

Approval/determination

Under certain provisions of the WIA91, as set out below, we have the power to approve or determine interest rates relating to charges for new connections and relocation of mains and sewers.

Previously we had established a framework for general approvals in FD4, whereby we published the applicable interest rate on a six-monthly basis. We will no longer be regularly publishing the applicable interest rate.

This appendix 1 replaces FD4 with effect from 17 October 2011. (This appendix was updated on 26 February 2012.)

The interest rates that we will approve or determine will be calculated using the methodology set out below.

This does not prevent a company from approaching us to seek approval for a different rate where there may appear to be exceptional circumstances.

Calculating interest rates

Our methodology uses the [Yield from British Government Securities, 10-year Nominal Par Yield \(GIR\)](#), a statistic that is produced daily by the Bank of England.

In order to achieve an appropriate balance between administrative convenience and responsiveness to market conditions, the interest rate changes every six months, on 1 April and 1 October each year.

- For the period from 1 April to 30 September in any year, the applicable rate is the simple average of the daily GIR for the preceding March (rounded to the nearest 0.25%).
- For the period from 1 October to 31 March in any year, the applicable rate is the simple average of the daily GIR for the preceding September (rounded to the nearest 0.25%).

For borrowing, we add a margin to the reference rate (which is the applicable average GIR rounded to the nearest 0.25%) to reflect the additional cost of borrowing for water companies. These margins are currently 1.75 and 1.5 percentage points for water only and water and sewerage companies respectively.

For deposits, we subtract 0.75 percentage points from the reference rate (which is the applicable average GIR rounded to the nearest 0.25%).

Example

Methodology for calculating interest rates

Applicable average GIR = T%

Reference rate = applicable average GIR rounded to the nearest 0.25 = T_R%

Deposit rate = T_R% – 0.75%

Borrowing rate for water only companies = T_R% + 1.75%

Borrowing rate for water and sewerage companies = T_R% + 1.5%

(The different borrowing rates reflect the additional cost of borrowing for water only companies.)

Using the above methodology, the interest rates applicable from 1 October to 31 March 2012 are the following.

- Applicable average GIR (for September 2011) = 2.469%
- Applicable average GIR rounded to the nearest 0.25 = 2.5%
- Deposit rate = 2.5% - 0.75% = 1.75%
- Borrowing rate for WoCs = 2.5% + 1.75% = 4.25%
- Borrowing rate for WaSCs = 2.5% + 1.5% = 4.00%

Applicable provisions of WIA91

The **borrowing rate** applies to:

- section 43(3) WIA91 (water main requisitions – relevant deficit);
- section 43A(3) WIA91 (water main requisitions – discounted aggregate deficit);
- section 51C(8) WIA91 (water main self-lay);
- section 100(3) WIA91 (sewer requisitions – relevant deficit);
- section 100A(3) WIA91 (sewer requisitions – discounted aggregate deficit); and
- Condition D of a water or sewerage company's instrument of appointment, paragraph 1 (payment of infrastructure charges in instalments).

The deposit rate applies to:

- section 42(4) of WIA91 (security for water main requisitions);
- section 48(1) of WIA91 (security for connections to a water main);
- section 51C(4) of WIA91 (security for self-lay of water mains)
- section 99(4) of WIA91 (security deposits for sewer requisitions); and
- section 185(6) of WIA91 (security deposits for the alteration or removal of pipes or apparatus).