

Changes to charges for new developments from 1 April 2022

Dear customer

The purpose of this communication is to advise customers of Northumbrian Water and Essex & Suffolk Water of significant changes that we are proposing and to invite you to feedback any comments that you may have.

On or before 1 February 2022, we will be publishing new charges for the work we carry out in support of new developments. The new charges will apply for the period 1 April 2022 to 31 March 2023.

Proposed changes to our charges from April 2022

a) Inflation

The UK is experiencing volatile inflation and the Bank of England is forecasting that this will continue in the coming months. Our draft charges are currently being calculated to incorporate the Consumer Prices Index (CPIH) assumption of 4% according to the recent Bank of England projections. A few of our charges are affected by changes in the Retail Price Index (RPI) and this is currently forecast at 6%.

b) Infrastructure charges

We are required to match our infrastructure charge income to our five year, forward looking, forecast of network reinforcement costs. To do so, we periodically review the reinforcement requirements required to support new development growth. This enables us to determine whether we need to alter our water and wastewater infrastructure charges.

Since 1 April 2018 we have reduced our water infrastructure charges, over time, from £365 per house in the Northumbrian area to £65 and to £40 in the Essex & Suffolk area. In the Northumbrian area we have also reduced our wastewater infrastructure charges from £365 per house to a charge of £235 per house.

We have recently reassessed the impact of future development growth over the next five year period and have forecast the amount of investment that is required to reinforce water network capacity to support customers' development plans. In the next five years, investment in water network capacity to support development in the Essex & Suffolk region is expected to be in the order of £10M and a similar amount of investment is required in the Northumbrian area.

We intend to increase water infrastructure charges to fund the investment that is required. Our plan is to phase in increases over time. In 2022/23 we are proposing to return water infrastructure charges to 2020/21 levels as part of the transition to higher charges. Next year we intend to charge around £130 per house in the Northumbrian area and around £140 per house in the Essex & Suffolk area.

There is significant network reinforcement expenditure required to support growth in the Suffolk area in particular. We are therefore considering whether it is appropriate to have separate water infrastructure charges for the Suffolk area and Essex area of supply in future years. This will mean significantly higher water infrastructure charges for developments that are located in the 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 Northumbrian area.

c) Water efficiency and sustainable drainage incentives

We will continue to offer incentives for water efficient houses and those where surface water drains away from our existing sewers.

The water efficiency incentive applies where a house meets certain water efficiency eligibility criteria (105 litres per capita per day). In such circumstances we charge a zero water infrastructure charge, on receipt of a valid claim.

The sustainable drainage incentive applies where houses are constructed to drain surface water away from our existing sewers. Houses that are eligible for the incentive currently attract a wastewater infrastructure charge of £50. From 1 April 2022 we propose that the incentive will apply such that eligible houses will attract a wastewater infrastructure charge of zero.

d) Income offsets

Ofwat's Charging Rules for New Connections Services includes the provision for water companies to include an income offset against their infrastructure charges in order to maintain the balance of charges to customers that existed prior to 1 April 2018.

As was the case in previous years, a zero income offset is required from 1 April 2022 to maintain the balance of charges.

e) Service connection construction charges

Service connections to newly constructed water mains:

We expect our construction charges for this type of connection to alter from our current charges, by approximately value of CPIH.

Service connections to existing water mains:

It is our intention to increase service connection construction charges for this type of connection. We recently carried out a substantial review of service connection costs and revenue and this has indicated a need to increase charges for constructing service connections of this type. This is so that we receive sufficient income to match the costs that we incur. We plan to phase the charges increases over a period of 2-3 years

From 1 April 2022, it is our intention to increase our service connection construction charges, 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 appropriate inflation factor is applied.

To illustrate how these changes may affect construction charges fees next year, we have chosen a common type of service connection to an existing main that we carry out for our customers.

Example: A polyethylene service connection, 2 metres in length, to an existing a main, where we are required to excavate in a footpath and reinstate the ground.

<i>Region</i>	<i>21/22 charge</i>	<i>22/23 approx. charge</i>
Northumbrian	£532	£609
Essex& Suffolk	£855	£925

f) Water mains construction charges

We expect our charges for constructing water mains to increase in 2022/23. An increase in materials costs is an influencing factor affecting our mains construction costs. We forecast that our mains construction rates are likely to increase by around 6% compared with 2021/22.

This includes water mains laid:

- Under requisition for a developer
- As non-contestable and contestable works for Self Lay Providers (SLP) or New Appointees (NAV)

g) Water - Application, point of connection, inspection, design, and design approval fees etc.

We expect the above charges for developer, SLP and NAV customers to alter from our current fees, approximately by the value of CPIH.

h) Service connection administration fees

Service connections to newly constructed water mains:

We expect our administration fees to alter from our current fees approximately by the value of CPIH where we are requested to construct a service connection to a newly constructed water main.

Service connections to existing water mains:

It is our intention to increase administration fees, where we are requested to make a service connection to an existing main. Our recent review has indicated we need to increase charges so that we receive sufficient income to match the costs that we incur in administering service connections of this type. Our administration fee is currently £165 per connection and we anticipate that the charge for 2022/23 will be around £195 per connection.

Service connections installed by SLPs:

We expect our administration fees to alter from our current fees approximately by the value of CPIH for service connections installed by SLPs.

i) Wastewater - Application, point of discharge, administration, inspection, design approval fees, deposits, and construction fees etc.

We expect the above charges for developer and NAV customers to alter from our current fees approximately by the value of CPIH.

j) Highway Authority fees – road/footpath/lane closure

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

When designing and pricing water and sewerage connections we consider whether we will need to close all or part of a highway to carry out our work safely. Where there is a need to temporarily stop or limit vehicular and/or pedestrian traffic along a highway, it is a legal requirement that we must apply to the Highway Authority for a Temporary Traffic Regulation Order (TTRO). Amongst other things, Highway Authorities are able to charge for TTROs and any charges that we incur, as a consequence, are passed on by us to our customers requesting the relevant connection work.

Highway Authorities charge different fees for TTROs, so there is variability in charges within regions and across the country. Our current method of recovering our costs associated with these charges is to average the Highways Authorities' fees in Northumbrian area and in the Essex & Suffolk area. In our 2020/21 Charging Arrangements we charged £1,723 for a road closure in the Northumbrian area and £2,241 in the Essex & Suffolk area. This was irrespective of the Highway Authority area where the connection was installed.

In the Northumbrian area, some recent fees charged by Highway Authorities in respect of road closures are:

Highway Authority A - £1,200
Highway Authority B - £1,600
Highway Authority C - £2,080
Highway Authority D - £2,797

In the Essex & Suffolk area, some recent fees charged by Highway Authorities in respect of road closures are:

Highway Authority E - £1,218
Highway Authority F - £2,137
Highway Authority G - £2,215
Highway Authority H - £3,000

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. It is our intention to adopt this new method of charging from 1 April 2022.

Your feedback

We hope that this communication is useful in helping you to understand the more significant changes that will affect charges from next April and in future years. If you have any comments that you would like to share with us, we would be pleased to receive them by 21 December 2021.

We are in specifically interested in responses to the following questions:

- Q1. What is your view on our plan to phase in increases in water infrastructure charges?
- Q2. For Essex & Suffolk customers: Do you think we should consider the disaggregation of water infrastructure charges in the Essex and Suffolk area in the future? Please explain why.
- Q3. What is your view on our plan to phase in increases in our charges for service connections to existing water mains?
- Q4. A few years ago, we introduced incentives for water efficient and sustainably drained developments. In your experience, what effect have they had in changing the way developments are built to support water and wastewater sustainability?
- Q5. What is your view on our proposal to change the method of charging for Highway Authorities' costs?

We will be hosting two online engagement events (via Microsoft Teams). The events are scheduled for the following dates and times:

- Wednesday 15 December 2 pm to 3pm (primarily for Northumbrian Water customers)
- Thursday 16 December 1pm to 2 pm (primarily for Essex & Suffolk Water customers)

You can write to us using our email address ConnectConsult@nwl.co.uk and can register your interest to join us at an engagement event using the same email address.