

south east water

Infrastructure charge and miscellaneous services

Charges Scheme 2021/2022

Pure know_how

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1. Useful information

South East Water Developer Services offer advice and guidance on water requirements relating to new or converted premises, whether planning an extension to an existing house or a large new housing or commercial development.

It is important for potentially large users of water or even moderate users of water in rural areas to contact us at an early stage as major works with long lead-in times may be required to provide a supply of water.

1.1 Contact us

Developer Services Team

Our Developer Services Team can be contacted between 8am and 5pm from Monday to Friday.

Telephone: 0333 000 0060

Email: developer.services@southeastwater.co.uk

Write

Developer Services
South East Water
Rocfort Road
Snodland
Kent
ME6 5AH

Website: <https://wholesale.southeastwater.co.uk/get-help/new-connections>

1.2 The Consumer Council for Water

If you have followed our complaints process but are still unhappy, the Consumer Council for Water offers free independent advice. You can visit its website ccwater.org.uk, call on 0300 034 2222, or write to the Consumer Council for Water, c/o 1st Floor, Victoria Square House, Victoria Square, Birmingham, B2 4AJ.

2. Introduction

This is the charges scheme of South East Water Ltd for the year commencing on 1 April 2021 and ending on 31 March 2022 for infrastructure charges and miscellaneous services.

It is made in line with section 143 and 143A of the Water Industry Act 1991 (the “Act”) and in accordance with charges schemes rules issued by Ofwat in line with section 143B of the Act and with the requirements of our Licence.

It relates primarily to the infrastructure charges applied in accordance with section 146 of the Act and the conditions of our Licence.

It also sets out charges relating to miscellaneous services that we impose in the period covered by this charges scheme.

It supersedes any prior charges scheme made by us for infrastructure charges and miscellaneous services but previous years’ charges schemes continue to apply in respect of the charging year they relate to.

It also explains how our charges are applied and calculated and how and when they must be paid. The relevant charges are set out in the appendices.

In this charges scheme the words “we”, “us” and “our” refer to South East Water Ltd.

In fixing our charges we ensure that no undue preference is shown to, and that there is no undue discrimination against, any class of customers or potential customers.

This document must be interpreted in a manner that is consistent with relevant provisions in legislation, our Licence and the charges scheme rules, and to the extent that this document is inconsistent with them, these provisions prevail.

A glossary is included at the end of this charges scheme to explain some of the terminology used.

3. Infrastructure charge

Since April 2018 we have been setting our own infrastructure charges to cover the cost of developer related growth using a new methodology. These changes have been implemented in conjunction with other changes to our charges for new connection services. In order to understand fully how the infrastructure charge is applied please read this charges scheme together with our charging arrangements for new connection services which includes more information and details on our new charges for new connections services.

3.1 Our methodology to calculate the infrastructure charge

The infrastructure charge is a fixed charge per connection.

We determine our infrastructure charges in accordance with the principle that the amount of such charges will over a period of five consecutive charging years (from 1 April to 31 March) cover the costs of network reinforcement that we reasonably incur, less any other amounts we may receive for network reinforcement.

For the calculation of the infrastructure charges for 2021/22 we have considered the period to 31 March 2024.

When determining reinforcement costs used for calculating infrastructure charges, we include relevant costs relating to reinforcement required in consequence of new connections and new development sites, or the cost of any additional capacity in an earlier main (including relevant strategic reinforcement schemes) that falls to be used in consequence of the provision of a new water main. To meet the requirements of our regulator's price determination, we are also including this year relevant costs of our zonal strategy (i.e. investment in our network necessary to respond to additional demand) in the calculation of infrastructure charges.

We explain below the methodology we have used to follow the principle explained above and how we have calculated our infrastructure charges.

To calculate the infrastructure charge we:

- Determine the total cost of reinforcement directly as a result of new development each years in the relevant five year period
- Determine the total cost of the proportion of strategic reinforcement schemes that is attributable to new developments each year in the relevant five year period
- Determine the total cost of the proportion of zonal schemes that is attribute to new developments each year for the relevant five year period
- Determine the forecasted number of new connections to be provided each year in the relevant five year period.

Our forecast on reinforcement costs and new connections numbers are updated every year using actual data in previous years and the assessment of information available on future development.

For the calculation of infrastructure charges for 2021/22, we took account of the level of activity experienced in 2020. This did not result in any significant change compared to 2020/21, as the total numbers of new connections carried out was almost back to pre Covid-19 levels at the end of 2020.

The actual impact of Covid-19 on new connection activities during 2021/22 is unknown. However, we will be able to adjust the 2022/23 infrastructure charges to take account of any shortfall or over-recovery of infrastructure charges in 2021/22 when determining the five year rolling average next year.

For each year in the relevant five year period we calculate the infrastructure charge per connection dividing the total reinforcement cost for that year by the forecast number of connections for the year.

Our standard infrastructure charge is equal to the average infrastructure charge over the relevant five year period.

We have also introduced a new smaller connection to drive water efficiency in new build properties. This eco-connection infrastructure charge for connection with a diameter of 20mm is a reduced infrastructure charge recognising the lower impact of these smaller connections on our network.

For the meaning of 'house', 'common billing agreement', 'relevant multiplier' please refer to the glossary of this document.

3.2 Infrastructure charges

3.2.1 Standard connections

A standard infrastructure charge or reduced infrastructure charge is payable for all first time 25mm (22mm internal) connections for domestic purposes.

First time connections include connection to new premises which have been created as a result of the alteration or conversion of existing premises.

These infrastructure charges are applied where the meter capacity is suitable for a supply of 1m³ per hour. The standard infrastructure rate is calculated on a flow rate of 0.27 litres per second.

The standard infrastructure charge and the reduced infrastructure charge are set out in Appendix 1.

3.2.2 Relevant multiplier

To ensure that the base rate of infrastructure is kept as low as possible we will continue to apply the relevant multiplier to encourage water efficiency and smaller connection sizes, when possible.

The infrastructure charge payable for:

- All first time connections for domestic purposes to any house subject to a common billing agreement
- All first time connections for domestic purposes to any premises other than a house which are connected with a connection with a diameter larger than 25mm (22mm internal)

is the standard water infrastructure charge multiplied by the relevant multiplier.

The relevant multiplier is calculated in accordance with the methodology originally set out in our instrument of appointment which takes account of the number of water fittings used on the premises and of their respective loading units.

The indicative loading units attributable to each appliance are as follows:

WC flushing cistern	2.0
Wash basin in house	1.5
Wash basin elsewhere	3.0
Bath (tap size to 20mm)	10.0
Bath (tap size above 20mm)	22.0
Shower	3.0
Sink (tap size to 15mm)	3.0
Sink (tap size above 15mm)	5.0
Spray tap	0.5
Bidet	1.5
Domestic appliance	3.0
Communal or commercial appliance	10.0
Any other water fitting or outlet (including a tap but excluding a urinal or water softener)	3.0

We will work with you to ensure that the flow rate and connection size are reasonable and to ensure that your infrastructure is as low as possible.

3.3 Development and redevelopment

Where a site is developed or redeveloped (including by altering or converting existing premises), the total amount of infrastructure charges we will recover, in respect of all the new premises resulting from the development or redevelopment, will take account of the number of premises which had a water connection in the period of five years before the development or redevelopment.

For example, for a development including houses only, the total number of infrastructure charges applied will be the number of new premises connected on the site less the number of premises which already had a water connection in the period of five years before the development or redevelopment.

3.4 Temporary building supplies and infrastructure charges

We will only apply infrastructure charges in respect of a temporary building supply if you will keep that connection to supply new premises once building works are completed.

Please be aware, as of 1st April 2017, if you are a non-household customer or applying for a temporary building supply, at the point of connection you will need to have selected a retailer. To read more and for guidance on selecting a retailer go to www.open-water.org/for-customers/

3.5 Income offset

From 1st April 2020, the way we apply the income offset has changed. Previously we applied the income offset to the requisition charge; from April 2020 the income offset has been applied against the infrastructure charge.

We have calculated our income offset per connection for 2021/22 using the average percentage of income offset applied over the last 5 years.

In calculating the average percentage of offset, we had regard to the need to maintain the balance of charges between developers and other customers. During the relevant period of five years, the income offset was calculated using both the methodology that was applied before 1 April 2018 (where the cost of any network reinforcement was included in the total cost of the scheme to which the income offset was applied) and the methodology that has been

applied since 1 April 2018 (where the cost of any network reinforcement was not included in the total cost of the scheme to which the income offset was applied).

In order to determine the average percentage of income offset that best ensured we could maintain the balance of charges between developers and other customers, and after considering different methods of calculating it over the relevant period, the percentage of income offset in respect of pre-April 2018 development was calculated as a proportion of the costs of the site specific works (rather than the total costs inclusive of any network reinforcement). Having normalised the data between the pre-April 2018 schemes and the post-April 2018 schemes, we calculated the average percentage of income offset over the relevant five year period.

We have then applied this average percentage to our forecasted total cost of onsite mains in 2021/22 and divided the result by the forecasted number of new connections in 2021/22 to obtain an income offset per plot.

To ensure we are maintaining the accuracy of the data we use to calculate the income offset and to maintain the balance of charges between developers and other customers, from 1 April 2020 we continue to calculate the income offset (and equivalent asset value for self-lay) using the pre-April 2020 methodology for each development scheme (alongside applying the new methodology for offsetting to determine the actual charges applied). Details of how we will continue to calculate our income offset in order to maintain the comparability of our data over time can be found in Appendix 3 of this document.

In order to mitigate the potential disproportionate impact on certain types of developments of applying the income offset to infrastructure charges, we also cap the income offset to within 10% of what the income offset would have been using the offsetting method that applied until 1 April 2020.

- We calculate what your income offset would be using the pre-April 2020 method
- We calculate what the income offset would be using the new (post-April 2020) method
- If the income offset, calculated using our new methodology is less than under our 2019/20 methodology we apply a cap of 10%.
- If the income offset, calculated using our new methodology is more than under our 2019/20 methodology we apply a cap of 10%.

We will monitor the capping and the income offset over the 2021/22 period.

We do not cap the income offset for new service connections that are not related to a new main. This is because historically they have not received the benefit of an income offset and therefore it is expected that the balance here will be significantly different.

This year we have introduced changes to the calculation of our infrastructure charges that reflect, to the extent permitted by the relevant charging rules, the assumptions made by Ofwat in their final determination at PR19 in respect of the recovery of the costs related to our zonal strategy schemes.

This was done by including zonal schemes' costs in the calculation of our infrastructure charges which would have significantly increased the levels of contribution recovered from developers.

In order to broadly maintain the balance of charges between developers and other customers as it existed pre-April 2018 (to ensure that the percentage of the works paid for by developers remains broadly the same compared with what it was before April 2018), we have increased the percentage of income offset that is applied against infrastructure charges to compensate for the effect of the inclusion of zonal schemes in the calculation of our infrastructure charges.

Our standard income offset per plot is set out in Appendix 1.

For connections larger than 25mm we first calculate the infrastructure charge using the relevant multiplier as set out in section 3.2.2. We then calculate the income offset by multiplying the standard offset per plot by the relevant multiplier (using the same relevant multiplier as was determined for the calculation of the infrastructure charges).

3.6 Payment of infrastructure charges

The infrastructure charge less the income offset is payable by either:

- i the person who makes the application for the connection,
- ii the occupier of the premises connected,
- iii any person other than us, our contractor or agent, who makes the connection or is responsible for payment of the infrastructure charges under an agreement with us.

Where there is more than one occupier of the premises, all occupiers are jointly and severally liable for the payment of the infrastructure charges (less the income offset).

Where a customer requests a connection, the infrastructure charges (less the income offset) become due when the connection is made and a supply of water is available to the premises and must be paid in full within a period of 14 days commencing on the date of completion of the connection.

The infrastructure charges (less the income offset) are also due in respect of any irregular connection made without our consent and becomes due and payable when the connection is made, and a supply of water is available to the premises.

3.7 Legacy Infrastructure Charges

In certain cases, the infrastructure charge as calculated before 1 April 2018 continues to apply. This legacy infrastructure charge is a fixed sum increased each year through indexation.

The amount of the legacy infrastructure charge is also set out in Appendix 1.

Where the requisition charge or the asset payment for a water main had been calculated using the method of charging that applied before 1 April 2018, the infrastructure charge is calculated using the method of charging that also applied before 1 April 2018 in respect of each new service connection to that main.

Where this legacy infrastructure charge applies, no income offset is applied to the infrastructure charge (as the requisition charge or the asset payment will already be reflective of the income offset).

The legacy infrastructure charge become due when the connection is made and a supply of water is available to the premises and must be paid in full within a period of 14 days commencing on the date of completion of the connection.

4. Standpipe hire

The hire of a metered standpipes of 25mm and 40mmdiameters (external) in our area is provided by an authorised third party.

Any standpipe hire is provided under an agreement between you and the authorised third party and you should contact them directly for any standpipe hire.

An average volumetric charge is applied in respect of water drawn using a standpipe and the charges are collected on our behalf by our authorised third party. The amount of the average volumetric charge is set out in Appendix 2.

For any standpipe hire please contact Aquam Water Services Ltd on 0844 984 1589 or email **southeastwater@waterservicesltd.com**

5. Fire hydrants

Fire hydrants may be provided when requested by the owner or occupier of any factory or place of business or the fire and rescue services.

The cost of providing fire hydrants is provided on application. Works are carried out when instructions are received and billed on completion. No charges are made for water drawn through a hydrant for firefighting purposes.

Where a connection to internal fire mains or a fire sprinkler system is required, a separate connection is normally required for which quotations will be provided on request. A meter will be installed, at no extra charge to the customer, and no standing or volume charge will be made for water used solely for firefighting or system testing purposes. Water measured through the meter for any other purposes will be charged at the relevant volumetric rate.

Where a by-pass is provided to a meter on a fire main supply, the closed valve will be provided with a breakable seal, to be opened only by the fire brigade. A seal tampered with or broken by any other person will make the customer liable to a charge, on each discovery, for the estimated use of water drawn from the fire supply.

6. Value Added Tax (VAT)

Standard rate Value Added Tax is payable on supplies of water to non-household premises where the primary activity of the business falls into sections 1, 2, 3, 4 and 5 of the UK standard industrial classification of economic activity. Supplies to other classes of businesses are zero-rated.

The standard industrial classification (SIC) codes are:

1. Energy and water supply industries
2. Extraction of minerals and ores other than fuels, manufacture of metals, mineral products and chemicals
3. Metal goods, engineering and vehicles' industries
4. Other manufacturing industries
5. Construction

When applying for a supply to non-household premises occupied by a business, a SIC code should be provided. Failure to supply a code could result in VAT being charged.

VAT is also payable on certain charges for other services to customers included in the Appendices.

Application fees and connection charges are subject to VAT, unless the property to be connected is a new dwelling or another qualifying building.

7. Terminology used in this document

'Common billing agreement' means for the purpose of section 2.3.3 (infrastructure charges) an agreement between us and any other person under which that person has undertaken to pay, on terms agreed between them, charges for water supply or sewerage services, or both, in respect of two or more houses which have a common supply pipe and which, in any case where that agreement relates to one of those services only, are also subject to a similar agreement for common billing between that person and the undertaker providing the other services.

'Connection' or **'service pipe connection'** means the installation of a section of service pipe we are responsible for laying under the Water Industry Act 1991 (the 'communication pipe') and the connection to our water main and the private section of service pipe (supply pipe) including associated fittings.

'House' means for the purpose of section 2.3.3 (infrastructure charges) any building or part of a building which is occupied as a private dwelling house or which, if unoccupied, is likely to be so occupied and, accordingly, includes a flat.

'Household premises' means any premises determined to be household premises by us or Ofwat in accordance with section 17C of the Water Industry Act 1991 and any relevant regulation or guidance.

'Licence' means the instrument of appointment of South East Water Ltd as a water undertaker under the Water Industry Act 1991

'Non-household premises' means any premises other than household premises.

'Ofwat' means the Water Services Regulatory Authority, the economic regulator for the water industry in England and Wales.

'Relevant multiplier' means for the purpose of section 2.3.3 (infrastructure charges) a number (which may be one or more or less than one) calculated in the manner set out in the appendix to condition C of our licence.

Appendix 1

Infrastructure Charge and income offset allowance, 2021/2022

(Excluding VAT)

Standard Infrastructure charge	£570.00
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Eco Connection Infrastructure charge	£520.00
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Legacy infrastructure charge (as calculated pre-April 01st 2018)	£402.53
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Standard Offset per plot	£563.00
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Appendix 2

Miscellaneous charges, 2021/2022

Turning supply on (after it was turned off)

During working hours	£95.73
Outside normal working hours	Costs reasonably incurred

NOTE: Properties are disconnected either at a customer's request, a commercial property disconnected for non-payment or an empty property

Water quality testing

Water quality testing for empty properties	£161.39
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Fire hydrant installation (fixed costs)

Description of Works	No Excavation	Verge	Footway/type 3/4 carriageway	Rigid or Type 1/2 carriageway
Replace Hydrant on existing water main	-	£983	£1,337	£2,034
Existing Hydrant-replace Post & Plate	-	£71	£71	£71
New Hydrant - installed during Mains Laying	£376	£425	£506	£608
New Hydrant on existing main	-	£1,283	£1,586	£2,045
Change Hydrant Cover	-	£85	£420	£580
Pit Repairs	-	£356	£580	£785
Repack Hydrant	-	-	-	£144
Existing Hydrant-replace false spindle top	£53	-	-	£139

Hire of standpipes (fixed costs)

	22mm Standpipe (tap outlet)	40mm Standpipe (fire hose)
Deposit	£218	£218
Weekly Hire Charge	£27.25	£59.95
Six Month Pre Paid Rate	£485.05	£735.75
Annual Pre Paid Rate	£779.35	£1,340.70
Water Usage Charge (per cubic metre)	£1.28	1.28

All standpipe hire services are provided by Water Services Ltd who can be contacted on 023 9263 9616 or via email southeastwater@waterservicesltd.com

Appendix 3

The income offset is calculated for the whole of the site specific works (including the undertaker's works).

To calculate the income offset we first determine the costs of the site specific works (including the undertaker's works) using the relevant cost components. (We may in certain cases use actual costs for certain costs components where it is not reasonably practicable to fix the relevant costs in advance as explained in our charging arrangement for new connection services.)

We then determine the amount of the annual repayment of a notional loan with interests for the amount of the site specific works (this is similar to a repayment mortgage over 12 years). This is shown in the "Annual Repayments of Loan" column of our calculations. The interest rate is determined by us using a methodology previously issued by Ofwat.

We then calculate the projected future revenue from the properties derived from the build and/or occupation programme usually provided with the application. This then enables us to calculate the income allowance which is the lesser of (i) the revenue that we expect to receive from the water main in each of the 12 calculation year and (ii) the amount of the annual repayment we have calculated. This is shown in the "Income Allowance" column of our calculations.

The income offset is the total of the discounted income allowance. This is shown in the "Asset Payment/Income offset" column of our calculations. The discount rate is determined by us using a methodology previously issued by Ofwat. The income offset is also the asset payment we used to pay a self-lay provider when the developer procured its infrastructure through self-lay.

We provide below details on the various values used in the calculation of the income offset.

Calculation period

The beginning of the 12-year period relevant for the calculation of the income offset is the date of completion of the main. Each subsequent year commences on the anniversary of that date. Our estimators include the expected date of completion of the main and our estimating tool automatically generates the relevant 12-year period. The end of each year in the period is shown in the "Year-ending" column of our calculations.

Rate of occupation and cumulative occupancy

Our calculation normally uses the occupation rate usually provided with the application. The number of properties expected to be occupied in each month of the relevant year(s) is entered as per the information provided or as estimated by us. This is shown in the "Cumulative Occupancy" column of our calculations.

Where the information provided is atypical for the type of development we will require details and further justification and reserve the right to apply a different rate of occupation.

Tariff & average metered charge per property

Water charges change on 1st April each year in accordance with our price controls. A relevant year for the calculation of the income offset will in most cases cover two different tariff years. Where this is the case the tool blends the two tariffs proportionately. There are several tariff zones in our supply area and the relevant tariff is used depending on the location of the development.

For each year, the average annual metered charge is calculated by multiplying the volumetric charge (£/m³ for the relevant tariff zone) by the average consumption per property and adding the standing charge. The average consumption per property is based on our water resources data for the relevant resource zone.

The volumetric charge reflects the price controls for the year. Our estimating tool includes the K factor determined by Ofwat for each year in the current price review period and 0 afterwards. RPI (or other relevant index) is updated regularly, using the latest November RPI (or other relevant index) of the previous year and an assumption for subsequent years.

The volumetric charges and standing charges for the current year are those set out in our household charges scheme.

This is shown in the “Average Income per Property” column of our calculations.

Projected future revenue

The average annual metered charge reflects the average total volume of water used in a full year. Metered charges for each property will reflect the actual consumption, which will depend on how long the properties has been occupied. The number of properties occupied in any month is included in our tool in accordance with the rate of occupation. The revenue will depend on the number of months each property has been occupied in any calculation year.

This is shown in the “Projected Future Revenue” column of our calculations.

Interest rate

Our tool is updated twice a year on or before 1st October and 1st April, which is when the rate of interest (used to calculate the repayment of the notional loan of a value equal to the cost of the site specific works) is updated. We calculate this rate using a methodology previously published by Ofwat.

Discount rate and discount factor

Our tool is updated twice a year on or before 1st October and 1st April, which is when the discount rate is updated. We calculate this rate using a methodology previously published by Ofwat. We use this discount rate to calculate the discount factor using a net present value formula. This factor is then used to calculate the income offset; this is shown in the “Discount Factor” column of our calculations.

Contact Us

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Rocfort Road
Snodland
Kent
ME6 5AH

southeastwater.co.uk

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