



Developer Services **Statement of Significant Changes**

2021/22

**Document revision history**

Version	Changes made	Date
1	Statement of Significant Changes for 2021/22 Charging Arrangements related to new development activities	29 January 2021



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1. Introduction & summary

This Statement of Significant Changes for the 2021/22 Developer Services Charging Arrangements has been prepared in accordance with [Ofwat Information notice IN 20/07](#) entitled “Expectations, assurance and information requirements for water company charges for 2021-22” published in November 2020.

In this document, we present a comparison of our 2021/22 charges for typical developments relative to 2020/21. Where the 2021/22 charges for typical developments exceed 10%¹ compared to the same typical developments in 2020/21, we explain why and whether a handling strategy has been implemented to manage the impact of the increase. The 10% threshold – introduced by Ofwat in 2019 as an information requirement to support bill stability and predictability for new connection services – applies to the total fee a customer would incur for a new service connection or new water mains as opposed to the itemised components that form part of the total customer bill. However, in preparing this statement of charges we have highlighted areas where there are more material changes but are still below the overall +10% threshold.

In this document, we also explain and confirm:

- the changes we have made to our charges applicable from 1st April 2021 to 31st March 2022;
- the impacts on typical developments as a result of those changes, as per Ofwat IN 20/07 worked examples;
- where relevant, the handling strategies we have developed to manage the impact of the increase; and
- our Board approval of the year-on-year changes to charges for typical developments and the proposed handling strategies, where applicable.

A summary of the impact on typical bills is presented in the table below:

Table 1.1: Summary of year on year changes

Typical developments	2020/21 charges (£)	2021/22 charges (£)	Change (%)
Single connection (short)	1,287	1,177	-8.5%
Single connection (long)	1,639	1,393	-15.0%
Block of flats (short)	7,108	5,425	-23.7%
Block of flats (long)	NA	5,801	NA
Small development	18,811	16,517	-12.2%
Medium development	71,073	65,138	-8.4%

¹ Ofwat Information notice IN 20/07 defines a ‘significant’ bill increase is an increase of more than 10% for a typical development.



Typical developments	2020/21 charges (£)	2021/22 charges (£)	Change (%)
Large development	238,318	214,988	-9.8%
Small development (SLP)	8,333	7,667	-8.0%
Medium development (SLP)	17,387	9,098	-47.7%
Large development (SLP)	47,923	9,398	-80.4%

A summary of the changes we have made to our charges and how they impact customer bills is presented in the table below:

Table 1.2: Summary of key changes applicable from 1 April 2021

Component of charges	Change	Direction of impact as part of total customer bill
Overheads	We have revisited the way that we allocate our overhead costs; for ancillary charges (application fee, design fee, re-quote fee, etc.) and service connections, we have adopted a bottom-up approach to calculate the costs of our Developer Services team to undertake specific tasks associated with the provision of new connections; such tasks include issuing and reviewing application forms, undertaking network study, issue quotation, scheduling installation, etc.	↓ ancillary charges These changes are not passing on additional cost but are essentially charging for them differently.
Application & design fees	We have revisited the structure of our application fees; we have separated the design element (contestable) and the regulations inspection element (contestable) from the application fee (non-contestable).	↓ application charge Separate charge for design
Infrastructure charge	We have made minor changes to the way that we calculate the infrastructure charge to also account for actual outturn cost of investment and infrastructure income.	↑ infrastructure charge, but net infrastructure charge is lower relative to 2020/21 due to the income offset (see below)
Income offset	We have revisited our approach to calculating the income offset from using the DAD approach ² to a fixed income offset rate to ensure we maintain a broad balance of charges between the contributions to costs by developers and other customers prior to 1 April 2018.	↑ income offset, i.e. a greater discount is offered
Traffic management	We have revisited the way we charge for standard traffic management and permit charges based on the feedback received from some stakeholders in our November 2020 charging consultation. Standard traffic management and permit charges are now included in the charges for services connections and new water mains.	Previously would have been charged separately for traffic management measures.

² Discounted Aggregate Deficit (DAD) approach



Component of charges	Change	Direction of impact as part of total customer bill
Presentation and structure of charges	We have simplified the structure of our charges and the presentation of our Charging Arrangements to facilitate understanding, reflecting on feedback from stakeholders. Our new water mains charges now include the costs of hydrants, bends and valves for typical developments as part of the fixed charge for the water main. These changes have increased the charges compared to last year.	<p>This change is not passing on additional cost but charging for it differently.</p> <p>↑ mains connections charges, particularly larger developments</p> <p>This change is not passing on additional cost but charging for it differently.</p>

We believe that these additional changes result in more predictable, stable and transparent charges. Overall, because the 2021/22 charges are lower relative to the 2020/21 charges, SES does not expect to implement any specific handling strategies.

The rest of this document explains and quantifies the changes in further detail. In Section 2 we present our year-on-year comparison of charges on typical developments. In Section 3 we describe in more detail the changes we have made and their impact on charges for typical developments.



2. Statement of significant changes for typical developments

The following worked examples were developed in accordance with the worked examples of typical developments set out by Ofwat in their Information Notice IN 20/07. We have compared the 2021/22 costs of these typical developments to those under the 2020/21 Charging Arrangements. In the worked examples we also highlight what are the drivers of changes.

For a detailed description of the 2021/22 worked examples, please refer to Appendix A of the 2021/22 Charging Arrangements.

2.1. Single household connections

2.1.1. Short connection

This typical development involves 25-32mm PE pipe service connection in the road with 4 metres of pipe laying. Standard traffic management and permit charges, excavation and reinstatement included.

Table 2.1: Single household short connection worked example

Item	Surface type	No of units	2020/21	2021/22	
			Charges (£)	Unit rate (£/unit)	Charges (£)
A. Application fee ^{NC}		1 qty	212	55	55
B. Design fee ^C		1 qty	-	127	127
Subtotal (A + B)			212	182	182
C. Service connection			871	-	993
*25/32mm connection ^C	Road	1 qty	-	811	811
25/32mm pipe ^C	Road	2 metres	-	91	182
D. Infrastructure charge		1 qty	369	417	417
E. Income offset		1 qty	-165	-415	-415
Total (A+B+C+D+E)			1,287		1,177
% increase/decrease compared to previous year					-8.5%

* includes up to 2 metres of pipe

C = Contestable

NC = Non-contestable

All charges are exclusive of VAT

The main drivers of change are the lower application fee, the higher service connection charge, the higher infrastructure charge and the higher income offset.



2.1.2. Long connection

This typical development involves 25-32mm PE pipe service connection in the road with 4 metres of pipe laying and 4 metres in unmade ground. Standard traffic management and permit charges, excavation and reinstatement included.

Table 2.2: Single household long connection worked example

Item	Surface type	No of units	2020/21	2021/22	
			Charges (£)	Unit rate (£/unit)	Charges (£)
A. Application fee ^{NC}		1 qty	212	55	55
B. Design fee ^C		1 qty	-	127	127
Subtotal (A + B)			212	182	182
C. Service connection			1,224	-	1,209
*25/32mm connection ^C	Road	1 qty	-	811	811
25/32mm pipe ^C	Road	2 metres	-	91	182
25/32mm pipe ^C	Unmade	4 metres	-	54	216
D. Infrastructure charge		1 qty	369	417	417
E. Income offset		1 qty	-165	-415	-415
Total (A+B+C+D+E)			1,639	-	1,393
% increase/decrease compared to previous year					-15.0%

* includes up to 2 metres of pipe

C = Contestable

NC = Non-contestable

All charges are exclusive of VAT

The main drivers of change are the lower application fee, the higher infrastructure charge and the higher income offset.

2.2. New block of flats

2.2.1. Short connection

This typical development involves 63mm PE pipe service connection with 4 metres of pipe laying in the road. Standard traffic management and permit charges, excavation and reinstatement included.

Table 2.3: New block of 10 flats short connection worked example

Item	Surface type	No of units	2020/21	2021/22	
			Charges (£)	Unit rate (£/unit)	Charges (£)
A. Application fee ^{NC}		1 qty	212	55	55



			2020/21	2021/22	
B. Design fee ^C		1 qty	-	341	341
Subtotal (A + B)			212	396	396
C. Service connection			519	-	530
15mm internal meters		10 qty	519	53	530
D. Mains connections & pipe laying			4,342	-	4,479
63mm connection ^C	Road	1 qty	-	3,873	3,873
63mm pipe ^C	Road	3 metres	-	202	606
D. Infrastructure charge		10 qty ³	3,690	417	4,170
E. Income offset		10 qty ⁴	-1,654	-415	-4,150
Total (A+B+C+D+E)			7,108	5,425	
% increase/decrease compared to previous year			-23.7%		

C = Contestable

NC = Non-contestable

All charges are exclusive of VAT

The main drivers of change are the higher infrastructure charge and the higher income offset.

2.2.2. Long connection

This typical development involves 63mm PE pipe service connection in the road with 4 metres of pipe laying and 4 metres in unmade ground. Standard traffic management and permit charges, excavation and reinstatement included.

This worked example was not included in our 2020/21 Charging Arrangements. As such, we have only presented the 2021/22 charges.

Table 2.4: New block of 10 flats long connection worked example

			2020/21	2021/22	
Item	Surface type	No of units	Charges (£)	Unit rate (£/unit)	Charges (£)
A. Application fee ^{NC}		1 qty	-	55	55
B. Design fee ^C		1 qty	-	341	341
Subtotal (A + B)			-	396	396
C. Service connection			-	-	530
15mm internal meters		10 qty	-	53	530

³ Although a block of flats will have a single mains connection, each flat is subject to an infrastructure charge and income offset to capture the impact of additional demand on the network.

⁴ Ibid.



	2020/21	2021/22
D. Mains connections & pipe laying	-	4,855
63mm connection ^C Road 1 qty	-	3,873
63mm pipe ^C Road 3 metres	-	606
63mm pipe ^C Unmade 4 metres	-	376
E. Infrastructure charge 10 qty	-	417
F. Income offset 10 qty	-	-415
Total (A+B+C+D+E+F)	-	5,801
% increase/decrease compared to previous year		NA

C = Contestable

NC = Non-contestable

All charges are exclusive of VAT

2.3. Housing developments

2.3.1. Small housing development

Small development of 10 new service connections including mains connection and 50 metres of new water mains. Standard traffic management and permit charges, excavation and reinstatement included.

Table 2.5: Housing development of 10 properties worked example

Item	Surface type	No of units	2020/21	2021/22	
			Charges (£)	Unit rate (£/unit)	Charges (£)
A. Application fee ^{NC}		1 qty	605	55	55
B. Design fee ^C		1 qty	-	341	341
Subtotal (A + B)			605	396	396
C. Service connection			5,061	-	5,090
*25/32mm connection ^C Unmade 10 qty	Unmade	10 qty	-	455	4,550
25/32mm pipe ^C Unmade 10 metres	Unmade	10 metres	-	54	540
D. Mains connections & pipe laying			11,109	-	11,011
90mm connection ^{NC} Road 1 qty	Road	1 qty	5,692	5,433	5,433
90mm pipe ^{NC} Road 9 metres	Road	9 metres		202	1,818
Subtotal Non-Contestable			5,692		7,251
90mm pipe ^C Unmade 20 metres	Unmade	20 metres	5,417	94	1,880
63mm pipe ^C Unmade 20 metres	Unmade	20 metres		94	1,880
Subtotal Contestable			5,417		3,760



		2020/21	2021/22	
E. Infrastructure charge	10 qty	3,690	417	4,170
F. Income offset	10 qty	-1,654	-415	-4,150
Total (A+B+C+D+E+F)		18,811	16,517	
% increase/decrease compared to previous year		-12.2%		

* includes up to 2 metres of pipe

C = Contestable

NC = Non-contestable

All charges are exclusive of VAT

The main drivers of change are the lower application fee, the higher infrastructure charge and the higher income offset.

2.3.2. Medium housing development

Medium development of 50 new service connections including mains connection and 300 metres of new water mains. Standard traffic management and permit charges, excavation and reinstatement included.

Table 2.6: Housing development of 50 properties worked example

				2020/21	2021/22	
Item	Surface type	No of units		Charges (£)	Unit rate (£/unit)	Charges (£)
A. Application fee ^{NC}		1 qty		605	55	55
B. Design fee ^C		1 qty		-	341	341
Subtotal (A + B)				605	396	396
C. Service connection				25,306	-	25,450
*25/32mm connection ^C	Unmade	50 qty		-	455	22,750
25/32mm pipe ^C	Unmade	50 metres		-	54	2,700
D. Mains connections & pipe laying				34,982	-	39,192
180mm connection ^{NC}	Road	1 qty		6,602	6,370	6,370
180mm pipe ^{NC}	Road	9 metres			248	2,232
Subtotal Non-Contestable				6,602		8,602
180mm pipe ^C	Unmade	90 metres		28,380	131	11,790
125mm pipe ^C	Unmade	100 metres			94	9,400
90mm pipe ^C	Unmade	100 metres			94	9,400
Subtotal Contestable				28,380		30,590
E. Infrastructure charge		50 qty		18,449	417	20,850
F. Income offset		50 qty		-8,269	-415	-20,750
Total (A+B+C+D+E+F)				71,073		65,138



	2020/21	2021/22
% increase/decrease compared to previous year		-8.4%

* includes up to 2 metres of pipe

C = Contestable

NC = Non-contestable

All charges are exclusive of VAT

The main drivers of change are the lower application fee, the higher mains connections and pipe laying charges, the higher infrastructure charge and the higher income offset.

2.3.3. Large housing development

Large development of 200 new service connections including mains connection and 1,000 metres of new water mains. Standard traffic management and permit charges, excavation and reinstatement included.

Table 2.7: Housing development of 200 properties worked example

Item	Surface type	No of units	2020/21	2021/22	
			Charges (£)	Unit rate (£/unit)	Charges (£)
A. Application fee ^{NC}		1 qty	605	55	55
B. Design fee ^C		1 qty	-	341	341
Subtotal (A + B)			605	396	396
C. Service connection			101,224	-	101,800
*25/32mm connection ^C	Unmade	200 qty	-	455	91,000
25/32mm pipe ^C	Unmade	200 metres	-	54	10,800
D. Mains connections & pipe laying			95,773	-	112,392
180mm connection ^{NC}	Road	1 qty	6,602	6,370	6,370
180mm pipe ^{NC}	Road	9 metres		248	2,232
Subtotal Non-Contestable			6,602		8,602
180mm pipe ^C	Unmade	290 metres	89,171	131	37,990
125mm pipe ^C	Unmade	300 metres		94	28,200
90mm pipe ^C	Unmade	400 metres		94	37,600
Subtotal Contestable			89,171		103,790
E. Infrastructure charge		200 qty	73,794	417	83,400
F. Income offset		200 qty	-33,078	-415	-83,000
Total (A+B+C+D+E+F)			238,318		214,988



	2020/21	2021/22
% increase/decrease compared to previous year		-9.8%

* includes up to 2 metres of pipe

C = Contestable

NC = Non-contestable

All charges are exclusive of VAT

The main drivers of change are the lower application fee, the higher mains connections and pipe laying charges, the higher infrastructure charge and the higher income offset.

2.4. Self-lay

2.4.1. Small housing development

Small development of 10 new service connections including mains connection and 50 metres of new water mains. Standard traffic management and permit charges, excavation and reinstatement included. Design completed by SES.

Table 2.8: Housing development of 10 properties – SLP worked example

Item	Surface type	No of units	2020/21	2021/22	
			Charges (£)	Unit rate (£/unit)	Charges (£)
A. Application fee ^{NC}		1 qty	605	55	55
B. Design fee ^C		1 qty	-	341	341
Subtotal (A + B)			605	396	396
C. Service connection			-	-	-
*25/32mm connection ^C	Unmade	10 qty	SLP	455	SLP
25/32mm pipe ^C	Unmade	10 metres	SLP	54	SLP
D. Mains connections & pipe laying			5,692	-	7,251
90mm connection ^{NC}	Road	1 qty	5,692	5,433	5,433
90mm pipe ^{NC}	Road	9 metres		202	1,818
90mm pipe ^C	Unmade	20 metres	SLP	94	SLP
63mm pipe ^C	Unmade	20 metres	SLP	94	SLP
E. Infrastructure charge		10 qty	3,690	417	4,170
F. Income offset		10 qty	-1,654	-415	-4,150
Total (A+B+C+D+E+F)			8,333		7,667
% increase/decrease compared to previous year					-8.0%

* includes up to 2 metres of pipe

C = Contestable

NC = Non-contestable

All charges are exclusive of VAT



The main drivers of change are the lower application fee, the higher non-contestable mains connections and pipe laying charges, the higher infrastructure charge and the higher income offset.

2.4.2. Medium housing development

Medium development of 50 new service connections including mains connection and 300 metres of new water mains. Standard traffic management and permit charges, excavation and reinstatement included. Design completed by SES.

Table 2.9: Housing development of 50 properties - SLP worked example

Item	Surface type	No of units	2020/21	2021/22	
			Charges (£)	Unit rate (£/unit)	Charges (£)
A. Application fee ^{NC}		1 qty	605	55	55
B. Design fee ^C		1 qty	-	341	341
Subtotal (A + B)			605	396	396
C. Service connection			-	-	-
*25/32mm connection ^C	Unmade	50 qty	SLP	455	SLP
25/32mm pipe ^C	Unmade	50 metres	SLP	54	SLP
D. Mains connections & pipe laying			6,602	-	8,602
180mm connection ^{NC}	Road	1 qty	6,602	6,370	6,370
180mm pipe ^{NC}	Road	9 metres		248	2,232
180mm pipe ^C	Unmade	90 metres	SLP	131	SLP
125mm pipe ^C	Unmade	100 metres	SLP	94	SLP
90mm pipe ^C	Unmade	100 metres	SLP	94	SLP
E. Infrastructure charge		50 qty	18,449	417	20,850
F. Income offset		50 qty	-8,269	-415	-20,750
Total (A+B+C+D+E+F)			17,387		9,098
% increase/decrease compared to previous year					-47.7%

* includes up to 2 metres of pipe

C = Contestable

NC = Non-contestable

All charges are exclusive of VAT

The main drivers of change are the lower application fee, the higher non-contestable mains connections and pipe laying charges, the higher infrastructure charge and the higher income offset.



2.4.3. Large housing development

Large development of 200 new service connections including mains connection and 1,000 metres of new water mains. Standard traffic management and permit charges, excavation and reinstatement included. Design completed by SES.

Table 2.10: Housing development of 200 properties - SLP worked example

Item	Surface type	No of units	2020/21	2021/22	
			Charges (£)	Unit rate (£/unit)	Charges (£)
A. Application fee ^{NC}		1 qty	605	55	55
B. Design fee ^C		1 qty	-	341	341
Subtotal (A + B)			605	396	396
C. Service connection			-	-	-
*25/32mm connection ^C	Unmade	200 qty	SLP	455	SLP
25/32mm pipe ^C	Unmade	200 metres	SLP	54	SLP
D. Mains connections & pipe laying			6,602	-	8,602
180mm connection ^{NC}	Road	1 qty	6,602	6,370	6,370
180mm pipe ^{NC}	Road	9 metres		248	2,232
180mm pipe ^C	Unmade	290 metres	SLP	131	SLP
125mm pipe ^C	Unmade	300 metres	SLP	94	SLP
90mm pipes ^C	Unmade	400 metres	SLP	94	SLP
E. Infrastructure charge		200 qty	73,794	417	83,400
F. Income offset		200 qty	-33,078	-415	-83,000
Total (A+B+C+D+E+F)			47,923	-	9,398
% increase/decrease compared to previous year					-80.4%

* includes up to 2 metres of pipe

C = Contestable

NC = Non-contestable

All charges are exclusive of VAT

The main drivers of change are the lower application fee, the higher non-contestable mains connections and pipe laying charges, the higher infrastructure charge and the higher income offset.



3. Details of significant changes made to our 2021/22 charges

There are five key changes in how charges have been calculated for Charging Year 2021/22 that have resulted in increases or decreases in our charges compared to 2020/21 and underpin the changes in the worked examples in the previous section.

These are:

- Cost allocation methodology for overhead costs;
- Ancillary charges, including application and design fees;
- Infrastructure charge and income offset;
- Standard traffic management charges; and
- Structure of our charges.

We discuss these in turn below.

3.1. Cost allocation methodology for overhead costs

3.1.1. Changes to the approach

For Charging Year 2021/22 we have revisited the way that we allocate our overheads costs. We have adopted a bottom-up approach to calculate the costs of our Developer Services team to undertake specific tasks associated with the provision of new connection services.

Overhead costs play a key a role in the delivery of our developer services for new connections. Overhead costs include activities such as:

- | | |
|--------------------------------------|------------------------------------------|
| 1. Issuance of application form | 9. Issuance of works order to contractor |
| 2. Review of application form | 10. Raising relevant requests or notices |
| 3. Undertaking the network study | 11. Water regulations check |
| 4. Complete the site survey | 12. Installation of the connection |
| 5. Undertake the design | 13. Creation of account |
| 6. Issuance of quotation | 14. Updating records |
| 7. Receival of payment | 15. Quality audit. |
| 8. Scheduling installation of assets | |

For the Charging Year 2021/22, we have allocated our internal costs associated with Developer Services into different categories to ensure costs are recovered fairly from different customers through our charges.

The first six activities on the list above are captured within our ancillary charges. The ancillary charges (application fee, design fee, etc.) are based on the estimated number of hours required to issue a quote, produce a design or complete specific tasks such as an additional site visit.



The remaining activities – known as direct on costs – consist of the costs associated with additional administrative tasks included in the new connections process and are independent of the scale or cost of the work. As such we have captured our direct on cost overheads as a flat fee uplift for each connection. The flat fee also captures overheads related to operations and regulation for new connection services.

Finally, overhead costs incurred by SES Water associated with the delivery of new water mains are recovered as a percentage uplift on our new water mains connection charges.

This bottom-up approach results in a more cost reflective set of charges, but has also resulted in some changes in the underlying charges compared to last year.

3.1.2. Impact of change

For Charging Year 2021/22 our revised overhead cost allocation approach has resulted in:

- Lower ancillary charges compared to Charging Year 2020/21; and
- No material change on service connection charges and new water mains charges on average.

3.2. Ancillary charges, including application and design fees

3.2.1. Change to the approach

In Charging Year 2020/21, we had a single fee to capture the costs associated with i) an application, ii) the design and iii) the regulations inspections.

For Charging Year 2021/22, we have set separate charges for the application and the design of a new development. Additionally, the regulations inspection charge is included in the cost of a new mains connection instead. These changes allow the contestable design work to be carried out by SLPs where requested by a developer and aids with transparency.

As a result of this change, we have also introduced an SLP-specific flat fee to cover the costs we incur where the developer has selected an SLP to undertake the on-site work. The flat fee covers the costs we incur of: i) reviewing the on-site design completed by the SLP and ii) the costs associated with the design of the off-site element of mains connections that would be undertaken by SES. These changes were welcomed by our stakeholders and aligns SES with other incumbent water companies.

3.2.2. Impact of change

The change to the structure of our ancillary charges results in lower, more transparent and more competitive charges. This change, in combination with our revised overheads cost allocation, result in ancillary charges that are more transparent and advantageous for our customers as they are lower than the ancillary charges in Charging Year 2020/21.

For example, application and design fees for single connections will amount to £182 in Charging Year 2021/22 (£55 for the application fee and £127 for the design) compared to



Charging Year 2020/21 where the fee amounted to £212 – this represents a 14% reduction. For the small, medium and large developments (as per the worked examples) the application fee will amount to £55 and the design fee to £341 for a total of £396 in Charging Year 2021/22. This is a saving of 35% compared to Charging Year 2020/21 where the fee amounted to £605.

3.3. Infrastructure charge and income offset

3.3.1. Change to the approach

Infrastructure charge

In Charging Year 2020/21, we calculated the infrastructure charge by taking (a) the five-year rolling average of forecast water network reinforcement spend divided by (b) the average number of connections over the same five-year rolling period. The approach also captured (c) an adjustment to account for the outturn network reinforcement spend as well as (d) an adjustment to account for the outturn number of new connections. These adjustments reflected outturn data with a two-year lag⁵ smoothed over the five-year rolling period. The infrastructure charge was therefore calculated as the sum of (a) and (c) divided by the sum of (b) and (d).

Following our consultation and internal review of the infrastructure charge, we made minor changes to the way we calculate the infrastructure charge to mitigate the risk of volatility between years.

For Charging Year 2021/22, our infrastructure charge is calculated by:

- (a) Taking the sum of the spend on water network reinforcement associated with new connections over a five-year rolling forecast period.
- (b) Calculating the difference between the outturn spend and outturn water network reinforcement revenue (subject to a two-year lag).
- (c) Calculating the difference between the forecast spend on water network reinforcement in the current financial year and latest forecast for infrastructure revenue to be invoiced in the current financial year.
- (d) Taking the sum of (b) and (c) which represents a true-up of spend and revenue.
- (e) Taking the sum of the estimated number of new connections over a five-year rolling period.
- Infrastructure charge is therefore calculated as the sum of (a) and (d) divided by (e).

$$\text{Infrastructure charge} = \frac{a + d}{e}$$

⁵ For example, charges for Charging Year 2021/22 are prepared in autumn 2020. As such, the outturn data for Charging Year 2020/21 is not available. Consequently, any adjustment for outturn data is lagged by two years, i.e., for Charging Year 2019/20.



- The result gives us a £/connection infrastructure charge.

Income offset

In accordance with the Ofwat Charges Scheme rules, we have made provision for a discount on the infrastructure charge for each new property connected to the network in order to broadly maintain the balance between the contributions to costs by developers and other customers prior to 1 April 2018. This discount is known as the income offset.

In the past, we have used the Discounted Aggregate Deficit (DAD) approach to calculate the income offset. We modelled the potential development mains work for a Charging Year and ran the cost of the schemes through the DAD calculator to establish the monies to be recovered upfront from the new customers and the contribution to be made by us. The contribution by us was shared across all new connections in the form of a discount, regardless of the type of development, i.e., flat income offset. The DAD approach also required a number of assumptions such as the annual cost of borrowing, the interest rate, the occupancy profile or new developments, the average annual income per property, etc.

Many water companies no longer use the DAD approach since the reforms to charging rules with respect to the income offset and the replacement of asset payments came into effect from 1 April 2020. This is because there is no longer a prescribed methodology to calculate the income offset now that it is applied to the infrastructure charge instead of the requisition charge.

Consequently, for Charging Year 2021/22, we have modified our approach to calculate the income offset. Instead of using the DAD approach, we now apply a fixed income offset rate to our mains requisitions costs to keep the contributions of developers and other customers broadly balanced over time.

The income offset rate has been derived by looking at the historical income offset offered in the three years prior to 1 April 2018 against mains requisition costs. Our simplified approach consists of using a fixed income offset rate, i.e., a percentage, to calculate the income offset per connection.

This is done by:

- (a) Taking the sum of the spend on mains requisition in the Charging Year;
- (b) Multiplying (a) with the fixed income offset rate; and
- (c) Dividing (b) by the forecast of new connections for the Charging Year.

The resulting amount is a £/connection discount applied to customer bills.

3.3.2. Impact of change

As a result of the change to the approach to calculate the infrastructure charge for 2021/22, our infrastructure charge per connection is lower than it would have otherwise been under



the 2020/21 approach. This is because the adjustments (i.e., under/over recovery⁶) are captured for both the cost of investment and infrastructure income and their impact is smoothed over the same five-year rolling period and revisited each year for continuous adjustment. This results in a more stable and predictable infrastructure charge that is less likely to fluctuate due to yearly shocks. This ensures that current and future expenditure on to the network to cover the demand for new development and growth is reflected fairly and transparently to all customers.

Yet, the change in the approach to calculating the infrastructure charge for 2021/22 (£417) results in an infrastructure charge approximately 13% higher compared to 2020/21 (£369). This increase is due to the one-off impact associated with the adjustments for the infrastructure income.

As a result of the change to the income offset approach, the income offset offered in Charging Year 2021/22 is £415 compared to £165 in 2020/21. Our 2021/22 approach not only ensures we maintain a broad balance of charges over time but also increases the discount on the infrastructure charge by 1.5 times compared to 2020/21.

Combining the changes to the infrastructure charge and income offset methodologies result in a net infrastructure charge of £2 per connection for 2021/22 (compared to £204 in 2020/21).

3.4. Standard traffic management charges

3.4.1. Change to the approach

In Charging Year 2020/21 we charged our customers for traffic management costs we anticipated to incur to complete the works; this was priced at the time of quotation as opposed to being captured as part of other fixed charges. We did not make any upward/downward adjustments to reflect actual costs incurred by us ex-post.

Although this approach aligned with the cost-reflectivity principle, it did not allow for predictability and stability of charges. Additionally, it did not allow our customers to work out upfront what they would be charged given they would not necessarily know what would be needed for their Development without requesting a quote. This made our charges less predictable.

Stakeholder feedback from our November 2020 consultation revealed that there is a preference for stability and predictability of charges and respondents favoured the approach to including the costs associated with standard traffic management measures and permit charges in our fixed connection charges instead. We have therefore applied an uplift to our service connection and new water mains charges to capture costs associated with standard

⁶ Also subject to a two-year lag.



traffic management measures and permit charges – in the past this would have been charged separately.

3.4.2. Impact of change

This change has an upward impact across services connections and new water mains (PE/non-PE pipe and various surface types) charges and the total bill cost in the typical development worked examples above. However, it does not result in additional costs being passed on to customers as these costs would have been charged for separately in previous years.

3.5. Structure of our charges

3.5.1. Change to the approach

As discussed in our 2021/22 Charging Arrangements, we have introduced some modifications to the structure and the presentation of our charges for Charging Year 2021/22. The changes were made to simplify our charges and to facilitate understanding for our stakeholders by providing as clear information as possible. We have therefore produced a set of more comprehensive fixed charges for new connection services where we explain clearly what is included or excluded from those fixed charges and in what circumstances they apply. In combination with our improved worked examples, we consider our 2021/22 Charging Arrangements offer a detailed yet easier to understand description of the costs that developers would incur for different types of developments.

To achieve this simplification, we have:

- included the costs of valves, hydrants and bends into the charge for mains connections instead of presenting the unit cost of these in a separate table. This allows us to set user-friendly, predictable and transparent fixed charges upfront as we appreciate that our customers would not necessarily know how many of these items their developments would require and thus would not necessarily be able to work out an accurate price for their development; and
- pooled the costs of different types of mains connections into a single charge based on the standard configurations that are applicable to different connection sizes.

3.5.2. Impact of change

The changes we introduced to simplify the structure and presentation of our charges whilst presenting a more realistic view of standard developments result in an increase in the cost of new water mains relative to 2020/21 charges. The key driver of this increase is the inclusion of valves, bends and hydrants as part of our mains laying charges. However, it does not result in additional costs being passed on to customers as these costs would have been charged for separately in previous years.



As larger developments require longer pipes, the effect of this change is more pronounced on larger developments given we have captured the costs of these items on a £/metre basis as part of the mains laying charge.

Overall, the increase in mains connection and mains laying charges is offset by decreases in other cost components for all types of typical developments.

Owat requires us to have a formal handling strategy in place where the overall impact is above the 10% threshold. We have not put forward a formal handling strategy as the overall impact on customer bills in our worked examples is below the 10% threshold.

As new developments can be designed and configured in many different ways, the requirements for valves, hydrants and bends may vary. Based on our technical and engineering experience, we have captured in our 2021/22 charges the costs associated with the minimum numbers of valves, hydrants and bends required for standard developments. However, we acknowledge that not all new developments would necessarily be configured in a standard way, as such we can discuss your requirements at the time of providing a quote and make any adjustments, where required.



4. Declaration

We confirm on behalf of the Board, that robust and rigorous procedures were followed in developing and approving the 2021/22 Charging Arrangements.

This document is signed by Paul Kerr (Chief Financial Officer) and Murray Legg (Senior Independent Non-Executive Director) on behalf of the Board.

Dated: 29 January 2021

Signed:

A handwritten signature in black ink, appearing to read 'Paul Kerr', written in a cursive style.

Paul Kerr, Chief Financial Officer

Dated: 29 January 2021

Signed:

A handwritten signature in black ink, appearing to read 'Murray Legg', written in a cursive style.

Murray Legg, Senior Independent Non-Executive Director