

Information notice

IN 17/02 February 2017

ofwat

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

Ofwat publishes new independent comparison of monopoly water companies' new water supply connection costs

This information notice summarises an independent review we commissioned into the connection costs incurred by monopoly water companies when providing new water supply connections under section 45 of the Water Industry Act 1991 (the 'WIA91').

Background

Owners or occupiers of a property are entitled to ask their monopoly water company to provide a connection to an existing water company water main for a supply of water for domestic purposes.

A water company is entitled to charge the customer the reasonable costs of making the new connection. These costs will include connection costs and administration costs. In addition the company is entitled to charge an infrastructure charge for each new connection made to its network for the first time.

We have powers under the WIA91 to determine the costs and conditions set by a company for making connections to water mains, where a customer or a company refer a dispute to us.

In 2010, we commissioned '[Comparative Study: Cost of new water supply](#)

[connections work \(Section 45 Water Industry Act 1991\)](#)' from Hyder (referred to as the Hyder report) into the connection costs associated with new water supply connections under section 45 WIA91.

We use this report to provide benchmark costs against which we compare disputed costs in the complaints referred to us about new connection charges.

We also use a separate independent report looking at the [administration costs associated with new water supply connections](#) to inform any determinations we make under section 45 WIA91. For more information, see our [website](#).

A new benchmark of new connections costs

Recognising that the Hyder report is no longer reflective of current costs, in 2016 we commissioned a new independent review of

the costs of providing new water supply connections.

The purpose of this review was to provide us with updated benchmark figures for the costs of providing a new water supply connection.

We have published a summary of the review, rather than the full report, because the report contains commercially sensitive information about water companies' costs.

Key conclusions of the review

Connection costs have been compared on the basis of them including the following tasks: excavation, laying of pipe, materials, backfill and reinstatement.

Maximum, minimum and median costs have been compared in the following scenarios:

- 2 metres (m), 4m and 9m in the verge.
- 2m, 4m and 9m in the footway.
- 2m, 4m and 9m in the carriageway.

The resulting benchmark costs are on average 21% higher than the costs included in the Hyder report.

The maximum, minimum and median charges for the nine different scenarios are set out in the table below.

Next steps

When we consider disputes about new connections made under section 45 WIA91, we determine the costs we believe the water company has reasonably incurred in providing the new connection.

- We will use this review to inform our consideration of the reasonableness of connection costs for disputes referred to us from the date of this Information Notice.
- For disputes referred to us before the date of this Information Notice we will continue to use the costs in the Hyder report.

We use the costs in both the Hyder report and the 2016 report as benchmarks. They are the starting point for considering the disputed costs. We compare the costs water companies incur for excavation, laying of pipe, materials, backfill and re-instatement with the median cost of work in the table below.

We consider disputes on a case-by-case basis and where there are reasonable grounds to deviate from the median cost we may do so. If a water company's incurred costs exceed what we consider to be reasonable, we may require the water company to refund the balance to the customer.

We have also put these costs on [our website](#) so that it is clear to both water companies and customers how we may expect to determine any complaints that we receive.

Maximum, minimum and median charges for the nine different new connection scenarios

| Cost | Verge Surface length (metres (m)) | | | Footway Surface length (metres (m)) | | | Carriageway Surface length (metres (m)) | | |
|---------|---|-----------|-----------|---|-----------|-----------|---|-----------|-----------|
| | 2m | 4m | 9m | 2m | 4m | 9m | 2m | 4m | 9m |
| Median | £633.42 | £713.35 | £913.19 | £773.84 | £1,009.06 | £1,597.10 | £779.34 | £1,020.67 | £1,623.99 |
| Maximum | £1,029.41 | £1,175.82 | £1,541.85 | £1,144.98 | £1,419.20 | £2,104.75 | £1,188.50 | £1,510.86 | £2,316.74 |
| Minimum | £354.52 | £409.34 | £546.40 | £458.47 | £627.11 | £1,048.73 | £468.73 | £648.60 | £1,098.28 |

More information

[Getting a new connection](#) webpage for residential customers

[Comparative Study: Cost of new water supply connections work \(Section 45 Water Industry Act 1991\)](#), Hyder, 2010

[‘Independent review of section 45 administration fee and overhead costs on behalf of the Water Services Regulation Authority \(Ofwat\) – summary’](#), April 2014

[Our expectations of monopoly companies in providing new connections](#) webpage

[Complaints we can help with](#) webpage

Ofwat (The Water Services Regulation Authority) is a non-ministerial government department. We regulate the water sector in England and Wales. Our vision is to be a trusted and respected regulator, working at the leading edge, challenging ourselves and others to build trust and confidence in water.

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