

# Information notice

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## Interest rates relating to charges for new connections and relocation of mains and sewers

This information notice is not a substitute for the Water Industry Act 1991, nor for regulations and orders made under it. It should be read in conjunction with these legal instruments and case law. Anyone in doubt about how they may be affected by the Water Industry Act 1991 should seek legal advice.

### Introduction

Under the Water Industry Act 1991 (WIA91), water and sewerage companies can raise charges for connecting properties to their water and sewerage services, or for relocating pipes or other apparatus. The charges generally relate to the cost of the works required to be carried out.

For some works, the companies can ask for a sum to be deposited with them as security before they commence the works. Interest (based on a deposit rate that we have approved or determined) is usually payable upon any amounts held by the company for longer than three months.

Some charges are calculated as if the water or sewerage company had borrowed the money required to carry out the works ('hypothetical loan basis'). This means that the total costs used to calculate the charge include both capital costs, and interest (based on a borrowing rate that we have approved or determined).

Water and sewerage companies have the right to set these interest rates, but only with our approval. To simplify what we would approve and make this process transparent, we previously established a framework for general approvals in a letter to the companies (FD4).

[Appendix 1](#) will replace FD4 with effect from 17 October 2011. (This appendix was updated on 28 February 2012.)

### Interest payment and charges

There are four types of charges to which the interest rates set out in appendix 1 apply. They are:

- infrastructure charges;
- connection charges;
- charges for requisitions or self-lay agreements; and
- charges for relocating water mains and sewers.

### Infrastructure charges

A water or sewerage company may raise infrastructure charges

when premises are connected for the first time to a supply of water or to a sewer to be used for domestic purposes (such as for washing, cooking or sanitary purposes). Infrastructure charges contribute to the costs of local system enhancement which may be needed as a result of the extra demand new premises may impose on the water company's water network and/or on a sewerage company's sewerage network.

If the building (or part of the building) is occupied as a dwelling immediately before connection, the customer (who could be an individual or a developer) can pay the infrastructure charge either in one lump sum or in instalments over a 12-year period. If the customer chooses to pay in instalments, the company will calculate the charge as if the company had borrowed the money required to carry out the works over 12 years (a hypothetical loan). This means that the charge includes both the capital costs and interest. The interest is

This is a formal document that alerts our stakeholders to a change in the way that we regulate the water and sewerage sectors in England and Wales.

charged at the borrowing rate, as detailed in appendix 1.

### **Connection charges**

A connection charge is a charge reflecting a water company's reasonable costs for connecting premises to a water main. The water company can ask for a sum to be deposited with it as security before it commences the works. The amount requested as security cannot be larger than the estimated total cost of the works. The water company must pay interest on any sum held as security of 50p or more that it holds for at least three months. The interest must be paid at the deposit rate, as detailed in appendix 1.

There is no equivalent provision on interest rates for sums deposited with sewerage companies as security where a sewerage company is to make a sewerage connection.

### **Requisitions and self lay**

A person requiring a water main or public sewer to enable a supply of water or drainage to his premises, can request the provision of a water main or public sewer (requisition) from a water company. In certain circumstances, to enable supply or drainage, other infrastructure may also be required. Water companies can charge the reasonable costs it incurs in providing the water main, public sewer or other infrastructure required.

Alternatively, a person may decide to lay the water main, public

sewer or other related infrastructure itself (self lay). This will usually involve the use of accredited contractors.

A self-lay agreement is required between the water or sewerage company and the person constructing or proposing to construct the water main, public sewer or other related infrastructure. Where the water main, public sewer or other related infrastructure is constructed in accordance with the agreement, the water or sewerage company must adopt the infrastructure on the agreed date. The person constructing the water main, public sewer or other related infrastructure is the person who incurs the costs. However, the water companies must pay to the person the lesser of the estimated revenue from the bill payer of that premises over a defined period or the costs the water company considers it would incur on a hypothetical loan basis.

In self lay the charge, for the purposes of this notice, is what the water company must pay to the person constructing the water main, public sewer or other related infrastructure.

In calculating the charges for requisitions or self lay, the water or sewerage company will calculate the charge as if it had borrowed the money (a hypothetical loan) to enable it to carry out the work. This means that the charge includes both the capital costs of the work, and interest.

For requisitions where the water or sewerage company estimates

that there will be an amount for the developer to pay towards the costs of the works (the developer contribution), it can ask for an amount to be deposited with it as security before starting work. The company cannot ask for an amount greater than the estimated developer contribution.

For self lay, the water company may sometimes be required to provide certain infrastructure to enable the water supply or drainage which the person constructing the water main, public sewer or infrastructure cannot provide itself. Where the water company incurs a cost as a result of carrying out this work, it can ask for an amount to be deposited with it as security before starting the work. The company cannot ask for an amount greater than the estimated total cost of the works.

The water company must pay interest on any sum held as security of 50p or more that it holds for at least three months. The interest must be paid at the deposit rate, as detailed in appendix 1.

### **Relocating water mains and sewers**

A water or sewerage company may have installed pipes or other apparatus which are on, under or over a person's land. Anyone with an interest in this or adjacent land (a landowner) can, in certain circumstances, ask the water or sewerage company to alter or remove the pipe or apparatus affecting their land. The water company will charge the landowner for carrying out this work.

The water or sewerage company can ask for an amount to be deposited with it as security before carrying out the relocation work. The water or sewerage company must pay interest on any sum held as security of 50p or more that it holds for at least three months. The interest must be paid at the deposit rate, as detailed in appendix 1.

### How are interest rates determined?

The interest rates are determined either by:

- the water or sewerage company with our approval or, in default of this,
- us directly.

We do not have to determine interest rates on a case-by-case basis, but can approve or determine interest rates generally.

We first set out the method for calculating the interest rates in a letter to water companies on 9 April 1990 (FD4). Since then, we have calculated and published the interest rates on a six-monthly basis using that methodology, which is set out in appendix 1.

From 17 October 2011, we will no longer be calculating and publishing the interest rates on a routine basis. We expect interested parties to use the methodology in appendix 1 to calculate the rates themselves.

### Enquiries

If you have any questions about this information notice, or about the methodology for calculating interest rates, please contact Samuel Okyere at [samuel.okyere@ofwat.gsi.gov.uk](mailto:samuel.okyere@ofwat.gsi.gov.uk).



**Ofwat (The Water Services Regulation Authority) is a non-ministerial government department. We are responsible for making sure that the water and sewerage sectors in England and Wales provide consumers with a good quality and efficient service at a fair price.**



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