change on 1 April each year. Any estimate provided from our Charges Arrangements Calculator, or quotation issued by us, will be valid for 90 days.

Additional costs shall be levied for any unplanned phasing of the works, repeat samples and testing, or any unintended restriction of access for the agreed works to be undertaken. Prices for such work are included in section 3.2.

8. Glossary of Terms

Term	Description
Asset Payment	The amount described in section 51CD (3) of the Water Industry Act 1991 in relation to a section 51A agreement with a Water Undertaker. This is a payment made to a developer who has selected a Self-Lay Provider to lay its mains and connections to properties. It is the water company's contribution to the mains construction costs.
Charging Arrangements	This document which outlines the approach to charging for connections, including Income Offsets and Asset Payments.
Connection Charge	A charge for the physical connection to the water main.
Contestable	Work that can be carried out by a party other than the Water Undertaker.
Diversion Charge	A charge for moving an existing water main.
Domestic Purposes	As defined in The Water Industry Act 1991.
Income Offset	A sum of money offset against the charges that would otherwise be applied for the provision of a Water Main in recognition of revenue likely to be received by the Water Undertaker in future years for the provision of supplies of water to premises connected to the new Water Main.
Infrastructure Charge	A charge to cover network reinforcement driven by increased demand from new developments.
Non-contestable	Work that can only be carried out by the relevant Water Undertaker.
Requisition Charge	If there isn't an existing water main near the new properties to connect to, the developer will need a new water main built. The process of a Water Undertaker providing the water main is called a requisition and there is a charge.
Water Main	Any pipe, not being a pipe for the time being vested in a person other than the Water Undertaker, which is used or to be used by a Water Undertaker or licensed water supplier for the purpose of making a general supply of water available to customers or potential customers of the Water Undertaker or water supply licensee, as distinct from for the purpose of providing a supply to particular customers. This definition includes tunnels or conduits which serve as a pipe and any accessories for the pipe.
Water Undertaker	A company appointed under the Water Industry Act 1991 to provide water services to a defined geographic area and which owns the supply system and other infrastructure.

9. Board Assurance Statement

Ofwat, the economic regulator for the water sector, requires the Company's Board of Directors to make a statement regarding assurance of the information in the Charging Arrangements document. This assurance statement is copied below.

Statement of Assurance on Charging Arrangements for 2019/20

We confirm that the Company's Developer Services Charging Arrangements for 2019/20 has been reviewed and approved under the governance arrangements approved by the Board.

The Board certifies that:

1. The Company considers that it has complied with its obligations relating to Ofwat's Charging Rules for New Connection Services (English Undertakers) published in July 2018.
2. The Company has appropriate systems and processes in place to make sure that the information contained in the Charging Arrangements is accurate.
3. The Company has ensured that the balance of charges between developers and other customers will be broadly maintained when the Charging Arrangements come in to effect.

In making this statement of assurance the Board has relied on:

1. The Company's well established risk management, monitoring and control systems and processes described in the Company's Strategic Report which can be found on pages 28 and 29 of the Company's 2018 Annual Report, available on the Company's website.
2. The evidence presented by the Company to demonstrate that the approach to calculating connection and requisition charges has not materially changed from the prior year and that they are set in a manner to recover the costs incurred.
3. The evidence presented by the Company that the approach to setting the Infrastructure Charge ensures that the charge paid moves annually in line with the costs incurred by the Company in maintaining its level of services for all customers.

Signed on behalf of the Board of Directors on 25 January 2019.

Murray Legg

(Senior Independent Non-Executive Director and Chair of the Audit Committee)

Paul Kerr

(Finance and Regulation Director)
