

# United Utilities Charging Reform Consultation



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## 1. Introduction

This consultation document sets out United Utilities' proposals for the new Developer Charging Framework, as a direct result of recent changes in charging rules published by Ofwat. These new rules come in to effect on 1 April 2018.

The new charging rules provide an opportunity to further develop a framework of charges which are stable, fair and more transparent.

The purpose of this document is to outline our current charging framework, new guidance / legislation and proposed changes to our charges for 2018/19.

We held a Focus Group Event to gather feedback on 11 April 2017. The presentation slide deck has been circulated alongside this consultation document, and is available on our [website](#). However, we appreciate not all interested parties were able to attend and we are keen to hear your views.

Your opinions and comments on proposed changes are greatly appreciated, and we invite you to provide feedback to these proposals via the online feedback form.

**Please refer to the link in the email provided, to access this feedback form.**

Please note, any feedback must be submitted by 10 May 2017.

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This document should be considered an executive summary of the proposed changes to developer charging for the industry. For a more comprehensive overview of these changes, please see the Water UK Consultation, which may found on the Water UK [Website](#)

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## 2. Background

The Water Industry Act (1991) makes provision for Water Companies to charge new developments for:

- New Connection Charges
- Requisition Charges
- Infrastructure Charges

However, as a result of stakeholder concerns across the industry and legislative changes (The Water Act, 2014) a new principle based ruleset has been developed by Ofwat.

### 3.Explanation of Existing Charges

New Connection Charges – This charge is cost reflective, and covers the cost of connecting premises to water mains or to a public sewer.

Requisition Charges – This is a contribution to a water main or sewer installed by us which is intended to provide water or sewerage services for a new development. The contribution relates to both on-site and off-site infrastructure and is determined through the Discounted Aggregate Deficit (DAD) calculation.

Infrastructure Charges – These charges are payable when premises become connected for the first time to a water supply and sewerage system for domestic purposes. This is a standard charge, across the Water Industry, for Water and Wastewater. In year 1995, this was set at £200 per service, and has increased annually with RPI.

Q1) What are your main concerns about UU's current charges for new developments?

### 4.Guidance

In January 2016, Defra issued four equally weighted principles, which Ofwat have subsequently used to develop rules for charging:

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

Ofwat's rules can be found across two charging rulesets:

Charging Rules for New Connection Services - 46 rules covering new connection charges and requisitions. Key rules include:

- Rule 14 – the charges must be published in such a way that a Developer or other customer can confidently work out a reasonable estimate of the charges payable if they know the relevant parameters of a Development.
- Rule 19 - Broadly maintain the present balance of charges between developers and other customers.
- Rule 25 - In relation to requisition charges, an undertaker:
  - Must provide for the option of upfront fixed charges; and
  - May provide alternative methods for calculating charges
- Rules 26 and 27 - Requisition charges must only relate to site specific work and should not include any amount for network reinforcement cost.
- Rules 29 and 34 - Income offset may be applied to requisition charges (but is not required to), offsetting is only allowed against requisitions.

The full Charging Rules for New Connection Services is available on the [Ofwat website](#).

Charges Scheme Rules - Includes 7 rules covering infrastructure charges. Key infrastructure rules include:

- Rule 28 - Infrastructure charges must cover costs of network reinforcement over a rolling 5 year period. Infrastructure charges must not reflect costs to address pre-existing deficiencies in capacity or in capability unrelated to a requisition.
- Rule 32 - Infrastructure charges must take due account of any previous site usage in last 5 years. This includes previous supplies of water that were not for domestic purposes and drainage that was not for domestic sewerage purposes. Charge should be discounted accordingly.

The full Charges Scheme Rules is available on the [Ofwat website](#).

## 5. New Charging Framework

Figure 1 indicates how our New Charging Framework will be changing.

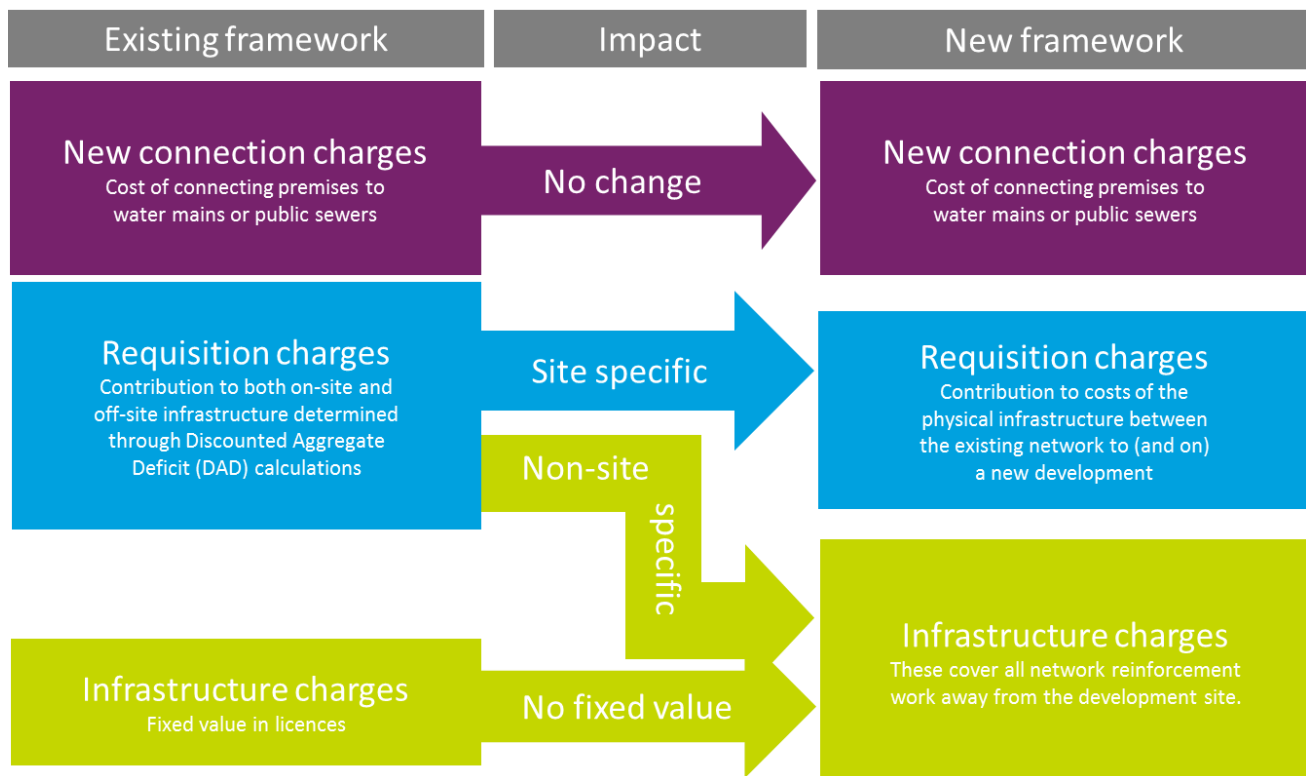


Figure 1

Furthermore, Ofwat and Water UK have developed water and wastewater diagrams to demonstrate proposed boundaries and definitions for new connection charging.

## WATER

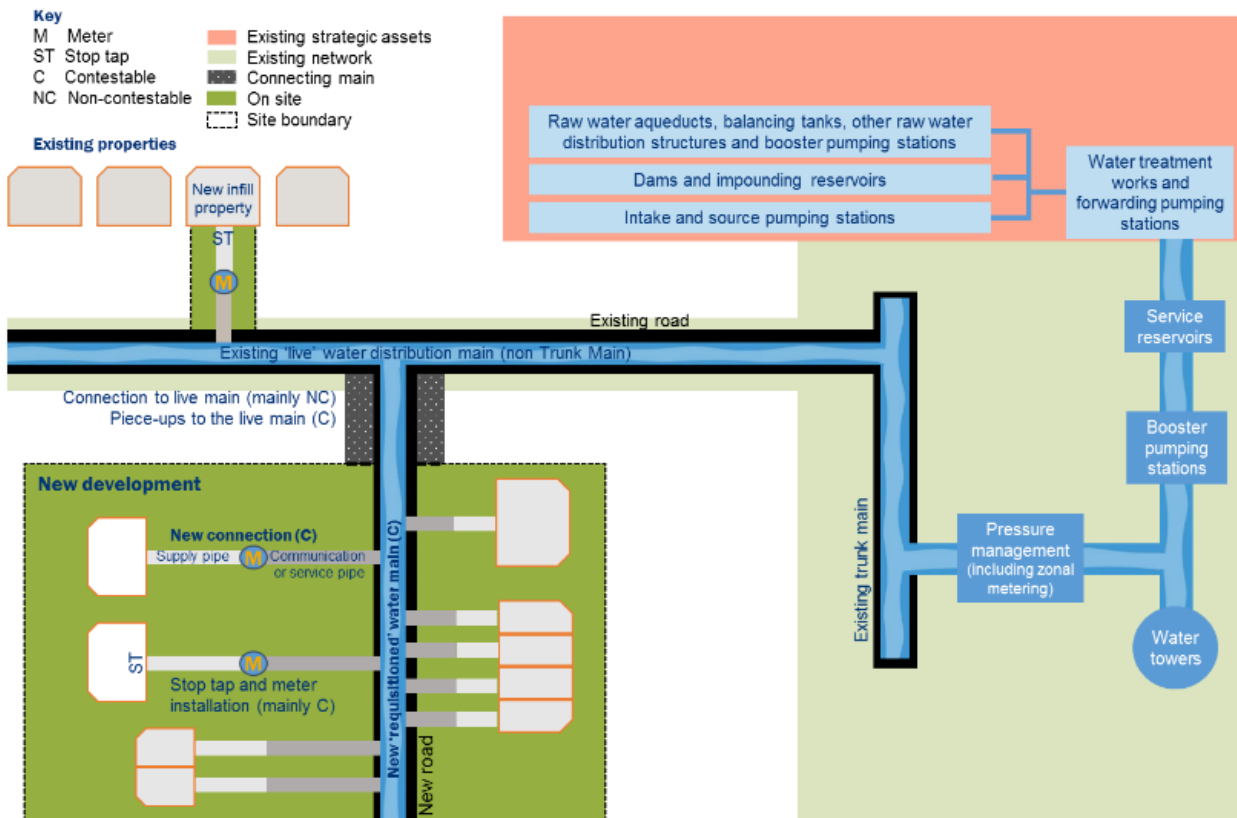


Figure 2

## WASTEWATER

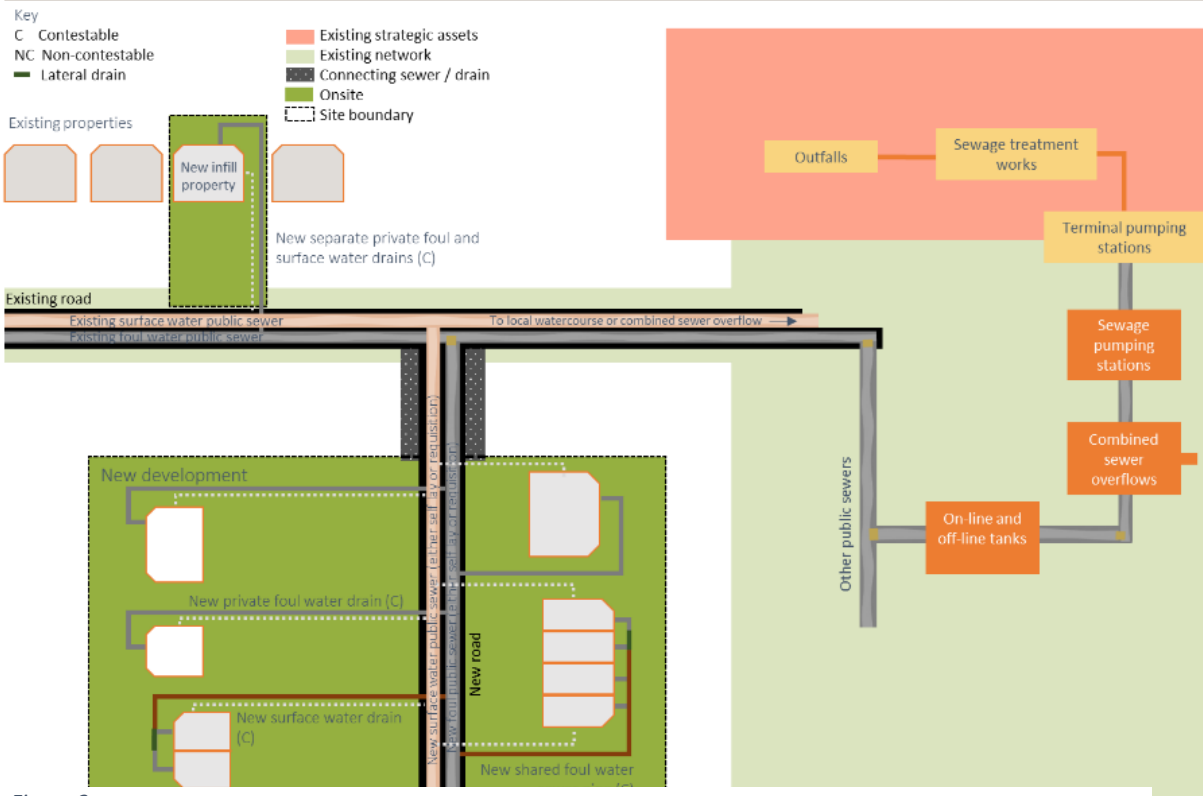


Figure 3

To better define how infrastructure is funded, the following definitions have been proposed:

**Site Specific:**

New water and sewerage mains within the area highlighted in green within the site boundary (figs. 2&3) and the connecting pipework to the nearest water or sewerage main of the same or larger diameter.

**Non-Site Specific:**

This may include water and sewerage mains, reservoirs, pumping stations, on-line & offline tanks, and Combined Sewer Overflows (CSOs) that are required as a result of new development driven demand.

Q2) Do you agree with the definitions of site specific and non-site specific?

## 6. Our Proposals

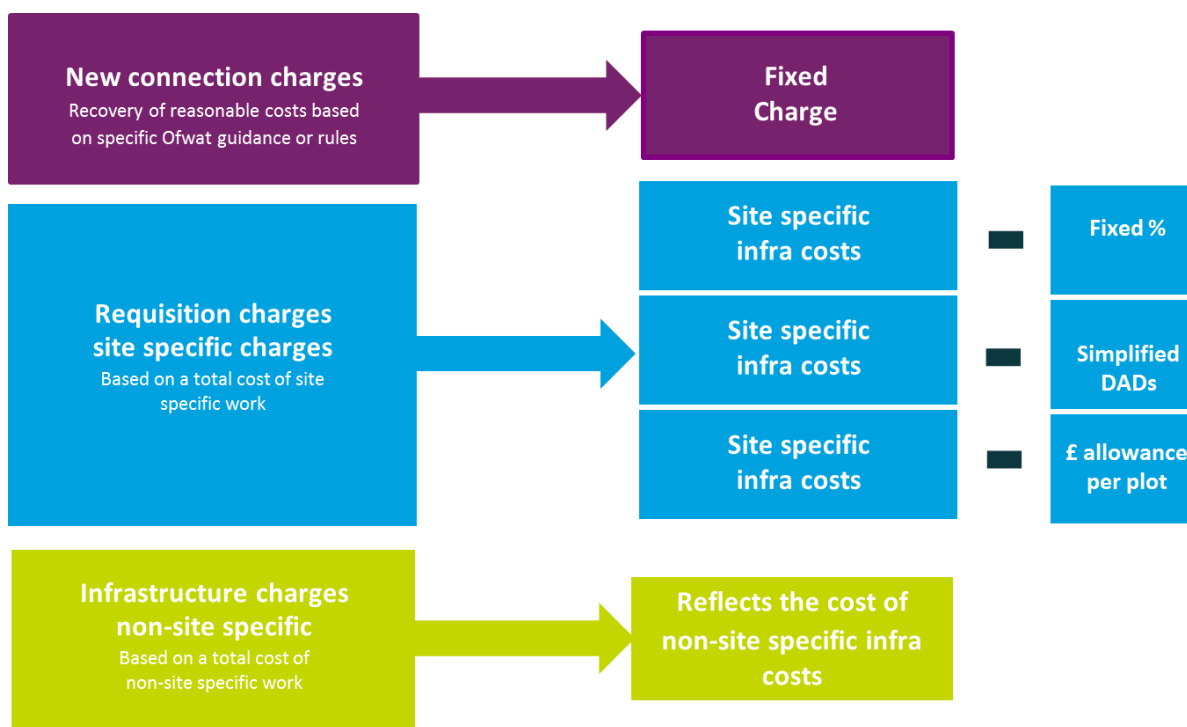


Figure 4

**New Connection Charges** – No change in methodology. In future we will continue to recover reasonable costs of connecting premises to water mains or public sewer, based on specific Ofwat guidance or rules. We believe this cost reflective approach is appropriate in satisfying Ofwat’s charging rules.

**Requisition Charges** – From 1 April 2018, this charge will refer only to site specific infrastructure i.e. infrastructure for a new development which is required to connect the new development to the existing network.

Rule 19 requires the balance of charges between Developers and other customers to be broadly maintained. On this basis charging 100% of site specific cost to the developer would not satisfy this requirement.

Under rules 29 & 34 of Ofwat's Charging Rules for New Connection Services an income offset may be applied to the requisition charge (but is not required).

In developing our approach we are currently considering options to apply an income offset:

- a fixed % income offset
- a simplified DADs model type calculation
- a fixed £ amount income offset, applied on a per plot basis

Based on an initial assessment of the options in meeting the requirements of the new ruleset the fixed % income offset is currently our preferred option.

**Infrastructure Charges** – Under the new charging framework, infrastructure charges are to cover all required development driven network reinforcement. We anticipate this will typically include the cost of upsizing distribution mains and sewers, pressure management, pumping stations, service reservoirs and Combined Sewers Overflows (CSOs).

Q3) Do you agree that we should continue to offer a standard fixed charge for connections?

Q4) Do you agree that infrastructure charges should be standardised? I.e. everyone contributes the same amount per property? Should any scenarios be classed as an exception?

Q5) For income offset / asset payment do you prefer:

- a) a fixed % income offset
- b) a simplified DADs model type calculation
- c) a fixed £ amount income offset, applied on a per plot basis



## 7. Reflecting Variations in Cost

Under Rule 25 of Ofwat's Charging Rules for New Connection Services for requisition charges we must:

- Provide the option of upfront fixed charges.
- Provide alternative methods for calculating charges.

We propose to provide a method of calculating charges and recognise the requirement of Rule 14 to provide sufficient information to work out a reasonable estimate of charges payable.

We are currently developing this element of our methodology. Options currently being considered include publishing our methodology for calculating costs, or providing fixed charges (with charge modifiers e.g. contaminated land, de-watering).

Q6) Do you have any views on how potential cost variations should be treated in quotations where exceptional costs could materialise?

Q7) 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?

## 8. Transition Arrangements

The new charging rules are due to come in to effect on 1 April 2018. We are aware that transitioning between rulesets may introduce uncertainty for developers with regards to purchasing land or developing a site. We are interested in what you think is required to provide a smooth transition to the new charging regime.

Q8) We are keen to provide certainty for developers when purchasing land or developing a site. Do you have any ideas or comments that you would like us to consider when transitioning between rulesets?

Q9) Are you in favour of a common approach to charging across England, or do you see benefits in individual Water Companies taking different approaches?

## 9. Full Question List:

- Q1) What are your main concerns about UU's current charges for new developments?
- Q2) Do you agree with the definitions of site specific and non-site specific?
- Q3) Do you agree that we should continue to offer a standard fixed charge for connections?
- Q4) Do you agree that infrastructure charges should be standardised? i.e. everyone contributes the same amount per property? Should any scenarios be classed as an exception?
- Q5) For income offset / asset payment do you prefer:
- a) a fixed % income offset
  - b) a simplified DADs model type calculation
  - c) a fixed £ amount income offset, applied on a per plot basis
- Q6) Do you have any views on how potential cost variations should be treated in quotations where exceptional costs could materialise?
- Q7) 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?
- Q8) We are keen to provide certainty for developers when purchasing land or developing a site. Do you have any ideas or comments that you would like us to consider when transitioning between rulesets?
- Q9) Are you in favour of a common approach to charging across England, or do you see benefits in individual Water Companies taking different approaches?

Your opinions and comments on proposed changes are greatly appreciated, and we invite you to provide feedback to these proposals via the online feedback form.

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 **United  
Utilities**  
*helping life flow smoothly*