

New Connections Services Charging Arrangements

2020/2021
Bill Impact Assessment

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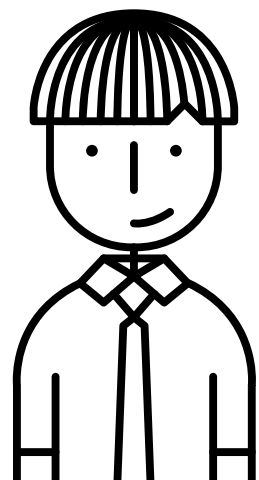
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1. Introduction

Introduction

The purpose of this document which we have published alongside our new connection services charging arrangements is to inform customers and other stakeholders how our charges for new connection services for 2020/2021 differ from our 2019/2020 charging arrangements.

Summary of what's in this document

- To provide customers with information on how we have updated our charges for new connection services for 2020/2021.
- Provide an indication to customers how bills will be impacted for 2020/2021 against typical new development scenarios.

As explained in our new connection services charging arrangements document, our charges cover the costs of activities we deliver on behalf of our customers for contestable and non-contestable new connections related work.

We set our charges each year in compliance with charging rules published by Ofwat and based on four guiding principles that our charges are:

- Fair and affordable
- Aligned to offer environmental protection
- Stable and predictable
- Transparent and customer focused

We publish this bill impact assessment to provide our customers with transparency around how the changes we make to our charges from one year to the next may impact them. This publication also complies with a requirement that Ofwat places on water companies to include a statement in the charging arrangements for new connection services setting out any significant changes to bills for typical developments when publishing those arrangements for 2020/2021.

In December 2019, we published a bill impact assessment report based on an indicative view of our charges for 2020/21 ahead of the charges being finalised. This allowed customers and stakeholders an opportunity to provide feedback on the changes.

We set out the finalised changes to our charges in this document in a similar format to that we used in our December 2019 report. This will allow you to understand how our final charges will alter typical bills for new connection services in 2020/2021.

As advised in our December 2019 assessment, although we have made changes to individual charges for 2020/2021, we have retained the same overall structure for these charging arrangements.

In this publication, we present a comparison of bills based on our 2020/2021 charges against bills based on our 2019/2020 charges for typical development scenarios. We summarise the forecast impact on the bills as a percentage change. This provides an indication of the level of bill stability from one year to the next. This presentation is designed to be transparent and provide certainty that our 2020/2021 charges are expected to deliver stable and predictable bills for our customers.

For the range of typical bill scenarios that we have assessed, there are no bill increases of 10% or more.

In this publication we also provide more background information around our charges.

2. What changes have we made?

What changes have we made?

Summary of what we have changed

- The headings below provide an explanation of the main categories of charges for new connection services and how they have changed for 2020/2021.
- We have introduced new charges for bulk orders and new mains call off orders.

Updates to our charges for 2020/2021

Our charges are assured every year and an important part of this exercise is that we understand and refresh our charges based on the latest technical and economic information.

A Board Assurance Statement is published on our website that explains the assurance process we have undertaken in support of our 2020/21 new connection services charging arrangements.

Changes to administrative charges

We reviewed our administrative charges that cover application fees, design services and setting up the relevant legal agreements for water and wastewater new connections and adoptions. Some of these charges have increased and some decreased.

We have now split some charges across bands based on how many new connections are required for the development site or how many phases of work are required.

Changes to construction charges

Our onsite and offsite construction costs have increased by the change in the Retail Price Index (RPI) from November 2018 to November 2019. We have applied a 2.25% RPI increase to our onsite and offsite charges to reflect our increased costs. This is less than we forecast in our indicative bill impact assessment published in December 2019.

Changes to infrastructure charges

Infrastructure charges have been determined in accordance with the principle that the amount of such charges will over a five-year period ending on 31 March 2023, broadly recover the cost of reinforcing our water and sewer networks to serve new developments across the region (i.e. development driven network reinforcement expenditure).

Infrastructure charges are levied in addition to the costs of physical onsite and offsite water and sewerage connection work and apply to all new connections regardless of the method by which the new connection is procured or made. Our infrastructure charges have been updated to reflect the development driven related network reinforcement expenditure we have forecast in our business plan based on local development plans and expected levels of new connections in our region.

For 2020/2021 we will increase the overall level of our standard infrastructure charges to £260 per property connected from £250 (a 4% change). The increase in our charges reflect forecasts of increasing investment in network reinforcement over the next few years and our expectations of a greater uptake of the environmental incentives we offer customers who build low water use housing or do not connect their new premises to our sewer network for surface water discharge.

Our 2020/2021 standard infrastructure charges (IC) consist of three charges applied on a per property connected basis:

- > water IC - down from £75 to £70
- > foul wastewater IC - held at £50
- > surface water drainage IC - up from £125 to £140.

Based on our future investment plans we anticipate further increases to our infrastructure charges over the next five years.

New charges for 2020/2021

The review of our 2019/2020 charging arrangements showed the application of some of our charges are not equitable to where costs are incurred between developments of different sizes or where our charges do not fully reflect the services we provide.

As we explained in our indicative bill impact assessment in December 2019, this has led us to introduce two new charges. A charge for a bulk order request, and a new mains call off order charge are both described in more detail below.

**Bulk order request
Confirmed new charge**

£52.00

A bulk order request charge is an administrative charge that will be applied where a customer requests a service connection estimate for newly built houses that are connecting to a newly constructed main.

Our new charge has been built based on the cost to deliver the average number of plots we receive for each bulk request, which is typically 15 plots per request.

**New mains call off
Confirmed new Charge**

£159.00

Our new mains call off charge is an administrative charge that will apply when a customer requests a section of new water main to be installed at their development site. This is an activity that can be repeated at a site until all new water mains are installed, requiring multiple applications of this charge.

These new charges have been included in the assessment we have made on the impact of changes to charges for the 2020/21 period against typical bill scenarios.

Bulk supply prices for NAVs

Bulk supply prices are the tariffs we set for the volumetric cost of wholesale water we provide to our NAV customers. Bulk supply prices are not in the scope of New Connection Charging Arrangements and have not been included within our bill impact assessments or included in our new connection services charges publication.

3. What are we keeping the same?

What are we keeping the same?

Summary of what we are retaining in our charges

- Structure of our charges.
- Income offsets and asset payments.

The structure of our 2020/2021 new connection charges has not changed from 2019/2020. The total charges for new connections work we undertake on behalf of our customers will continue to combine the relevant administrative costs, onsite and offsite construction costs and network reinforcement related infrastructure charges to deliver new water or wastewater connections to our network.

The infrastructure charges continue to meet current Ofwat charging rules. In determining our infrastructure charges, we will continue to monitor our actual developer driven network reinforcement expenditures and infrastructure charge revenues out to 2023 and every consecutive 5-year period beyond then. This will ensure our infrastructure charges remain reflective of the expenditures we incur to support development across the region and that they remain fair and predictable for current and future customers.

Our infrastructure charges will continue to be made without any adjustment for an income offset or income credit. We removed the historical income offsetting and asset payments regime from our new connection charges in the 2018/2019 charging year.

We continue to provide an environmental incentive to developers. Discounts against our 2020/2021 water and foul wastewater infrastructure charges will apply where a developer can demonstrate they are building properties that will be expected to deliver low water consumption when occupied. The developer can also avoid the surface water infrastructure charge where the new properties are not connected to our sewer network for surface water discharge.

4. How do the new 2020/2021 charges impact bills?

How do the new 2020/2021 charges impact bills?

Summary of what's in this section

- This section shows the impact of our charges for 2020/2021 on typical new development scenarios compared to our 2019/2020 charges.
- The charging scenarios are based on typical scenarios selected by Ofwat.

For the assessment we have assumed the development scenarios do not attract any environmental incentives against the relevant infrastructure charges - i.e. infrastructure charges are applied in full.

Tables on the following pages show the impacts on bills for a range of water and wastewater new connection scenarios. We also provide two examples each for water and wastewater where we show the key changes (increases or decreases) by charge type that make up a typical bill scenario.

In this section we have presented some typical new connection services bill scenarios. They are the same typical development scenarios Ofwat have asked companies to check bill changes against and present with our final charges for 2020/2021!

Table 1. Impact Scenario Tables - Water Connections

Ref	Description of the development and new connections	2019/2020 Charges	2020/2021 Charges	% Change	Explanation of the drivers for changes
1	Single Connection Non contestable Connection to existing mains No new mains required; 25mm-32mm PE pipe - short connection - 4m road surface	£1,631	£1,654	1.4%	RPI increase to mains and requisition construction costs (2.25%) and updated application fees which has been offset by a reduction in the infrastructure charge applicable to water connections. Small changes in the level of application fees have a minimal impact on all scenarios.
2	Single Connection Non contestable Connection to existing mains No new mains required; 25mm-32mm PE pipe - long connection - 8m (4m road surface and 4m unmade ground)	£2,279	£2,317	1.7%	
3	New Block of Flats Non contestable 10 new units connected to an existing mains No new mains required - Large diameter (63mm) water connection - barrier pipe - short connection - 4m road surface	£3,324	£3,325	0.0%	
4	New Block of Flats Non contestable 10 new units connected to an existing mains No new mains required - Large diameter (63mm) water connection - barrier pipe - long connection - 8m (4m road surface and 4m unmade ground)	£4,879	£4,915	0.7%	

Ref	Description of the development and new connections	2019/2020 Charges	2020/2021 Charges	% Change	Explanation of the drivers for changes
5	Small Housing Development Contestable 10 new connections off new mains New mains required - total length 50m, consisting of -90mm PE - 10m road surface Plus service connections	£17,678	£17,930	1.4%	Increases resulting from the introduction of a new charge for bulk orders and call offs where construction and connections are made in stages.
6	Small Housing Development Contestable 10 new connections off new mains New mains required - total length 50m, consisting of -90mm PE - 20m unmade surface Plus service connections	£12,860	£13,004	1.1%	Application of RPI to mains and requisition construction costs (2.25%). Small changes in the level of application fees have a minimal impact on the scenarios.
7	Small Housing Development Contestable 10 new connections off new mains New mains required - total length 50m, consisting of -63mm PE - 20m unmade surface Plus service connections	£12,860	£13,004	1.1%	Charge increases offset by a reduction in design, fire and legal charges and a reduction in the infrastructure charge applicable to water connections.
8	Medium Housing Development Contestable 50 new connections off new mains New mains required - total length 300m, consisting of -180mm PE - 10m road surface	£75,378	£76,817	1.9%	Increases resulting from the introduction of a new charge for bulk orders and call offs where construction and connections are made in stages.
9	Medium Housing Development Contestable 50 new connections off new mains New mains required - total length 300m, consisting of -180mm PE - 90m unmade surface	£55,835	£56,834	1.8%	Application of RPI to mains and requisition construction costs (2.25%). Small changes in the level of application fees have a minimal impact on the scenarios.
10	Medium Housing Development Contestable 50 new connections off new mains New mains required - total length 300m, consisting of -125mm PE - 100m unmade surface	£50,915	£51,804	1.7%	Charge increases offset by a reduction in design, fire and legal charges and a proposed reduction in the infrastructure charges applicable to water connections.

Ref	Description of the development and new connections	2019/2020 Charges	2020/2021 Charges	% Change	Explanation of the drivers for changes
11	Medium Housing Development Contestable 50 new connections off new mains New mains required – total length 300m, consisting of -90mm PE - 100m unmade surface	£50,915	£51,804	1.7%	Increases resulting from the introduction of a new charge for bulk orders and call offs where construction and connections are made in stages. Application of RPI to mains and requisition construction costs (2.25%). Small changes in the level of application fees have a minimal impact on the scenarios. Charge increases offset by a reduction in design, fire and legal charges and a reduction in the infrastructure charge applicable to water connections.
12	Large Housing Development Contestable 200 new connections off new mains New mains required – total length 1,000m -180mm PE - 10m road surface Plus service connections	£249,107	£253,898	1.9%	
13	Large Housing Development Contestable 200 new connections off new mains New mains required – total length 1,000m -180mm PE - 290m unmade surface Plus service connections	£189,837	£193,294	1.8%	
14	Large Housing Development Contestable 200 new connections off new mains New mains required – total length 1,000m -125mm PE - 300m unmade surface Plus service connections	£173,316	£176,403	1.8%	
15	Large Housing Development Contestable 200 new connections off new mains New mains required – total length 1,000m -90mm PE - 400m unmade surface Plus service connections	£176,329	£179,484	1.8%	
16	Self-Laid Scenario Total admin fees and any other relevant fees charged to SLPs (application, inspection, etc.)	£1,342	£1,232	-8.2%	

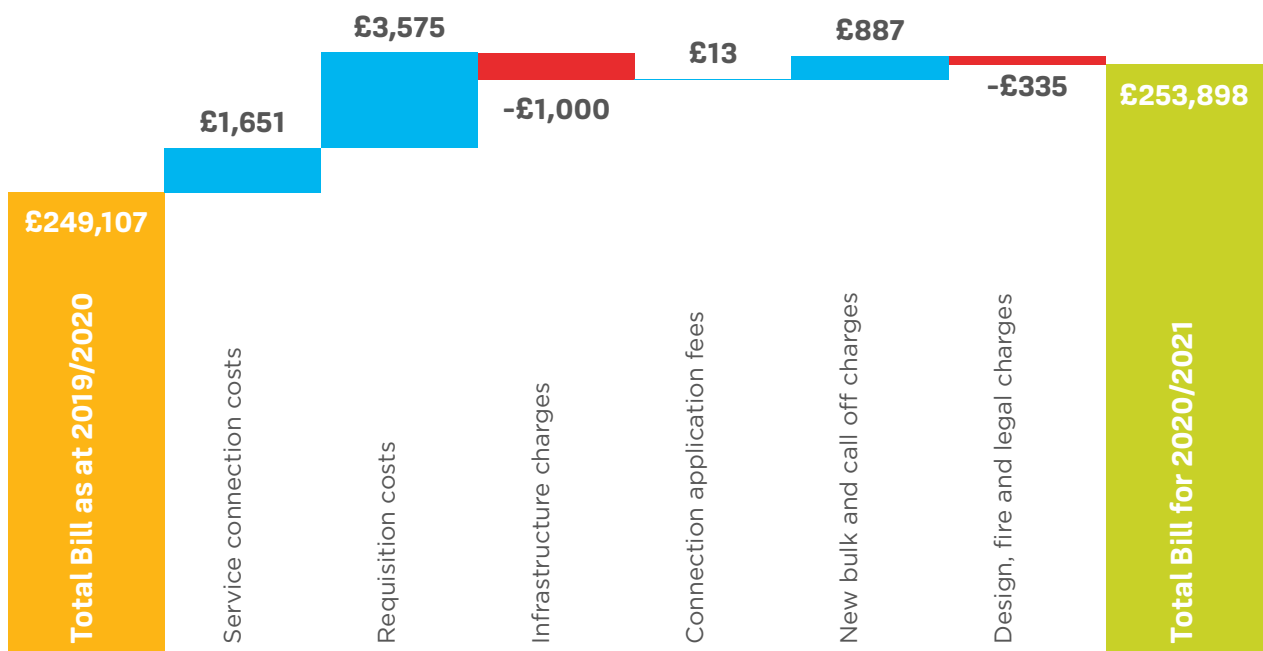
To demonstrate where changes for our 2020/2021 new connection charges have impacted bills for developer services customers, we have taken two of the scenarios presented in Table 1. and provide a breakdown of the key contributors to the bill change. We show the incremental changes in the charge components from 2019/2020 to 2020/2021.

Figure 1.1. Bill impacts by charge type for a small development water connection scenario (ref: 5)



2019/2020 to 2020/2021 Bill Impact for Water Connections scenario 5: Small housing development - 10 new connections

Figure 1.2. Bill impacts by charge type for a large development water connection scenario (ref: 12)

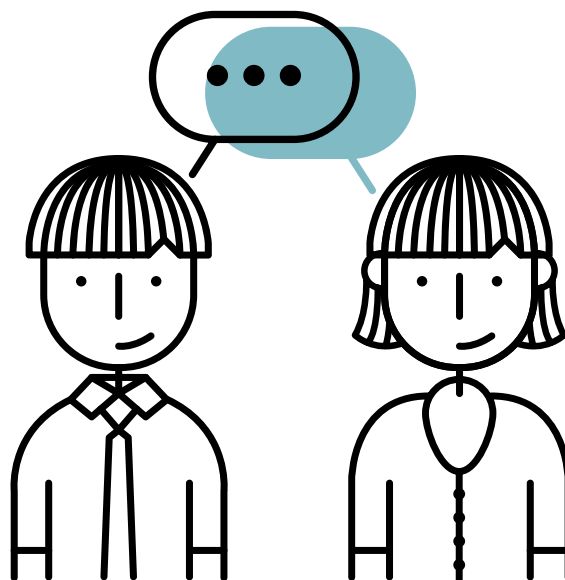


2019/2020 to 2020/2021 Bill Impact for Water Connections scenario 12: Large housing development - 200 new connections

Table 2. Impact Scenario Tables - Wastewater Connections

Ref	Description of the development and new connections	2019/2020 Charges	2020/2021 Charges	% Change	Explanation of the drivers for changes
1	Single connection Unadoptable connection (S106)	£330	£355	7.6%	This charge has increased based on an assessment of the average cost to deliver a S106 connection, an uplift based on RPI (2.25%) and an increase to the surface water drainage infrastructure charge for wastewater connections.
2	Single connection Adoptable connection (S106 and S102)	£714	£621	-13.0%	The reduction in the charge is based on reduction to the S102 charge following an assessment of the average cost to deliver this service. Increased elements include the surface water drainage infrastructure charge for wastewater connections and an increase in the S106 charge.
3	New block of flats (10 units) Unadoptable connection (S106)	£1,905	£2,065	8.4%	This charge has increased based on an assessment of the average cost to deliver a S106 connection, an uplift based on RPI (2.25%) and an increase to the surface water drainage infrastructure charge for wastewater connections.
4	New block of flats (10 units) Unadoptable connection (S106 and S102)	£2,289	£2,331	1.8%	The small increase in the overall charge is a result of an increase to the surface water drainage infrastructure charge for wastewater connections, offset by a reduction in the S102 connection charge. There has also been an uplift to some costs by RPI (2.25%).

Ref	Description of the development and new connections	2019/2020 Charges	2020/2021 Charges	% Change	Explanation of the drivers for changes
5	Small housing development (10 new connections) Connection (S106) Sewer adoption (S104) Adoption agreement (S104)	£3,884	£4,016	3.4%	The increase in the total charge S104 connection charge and the surface water drainage infrastructure charge for wastewater connections, offset by a reduction in the S106 connection charge and charge for sewer adoption legal agreement. There has also been an uplift to some costs by RPI (2.25%).
6	Medium housing development (50 new connections) Connection (S106) Sewer adoption (S104) Adoption agreement (S104)	£17,514	£18,395	5.0%	
7	Large housing development (200 new connections) Connection (S106) Sewer adoption (S104) Adoption agreement (S104)	£68,628	£72,319	5.4%	
8	Pre-Development enquiry	£164	£157	-4.3%	



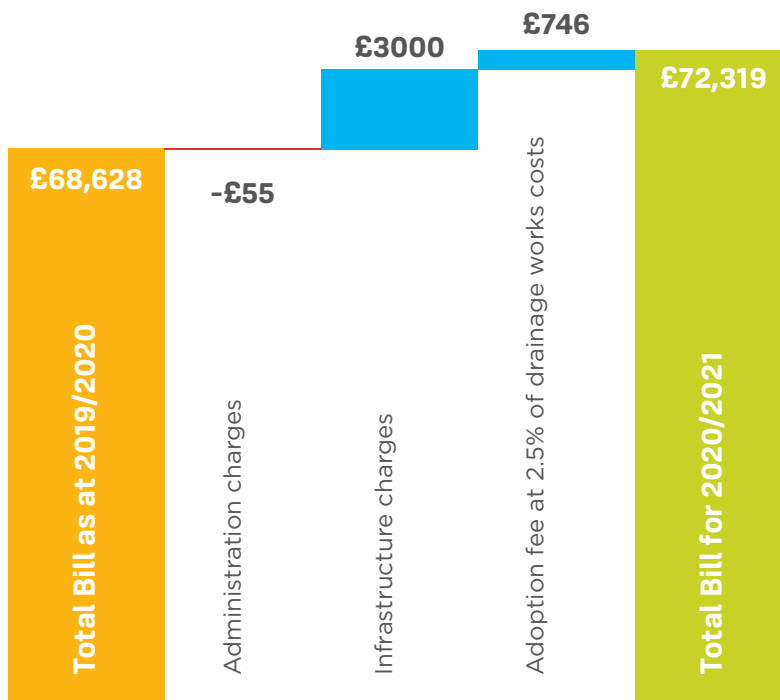
To demonstrate where changes for our 2020/2021 new connection charges have impacted bills for developer services customers, we have taken two of the scenarios presented in Table 2. and provided a breakdown of the key contributors to the bill change. We show the incremental changes in the charge components from 2019/2020 to 2020/2021.

Figure 2.1. Bill impacts by charge type for a single wastewater connection scenario (ref: 1)



2019/2020 to 2020/2021 Bill Impact for Wastewater Connections scenario 1: Single connection - Unadoptable (S106)

Figure 2.2. Bill impacts by charge type for a large development wastewater connection scenario (ref: 7)



2019/2020 to 2020/2021 Bill Impact for Wastewater Connections scenario 7: Large housing development - 200 connections adoptable (S106, S104)

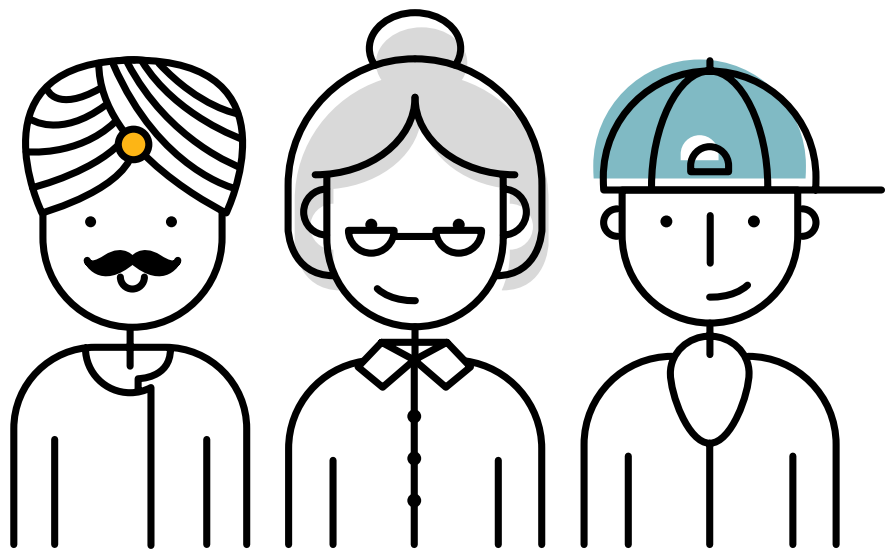
Summary

In summary, the impact assessment we have carried out shows the expected level of change in bills for typical developments for our customers for the 2020/2021 charging year is less than 10% assessed against a range of scenarios. For transparency, we have provided details of the key changes to charges for new connections, requisitions, and infrastructure charges.

The majority of scenarios have an impact at or around the change in RPI as at November 2019 of +2.25%. A minority of scenarios face bill impacts significantly lower or higher than 2.25%, but none are greater than 10% above the bill levels based on our 2019/2020 charges.

We will keep our new connection charges under review for 2020/2021 and beyond in accordance with any future updates to our services, costs, and charging rules set by Ofwat.

We will consult with our customers and stakeholders before we make changes to these charging arrangements that are material to the level of bills current and future customers may face.



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