

# DEVELOPER SERVICES CHARGES & DMEX 2020/2021

Severn Trent & CCW

27 September 2019

WONDERFUL ON TAP

SEVERN  
TRENT

# AGENDA

- Recap of Developer Services charges

Key focus areas for 2020/2021

- **Industry changes to income offset and asset payments**
- **Severn Trent approach changes to water mains requisition charges**

An opportunity to talk more broadly about:

- Service connection charges
- Infrastructure charges and the infrastructure discount scheme
- Sewer adoption inspection charges and sewer requisition charges (S98)
- Online application forms
- New charging rules for Hafren Dyfrdwy

# EXPECTATIONS

- Raise awareness of industry and Severn Trent specific charges changes
- Understand your views and seek your counsel as we develop our 2020/21 charges
- Understand what you perceive as 'best in class'

# OFWAT RULES



April 2017

April 2018

April 2019

April 2020

New rules and new charging methodologies implemented

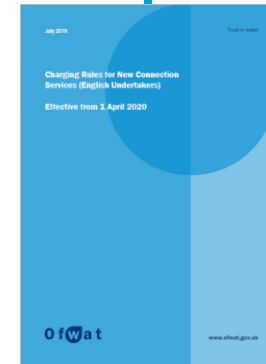
Embedding the changes

Income offset and asset payment changes



## Key principles

- (a) fairness and affordability;
- (b) environmental protection;
- (c) stability and predictability;
- (d) transparency and customer-focused service.



# WHAT WERE THE CHANGES?

## KEY HEADLINES

### Publication

- Publish our annual charges on 1 February ready for 1 April each year
- Publish all of our charges and in a manner that enables customers to produce a reasonable estimate of total costs
- Publish our charges in a thorough and transparent manners in line with a Water UK template
- Publish our Charging Arrangements document, Board Assurance Statement and statement of significant changes

### Consultation

- Carry out effective consultation and being able to demonstrate how we responded to the feedback received

### Charges

- Balance of charges is maintained (between customers and year-on-year)
- Fixed 'standard' water requisitions charges based on incurred costs with option of non-standard approach
- Income offset methodology which is equal to asset value payment (AVP) methodology
- Infrastructure charges based on incurred costs over a rolling 5 year period
- Fixed service connections

# SUMMARY OF CHARGES

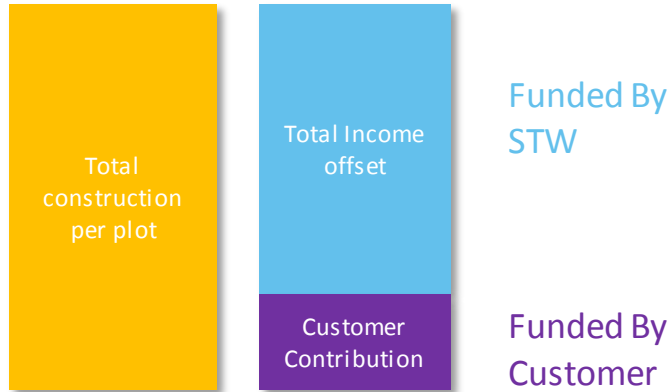
	Purpose	Structure	19/20 charge
Covers fixed activity & not site specific	Application Fee	Standard charges Per scheme	£1,739.82 (new mains)
	Infrastructure Charges	Standard charges Per plot	£438.89 (water)
Site specific activity	Connection Charge	Menu of rates	£284.74 (0-5m no ex)
	Mains Requisitions	Standard charges Per plot	£620.58 (lay only in PE)
	Income offset / asset payments	Standard approach Flat % of scheme costs	10% contribution 90% asset payment (gross)
	Waste Inspection Charge	Standard charges Per metre (2.5% & 10%)	£10.57 (inspection) £42.30 (bond)

# INCOME OFFSET

# CURRENT APPROACH

## Requisition Mains

(Total Construction – Total Income = Customer Contribution)

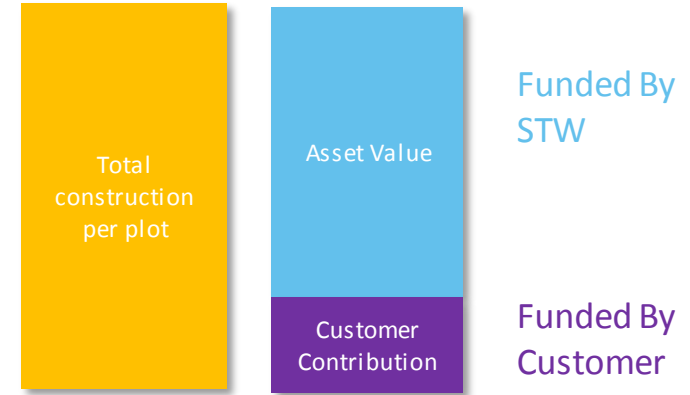


### **Customer pays**

Customer contribution (balance after deducting income offset)

## Adoption of Mains

(Total Construction – Customer Contribution = Asset Value)



### **STW pay Customer**

Asset Value minus any charges for work completed by STW on behalf of or at the request of the customer

**Customer contribution therefore is fair as it is the same and helps to maintain the balance with our existing customer base**



# SUMMARY OF CHANGES

## Changes

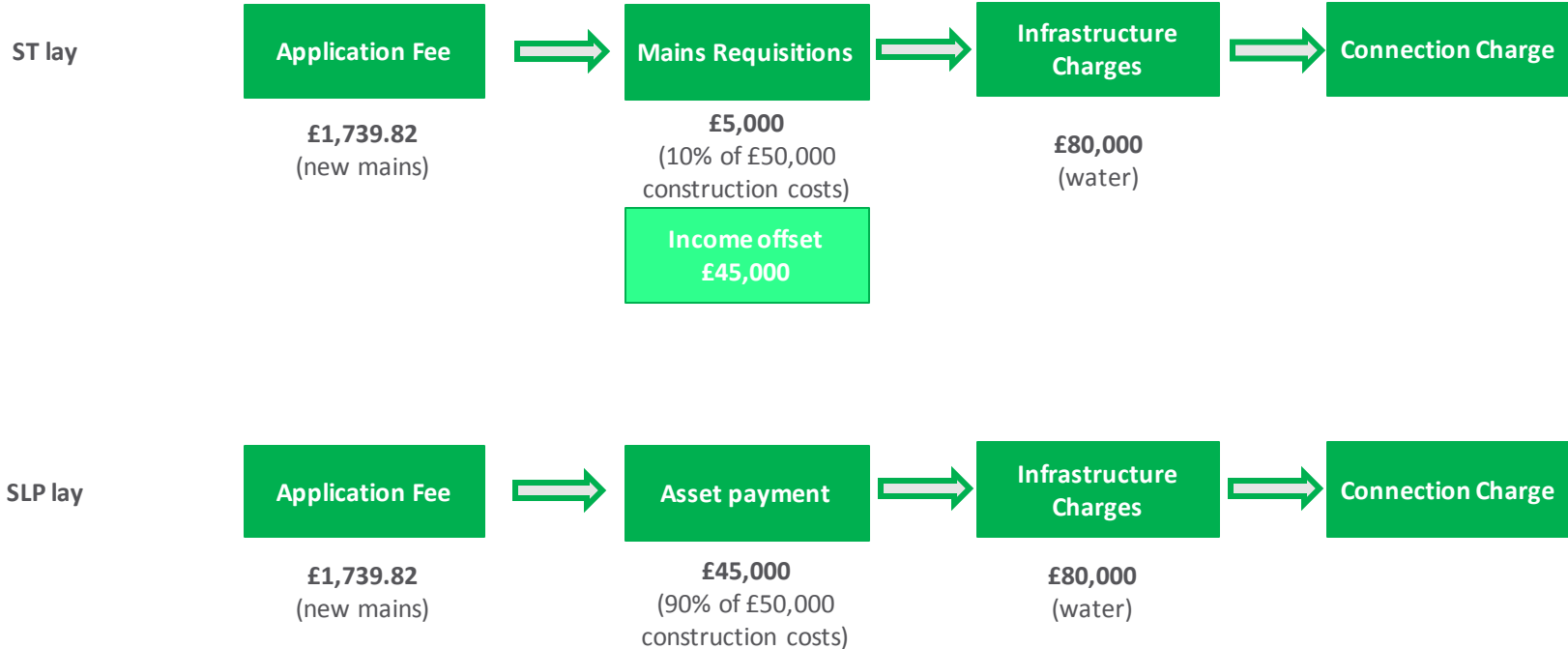
- Current mains laying requisition income offset will be moving against the infrastructure charge
- And will therefore be available to all customers not just developers who require a new main or self lay customers
- The annual amount of income offset applied across all customers will be the same as previous years however it will be spread across more customers so the benefit received will be reduced for those developers and self lay customers who currently receive the offset
- No income offset or asset payments will be made on water or waste schemes. Mains and sewer requisition charges will be full cost.
- One off income offset for NAV's in line with developer income offset rather than a discounted bulk supply agreement.

## What is driving the changes?

- Level playing field across all customer segments

# HOW WILL THIS WORK FOR 'LARGE' CUSTOMERS (WATER)?

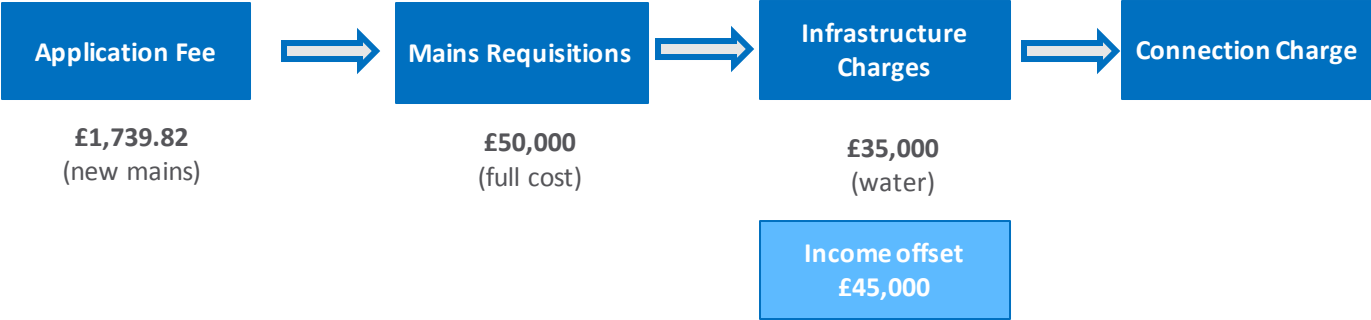
## CURRENT



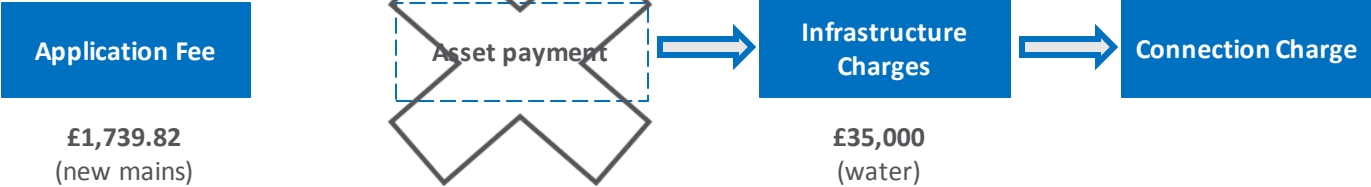
\*Illustrative figures only

# HOW WILL THIS WORK FOR 'LARGE' CUSTOMERS (WATER)? TO BE

ST lay



SLP lay



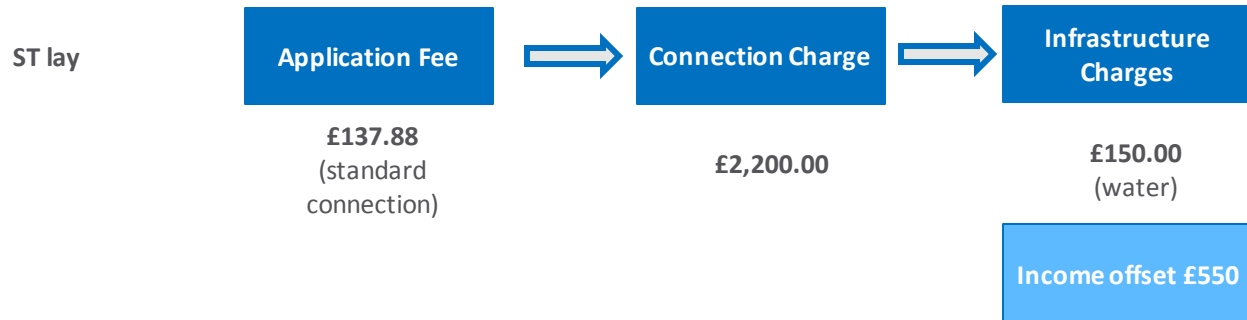
\*Illustrative figures only

# HOW WILL THIS WORK FOR 'SMALL' CUSTOMERS?

CURRENT

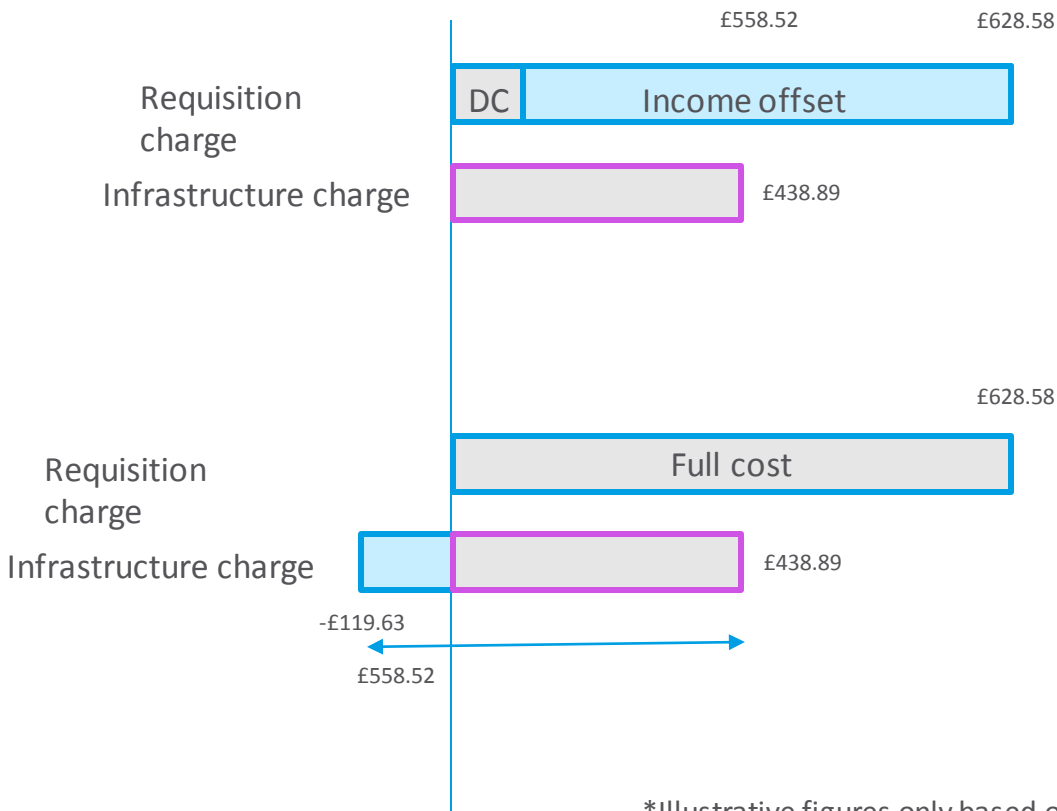


TO BE



\*Illustrative figures only

# SEVERN TRENT SPECIFICS WATER



\*Illustrative figures only based on how it would work today where the IO is applied to requisition schemes only

# OVERVIEW

## ILLUSTRATIVE FIGURES

### WATER (annual figures)

Mains scheme costs	£10k's - £100k's
# mains schemes	c500
Infrastructure charge	£300-£400/plot
All properties	c27-28,000
Offset for all customers	c£400-£500/plot

### WASTE (annual figures)

S98 sewers scheme costs	£100k's - £m's
# S98 sewer schemes	c10
Infrastructure charge	£300-£400/plot
All properties	C31,000
Offset for all customers	c£30-£60/plot

\*Illustrative figures only based on broad annual figures

# KEY CONSIDERATIONS

## How we structure the income offset

We are currently planning to use a single standard 'per plot' approach which applies to all developments.

- Is this an approach you would support?
- Are there other approaches or considerations we should be considering?

## Presentation and explanation

We are currently planning to show the mains requisition charge, the infrastructure charge and the income offset separately to make it clear how the net position of charges payable has been reached for each scheme. We know that other companies show a 'net' charge for all three for simplicity.

- Is this an approach (showing the components separately) you would support?
- Are there other approaches or considerations we should be considering?

# KEY CONSIDERATIONS

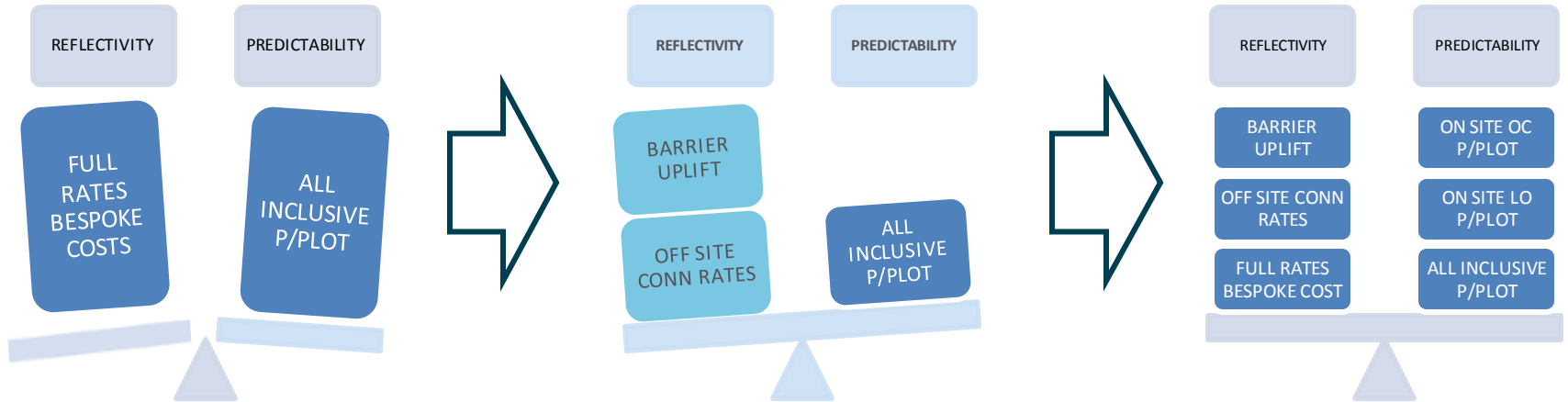
## Other key considerations

- Transition arrangements and implementation
- Process and documentation
- Communication of the changes
- Cash flow within the first few years of the new mechanism
- Our infrastructure discount scheme and licence condition C credits
- Existing schemes already in progress
- Tax treatment



# REQUISITION CHARGES

# GETTING THE BALANCE RIGHT



We needed to get the right balance to ensure our charges were both reflective and predictable.

# NEW WATER MAINS CHARGES

## CURRENT (2019/2020) APPROACH

### Standard charging

#### Included

- PE schemes with
- Between 5 and 250 plots and
- Up to and including 22m connection length

#### Approach

- Lay only £ / plot
- Open cut £ / plot

- Over 22m connection length

- Additional per metre charges

### Non-standard charging

#### Included

- PE schemes with less than 5 or greater than 250 plots and
- Barrier pipe schemes

#### Approach

- Menu of rates (more bespoke)

# ACHIEVING THE RIGHT BALANCE

- We have continued to review whether per plot is the right approach over the last two years
- Our assessment is that it is not proving to be the differentiator we thought it would be
- Our customers are not demonstrably getting greater benefit through this method compared to our peers
- We have included non-standard criteria in our per plot approach to ensure these charges are always broadly cost reflective, most recently moving to a bespoke/menu of rates approach for barrier pipe which has meant that a reduced amount of schemes fall under standard charging and causing some customer confusion
- With a growing focus in the market on enabling competition and maintaining a level playing field we are planning to move to a per metre/menu of rates approach for 20/21 which is more cost reflective for every scheme
- The per metre/menu of rates approach would also have the benefit of bringing us in line with the majority of the market
- The introduction of estimator tools within our market has helped customers with ease of self-quoting and appear more impactful than the structure of the charges themselves
- We would like to understand what else we could be doing to ensure you can estimate scheme costs within a reasonable level of accuracy

# BROADER CHARGES

# BROADER CHARGES

## Infrastructure charges & the infrastructure discount scheme

We have a simple 'per plot' charge for water and waste across our region which we are currently planning to maintain.

- Would you be in favour of moving to zonal infrastructure charges?

We will be reviewing our infrastructure discount scheme in 20/21 assessing it's impact over the past few years but also in view of the income offset changes. We also need to consider the outcome of our PR19 FD outcome in our thinking.

## Sewer adoption inspection charges and sewer requisition charges (S98)

Our current sewer adoption charge is based on 2.5% of onsite construction costs in line with industry guidance. We are reviewing the option of moving to a new approach which is based on our incurred costs of managing the process from end-to-end.

We have seen variability in the estimated costs we provide to developers for S98 sewer requisition schemes which we want to improve – we are not planning to necessarily change the value of the charge but assess what we can provide for the fee that provides greater cost certainty.

## Service connection charges

Simplified service connection charges for site work

# HAFREN DYFRDWY

Ofwat has been consulting with us for a number of years on implementing charging rules similar to those we have in the English market to Wales which were due to go live in April 2020.

The decision has now been made that new charging rules will go live in April 2022 for Welsh water companies.

# TIMELINE

