New Connection Charges

October 2017

It’s part of our Blueprint for Yorkshire
New connection charges

Historically charges for new connections have been unnecessarily complex, not wholly transparent and there also has been confusion around different interpretations across the industry. This has been recognised by the Government, Defra and Ofwat as something that needs to change.

Changes to charges for new connections will help improve transparency, and provide greater clarity on charging. Defra have provided guidance to Ofwat about their expectations for these charges. This enables Ofwat to set Charging Rules, which we, and all other water and wastewater companies, must follow when setting charges for connections.

The new charging rules, which come into effect in April 2018, and will provide us with an exciting opportunity to develop a new connections charging framework that provides our developer customers with greater predictability for water and sewerage services built on four guiding principles:

1. Fair and affordable
2. Environmental protection
3. Stable and predictable
4. Transparent and customer focused

You can find more information on Ofwat’s website.

Over recent months we’ve been consulting with Water UK and working alongside other water and waste water companies to develop charging options for our customers. Water UK have undertaken their own industry wide consultation which you can read about.

Background
The Water Industry Act (1991) allows water companies to recover costs from its developer customers for providing relevant infrastructure for new developments and connections to the water company’s water and sewerage network.

We currently recover these costs through a number of charges:

Infrastructure Charge – a developer customer pays an infrastructure charge to us on communicating a property to our water and/or sewerage network. This is a charge that is applied across the sector. In 1995, the charge was set at £200 per service/property and has increased annually since 1995 in line with the retail price index (RPI).

Requisition Charge – this is the contribution that a developer customer may have to pay when a new water main and/or new sewer is installed by us to provide a new development with water and/or sewerage services. The contribution relates to both the on-site and off-site infrastructure that is needed and is determined through the Discounted Aggregate Deficit (DAD) calculation.

New Connection Charge – this is the charge that a customer pays for the actual connection to a public water main/sewer.
Our Approach

Taking the into account the guiding principles we will ensure our charges are cost reflective, transparent and easy to predict.

Infrastructure charges should be calculated based on the actual costs of any network. As we have developed our proposal our intent is that the total charges due from or to our developer customers broadly maintains the balance with charges they currently pay or receive.

With this in mind our proposal is:

Infrastructure Charge – cost reflective of the amount of monies spent on our existing network as a result of new development. The infrastructure charge per property will be determined by the total cost of work to the existing network over a suitable period of time, divided by the total number of properties served in that period. We have established initial charges for 2018-19 based on our understanding of historic network reinforcement expenditures. The charge is proposed to be a regional average, and we are currently forecasting a proposed combined charge of between £200 - £250. This will be confirmed on publication.

Requisition Charge – once again this will be cost reflective and will be determined by the actual cost of the works required on and off site to provide water and sewerage for the development. The charge will be the actual cost of providing the network, an Income offset (the DAD calculation) will not be provided. Similarly, if a development uses a Self Lay Provider an asset payment will no longer be offered.

New Connection Charge – currently this service is already cost reflective and no changes will be made.

Defra and Ofwat requires that broadly a developer should not pay more for a development than they are currently. Therefore, we are developing set of cost reflective charges and ensuring the that balance rule is not breached.

There will no longer be asset payments as well as income offsets therefore levelling the 'playing field' between Self Lay Providers, New Appointments and Variations, and Water Companies.

Other relevant current charges will remain the same, as they are current cost reflective.

A new charges scheme will be published early in the new year, providing a clear brake down of charges and how they can be calculated for an individual site. To aide us in creating our new charges scheme, in accordance with the new rules, we really want to have your views on the proposed changes to new charges and would appreciate it you could provide your comments to the question below to

Questions

1. We welcome your views on our approach?
2. What information do you consider reasonable for companies to provide in their published charges in order to work out a reasonable estimate of charges payable?
3. What is your view on environmental incentives on the water and sewerage charge?
4. What's your view on geographical average infrastructure charge?

Please provide your comments and views via email to developer.services.charges@yorkshirewater.co.uk