

New Connections

Cost Data Straw Man – Updated

## Objectives

- Provide greater visibility of the Network Infrastructure Reinforcement costs associated with new connection provision for both wholesale water and wastewater services

## Requirements

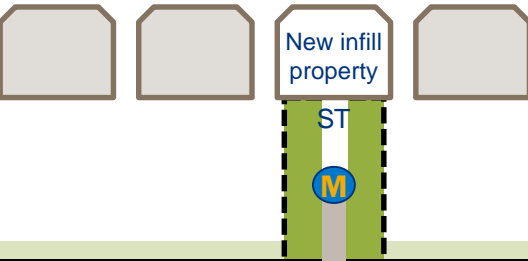
- Split of costs between wholesale water and wastewater
- Data to be clear, informative, understandable and reliable
- Not too simplified or detailed
- No needless additional burden on the companies in providing the data
- Clear understanding as to the classification of costs

# Draft post TFG: Proposed boundaries for new WATER connection charging

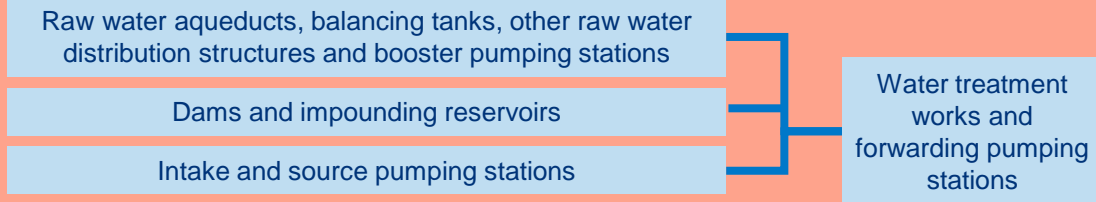
## Key

- M Meter
- ST Stop tap
- C Contestable
- NC Non-contestable
- Existing strategic assets
- Existing network
- On site / site-specific charging
- Site boundary

## Existing properties



The costs of necessary reinforcement work required to these existing strategic assets or the provision of new water resources or treatment assets (including the transmission between them), **are to be borne by the water company** and not the developer

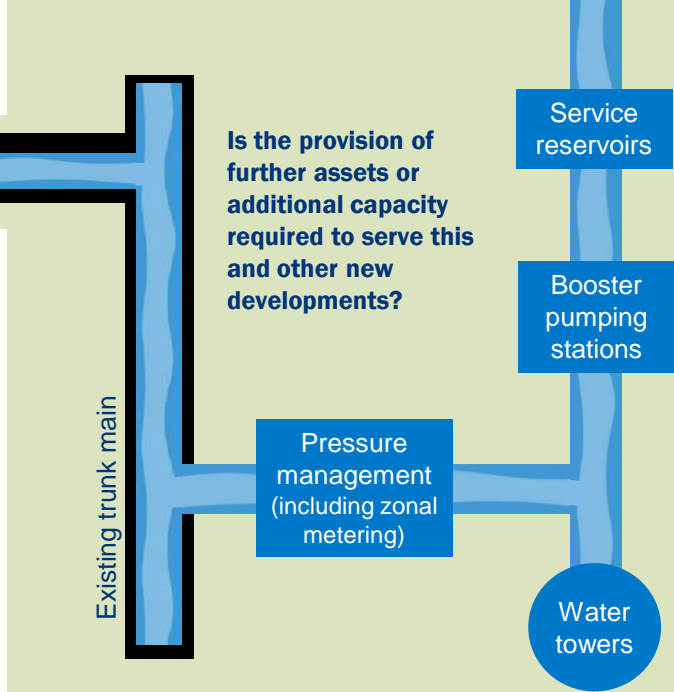
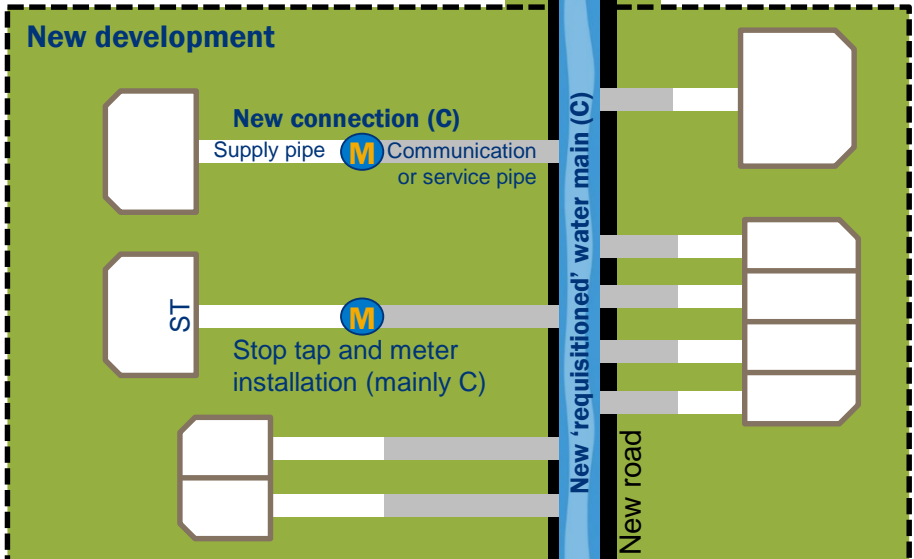


Existing road  
Existing 'live' water distribution main (non Trunk Main)

Connection to live main (mainly NC)  
Piece-ups to the live main (C)

**Point of connection – the nearest practical location where the live main is the same size or larger than the new connecting main**

## New development



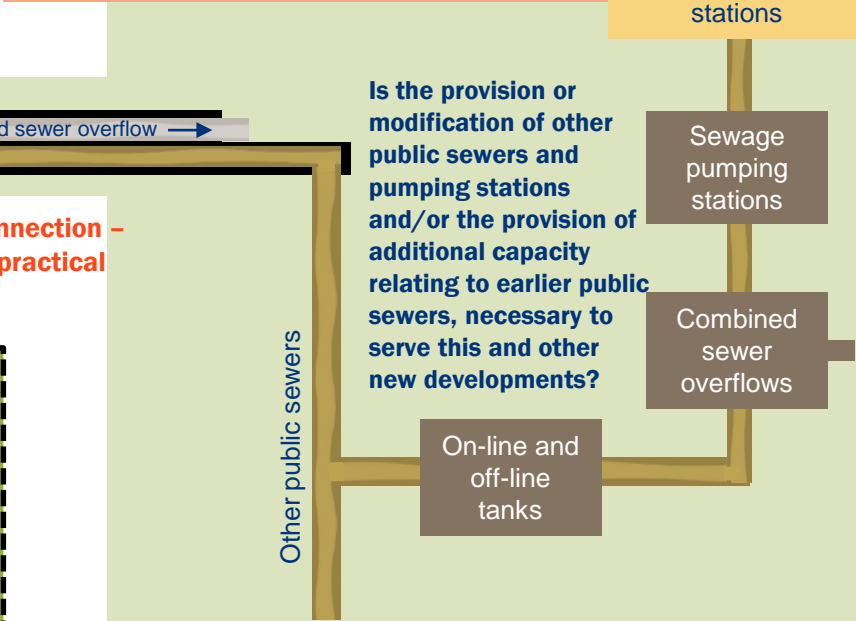
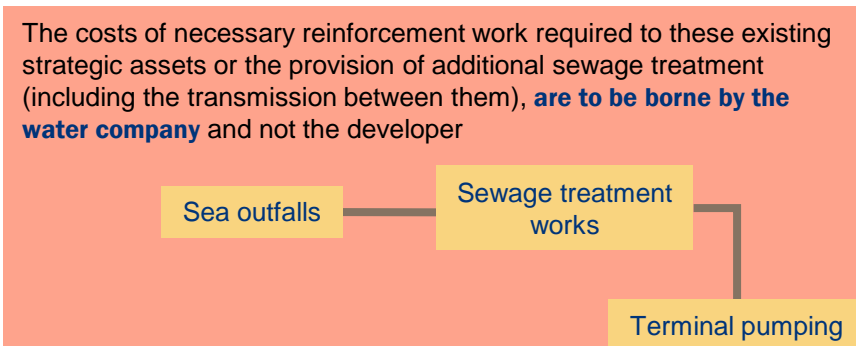
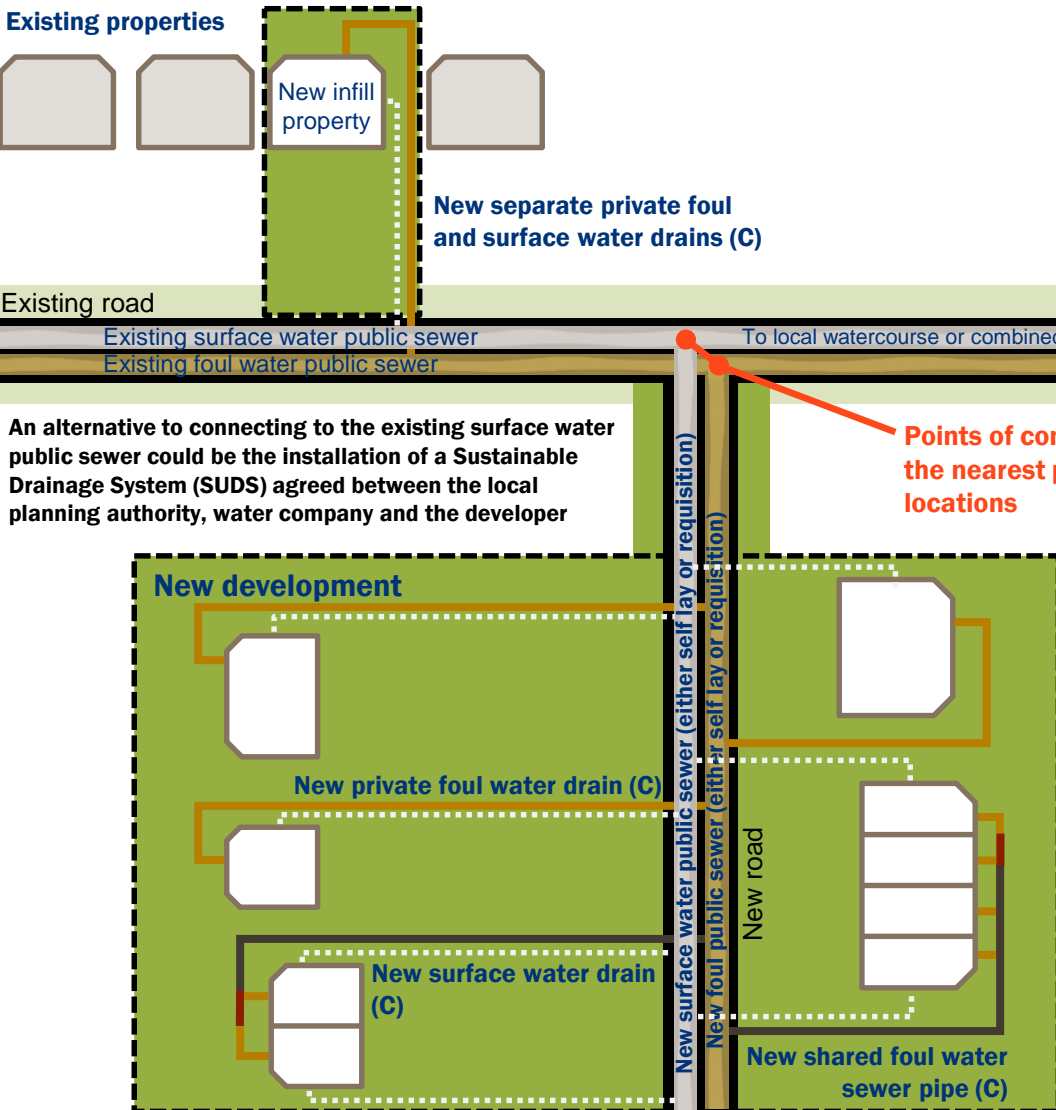
Is the provision of further assets or additional capacity required to serve this and other new developments?

The **apportioned** costs of necessary reinforcement work required to the water company's existing network assets 'in consequence' of the new connections and as evidenced in water companies' business plans, **will need to be borne by the developer** through the water company's redefined infrastructure charge

# Draft for discussion: Proposed boundaries for new WASTEWATER connection charging

## Key

- C Contestable
- NC Non-contestable
- Lateral drain
- Existing strategic assets
- Existing network
- On site / site-specific charging
- Site boundary



**Points of connection – the nearest practical locations**

The **apportioned** costs of necessary reinforcement work required to the water company's existing network assets 'in consequence' of the new connections provided by the new public sewers and evidenced in water companies' business plans, **will need to be borne by the developer** through the water company's redefined infrastructure charge

‘...we will require companies to balance their costs with revenues received, as far as is reasonably possible, over a rolling 5-year cumulative period’

Reporting year	Cumulative variances between costs and revenues							APR review	Cumulative period
	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25		
2019	X							High level	1 year only
2020	X	X							2 years
2021	X	X	X						3 years
2022	X	X	X	X					4 years
2023	X	X	X	X	X			Detailed	5 years
2024		X	X	X	X	X			Rolling 5 years thereafter
2025			X	X	X	X	X		

*Note: A red box labeled 'Commentary' is positioned above the 2021-22 column, with red arrows pointing to the 'X' marks in the 2019-20, 2020-21, 2021-22, 2022-23, 2023-24, and 2024-25 columns.*

Companies provide a commentary in their annual performance reports on the balance of costs and revenue each year from 2018-19 onwards. This will be proportionate to the scale of variance each year and will be based on a single year in 2018-19 and then cumulative total variances thereafter.

However, we fully accept there are likely to be greater variances in the earlier years as the new charging rules are implemented and transitional arrangements are made.

‘...we will require a more granular level of cost information in relation to developer services in the annual performance report ’

**Totex analysis for the 12 months ended 31 March 20xx - wholesale water & wastewater**

	Water	Wastewater	Total
<b>Operating expenditure</b>			
<b>Capital expenditure</b>			
Maintaining the long term capability of the assets - infra	I	I	C
Maintaining the long term capability of the assets - non-infra	I	I	C
<b>Other capital expenditure - infra</b>	I	I	C
Other capital expenditure - non-infra	I	I	C
<b>Total gross capital expenditure (excluding third party)</b>	C	C	C
Third party services	I	I	C
<b>Total gross capital expenditure</b>	C	C	C

← Costs

Charges →

**Analysis of capital contributions and land sales for the 12 months ended 31 March 20xx - wholesale**

	Fully recognised in income statement	Capitalised and amortised (in income statement)	Fully netted off capex	Total
<b>Grants and contributions - water</b>				
Connection charges (s45)	I	I	I	C
Infrastructure charge receipts (s146)	I	I	I	C
Requisitioned mains (s43, s55 & s56)	I	I	I	C
Diversions (s185)	I	I	I	C
Other Contributions	I	I	I	C
<b>Total</b>	C	C	C	C
<b>Value of adopted assets</b>		I		C
<b>Grants and contributions - wastewater</b>				
Infrastructure charge receipts (s146)	I	I	I	C
Requisitioned sewers (s100)	I	I	I	C
Diversions (s185)	I	I	I	C
Other Contributions	I	I	I	C
<b>Total</b>	C	C	C	C
<b>Value of adopted assets</b>		I		C

## Key points from consultation responses

- General support for more cost information
- Mixed views on where this information should be reported – one company said that, because this cost information is commercially sensitive, it should not be reported in publically available regulatory reports such as the APR, whereas another company said the APR was sensible
- Clarity on cost allocation is needed as soon as possible

Option	Advantages	Disadvantages
A. Single line in the APR for Infrastructure Expenditure (Reinforcement)	<ul style="list-style-type: none"> <li>• Simple and clear</li> <li>• Minimal changes to APR</li> </ul>	<ul style="list-style-type: none"> <li>• No visibility of underlying costs</li> </ul>
B. Cost by expenditure type, manpower, materials etc.	<ul style="list-style-type: none"> <li>• Provides greater visibility</li> <li>• Relatively easy to capture</li> </ul>	<ul style="list-style-type: none"> <li>• Will require new table in the APR</li> <li>• Still require single line item in APR for reconciliation purposes</li> <li>• Doesn't provide visibility of the costs by process / activity</li> <li>• Increased costs for companies?</li> </ul>
C. Cost by process / activity	<ul style="list-style-type: none"> <li>• Greater visibility of the type of work undertaken and associated costs</li> <li>• Provides comparability between companies</li> </ul>	<ul style="list-style-type: none"> <li>• Will require new table in the APR</li> <li>• Still require single line item in APR for reconciliation purposes</li> <li>• Increased costs for companies?</li> </ul>

Option 1                      This would be the minimum to achieve the objective of balancing revenue and costs over a rolling 5 year period

Options 2 & 3                These would go towards the development of trust and confidence between parties and contribute to the objective of bringing clarity and transparency

**Consensus – Option 3 is the preferred choice**

Network Reinforcement Costs	Wholesale Water			
	Feasibility	Design	Build / Implement	Total
Employment Costs				
Materials				
3 <sup>rd</sup> Party Costs				
Total				

Network Reinforcement Costs	Waste Water			
	Feasibility	Design	Build / Implement	Total
Employment Costs				
Materials				
3 <sup>rd</sup> Party Costs				
Total				



## Employment costs

- In house staff costs including on costs for carrying out the associated activities

## Materials

- Purchase of new equipment, pipes, components etc. associated with the development / project

## Third Party costs

- External costs associated with the delivery of the associated activities, this could be both labour and material costs, if the whole project is outsourced via competitive tender

## Network Reinforcement Costs - £m

[year]	Network reinforcement activity	On Site / Site Specific Costs (memo only)
<b>Water service</b>		
	Distribution mains	
	Trunk mains	
	Pumping stations	
	Storage facilities	
	Other	
<b>Total</b>	<b>£m</b>	<b>£m</b>
<b>Wastewater service</b>		
	Foul water public sewers	
	Surface water public sewers	
	Other public sewers	
	Sewage pumping stations	
	Storage facilities	
	Other	
<b>Total</b>	<b>£m</b>	<b>£m</b>

Do additional cost categories need to be added? i.e. new connections

Preferred Option

The On site / Site specific costs are for information only and do not form part of the requirement for the reconciliation of Infrastructure Revenue and Costs over a rolling 5 year period.

## Pumping Stations

- Include water booster pumping stations, pressure management equipment and sewage pumping stations

## Storage Facilities

- Include service reservoirs, water towers, combined sewer overflows and on-line / off-line sewage tanks

Revenue / Costs Reconciliation	Water	Waste Water	Total
Variance B/fwd			
Revenue			
Costs			
Variance C/fwd			

The narrative breakdown of the variance carried forward can be found in section xxxxxx

## Narrative - Example 1

£m

Comments	£	Timing or Permanent
Description	U	Timing
Description	V	Timing
Description	W	Timing
Description	X	Permanent
Description	Y	Timing
<b>Total</b>	<b>Z</b>	

## Narrative - Example 2

£m

Preferred Option

	Water	Waste Water	Narrative
<b>Revenue</b>	A	I	Description
	B	J	Description
	C	K	Description
<b>Sub Total</b>	<b>D</b>	<b>L</b>	
<b>Costs</b>	E	M	Description
	F	N	Description
	G	O	Description
<b>Sub Total</b>	<b>H</b>	<b>P</b>	
<b>Total</b>	<b>R</b>	<b>S</b>	

## Narrative - Example 3

£m

Comments	Water	Waste Water	Timing or Permanent
Description	1	7	Timing
Description	2	8	Timing
Description	3	9	Timing
Description	4	10	Permanent
Description	5	11	Timing
<b>Total</b>	<b>6</b>	<b>12</b>	