

Changes to charges for new developments from 1 April 2022

January 2022 update

On 31 November 2021 we issued a consultation document on our proposed changes to our charges for new developments from 1 April 2022. We invited customers, stakeholders, and regulators to join us in consultation events and/or to write to us in response to the consultation.

The consultation document can be found on the following web pages:

<https://www.nwl.co.uk/services/developers/our-charges/202223-charges/>
<https://www.eswater.co.uk/services/developers/our-charges/202223-charges/>

Following the consultation events and the submission of written responses, we are now sharing further information in response to comments we have received.

Inflation

We had indicated that many of our charges are affected by inflation. In December 2021 the Consumer Prices Index (CPIH) had risen to 4.6%. We intend to pass through inflationary increases to many of our fees and charges next year. There are some activities that we carry out that are affected by the significant rise in cost of materials, and we have commented on the impact on charges for those activities later in this document.

Infrastructure charges

In our consultation we indicated our intention to increase infrastructure charges to fund the investment in water network capacity to support new development growth.

In 2022/23 we are proposing to return water infrastructure charges to 2020/21 levels as part of the transition to higher charges. From 1 April 2022, we intend to charge around £130 per house in the Northumbrian area and around £140 per house in the Essex & Suffolk area.

In the next five years, investment in wastewater network capacity to support development in the Northumbrian region is expected to be around £2M. Consequently, wastewater infrastructure charges will reduce to around £95 per house.

In the consultation, we were asked to provide more detail as to how we had calculated our proposed infrastructure charges and more information on phasing. We are pleased to do so in the appendix to this document.

We asked Essex & Suffolk customers if they would be in favour, in the future, of an Essex water infrastructure charge and a separate Suffolk water infrastructure charge. This approach is being considered by us in recognition that network reinforcement expenditure in Suffolk is expected to be much higher than in Essex. We received no responses from customers, expressing a preference either way, to this question. Our intention, for the time being, is not to separate the Essex infrastructure charge from the Suffolk infrastructure charge and to continue to review the relative reinforcement requirements for each area before making any change.

Water efficiency and sustainable drainage incentives

In our consultation we asked whether our incentives for water efficient and sustainably drained developments had changed the way developments are built to support water and wastewater sustainability.

A developer customer commented that the water efficiency incentive had encouraged their organisation to consider installing more water efficient fittings. The sustainable drainage incentive however was not the main reason driver why developers install sustainable drainage solutions, rather it was the requirements of the Lead Local Flood Authority.

One stakeholder was keen to see SLPs playing a more active role in encouraging water efficiency and offered a suggestion related to increasing the number of properties to a given size of water main in water companies' design specifications.

Our intention is to continue to offer financial incentives for water efficient houses and those where surface water drains away from our existing sewers, and to be receptive to other innovative ways to work with customers on sustainability.

Income offsets

During the consultation events we were asked to comment on our position in respect of income offsets in relation to Ofwat confirming their intention to remove them from April 2025.

We do not require an income offset in order to maintain the balance of charges to customers that existed prior to 1 April 2018. Consequently, our income offset has been zero since 1 April 2020. Therefore, on the basis that our income offset is zero, Ofwat's requirement to remove income offsets should not affect our charges to customers.

Where an offer has been accepted by a customer or agreement has been entered into with a customer prior to 1 April 2020 that included income offsets, income offsets will continue to apply in respect of the relevant development.

Service connection construction charges for connections to existing mains

In our November 2021 consultation document, we referred to a substantial review we had carried out to compare service connection costs and revenue. So that we receive sufficient income to match the costs that we incur, there is a need to increase charges for constructing service connections to existing water mains. We advised that it is our plan to phase the increases over a period of 2-3 years. From 1 April 2022, charges will increase compared to this year by:

- An average of around 10% in the Northumbrian area
- An average of around 4% in the Essex & Suffolk area

These increases are before the inflation factor is applied.

A consultee commented that phasing of increases affects the cost reflectiveness of charges, which is one of Ofwat's general charging principles. Our aim is to achieve fully cost reflective charges for this connection activity within the next 2-3 years. Our phasing approach is being

proposed because of Ofwat's requirement to have handling strategies where charges are likely to increase by more than 10% from the previous year.

Water mains construction charges

In our recent consultation document, we advised that we forecast that our mains construction rates are likely to increase by around 6% compared with 2021/22.

Consultees representing SLPs indicated to us that costs for pipe materials and fittings were, in their recent experience, rising by considerably more than CPIH. To enable SLPs to compete for contestable work, the consultees fed back that they wished us to reconsider the price increase of our mains construction charges to reflect the increasing cost of materials.

Having reconsidered the impact of increasing materials costs in conjunction with changes to labour costs, we are intending to increase mains construction costs in both the Northumbrian and Essex & Suffolk areas, on average by

- 19% for polyethylene water mains
- 16% for barrier pipe water mains

Highway Authority fees – road/footpath/lane closure

We consulted on our proposal to change the method of charging for traffic management associated with connection work. The changes we proposed were limited to the way we charge our customers for fees we incur from Highway Authorities.

In the last year, customers have fed back to us expressing a preference for us to “pass through” the actual fee charged to us by relevant Highway Authority when we carry out connection work on their behalf, rather than charging an averaged cost. During the consultation events, consultees agreed that it was reasonable to adopt this new method of charging from 1 April 2022.

Upsizing of water mains

A consultee expressed a preference for water companies to include an additional worked example in their Charging Arrangements. The additional worked example would demonstrate how the financing of upsized mains would be calculated.

We have experienced very few examples requiring water mains to be upsized to cater for future development. We have included an explanation of how we deal with such circumstances in our Charging Arrangements since 2018 and are proposing the following wording in this year's document:

“There may be occasions where we require developers, SLPs or NAVs to install new water mains and/or sewers that are larger than is specifically required for their development. We do this to provide future capacity for other developments that are being planned in the same area. Upsizing of networks is classed as network reinforcement and is funded from the infrastructure charge revenue that we receive.

Where a customer asks us to construct a network for a development and we choose to increase the network capacity beyond the amount required for the development alone, we will use infrastructure charges revenue to fund the additional or incremental cost of the upsizing. Where the network is self-laid by a developer, SLP or NAV and we request them to upsize it,

we will pay them a sum equivalent to the additional cost of providing the upsized network. The additional cost will be calculated in the same way whether we construct the upsized network or a developer, NAV or SLP constructs it and will be based upon the relevant charges published in this document.”

We will also consider the inclusion of an “upsizing” worked example in this year’s Charging Arrangements.

Alternative Point of Connection

We were asked by a respondent to explain more about the defined term “Alternative Point of Connection” to be used in water companies’ Charging Arrangements.

We have included an explanation of this term in our Charging Arrangements since 2018 and are proposing the following wording in this year’s document:

“There may be occasions where we agree with developers, SLPs or NAVs that new water mains and/or sewers are connected to our existing network at a location that is not the nearest practical point of connection. This approach can provide an alternative to increasing capacity at the location that is defined as the point of connection within this document.

Where we require an alternative point of connection, our charges for connecting the mains and/or sewers will be no more than if connection was made at the nearest practical point of connection. The additional cost associated with connecting at an alternative point of connection will be funded by the infrastructure charges we collect from customers. Where the network is self-laid by a developer, SLP or NAV and we request them to connect at an alternative point of connection, we will pay them a sum equivalent to the additional cost of connecting to that location. The additional cost will be calculated in the same way whether we deliver the work to connect at the alternative point of connection or a developer, NAV or SLP carries out the work. The calculation of the additional cost will be based upon the relevant charges published in this document.”

APPENDIX

Calculation of indicative infrastructure charges (including phasing)

Northumbrian Water area:

The table below shows the estimate of income and expenditure for water network reinforcement to 31 March 2027

	2021-22 Est. Outturn	2022-23 Forecast	2023-24 Forecast	2024-25 Forecast	2025-26 Forecast	2026-27 Forecast
Connected properties paying infrastructure charges	7568	7946	8249	8562	8885	9220
Infrastructure charge per property (£)	65	130	245	245	245	245
Infrastructure charge receipts (£M)	0.49	1.03	2.02	2.10	2.18	2.26
Surplus receipts from previous years (£M)	0.30					
Network reinforcement expenditure (£M)	2.60	2.60	2.11	2.47	1.94	1.70
Variance (receipts less expenditure) (£M)	-2.11	-1.57	-0.09	-0.37	0.24	0.56
Cumulative variance (receipts less expenditure) (£M)	1.28	-0.28	-0.37	-0.74	-0.51	0.05

Significant water network reinforcement schemes in the period 2022-27

Scheme	Work required	Investment
Birchwood to Elford SR, N'land	3.2km of 250mm main	£922,000
Eglington to Wandylaw SR, N'land	3.1km of 400mm main	£1,150,000
Belford to Waren Mill, N'land	3km of 150mm main	£825,000
River Crossing to Ford Pumps, N'land	2km of 250mm main	£750,000
Honeyhill to Blanchland/Pow Hills	4km of 150mm main	£893,000
Stokesley	2.5km of 355mm main	£959,000
North west Stockton-on-Tees	Larger pumps East View SR and 770m of 315 mm main	£665,000
Burtree, Darlington	1.8km of 355/315 mm main	£641,000
Others		£4,000,000

The table below shows the estimate of income and expenditure for wastewater network reinforcement to 31 March 2027

	2021-22 Est. Outturn	2022-23 Forecast	2023-24 Forecast	2024-25 Forecast	2025-26 Forecast	2026-27 Forecast
Connected properties paying infrastructure charges	3870	4064	4077	4181	4286	4390
Infrastructure charge per property (£)	235 or 50	95	95	95	95	95
Infrastructure charge receipts (£M)	1.32	0.39	0.39	0.40	0.41	0.42
Surplus receipts from previous years (£M)	-2.63					
Network reinforcement expenditure (£M)	0.07	0.05	0.25	0.28	0.95	0.38
Variance (receipts less expenditure) (£M)	1.25	0.34	0.14	0.12	-0.54	0.04
Cumulative variance (receipts less expenditure) (£M)	0.01	0.35	0.48	0.60	0.06	0.09

Essex & Suffolk Water area:

The table below shows the estimate of income and expenditure for water network reinforcement to 31 March 2027

	2021-22 Est. Outturn	2022-23 Forecast	2023-24 Forecast	2024-25 Forecast	2025-26 Forecast	2026-27 Forecast
Connected properties paying infrastructure charges	5984	6283	6522	6770	7026	7290
Infrastructure charge per property (£)	40	140	270	270	270	270
Infrastructure charge receipts (£M)	0.24	0.88	1.76	1.83	1.90	1.97
Surplus receipts from previous years (£M)	2.30					
Network reinforcement expenditure (£M)	0.53	0.52	7.40	1.52	0.83	0.86
Variance (receipts less expenditure) (£M)	-0.29	0.36	-5.64	0.31	1.07	1.11
Cumulative variance (receipts less expenditure) (£M)	2.78	3.14	-2.50	-2.19	-1.13	-0.02

Significant network reinforcement schemes in the period 2022-27

Scheme	Work required	Investment
Vicinity of High Lodge Country Park, Hinton, Suffolk	9.5km of 180mm main	£2,920,000
Ilketshall to Ringsfield, Suffolk	2.9km of 150mm main	£778,000
Framlingham, Suffolk	10km of 355mm main	£4,500,000
Others		£2,900,000