

**[REDACTED] and Severn Trent  
Water Limited**

**Final determination of a dispute under sections  
45(6A) and 30A of the Water Industry Act 1991**

**Complaint against Severn Trent Water Limited  
about the reasonableness of connection costs 19**

## Contents

Summary of our decision	3
1. Introduction	4
2. Background	5
3. Legal Framework	5
4. Jurisdiction to determine the complaint	9
5. Draft determination	10
6. Final determination	11

## Summary of our decision

This is a determination of a dispute between Severn Trent Water Limited and [REDACTED] over the cost that Severn Trent Water Limited reasonably incurred in providing new water supply connections to six residential properties. It was referred to us for determination under section 45 of the Water Industry Act 1991.

We have determined that the costs Severn Trent Water Limited incurred in making these connections were reasonable.

## 1. Introduction

### A. The complaint

- 1.1 This is the final determination of a dispute referred by [REDACTED] (**the Complainant**) to the Water Services Regulation Authority (**Ofwat**), on 31 January 2018 for determination under sections 45(6A) and 30A of the Water Industry Act 1991 (**the Act**).
- 1.2 The dispute is between the Complainant and Severn Trent Water Limited (**Severn Trent**) and is about whether the costs incurred by Severn Trent in connecting six new water supplies (**the Connections**) at [REDACTED] (**the Site**) were reasonable.
- 1.3 Before reaching this final determination, we issued a draft determination on 18 October 2018, and we provided both parties with the opportunity to make representations to us on that draft determination. We received comments from both parties, and we have taken those comments into account when finalising this determination.

### B. Overview of our determination

- 1.4 Our determination is detailed in [chapter 6](#), and is summarised below.
- 1.5 In light of the legal framework, and the evidence we have gathered from the parties to the dispute, we have determined that the cost for the works in relation to the Connections is within the range of reasonable costs set out in [Information Notice 17/02](#). Based on this, no refund is due to the Complainant.

## 2. Background

### A. The parties

#### Complainant

- 2.1 [REDACTED] is the Complainant and the owner of the Site. It is a property and lettings company, which developed the properties on the Site.

#### Company

- 2.2 Severn Trent Water Limited is appointed under the Act to provide water services to customers in [REDACTED], where the Site is located.

### B. The Site

- 2.3 The dispute concerns the costs reasonably incurred by Severn Trent, and charged to the Complainant for making the Connections at [REDACTED].
- 2.4 The Connections were for six new properties being built by the Complainant at the eastern end of [REDACTED].

### C. The request for and making of the Connections

- 2.5 On 16 March 2017, the Complainant submitted an application to Severn Trent for the Connections, for the purpose of supplying water for domestic use.
- 2.6 On 7 April 2017, Severn Trent issued the Complainant with a quotation of £7,961.20 for the Connections.
- 2.7 This quotation was later reduced to £3,575.80 in line with the Infrastructure Discount Scheme Severn Trent offered at the time. This scheme waived the infrastructure charges for water efficient properties requiring a new connection. This removed the infrastructure charge of £4,385.40 that would otherwise have been applicable to the Connections.
- 2.8 The second quotation was made up of the following elements:

**Table 1 - Quotations**

Description	Sub-total
Service Connection Charge	£1,972.00
Connection under pressure	£881.00
New meters	£167.04
Water for construction charge	£555.76
<b>Total (exc. VAT)</b>	<b>£3,575.80</b>

- 2.9 The Complainant paid Severn Trent £3,575.80 and, on 23 October 2017, Severn Trent subsequently made the Connections.
- 2.10 Making the Connections involved fitting a manifold box and making six connections from this. Therefore, one 1.5 metre connection using a 63 millimeter diameter pipe was made from the water main to the manifold, then six 2 metre connections using a 32 millimeter pipe were made from the manifold to the properties. The Connections were made beneath an unmade surface.
- 2.11 The Complainant considers that the cost quoted by Severn Trent was excessive and subsequently referred the dispute to us on 31 January 2018. On 20 July 2018, we formally opened a case and asked Severn Trent to provide us with a breakdown of the actual costs it incurred in providing the works. The breakdown Severn Trent provided is as follows:

**Table 2 – Severn Trent breakdown of the cost of the works**

Description	Cost
1. Six port manifold connection including fitting and pipework	£1,972.00
2. Under pressure connection to main	£881.00
3. 15mm meter and commissioning	£167.04
<b>Total (exc. VAT)</b>	<b>£3,020.04</b>

- 2.12 The ‘water for construction charge’ (set out in the first quote) is exempt from the cost of works, as this is a charge for water used in the construction of the properties, and is therefore not a part of the cost of the Connections.

2.13 On 9 August 2018, we asked the Complainant to provide us with further details of the Connections, and this breakdown fits with the Complainant's total detailed in its response of 13 August 2018.

### **3. Legal framework**

- 3.1 This section outlines the key legislative provisions relevant to this case.
- 3.2 Section 45(1) of the Act imposes a duty (subject to certain conditions) on a water company to make a connection, where the owner or occupier of any premises serves notice on the water company requiring it, for the purposes of supplying water for domestic purposes, to connect a service pipe to those premises with one of the water company's mains.
- 3.3 Section 45(6) of the Act provides that the water company may recover from the person who has required it to make a connection the expenses reasonably incurred by it in making the connection.
- 3.4 Section 45(6A) of the Act provides that any dispute about whether the expenses were incurred reasonably may be referred by either party to Ofwat for determination under section 30A of the Act.

## **4. Jurisdiction to determine the complaint**

4.1 We are satisfied that the dispute between the Complainant and Severn Trent is a dispute about whether the costs Severn Trent incurred and has sought to recover from the Complainant for making the Connections under section 45 of the Act were reasonably incurred. We therefore have the jurisdiction to determine this dispute in accordance with section 45(6A) of the Act. This is because:

- The Complainant required Severn Trent to connect new water supply connections for domestic purposes at the Site;
- Severn Trent treated this as a request for a connection under section 45 of the Act; and
- The charge Severn Trent has sought to recover is disputed as being excessive by the Complainant.

## **5. Draft determination**

5.1 On 18 October 2018, we issued a draft determination to which both parties provided comments. In that draft determination, we set out that we were minded to conclude that the costs incurred by Severn Trent in providing the Connections was reasonably incurred. Accordingly, we considered the costs for the Connections charged by Severn Trent reasonable and that no refund was due to the Complainant.

### **A. Response from the Complainant**

5.2 On 19 October 2018, the Complainant responded to the draft determination and stated that it had concerns relating to paragraph 5.11 of the draft determination and believed the cost for a connection such as this should be viewed as a one 2m connection in a verge and five connections in an exposed trench using a manifold at a rate of less than £100 per additional connection.

5.3 The Complainant believes that as the trench has already been dug and the water main exposed in the initial connection, the additional work required for the extra five connections onto the manifold was minimal based on its observations of the engineers doing the works.

5.4 Our consideration, as set out in the determination below, is that connections were requested for six properties. Therefore, Severn Trent is entitled to charge for the six connections.

5.5 As shown at 6.13 below, the price charged by Severn Trent is cheaper than the median cost per connection as outlined in [Information Notice 17/02](#), which benchmarks the reasonableness of connection costs.

5.6 As the connections are cheaper than the benchmark median price, we have not changed our position in this final determination.

### **B. Response from Severn Trent**

5.7 On 8 November 2018, Severn Trent responded to the draft determination and stated that it accepted its findings.

## 6. Final determination

6.1 In this chapter, we set out our final determination, having considered the comments provided to us by both parties.

6.2 In determining the reasonableness of the costs associated with the Connections we have separated the costs into two categories:

- **Connection costs** – this is the actual costs of the works associated with the Connections including labour, materials and reinstatement. In order to assess the reasonableness of the connection costs incurred we used [Information Notice 17/02](#), which provides a benchmark for assessing the reasonableness of the costs of making a connection in different scenarios; and
- **Administration fees and overhead costs** – this is the administration fees and overheads for a single new connection. In order to assess the reasonableness of the administration fees and overhead costs we used the [Review of Section 45 costs report](#), which provides a benchmark for assessing the reasonableness of administration and overhead fees.

6.3 Where a company has used a contractor, selected following a competitive tender process, we will generally accept that the amount paid to the contractor for the work represents the costs reasonably incurred. We will, however, query those costs where they appear to be substantially higher than might reasonably be expected, having regard to other information available to us.

### A. The connection costs

6.4 We have considered whether the actual costs of the works incurred by Severn Trent were reasonably incurred.

6.5 Information Notice 17/02 provides an update to the [Hyder report](#) which is an independent report we commissioned to inform our judgment as to what are reasonable costs for providing new water supply connections. The Hyder report surveyed a number of water companies to:

- a. Understand the breakdown of charges made by those companies in connecting new water supplies;

- b. Obtain an understanding and explanation of the variance in charges between water companies;
  - c. Compare water company contractor rates for new water connections; and
  - d. Obtain an understanding of what are reasonable costs/charges for materials (e.g. pipework, meters, etc.) and for labour.
- 6.6 We typically compare the costs of the works to the median range in Information Notice 17/02. There are scenarios where we will consider comparing the cost of the works to either the minimum or the maximum range. For example, if the excavation and reinstatement work was carried out entirely by the Complainant, then we would consider comparing the cost of the works to the minimum range.
- 6.7 In this case, we do not consider there to be any unique circumstances, and have compared the costs Severn Trent incurred with the median range.
- 6.8 The works in this dispute involved fitting a manifold box and making six connections from this. There was one 1.5m connection using 63mm diameter pipe made from the main to the manifold box itself. There were then six 2m connections using 32mm pipe made from the manifold box to the properties.
- 6.9 Taken together this can be viewed as either seven connections of up to 2m, or one connection of up to 4m and five connections of 2m.
- 6.10 Therefore, to establish benchmark costs using Information Notice 17/02 we have used both of the possibilities outlined above to enable a comparison with the costs Severn Trent incurred. The connections were made beneath an unmade surface and for comparison to the guidelines in Information Notice 17/02, we have viewed this as a verge.
- 6.11 As set out in Information Notice 17/02, the median cost for a single 4m connection in a verge is £713.35 and for a 2m connection in a verge is £633.42.
- 6.12 The cost to the Complainant for the connection was £3,020.04. If we view this as seven connections of 2m, this equates to a cost per connection of £431.43. This compares to a median cost of £633.42 per connection, or a total cost of £4,433.94.

- 6.13 If we view this as one connection of 4m and five connections of 2m, the average cost per connection is £503.34. This compares to median costs of £633.42 for the five 2m connections and £713.35 for the 4m connection, or a total of £3880.45.
- 6.14 In both cases, Severn Trent's costs are below the median costs for the Connections carried out, as set out in Information Notice 17/02.
- 6.15 Taking the above into account, we consider that the costs Severn Trent incurred and sought to recover for the Connections are reasonable because they fall within the median range of costs assessed as reasonable for making new water connections set out in Information Notice 17/02.

## **B. Administration fees and overhead costs**

- 6.16 No administration fees and overhead costs have been charged to the Complainant for the Connections. In addition, no application fee has been raised as part of this complaint.

## **C. Conclusion**

- 6.17 In light of the legal framework of the Act, and the evidence we have gathered from the parties to the dispute, we conclude that the costs incurred by Severn Trent in providing the Connections were reasonably incurred. Accordingly, as we consider the costs for the Connections charged by Severn Trent are reasonable, no refund is due to the Complainant.
- 6.18 In accordance with section 30A(5) Water Industry Act 1991, this determination is final and enforceable, as if it were a court judgment.