

May 2020

# **Charging arrangements for new connection services for English companies: comparative analysis and consultation**

## About this document

Our [Charging Rules for New Connection Services \(English Undertakers\)](#) first came into effect in April 2018. Our rules are principle-based, giving companies flexibility to innovate in how they organise their new connection charging arrangements and offer better customer services. Since publishing the rules, we have received feedback that the differences between companies' arrangements can be confusing and that the differences in levels of charges are so marked that they are unlikely to be a function of cost alone. Such problems may undermine key principles of our rules, including that the charges are predictable, transparent and fair.

This document sets out our work to better understand these issues. We have done this by undertaking a comparative analysis of the 15 English incumbent water companies' charging arrangements for 2019/20.

We consider that there should be greater consistency between charging arrangements in certain respects. We are seeking views on our findings and our proposals on how we and industry should address the issues raised.

We are proposing that any substantive changes to harmonise charging arrangements would come into effect from April 2022 onwards.

## Contents

Contents .....	3
Responding to our consultation .....	5
<b>Questions</b> .....	5
1. Executive summary .....	8
2. Our approach to comparative analysis .....	11
2.1 Scope .....	11
2.2 Methodology .....	13
3. What we found .....	15
3.1 Inconsistencies in terminology and presentation .....	15
3.1.1 Different terminology .....	16
3.1.2 Understanding which charges apply in which circumstances .....	16
3.1.3 Understanding what charges apply to self-lay .....	17
3.2 Wide divergence in charging levels .....	18
3.2.1 Previous studies on the charging levels for new service connections ..	18
3.2.2 Comparative analysis of 2019/20 charging arrangements .....	19
3.2.3 What drives the differences? .....	21
3.2.4 Levels of charges and of self-lay activity .....	23
4. What happens in other sectors .....	24
5. Next steps .....	28
A1 Glossary .....	31

A2 Additional information on scope of scenarios ..... 36

## Responding to our consultation

We welcome your views on our consultation and your response to the questions we have set out below, by **16 September 2020**.

In submitting your response, please identify which question number(s) your comments are in response to and please clearly list any additional comments separately.

Please email your response to [charging@ofwat.gov.uk](mailto:charging@ofwat.gov.uk).

Due to the Covid-19 pandemic, we are currently unable to accept responses by post.

Information provided in response to this consultation, including personal information, may be published or disclosed in accordance with access to information legislation – primarily the General Data Protection Regulations, Data Protection Act 2018, Freedom of Information Act 2000 (FOIA), and the Environmental Information Regulations 2004.

If you would like the information you have provided to be treated as confidential, please be aware that, under the FOIA, there is a statutory ‘Code of Practice’ with which public authorities must comply and which deals, among other things, with obligations of confidence. In view of this, it would be helpful if you could explain to us why you regard the information you have provided to be confidential. If we receive a request for disclosure of that information we will take full account of your explanation, but we cannot give an assurance that we can maintain confidentiality in all circumstances. An automatic confidentiality disclaimer generated by your IT system or a blanket request for confidentiality will not, in itself, be regarded as binding on Ofwat.

## Questions

We have summarised our proposed next steps and questions for you to provide feedback on as follows:

**Consistent terminology** – we propose to add to the common terminology in the new connection rules, from April 2022 onwards, as set out in the glossary in Appendix 1 to this consultation.

Q1: Do you agree with our proposal on common terminology and the way we propose to implement it? What do you think would be the impact of harmonising terminology for charges for new connection services?

Q2: Do you agree with the definitions in the glossary (Appendix 1)? Please tell us what definitions you would amend, remove or add.

**Presentation of charges** – clear worked examples help customers understand charges and how they apply in different scenarios, in particular by showing the services included in the calculation of the costs under each scenario and the unit costs of those service. We propose to improve practice in this area through our annual information notice “Expectations, assurance and information requirements for water company charges”. We have set out scenarios for typical service packages in the [2020/21 requirements](#) and we propose to set out more explicit expectations on how companies present them, disaggregated by service and unit cost, for the 2021/22 charging arrangements.

Q3: Do you agree with the proposal to set out explicit expectations on the presentation of worked examples? What do you think would be the right level of detail to be required?

**Analysis of charges** – we have found large variations in both the level of charges and the way in which companies have set out individual services.

Q4: Please highlight any substantive areas of our analysis you think are missing or could be improved.

Q5: What do you think are the reasons for the differences in charging levels? Do you think these differences are a problem? Please provide evidence to support your views where possible.

**Cost reflectivity principle** – we consider that the differences in levels of charges are so marked that they are unlikely to be a function of cost alone. Such problems may undermine key principles of our rules, including that the charges are predictable, transparent and fair. While we expect charges to reflect costs, we feel our charging rules could have more explicit requirements to this effect. We propose to introduce a more explicit cost reflectivity principle in the charging rules, likely to be from 2022/23.

Q6: Do you agree with our proposal to modify the Charging Rules for New Connection Services to explicitly include cost-reflectivity in the general principles? What other measures, if any, could be put in place to provide greater assurance that water companies’ charges are cost reflective?

**Industry collaboration** can be an effective way to deliver more consistent and clear methodologies for the benefit of customers. We propose that a working group on New Connection Charges is established to improve consistency in terminology and presentation of charging arrangements and to develop common charging methodologies, to be led by Water UK.

Q7: What do you think are the benefits and disbenefits of having common charging methodologies? Do you think companies should adopt common methodologies?

Q8: Do you agree with the high-level scope of the proposed New Connection Charges working group? Please tell us your views on the proposed working group, including whether Ofwat should make the work mandatory, for example through a change to our new connection rules.

## 1. Executive summary

Ofwat's [Charging Rules for New Connection Services \(English Undertakers\)](#) (**new connection rules**) came into effect in April 2018 to address issues around transparency, cost reflectivity, inconsistencies with charging between water companies and potential cross-subsidies.<sup>1</sup>

The new connection rules are high-level guiding principles that water companies must comply with when preparing and publishing their charging arrangements. This gives them the flexibility to innovate in their charging arrangements. We have seen this benefit in a number of areas. Interactive charges calculators that allow developers to work out charges for new requisitioned water mains is an example of such innovation.

### Understanding the problem

A disadvantage of the new connection rules in their current format is the consequential inconsistencies across companies' charging arrangements. In this document we explore these inconsistencies.

**We consider that the balance between flexibility for innovation and consistency is not right.** The inconsistencies often create an unnecessary administrative burden for developers who may work in more than one water company's area and it is a particular problem for self-lay providers (SLPs) and new appointees (NAVs) who almost certainly will do so.

We found that there is a lack of clarity around what charges apply in which context. We also found that companies use different terminology to refer to the same services. The use of worked examples by some companies was particularly helpful in interpreting charging arrangements, but not all companies provided them or, when they did, the worked examples were not always clear.

**We are also concerned about the wide divergence in charging levels**, which we considered to be so marked that it could not be explained simply by differences in companies' costs.

Charges that are not cost reflective raise issues of fairness, and also mean that developers have more difficulty planning because charges are less easy to predict. When contestable charges as a package are low, they can be a barrier to competition. The differences may be explained by contractors' charging rates not being cost reflective; very different allocations of common or joint costs; companies

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<sup>1</sup> See Ofwat "[Charging for new connections – a discussion paper](#)" November 2013.



not making reasonable effort to ensure that their charges are cost reflective; and potentially also companies' attitude to alternative providers (SLPs and NAVs).

Other sectors have addressed these issues through industry-led working groups agreeing a common charging methodology, subject to approval by the regulator. For example, in the electricity distribution sector, a working group was convened to develop a Competition in Connections Code of Practice. Separately, a different working group was also convened to develop a common distribution charging methodology known as the Distribution Charging Use of System Agreement. The energy regulator, Ofgem, implemented those through a licence modification.

### Topics for discussion and next steps

As a result of the issues raised by stakeholders and the findings of our comparative analysis, we have concerns that:

- the existing new connection rules may not provide sufficient guidance to ensure water companies' charging arrangements can be easily understood and interpreted by their users; and
- the wide divergence in charging levels between companies is so marked that it cannot be explained simply by differences in companies' costs.

We are seeking views by 16 September 2020 on the nature and cause of the inconsistencies in charging arrangements, our proposed way forward, and how best to avoid unintended consequences, such as inhibiting innovation in charging. We are consulting for a relatively long period, to avoid distracting companies from their critical work in serving customers.

It is not yet clear how, and for how long, the impact of Covid-19 will affect companies' priorities. Therefore, our proposal for companies' charging arrangements for next year (from April 2021) is for companies to **use worked examples** more consistently. We expect to introduce more significant changes associated with this consultation from April 2022, which is also when new connection charging rules for Welsh companies are due to be introduced.

We are proposing to give industry the task of harmonising charging arrangements in certain key areas, where it benefits customers to do so. This may include **terminology**, **presentation**, and establishing a **charging methodology for key charges**. Governance arrangements might be similar to, but learning the lessons from, the **asset adoption** work. We are considering imposing this as a requirement through a stipulation in the new connection rules.

We welcome [Water UK's statement](#) this month regarding new connection services. This explains that water companies will offer the full range of services to developers that they offered before the Covid-19 crisis unless otherwise indicated on their websites. Within this context, we recognise that companies are implementing significant changes to the regulatory framework for developer services that we have introduced for this year. Reforms to charging rules (with respect to the income offset and the replacement of asset payments) to reduce a major barrier for NAVs came into effect from 1 April 2020. And we expect the developer services measure of experience (D-MeX), which also came into effect from 1 April 2020, to support improvements in customer service and experience for developers.

## 2. Our approach to comparative analysis

### 2.1 Scope

Stakeholders have raised a number of concerns about the charges that companies impose for the provision of simple new connections and new requisitioned water mains. Feedback from developers and SLPs suggests that charging arrangements were difficult to understand and that there were very high variations in the level of charges across water companies.

As a result of the issues raised by stakeholders, we have undertaken a comparative analysis of the 15 English incumbent water companies<sup>2</sup> 2019/20 charging arrangements for developer services (which we refer to as **water companies** and **comparative analysis** hereafter) to:

- understand the process by which developers and SLPs work out an indicative price for the services they require from water companies by looking at the charging arrangements published on their websites on an annual basis;
- understand if SLPs or NAVs can work out the charges incumbent water companies would charge for the contestable aspects of new connections services sufficiently clearly to work out whether it is worthwhile competing on these jobs;
- identify whether amendments to the new connection rules could make the above mentioned processes easier and/or more accurate; and
- estimate the on-site charges for typical scenarios for single new connections and housing developments, and estimate the variations across companies.

We gathered the data from each of the water companies' 2019/20 published charging arrangements. We sometimes found the charging arrangements difficult to interpret so we asked the water companies in autumn 2019 to validate our data and provide corrections.

We defined scenarios for single new service connections and housing developments (i.e. requiring new service connections and new requisitioned water mains) and compared those charges for each scenario across the water companies. In doing so

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<sup>2</sup> By this we mean companies holding appointments as water undertakers under section 6 of the Water Industry Act 1991 (WIA91) whose appointed areas are wholly or mainly in England. We did not include Welsh Water and Hafren Dyfrdwy because different rules for setting their charges for developer services apply in Wales. The rules that govern the setting of most charges for developer services for the Welsh companies currently set out in either the WIA91 or companies' licences. As a result, there is currently little scope to amend the current approach for Welsh companies. However, New Connection Charging Rules for Welsh companies that will be set by Ofwat rather than being set out in legislation will be consulted on and are scheduled to come into effect from April 2022. We also excluded NAVs, because they do not operate in the same way as other incumbents and hence it would not be meaningful to include them in our analysis.

we were seeking to replicate the experience of customers by using charges that would be incurred by any new developer for single new service connections and different types of housing developments. Our specification of the scenarios is set out in appendix A2.

### **New service connection scenarios**

We understand that a significant proportion of water companies' new connections are for single properties – many of which are not likely to require additional new mains infrastructure. For example, a new connection can be required for an existing property, an infill, or an office in the garden. Water companies are required to publish charges for such connections. Most companies publish a number of new connection charges, typically varying depending on, for example length of connection to the mains and whether traffic management is needed.

We wanted to examine the range of new connection charges that a typical single site would be likely to incur. To do this, we developed 12 scenarios for new service connections which included all relevant administrative and other charges. The scenarios were for single residential new service connections in four different surface types (no excavation<sup>3</sup>, unmade ground<sup>4</sup>, made ground<sup>5</sup>, carriageway<sup>6</sup>) and three different lengths of pipe laying (3 metres, 6 metres and 9 metres). See appendix A2 for details.

### **Scenarios for housing developments**

We also looked at three scenarios for new housing developments:

- Small housing development: 10 houses;
- Medium housing development: 50 houses; and
- Larger housing development: 200 houses.

To replicate the charges for typical housing developments, we took account of on-site charges and up to the boundary of the property (see appendix A2 for details):

- the charge for a connection to the live main (non-contestable charges);
- the charge for new service connections (contestable charges); and
- new requisitioned water mains consisting of different combinations of pipe laying for different surface types, lengths and pipe diameters (contestable charges).

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<sup>3</sup> Pre-excavated ground, part made ground or lay only.

<sup>4</sup> Verge, unmade surface or unsurfaced.

<sup>5</sup> Footpath, footway (rigid or flexible), paved surface, pavement or private road.

<sup>6</sup> Highway, flexible or rigid carriageway or road.

We also included other relevant charges such as:

- application and design fees, and any other administrative fees charged to developer customers for delivering the service;
- meter installation – where not included in the new service connection charge; and
- other charges to recover costs incurred in the process such as traffic management charges if required.

### **Self-lay charges**

For our analysis we looked at the charges to SLPs for new services connections and new water mains separately when those charges differed from those the water company would charge developers directly. These typically took the form of fees in relation to self-lay applications and administration or review of self-lay infrastructure design.

### **Charges out of scope**

This comparative analysis did not examine offsite charges or wastewater charges.

We would expect infrastructure charges (to fund network reinforcement) between companies to vary to a greater degree than onsite charges because they will depend on the extent of capacity in the existing network. Rule 28 of the [Charges Scheme Rules](#) requires that infrastructure charges are set in such a way that the amount recovered through them over a five-year rolling period (starting from 2018) cover the network reinforcement costs incurred by companies. Companies have to provide details on their infrastructure expenditure in their annual performance reports (APRs) and provide commentary on how they have reconciled costs and revenues.

For wastewater connections and the requisition of new sewers, a significant proportion of such works is undertaken by a party other than the incumbent wastewater company. For new wastewater connections, almost all new connections are made by the developer. As a result, we have fewer concerns with companies' associated charges.

## **2.2 Methodology**

We undertook our comparative analysis using the following steps:

1. We collected the relevant data from the 15 water companies' 2019/20 charging arrangements, as published on their websites.
2. We asked companies to validate the data we collected.

3. We calculated the charges for each of the scenarios defined in section 2.1 of this document for each water company.
4. We compared those charges across the 15 water companies.

Table 2.1 summarises the scope of the comparative analysis as well as the methodology we employed to calculate the charges for the typical scenarios identified.

**Table 2.1: Summary of methodology employed for the comparative analysis**

Charges		Methodology
<b>New service connections</b>	Basic charge	For PE pipe of 25/32mm diameter, work out a charge of a connection requiring a 3m, 6m and 9m pipe in unmade ground, made ground, a carriageway or where no excavation is required.
	Administrative charges	Calculate the charges for applications, administration, design and other.
<b>Housing developments</b>	Basic charge	For a PE pipe of varying sizes, work out the charges for new requisitioned mains and new service connections of a 10 property, 50 property and 200 property housing development.
	Administrative charges	Calculate the charges for applications, administration, design and other
<b>Charges to SLPs</b>		For each water company: <ul style="list-style-type: none"> <li>• identify the charges to SLPs for simple new service connections and new water mains; and</li> <li>• compare the overall connection charges imposed where a customer gets the service directly from the water company to the administrative charges to an SLP.</li> </ul>

## 3. What we found

In this section we set out our findings, first on the use of terminology and presentation of charges, and second on charging levels. We set out different reasons why levels may vary, and compare levels of charges with the extent of self-lay activity.

### 3.1 Inconsistencies in terminology and presentation

In this section we describe our observations and findings from our data collection exercise, comment on the water companies' charging arrangements and highlight any areas for improvement.

The new connection rules are not prescriptive guidelines for defining, setting and presenting charges. The new connection rules are principles-based and provide high-level guidance for companies. They are required to produce charging arrangements that are in accordance with the four general charging principles: i) fairness and affordability, ii) environmental protection, iii) stability and predictability, and iv) transparency and customer-focused service.

The new connection rules state that water companies<sup>7</sup> must publish charges for new connection services on an annual basis (as a minimum) in a single document, known as the charging arrangements (see paragraphs 8, 10 and 25). Companies must also include any relevant and miscellaneous ancillary costs such as assessment, inspection, design, legal and supervision charges (see paragraph 9). The new connection rules also state that charges can be presented in any way the water company deems appropriate (paragraph 8), on the condition that “a developer or other customer can confidently work out a reasonable estimate of the charges payable” (paragraph 14). The new connection rules must “[...] be written in an accessible manner, which takes due account of the varying levels of expertise of all Developers and other customers who may rely on the Charging Arrangements. Undertakers should consider publishing worked examples where this could aid customers' understanding” (paragraph 12).

We were disappointed that we were not always able to easily work out how much a new service connection or new water mains would cost for a typical housing development.

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<sup>7</sup> Small companies, i.e. new appointees or NAVs, are not required to publish one or more of the charges covered by these rules where it would be unreasonable to expect the company to do so. See paragraph 17 of the new connection rules for more information.

We collected various charges from water companies' charging arrangements and found that we could not always understand them:

- some charging arrangements lacked clarity around where charges applied;
- different terminology was used to describe the same things; and
- there were different presentational styles, with some companies not making use of clear worked examples to aid understanding of charges.

We cover these in turn in the next sub-sections and propose some measures to improve charging arrangements.

### **3.1.1 Different terminology**

We found that water companies employed a range of terminology to refer to the same components of new connection services. The variety of terminologies makes it unnecessarily complicated for users to interpret the charging arrangements. We experienced this ourselves when compiling the data for this comparative analysis. Developers, SLPs and NAVs working across the country would face similar issues when trying to work out what charges they would be subject to or compete against.

The most common occurrence was different terminology used to refer to different surface types. For instance, a tarmac paved surface was also referred to as a "road", "carriageway" and "highway". Some water companies distinguished between a side road and a main road while others differentiate between a fixed and a flexible carriageway.

Additionally, across charging arrangements, an unmade surface was also referred to as a verge. The majority of companies used either the terms "unmade ground" or "verge" to refer to the same surface type, apart from one company which differentiated between the two and had separate charges.

While the new connection rules allow flexibility in style, it would be beneficial for water companies to use common terminology when referring to the same services. This would make charging arrangements clearer and more accessible.

### **3.1.2 Understanding which charges apply in which circumstances**

We found that some charging arrangements lacked clarity around the application of some of the charges for new connection services. In particular, we found it was not always clear whether some charges were included in the basic charge for a new service connection/new water mains or would be charged separately. These charges



include administrative charges, the cost of a meter, the cost of a meter installation, and the costs of chlorination and testing. Some companies made it clear that those charges were part of the basic charge; others stated that some of these charges (e.g. design fee, application fee) would be refunded if the developer went ahead with the incumbent water company (instead of an SLP). Some were unclear.

We also found it challenging to identify the self-lay charges in some of the charging arrangements. It was not always clear whether the same charges applied to SLPs as developers. There were a number of examples of good practice (for example Anglian Water and United Utilities) where companies had a dedicated section in their charging arrangements describing water self-lay charges and when they are applicable, and provided worked examples to aid understanding. Other water companies published self-lay charges in a number of locations within their charging arrangements, making it difficult to understand what charges an SLP would be subject to.

We found that charging arrangements that had worked examples made it easier for us to understand what charges were applicable and when. Worked examples made the charging arrangements more transparent and predictable as they provided sufficient details for the users to understand what charges are likely to be imposed for their developments.

### **3.1.3 Understanding what charges apply to self-lay**

Our [letter to water companies in April 2019](#) (Compliance with competition law and charging rules obligations with respect to the self-lay market for new connections) highlighted concerns that we had with respect to the self-lay market for new connections. It required companies to take action to ensure that their practices are consistent with their competition law obligations and with our charging rules.

To address this, in response to our information request, in October 2019 water companies [set out](#) the changes they intended to make to their 2020/21 charging arrangements. Examples of improvements companies have made include the following:

- In its 2020/21 charging arrangements, Thames Water has unbundled some of its new connection fees and introduced a separate design review fee when a mains design is produced by a third party.
- Wessex Water undertook a review of its charges and identified urgent changes, such as waiving some non-contestable charges relating to the fees for pre-commencement, re-inspection and legal agreements to promote the SLP market. The company has also made a clearer distinction in its 2020/21 charging

arrangements between the design fees that are relevant when the incumbent company delivers the relevant activity and those that are relevant where this is done by a third party.

We undertook a number of checks of whether charges for SLPs were obviously unfair relative to those for developers, and we do not consider those charges to be a barrier to effective competition from SLPs. For example we checked and confirmed that companies' administrative fees and application fees, as well as design fees, for SLPs were lower than or equal to those for developers.

We welcome the positive changes introduced by some water companies. We plan to pick up outstanding concerns with companies individually.

As they amount to a small proportion of overall charges, we have not included separate scenarios with and without design fees in our main analysis.<sup>8</sup>

## 3.2 Wide divergence in charging levels

In this section, we present the results of our comparative analysis for single new service connections scenarios and housing developments (i.e. requiring new service connections and new requisitioned water mains) scenarios.

We are primarily interested in whether companies are setting charges that are calculated on the basis of underlying costs. If the charges are not cost reflective, then there may be a cross subsidy between developers and other customers; it is more difficult for customers to plan and predict charges; and the charges may inhibit competition from SLPs and NAVs.

### 3.2.1 Previous studies on the charging levels for new service connections

The [Ofwat website](#) provides examples of typical charges for new connections, estimated in 2017. The scenarios presented are single new service connections across three types of surface: verge<sup>9</sup>, footway<sup>10</sup> or type ¾ road<sup>11</sup> for three service pipe lengths: 2, 4 and 9 metres, including external boundary box. This produces a total of nine scenarios. The charges for a new connection in unmade ground (verge)

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<sup>8</sup> Our analysis of the 2019/20 charging arrangements found that mains design fees and mains design review fees accounted for less than 3% and 2% respectively of the total charges of a new water mains scheme under our Scenario 2, which represents a development of 50 houses.

<sup>9</sup> In this paper, we refer to this as unmade ground.

<sup>10</sup> In this paper, we refer to this as made ground.

<sup>11</sup> In this paper, we refer to this as carriageway.

with 9 metres of pipe was between £550 and £1,540 (between 40% below and 70% above the median).

These charges were calculated by updating an independent report prepared by Hyder Consulting for Ofwat in 2010. The [Hyder report](#) analysed contractor costs for 10 water companies which included companies with significant numbers of complaints of high charges along with a number that did not. In 2010, the price for a new connection in unmade ground (verge) with 9 metres of pipe was between £195 and £815, which ranged from 60% below and 70% above the median.

These studies differ from our current analysis in a number of respects, notably because they are for new connections only (and not requisitions) and that they are restricted to contractor costs, and so excluded companies' costs including overheads. They nevertheless illustrate that wide variations in charges between companies have been a feature for a long time.

### 3.2.2 Comparative analysis of 2019/20 charging arrangements

#### Charges for new service connections

We found that the total charges for a single household connection vary considerably from one water company to the other, as shown in Table 3.1.

**Table 3.1: Charges for new services connections including administrative and other costs**

Charges (£) 2019/20	No excavation			Unmade ground			Made ground			Carriageway		
	3m	6m	9m	3m	6m	9m	3m	6m	9m	3m	6m	9m
£/surface lengths (m)												
Mean	511	562	590	813	1,058	1,187	1,113	1,563	1,850	1,346	1,865	2,223
Median	451	495	501	760	993	1,023	1,069	1,381	1,659	1,288	1,784	2,065
Maximum	972	1,144	1,144	1,548	2,186	2,186	1,690	2,440	3,190	2,258	3,150	4,110
Minimum	192	192	192	447	524	553	658	915	976	766	915	1,003

Source: Ofwat analysis of 2019/20 charging arrangements

We note the following:

- For the same single new service connection requiring no excavation and 3m pipe laying, charges range between £192 and £972. On average, it costs approximately £511 to connect a single household.
- For a single new service connection for a typical brownfield or infill property, charges range between £658 and £1,690 (made ground, 3m pipe laying).
- The most significant cost component for a new service connection is the basic charge for the connection while the second largest cost component is the application fee to request a new service connection.
- The charge for a basic connection (excluding administrative and other costs) requiring no excavation and 9m pipe laying, range between 60% below to 230% above the median. This is a wider variation than the equivalent connection in the [Hyder report](#), which was 60% below to 70% above the median.

### Total on-site charges for housing developments

We also looked at the total on-site charges for housing developments that require new service connections and requisitioning of new water mains. The scenarios are housing developments of 10 houses (Scenario 1), 50 houses (Scenario 2), or 200 houses (Scenario 3). Our estimate of charges across the 15 companies is shown in Table 3.2.

**Table 3.2: Charges for housing developments including administrative and other costs**

Charges (£) 2019/20	Scenario 1 (10 houses)	Scenario 2 (50 houses)	Scenario 3 (200 houses)
Mean	14,000	63,000	215,000
Median	14,000	62,000	226,000
Maximum	21,000	104,000	326,000
Minimum	10,000	38,000	123,000

Source: Ofwat analysis of 2019/20 charging arrangements, rounded to the nearest thousand.

So, for example, for a new development of 50 houses, charges range between £38,000 and £104,000 (i.e. 40% below to 68% above the median) with an average of approximately £62,000. This variation is wide but much less than that for new service connections. A possible explanation for this is differences in companies' approaches to allocating common costs, which would affect the former to a greater extent than the latter.

In the remainder of this section, we set out possible explanations for the wide divergence in charges.

### **3.2.3 What drives the differences?**

Our comparative analysis revealed that charges for new service connections and new water mains vary considerably across water companies.

There are a number of possible reasons that might explain the drivers of the differences in the levels of charges, mainly:

- exogenous factors, principally labour costs, topology and economies of scale and scope;
- cost allocation and cost reflectivity, such as:
  - the way incumbent water companies split up their costs and average their charges;
  - the extent to which the charges reflect the actual costs to deliver the services by their contractors; and
  - the extent to which the charges are accurate and are based on up to date costs; and
- levels of SLP and house building activities.

We discuss these in turn below.

#### **Exogenous factors**

Exogenous factors could explain the divergence in charging levels between companies. We consider labour costs, topology and economies of scale and scope are key factors that may be relevant.

Labour costs differ across the country, so charges for developer services would reflect regional labour costs, and any other underlying cost differences.

The level of charges could differ due to geology (e.g. cost of excavation) and topology (e.g. pumping).

Finally, the extent to which some water companies are able to realise any economies and scale and scope may differ. For example, if the demand for new connections is high in a particular area, travel costs may be less per connection. The companies' contractors may undertake a mix of renewal and new connection work, again reducing travel time.

#### **Cost allocation and cost reflectivity**

Water companies average their charges in order to publish their charging arrangements on a yearly basis. This averaging does affect and distort the results of

our analysis, to some extent. For example, Anglian Water has a single charge for new connections requiring no excavation or connections in unmade or made ground. As a result, Anglian Water appears to have high charges for connections requiring no excavation compared with other companies, while its charge for a new connection in unmade ground is closer to the industry average.

One explanation for the large variations we have observed could be that the allocation of costs across different services does not always reflect actual costs of delivering those different services. For example, contractors may not be charging incumbent water companies cost reflective prices for the contestable services they provide on behalf of those incumbents, while still delivering overall value for money to the incumbents as the total value of the contract is spread across a number of different services – some of which are contestable and some of which are non-contestable.

In our [review of incumbent company support for effective markets](#), one water company provided evidence of robust assurance processes around contractors' rates. It explained that it undertakes a detailed review of the actual costs incurred by its contractor for each different service it provides to ensure its charges are cost reflective. However, this level of assurance demonstrated in companies' submissions was the exception – while most companies explained how they ensure contractors provide value for money, which is critical, they did not provide any detail on how they assess how contractors have allocated costs across contestable and non-contestable services.

Companies' charges may also vary because they may not be set correctly. For example, it is not necessarily correct for companies to set charges that are consistent with assumptions in the 2019 price review (PR19) if they do not reflect costs. PR19 publications highlighted that companies must comply with the new connection rules when setting their charges – which requires charges for new connection services to reflect incurred costs, i.e. to be cost reflective.

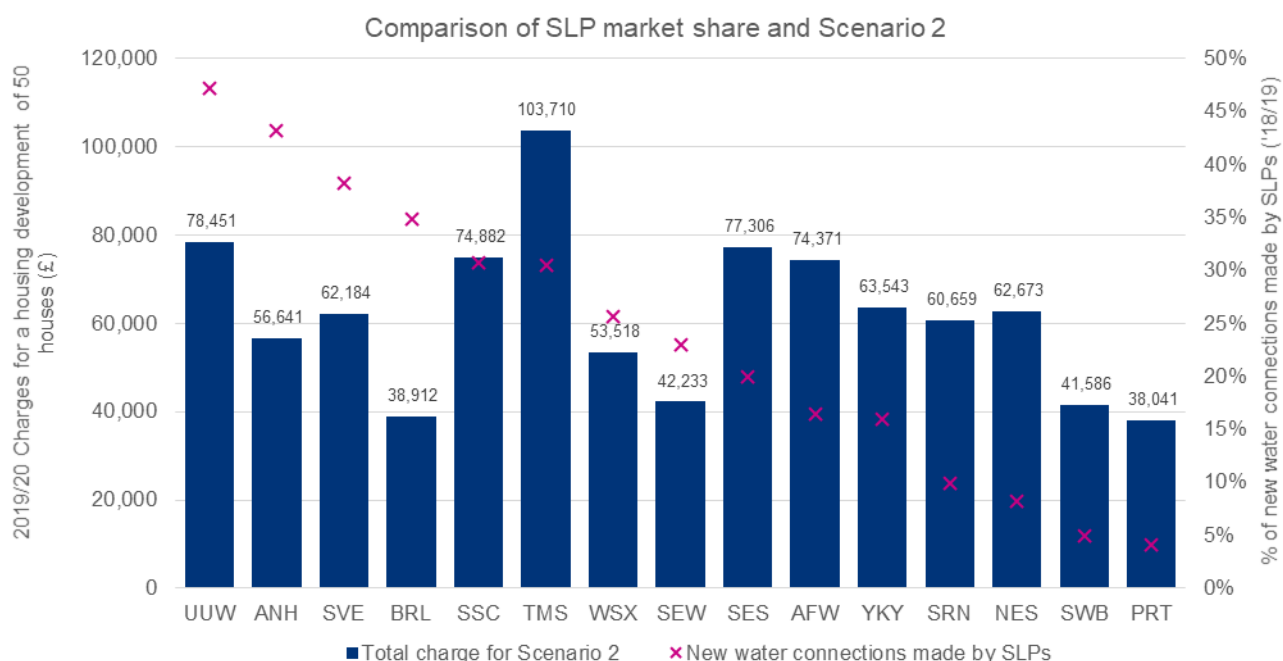
### **Complexity of work**

Companies typically base their charges on the average cost to provide a service. Where there is a lot of competition from SLPs and NAVs, the latter are likely to concentrate on less complex developments where costs are below average for equivalent work. Under such a scenario, the work left with the incumbent water company would therefore tend to be more complex than average with higher than average costs. Under this hypothesis, we would expect an incumbent water company with high levels of SLP and NAV activity, all other things being equal, to have higher contestable charges.

### 3.2.4 Levels of charges and of self-lay activity

SLPs and NAVs are better able to compete with an incumbent water company when its charges are high relative to their own costs, though other factors are also likely to be important. We do not have information on costs, which vary from site to site, but we are able to compare levels of charges with levels of self-lay activity. Figure 3.1 compares our calculation of 2019/20 on-site charges for a housing development of 50 properties (Scenario 2) and our indicative estimates of 2018/19 SLP market share.<sup>12</sup>

**Figure 3.1: Comparison of SLP market share and water companies' on-site charges**



Source: PR19 August 2019 data request and information submissions, Developer services  
Ofwat analysis Scenario 2

On the basis of the data we have, the figure above suggests that there is no clear pattern or correlation between the charges of incumbent water companies and the market share of SLPs. For example, despite Bristol Water's lower charges, the market share of SLPs is slightly higher than in Thames Water's area where charges are considerably higher; and, contrary to our expectation, while South West Water and Portsmouth Water have low charges, the market shares of SLPs in their areas are low, at 5% or less.

<sup>12</sup> We compiled data on SLP activity as part of PR19, which we supplemented with our RISE information request. We are treating this data as indicative, as we have noted some differences in the way companies have interpreted the questions.

## 4. What happens in other sectors

In the water sector there are examples of how the industry has worked together with stakeholders to establish a framework on a consistent basis. Under the leadership of Water UK, the industry has been preparing models and guidance for asset adoption agreements, addressing problems of complex inconsistencies between areas that have previously been a barrier to SLPs.

There are established arrangements in the business retail water market. The Panel is responsible for providing independent strategic governance of the market. It comprises elected and appointed members, including members of retailers, wholesalers, Ofwat and independent members. It oversees market arrangements and makes recommendations to Ofwat on any changes required to the market codes. The Retailer Wholesaler Group brings together retailers and wholesalers to tackle key market issues and make changes and share good practice to improve overall customer service in the market.

We do not have many examples in the water sector of industry collaboration on charging. We understand that this is in part because some companies are keen to have freedom to innovate, and in part related to concerns regarding competition law and charges. We do not consider these to be barriers in themselves, and indeed are not found to be in other sectors. For example, companies work together to establish common methodologies with respect to electricity distribution charges, and have certain safeguards in place to manage competition issues.

In this section, we present three examples of industry working groups that were mobilised at the request of their sector regulator or government.

### **Case study 1: Electricity Distribution sector – Distribution Charging Use of System Agreement (DCUSA)<sup>13</sup>**

The DCUSA was set up in 2006 with the intention of creating a common charging methodology in relation to electricity distribution networks. As the electricity market opened and the number of suppliers increased, there was a need to standardise these agreements in a single, multi-party agreement instead of individual bilateral agreements that differed between Distribution Network Operators (DNOs).

Ofgem issued a Collective Licence Modification that placed an obligation on electricity distributors to develop the DCUSA in accordance with the requirements. The DCUSA is self-governed and companies have to comply with it. ElectraLink, the entity responsible for operating the data hub that underpins the UK energy market,

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<sup>13</sup> [https://www.ofgem.gov.uk/sites/default/files/docs/2006/10/15653-designation-notice\\_0.pdf](https://www.ofgem.gov.uk/sites/default/files/docs/2006/10/15653-designation-notice_0.pdf).



acts as the legal entity for the DCUSA. Ofgem approves the framework, charging methodologies and any changes.

The DCUSA has extensive governance arrangements (including a Board and a Panel) with individual working groups for each workstream (Theft Working Group, Standing Issues Group, General Working Group, Interventions Working Group) and the Distribution Charging Methodology Development Group (DCMDG). The electricity industry dedicate a lot of time to working in DCUSA working groups.

There are various arrangements that the DCUSA put in place to protect against competition concerns – for example all their working groups and materials, meetings, meeting minutes are published online. Meetings also have an anti-collusion warning at the start of each meeting. A Competition Law Guidance has been drafted for the purposes of the Working Group and is issued at the beginning of each meeting. It has a list of “Dos” and “Don’ts” and outlines the objectives of the DCUSA Panel.

The group that developed the methodology included DNOs, generators, retailers and other parties. Much of the engagement is driven by the fact that the code applies nationally so there are usually a number of interested parties involved – more often than not Independent Distribution Network Operators (IDNOs) which have a much sharper impact from changes in charges than incumbent DNOs which are protected by their revenue controls. Some DNOs are more active than others and retailers and generators tend to dedicate less resource but it depends on the effect on their competitive position.

The DCUSA governs how relationships between parties are managed. Some examples include:

- Common Connection Charging methodologies: sets out how a new build house for example, would get their connection to the distribution network, how much this would cost and where they would connect;
- Electricity demand control: ensures that the supply of electricity is not affected by certain actions; and
- National Terms of Connection: set out the terms and conditions that the licensed distributor requires generators/retailers to accept.

## **Case study 2: Electricity Distribution sector – the creation of a Competition in Connections (CiC) Code of Practice<sup>14</sup>**

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[https://www.ofgem.gov.uk/sites/default/files/docs/2015/01/connections\\_competition\\_review\\_findings\\_2.pdf](https://www.ofgem.gov.uk/sites/default/files/docs/2015/01/connections_competition_review_findings_2.pdf).

The CiC Code of Practice sets out the processes and practices that DNOs need to follow to facilitate competition in the electricity connections distribution market.

The Code of Practice codifies the established and developing arrangements between DNOs and Independent Connection Providers (ICPs<sup>15</sup>) for facilitating the effective operation of competition in the market for the provision of connections. In doing so it addresses the issues Ofgem identified in its review of the connections market (2015). It also seeks to foster the same high standards of performance by all relevant parties in all aspects of their involvement in the competitive connections market and promote the harmonisation of processes across DNOs to help foster competition.

The Panel for the CiC Code of Practice consists of representatives from six DNOs and six non-DNOs. The non-DNO Panel members are drawn from IDNOs,<sup>16</sup> ICPs and customers from across the industry. The Energy Networks Association, an industry body funded by UK gas and electricity transmission and distribution licence holders, acts as legal entity for the Code of Practice and Panel. Panel meetings are attended by observers from Ofgem, Lloyd's Register and a customer representative.

At the time of developing the Code of Practice, DNOs were responsible for developing the contents through consultation. The CoP had to meet the minimum requirements defined by Ofgem.

### **Case study 3: Banking – Open Banking Working Group (OBWG)**

The Competition and Markets Authority's (CMA) retail banking investigation found that older, larger banks did not have to compete hard enough for customers' business, and smaller and newer banks found it difficult to grow and access the market.

To tackle this, they proposed a number of remedies including Open Banking, which enables customers and small and medium-sized businesses to share their current account information securely with other third party providers.

The OBWG was set up in September 2015 to explore how data could be used to help people transact, save, borrow, lend and invest their money, and to ensure a standard was put in place to protect privacy and ensure the data is secure. As a result, the working group set out an Open Banking Standard to guide how open banking data should be created, shared and used by its owners and those who access it. The Open Banking Implementation Entity was created by the CMA to

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<sup>15</sup> Analogous to SLPs in the water sector.

<sup>16</sup> Analogous to NAVs in the water sector.

create software standards and industry guidelines that drive competition and innovation in UK retail banking.

These examples demonstrate that it is common practice to mobilise industry participants to take part in working groups to improve practices in the industry and promote competitive market outcomes.

## 5. Next steps

Our study of the 2019/20 charging arrangements reveal that:

- companies employed different terminology in their charging arrangements to refer to the same or similar services;
- clear worked examples are helpful, but not all companies used them in their 2019/20 charging arrangements;
- there were large variations in water companies' levels of charges for the same services; the charge for a basic connection<sup>17</sup> ranged between 60% below and 230% above the median; the variation for typical on-site charges for new housing developments of 50 houses ranged 40% below and 68% above the median;
- some of the variation may be explained by:
  - exogenous factors, for example labour costs or topology;
  - economies of scale and scope;
  - cost allocation and cost reflectivity, i.e.:
    - the way incumbent water companies split up their costs and average their charges;
    - the extent to which the charges reflect the actual costs to deliver the services by their contractors; and
    - the extent to which the charges are accurate and are based on up to date costs; and
  - levels of SLP and house building activities.
- However, we consider the large variation is likely in part to reflect some charges not properly reflecting cost.

We propose the following next steps to address the key issues we have identified.

We consider it is important that companies use **consistent terminology** to describe the same things. To support this, we are proposing to add to the common terminology in the new connection rules, from April 2022 onwards, as set out in the glossary in Appendix 1 to this consultation.

Stakeholders have told us, and our own experience has been, that **clear worked example** can be enormously helpful in estimating total costs. Most companies now use worked examples effectively, and we were pleased to see some companies make improvements in their 2020/21 charging arrangements. In a number of cases, however, it is still difficult to be sure what charges apply in which situations. We propose to improve practice in this area through our annual information notice "Expectations, assurance and information requirements for water company charges". We have set out scenarios for typical service packages in the [2020/21 requirements](#)

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<sup>17</sup> Assuming no excavation; 9m pipe; excluding administrative and other costs.

and we propose to set out more explicit expectations on how companies present them, disaggregated by service and unit cost, for 2021/22 charging arrangements.

We want companies to set and publish **charges that are cost reflective**; we are not concerned about differences in levels of charges between companies provided that they reflect underlying averaged costs. To address this, we propose to amend the new connection rules for April 2022 to be more explicit that charges should be cost reflective.

For next year's charges, we expect companies to draw on this consultation and the submissions of other companies and stakeholders from our [review of incumbent company support for effective markets](#) to improve their practice in this area. For example, one water company explained that it undertakes a detailed review of the actual costs incurred by its contractor for each different service it provides to ensure its charges are cost reflective.

While we expect this to improve the situation, our findings have led us to conclude that a concerted approach is also needed. In particular, we consider there is a need to improve consistency in terminology and presentation, and establish a common methodology for setting costs so that best practice is shared more effectively. The methodology should specify the scope of services covered, and how common costs are allocated. Companies would still be expected to derive their own unit costs individually. We anticipate that in the first instance the methodology would be advisory, but may be made compulsory in due course.

We are looking to industry, led by Water UK and including stakeholders, to follow the good examples in electricity distribution and elsewhere to establish a working group to effect these changes. The experience elsewhere has been that this is best achieved through establishing a requirement for companies to do this (in electricity distribution this was achieved through a change to the licence) and we are considering whether this might best be achieved through a change to the new connection rules.

The scope of the working group would need to be clearly defined and have clear boundaries in which it would operate to ensure it does not stifle innovation or risk distorting competition.

For the scope of the new connection services charging methodology, we propose the following:

- to limit its scope to on-site costs only in the first instance;
- for the charging methodology to cover water and wastewater services, including:
  - new service connections;

- waste connections and new lateral drains;
- new water mains/sewers; and
- water/sewer diversions.
- that the common methodology ensures companies:
  - make use of the same terminology to refer to the same services;
  - align categorisation of surface types, pipe diameters, units, etc.
  - align the level of granularity to be adopted to refer to the same package of charges.
  - adopt a common approach to allocating overheads; and
  - demonstrate clearly whether contractors' rates reflect actual costs incurred by them in the provision of each service.

The first stage would be for the group to use their expertise and industry knowledge to define the scope of the new connection services charging methodology.

The second stage would be to harmonise methodologies for key on-site charges. We would expect industry to conclude this in summer 2021, so that they can come into effect in April 2022 on an advisory basis.

Harmonising the methodology for off-site charging would take longer, but should be in place in time for companies' PR24 business plan submissions (2023).

## A1 Glossary

The definitions in black are those used in our new connection rules or Water Industry Act. The definitions in red are our proposed definitions.

**“Alternative point of connection”** means a location on our water or sewerage network other than the point of connection.

**“Carriageway”** means tarmac covered ground.

**“Charging Arrangements”** means a document setting out the charges and/or the methodologies for calculating them those, applied by the water or sewerage undertaker in accordance with these rules.

**“Charging Rules”** means the Charging Rules for New Connection Services (English Undertakers) issued under sections 51CD, 105ZF and 144ZA of the Act.

**“Charging Year”** means a calendar year running from 1 April in a given year to 31 March in the following year.

**“Charges Scheme Rules”** means the Charges Scheme Rules issued by the Water Services Regulation Authority under sections 143(6A) and 143B of the Water Industry Act 1991.

**“Communication Pipe”** means any part of a Service Pipe which a water undertaker could be, or have been, required to lay under section 46 of the Water Industry Act 1991. It consists of a pipe laid from an existing or newly laid Water Main to the boundary of a property, including a meter housing and stop valve.

**“Connection Charges”** means charges that will be imposed by that undertaker for work carried out by it in accordance with the duties (or rights) created by the following provisions of the Water Industry Act 1991: section 45(1) (connection with Water Main); section 46(1) (ancillary works for purposes of making a domestic connection); section 98(1A) (provision of lateral drains); section 101B (construction of lateral drains following construction of a public sewer) or section 107(1) (right of undertakers to make communication with Public Sewer).

**“Contestable Work”** refers to work or services that can be completed by either the relevant undertaker or persons other than the relevant undertaker.

**“Developer”** means any person or business which is responsible for a Development.

**“Development”** Means premises on which there are buildings, or on which there will be buildings when proposals made by any person for the erection of any buildings are carried out, and which require connection with, and/or modification of, existing water or sewerage infrastructure.

**“Diversion Charges”** means the charges imposed by that undertaker pursuant to section 185(5) of the Water Industry Act 1991.

**“Domestic premises”** means any premises used wholly or partly as a dwelling or intended for such use.

**“Existing main”** means a main that was in operation before development commenced.

**“Fixed Charges”** means charges set for a given Charging Year which are fixed in amount or which are calculated by reference to a predetermined methodology set out in the undertaker’s Charging Arrangements, the application of which allows calculation at the outset of the total amount owing in that Charging Year in respect of the charges in question. Such charges are to be fixed for a Charging Year, as defined above.

For the avoidance of doubt, and subject to the above, undertakers may impose Fixed Charges by reference to a unit measurement (for example, per mega-litre). Furthermore, undertakers may offer more than one Fixed Charge in charging for a service provided in accordance with the present rules (for example, by differentiating between different geographic areas).

**“Footpath (Footway)”** means a concrete covered surface.

**“House”** means any building or part of a building that is occupied as a private dwelling house or which, if unoccupied, is likely to be so occupied and, accordingly, includes a flat.

**“Income Offset”** means a sum of money offset against the charges that would otherwise be applied for the provision of a Sewer or Water Main in recognition of revenue likely to be received by the relevant undertaker in future years for the provision of:

- i. supplies of water to premises connected to the new Water Main; or
- ii. sewerage services to premises connected to the new Sewer,

and **“Income Offsetting”** shall be construed accordingly.



**“Infrastructure Charge”** means the charges described in section 146(2) of the Water Industry Act 1991. That is, a charge paid by the developer to the water company when a property is connected to the company’s water supply or sewer for the first time which contributes to wider network reinforcement to meet the increased demand arising from the new connections.

**“Lateral Drain”** means (a) that part of a drain which runs from the curtilage of a building (or buildings or yards within the same curtilage) to the sewer with which the drain communicates or is to communicate; or (b) (if different and the context so requires) the part of a drain identified in a declaration of vesting made under section 102 of the Water Industry Act 1991 above or in an agreement made under section 104 of this Act.

**“Long length”** refers to the length of the new water pipe required between the private supply pipe (at the property boundary) and the point of connection, where the length is 4 metres or more and can be in different surface types, e.g. 4 metres in the road, 4 metres in unmade ground.

**“NAV”** New appointment and variations provide water and/or sewerage services to customers in an area previously served by the incumbent monopoly provider. A new appointment is made when Ofwat appoints a company for the first time to provide services for specific geographic area. A variation is where an existing appointment is varied to extend the areas served.

**“Network Reinforcement”** refers to work other than Site Specific Work, as defined below, to provide or modify such other:

- i. Water Mains and such tanks, service reservoirs and pumping stations, or
- ii. Sewers and such pumping stations

as is necessary in consequence of the Site Specific installation or connection of Water Mains, Service Pipes, Public Sewers and Lateral Drains pursuant to an agreement with, or a duty owed under the Water Industry Act 1991 to, a person other than a relevant undertaker, including a requisition (under sections 41(1), 98(1) or 98(1A)), under an agreement for adoption (under sections 51A or 104), under a section 66D of or a section 117E agreement, pursuant to section 45(1) (Duty to make connections with main) or in accordance with another duty imposed by the Act, or in consequence of the exercise of rights under section 106(1) (Right to communicate with public sewers). It also includes the additional capacity in any earlier Water Main or Sewer that falls to be used in consequence of the provision or connection of a new Water Main or Sewer.

**“New Appointee”** means a company holding an appointment as a relevant undertaker where the conditions of that appointment limit the charges that can be fixed under a charges scheme by reference to the charges fixed by one or more other relevant undertakers.

**“New Connection Services”** is the collective term for New Water Mains, New Sewers, Service Connections, Lateral Drains, Waste Connections and Diversions.

**“No excavation”** These charges apply where we do not undertake any excavation, backfilling or reinstatement, for example, where the trench has been pre-excavated by you to our standards.

**“Non-contestable Work”** means work or services that only the relevant undertaker (or an agent acting on their behalf) can do or provide.

**“On-Site”** works carried out or proposed to be carried out within the site boundary.

**“Off-Site”** works carried out or proposed to be carried out outside the site boundary.

**“Point of connection”** means the nearest practical location where the existing water main or sewer is the same size or larger than the new connecting main or sewer.

**“Public Sewer”** means a sewer for the time being vested in a sewerage undertaker, whether under the Water Act 1989, the Water Industry Act 1991 or otherwise.

**“Requisition Charge”** means charges that will be imposed by that undertaker for work carried out by it in accordance with the duties imposed by section 41(1) (provision of requisitioned Water Main) and section 98(1) (provision of requisitioned public sewer) of the Water Industry Act 1991. That is, a charge set by the water company for the provision of the new water main or public sewer (a requisition) to recover the costs reasonably incurred in providing them.

**“Self-Lay”** the laying of water pipes and associated infrastructure in accordance with section 51a of the Act.

**“Self-lay provider”** An accredited operative who can lay the pipework for a new water main or sewer rather the infrastructure being laid by the water company. The water company will take over responsibility for self-laid pipes that meet the terms of its agreement.

**“Service Connection”** means the construction of the pipe between the supply pipe of the premises and the public water main which is provided under section 45 and 46 of the Act.

**“Service Pipe”** means so much of a pipe which is, or is to be, connected with a water main for supplying water from that main to any premises as — (a) is or is to be subject to water pressure from that main; or (b) would be so subject but for the closing of some valve, and includes part of any service pipe.

**“Sewer”** includes all sewers and drains (not being drains within the meaning given by section 219(1) of the Water Industry Act 1991) which are used for the drainage of buildings and yards appurtenant to buildings. This definition includes tunnels or conduits which serve as such a pipe and any accessories for such a pipe.

**“Short length”** refers to the length of the new water pipe required between the private supply pipe (at the property boundary) and the point of connection, where the length is less than 4 metres.

**“Site Specific”** work on, or the provision of, water or sewerage structures or facilities located on a development as well as work to provide and connect a requested water main, sewer, communication pipe or lateral drain on, to or in the immediate vicinity of, the development. Charges for site specific work relate to the provision of connection structures or facilities located on a development up to the nearest practical point on the existing network where the connecting pipework is of a nominal bore internal diameter no larger than that of our existing network. They do not refer to costs or work required as part of network reinforcement.

**“Small Company”** means a New Appointee.

**“Supply pipe”** means the part of the service pipe that is not the communication pipe.

**“Undertaker”** means a water undertaker or sewerage undertaker.

**“Unmade ground (verge)”** refers to ground which does not have a surface. For example, unmade ground may feature grass and topsoil.

**“Water main”** means any pipe, not being a pipe for the time being vested in a person other than the undertaker, which is used or to be used by a water undertaker or licensed water supplier for the purpose of making a general supply of water available to customers or potential customers of the undertaker or water supply licensee, as distinct from for the purpose of providing a supply to particular customers. This definition includes tunnels or conduits which serve as a pipe and any accessories for the pipe.

## A2 Additional information on scope of scenarios

### New service connection charges

The scope of the comparative analysis for single new service connections is summarised below.

**Table 5.1: New service connections scenarios**

Scenarios	
1. No excavation 3m	7. Made ground 3m
2. No excavation 6m	8. Made ground 6m
3. No excavation 9m	9. Made ground 9m
4. Unmade ground 3m	10. Carriageway 3m
5. Unmade ground 6m	11. Carriageway 6m
6. Unmade ground 9m	12. Carriageway 9m

**Table 5.2: Scope of the comparative analysis for new service connections**

Charges	Scope
New service connections (contestable)	Single port connection PE pipe, 25/32mm diameter Surface type: no excavation <sup>18</sup> , unmade ground <sup>19</sup> , made ground <sup>20</sup> , carriageway <sup>21</sup> Lengths: 3 metres, 6 metres and 9 metres
Administrative charges and other charges (non-contestable)	<p><b>Administrative charges:</b></p> <ul style="list-style-type: none"> <li>• Application fee</li> <li>• Administration fee</li> <li>• Design fee</li> <li>• Other admin fees (where applicable)</li> </ul> <p><b>Other charges:</b></p> <ul style="list-style-type: none"> <li>• Cost of a meter</li> <li>• Meter installation charge</li> <li>• Other non-admin charges</li> <li>• Basic traffic management</li> </ul>

### New water mains charges

<sup>18</sup> pre excavated ground, part made ground or lay only.

<sup>19</sup> verge, unmade surface or unsurfaced.

<sup>20</sup> footpath, footway (rigid or flexible), paved surface, pavement or private road.

<sup>21</sup> highway, flexible or rigid carriageway or road.

The scope of the comparative analysis for new water mains is summarised below.

**Table 5.3: Scope of comparative analysis for new water mains**

Charges	Scope
<p>Simple new water mains (contestable and non-contestable)</p>	<p><b>Small housing development</b> <u>Non-contestable</u></p> <ul style="list-style-type: none"> <li>• 1 x Connection 90mm (PE) to live main;</li> </ul> <p><u>Contestable</u></p> <ul style="list-style-type: none"> <li>• 10m x Pipe laying 90mm PE for road surface;</li> <li>• 20m x Pipe laying 90mm PE for unmade surface; and</li> <li>• 20m x Pipe laying 63mm PE for unmade surface.</li> </ul> <p><b>Medium housing development</b> <u>Non-contestable</u></p> <ul style="list-style-type: none"> <li>• 1 x Connection 180mm (PE) to live main;</li> </ul> <p><u>Contestable</u></p> <ul style="list-style-type: none"> <li>• 10m x Pipe laying 180mm PE for road surface;</li> <li>• 90m x Pipe laying 180mm PE for unmade surface;</li> <li>• 100m x Pipe laying 125mm PE for unmade surface; and</li> <li>• 100m x Pipe laying 90mm PE for unmade surface.</li> </ul> <p><b>Large housing development</b> <u>Non-contestable</u></p> <ul style="list-style-type: none"> <li>• 1 x Connection 180mm (PE) to live main;</li> </ul> <p><u>Contestable</u></p> <ul style="list-style-type: none"> <li>• 10m x Pipe laying 180mm PE for road surface;</li> <li>• 290m x Pipe laying 180mm PE for unmade surface;</li> <li>• 300m x Pipe laying 125mm PE for unmade surface; and</li> <li>• 400m x Pipe laying 90mm PE for unmade surface.</li> </ul>
<p>Administrative charges (non-contestable)</p>	<p>Mains application Mains administration Mains design Other admin fees</p>

Ofwat (The Water Services Regulation Authority)  
is a non-ministerial government department.  
We regulate the water sector in England and Wales.

Ofwat  
Centre City Tower  
7 Hill Street  
Birmingham B5 4UA

Phone: 0121 644 7500  
Fax: 0121 644 7533  
Website: [www.ofwat.gov.uk](http://www.ofwat.gov.uk)  
Email: [mailbox@ofwat.gov.uk](mailto:mailbox@ofwat.gov.uk)

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