

## **Developer Services Charging Arrangements for 2018/19**

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*Document Owner: Tom Kelly*

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[www.seswater.co.uk](http://www.seswater.co.uk)

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## Contact us

Our network services team can be contacted on:

<b>Website</b>	<a href="http://www.seswater.co.uk">www.seswater.co.uk</a>
<b>Email</b>	<a href="mailto:developerservices@seswater.co.uk">developerservices@seswater.co.uk</a>
<b>Phone</b>	01737 772000 (option 4) Monday to Friday: 8:30am to 5:00pm
<b>Twitter</b>	@SESWater
<b>Address</b>	SES Water London Road Redhill RH1 1LJ

## 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 August 2017.<sup>1</sup>

The Charging Arrangements come into effect on 1 April 2018.

### 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 2018 for services related to the provision of new connections.

The content of these Charging Arrangements take into account responses to the consultation on our proposed approach issued to relevant stakeholders in January 2018. We received 18 responses to the consultation and discussed the proposed approach with the Consumer Council for Water. Responses generally supported the proposed approach to charging for relevant services. We have made some minor changes to the approach outlined in the consultation and clarified our approach where responses indicated clarity could be improved. A summary of responses and our actions as a result of them will be published on our website.

We will update these Charging Arrangements at least once a year and welcome any feedback on their 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 some 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
- Explain the security deposit
- Explain the transitional arrangements.

A glossary of terms is provided in Chapter 9. Chapter 10 is a statement of Board Assurance of the Charging Arrangements.

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<sup>1</sup> [Charging Rules for New Connection Services \(English Undertakers\)](#), August 2017

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## 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 guidance<sup>2</sup> 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.

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.

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<sup>2</sup> [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 2016.<sup>3</sup> These rules require us to publish Infrastructure Charges in a charging scheme (a document separate from the Charging Arrangements).

## 2.2. 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:** a developer can either build the necessary infrastructure itself or contract with a third party, such as a self-lay organisation (SLO). The Water Undertaker then 'adopts' the assets built and, where appropriate, pays the developer or SLO 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.

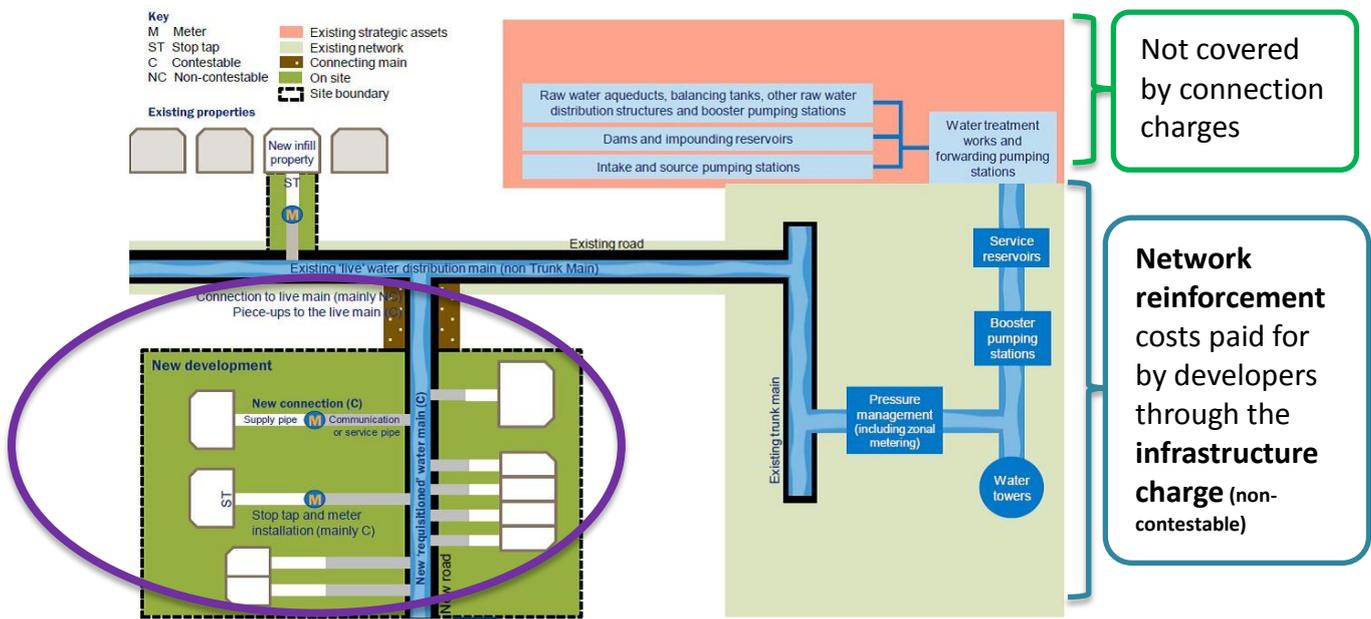
Below we provide a simplified example of a connection and how this relates to the new charging framework. The diagram indicates which work is Contestable and which is Non-contestable.

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<sup>3</sup> [Charging Scheme Rules](#), December 2016

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**Diagram of an example connection**



Source: Water UK

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

**Explanation of different charges**

**Connection Charge (Contestable)**

A charge for the physical connection to the 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.

**Requisition Charge (Contestable)**

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. The main can also be built by a suitably qualified developer, SLO or NAV.

**Income Offset**

The developer does not pay the full cost of the new main. A contribution to the costs is provided through an income offset. The income offset is calculated to recognise the value of future income that will be received from the occupants of the new properties being connected.

**Asset Payment**

If the Water Undertaker does not build the new water main, then an asset payment is made to a developer or SLO when the Water Undertaker adopts the assets. The payment is calculated as the sum of the estimated income offsets, discounted to a net present value.

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**Infrastructure Charge (Non-contestable)**

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 4 the charges are used to fund investment in the network but do not cover site specific costs.

**Diversion Charge (Non-contestable)**

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

**Contestable Charges**

On-site mains requisition charges are contestable. Developers have the option to review the proposal from a Water Undertaker and use an alternative accredited SLO to undertake the installation of the mains and service connections. The Water Undertaker remains responsible for the connection of the new main.

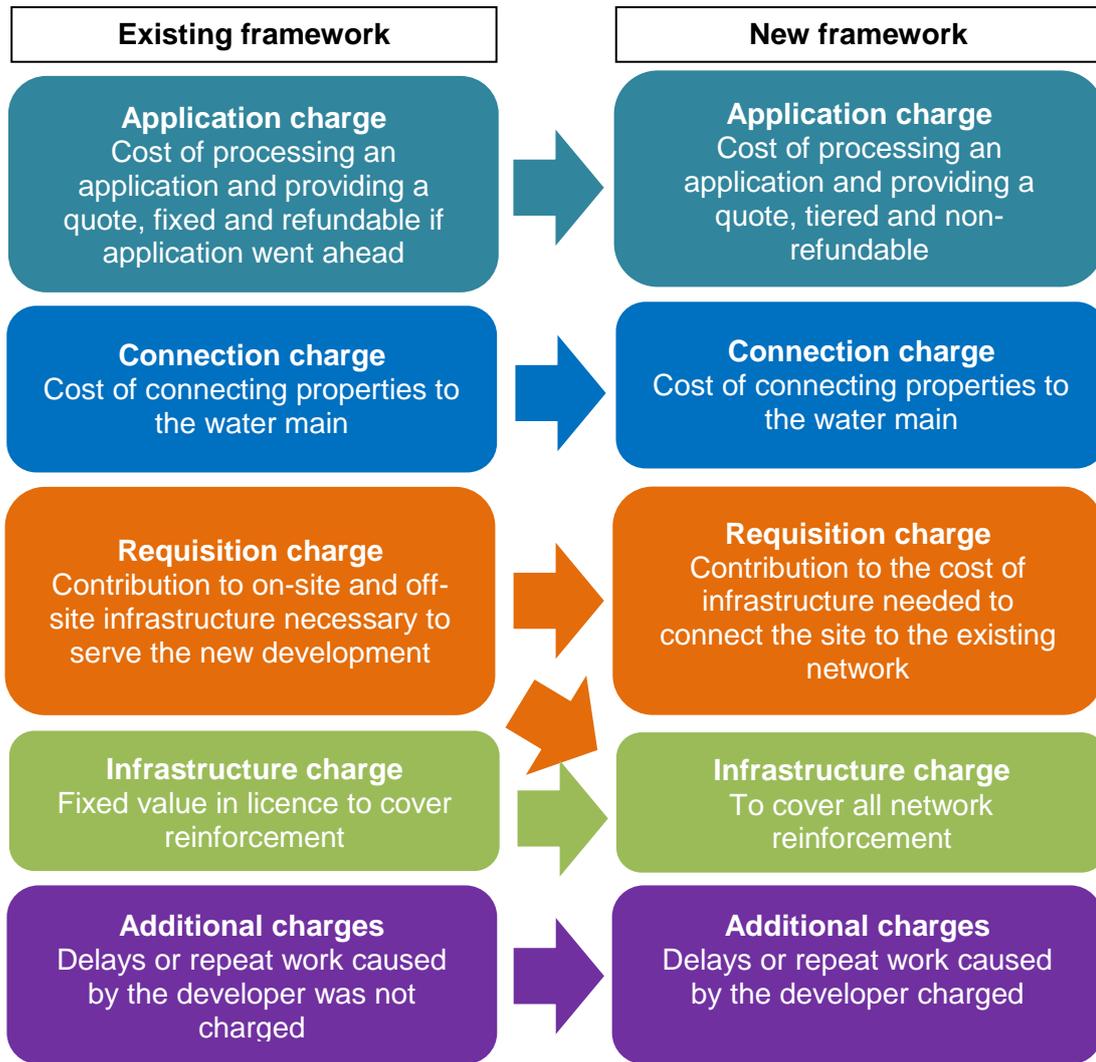
**Non-Contestable Charges**

The Infrastructure Charge and Diversion Charges and offsite connections to a Water Undertaker's mains are Non-contestable. These are associated with the improvement of, or changes to, the Water Undertakers network. Fees for providing quotations and repeat services such as re-testing of mains are also Non-contestable.

## 2.3. What changes under the new charging approach?

The graphic below provides a simple explanation and summary of the changes that we are making to charges in light of Ofwat's new rules. Details for each area of charges are contained in the following chapters. The main changes to highlight are:

- **Application Charge:** the cost of an application and quotation for a service connection or mains requisition will be charged on the basis of a fixed fee which will be tiered to better reflect actual costs compared to the current approach to charging a fixed amount.
  - **Connection charges:** our [Charging Arrangements Calculator](#) tool will provide upfront clarity on how these charges are set. This will cover the cost of the connections to the existing main or new main.
  - **Requisition charge:** will cover the costs of infrastructure built to serve a property or development from the existing network to, and on, the development site. It will not cover any wider off-site reinforcement of the existing network used to serve the site.
  - **Infrastructure charge:** we are no longer required to charge an amount fixed by legislation. The charge has been set to cover all network reinforcement work driven by increases in demand from new developments. This is calculated using the previous five-year rolling average of actual network improvement costs and will be eligible for a water efficiency discount.
  - **Additional charges:** costs incurred due delays or repeat work caused by the developer will now be charged.
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### 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.

Services			
Application Fees - Services	1-20	£175	Fee is for the total development, not per connection
	21-50	£225	
	51-250	£325	
	>250	To be priced as mains extension	

Mains			
Application Fees - Mains/Self Lay/Budget Estimate	1-250	£550	Includes a budget estimate of the mains requisition and a service connection quotation
	251-1,000	£750	
	>1,000	£1,000	

#### 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	£100	Fee is for the total development, not per connection
	>500	£150	
Unplanned Phased Connections	Demobilise	£175	
	Remobilise	£175	

Mains - additional Charges			
Re-Quote - Mains/Self Lay/Budget Estimate	1-500	£180	Fee is for the total development, not per connection
	>500	£250	
Unplanned Phased Main Connection	Demobilise	£1,460	
	Remobilise	£1,200	

Others - additional Charges		
Additional Site Meeting	£125	
Regulations Inspection	£88	
Meter Existing Supply	£440	Installation of a new external meter on an existing supply

<b>Others - additional Charges</b>		
Cap Off Existing	£420	
Back to Back Sampling	£135	

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## 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. The information required is:

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

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
- 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.

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## 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

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
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- 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.

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## 5.2. Income offsets and asset payments

An Income Offset will be calculated for each requisitioned main. It is a contribution to the total costs of requisitioning a new main and takes into account the value of future income that will be received by the occupants of the new properties being connected.

The developer has the option to appoint their own accredited Self-lay Organisation (SLO) to undertake the installation of the onsite mains and service connections. We shall work with the SLO 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 SLO builds and is connected to our network will be calculated based on the same approach to the calculation of the Income Offset.

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

- **Site specific income offset:** 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:** Instead of any liability from income the developer can chose 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: Site Specific income offset payment to SES Water	£988
Option 2: Fixed percentage income offset payment to SES Water	£741
Option 3: Self-Lay (Where SES Water would make a payment to the developer)	£9,012

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## 6. Infrastructure charge

In compliance with Ofwat's Charging Scheme Rules<sup>4</sup> the Infrastructure Charge that will apply in 2018/19 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 2018

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 2018 to 31 March 2019 is £350 per premises.

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 2017.

### 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.<sup>5</sup> 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.<sup>6</sup> 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.

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<sup>4</sup> [Charges Scheme Rules issued under section 143\(6A\) and 143B of the Water Industry Act 1991](#), December 2016

<sup>5</sup> Building requirements are contained in Part G of the Building Regulations, 2010.

<sup>6</sup> [www.watersafe.org.uk](http://www.watersafe.org.uk)

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## **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.

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## 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

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.

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## 8. Payment options and security deposit

### 8.1. Application

Payment of Infrastructure Charges can be made in one lump sum or in instalments over a 12-year period. If the payment is made in instalments we will calculate the charge as if we had borrowed the money required to carry out the works over a 12-year period. The charge for payment in instalments therefore includes the original cost and an additional amount to cover borrowing costs.

Payment for Connection Charges, Requisition Charges and Diversion Charges shall be paid in advance. Infrastructure Charges may be paid in arrears upon request.

For works where an Asset Payment applies a security deposit of 5% of the Asset Payment will be retained for a period of 12 months from the date the Asset Payment is made. The security deposit is retained to cover the cost of any remedial work the Company has to complete to address any defects. The security deposit, less any costs of remedial action, will be returned at the end of the 12-month period with interest.

### 8.2. Interest rate

Interest will be paid on security deposited when the sum held is 50p or more and it is held for at least three months.

The interest rate will be calculated in accordance with Ofwat's methodology as described below.

The reference rate is the yield from British Government Securities, 10-year Nominal Par Yield ('GIR'), a statistic that is produced daily by the Bank of England. The interest rate changes every six months, on 1 April and 1 October each year.

- For the period from 1 April to 30 September in any year, the applicable rate is the simple average of the daily GIR for the preceding March (rounded to the nearest 0.25%).
- For the period from 1 October to 31 March in any year, the applicable rate is the simple average of the daily GIR for the preceding September (rounded to the nearest 0.25%).

For deposits, the rate is calculated as the reference rate described above minus 0.75%. Where the result is a negative interest rate, it will be adjusted so that the rate is 0%.

Further information on the calculation of interest is available on the Ofwat website.<sup>7</sup>

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<sup>7</sup> [Markets, Connections market, Interest rates](#)

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## 9. Transitional arrangements

Transitional arrangements will apply to new connection services that are in the process of being requested. These arrangements are:

- If a quotation is provided and it is still within the validity period on 1 April 2018, then the quotation remains valid if the developer wishes to proceed.
- If a legal agreement is already in place, then the terms and conditions contained within that agreement remain valid for the life of the site contained in the agreement. This applies to requisition and infrastructure charges. The connection charge will be based on the new charging arrangements from April 2018.
- If a developer applies for connection services between the new charges being published and 1 April 2018 then they can choose which charging approach they are quoted on.
- If a developer has applied and paid but no work has started by 1 April 2018, then the developer can have the option to cancel this quotation and have a quote under the new charging approach.

These follow the proposed transitional arrangements developed by the industry through working groups led by Water UK.

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## 10. Glossary of Terms

<b>Term</b>	<b>Description</b>
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.
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.

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## 11. 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 2018/19

We confirm that the Company's Developer Services Charging Arrangements for 2018/19 has been reviewed and approved under the governance arrangements approved by the Board.

The Board certifies that:

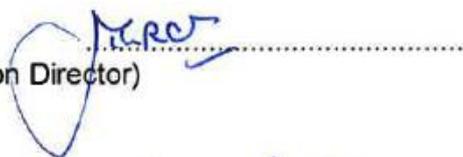
1. The Company considers that it has complied with its obligations relating to Ofwat's Charging Rules for New Connection Services (English Undertakers).
2. The Company has appropriate systems and processes in place to make sure that the information contained in the Charging Arrangements is accurate.
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 24 and 25 of the Company's 2017 Annual Report, available on the Company's website.
2. The evidence presented by the Company to demonstrate that the approach to connection and requisition charges does not have a material impact on the charges paid and that the approach to infrastructure charges will ensure that the charge paid moves in line with the costs imposed by new connections in the area of supply.

Signed on behalf of the Board of Directors on 30 January 2018.

John Chadwick  
(Finance and Regulation Director)



Murray Legg  
(Senior Independent Non-executive Director and Chairman of the Audit Committee)

