*Wessex Water Services Ltd*

# Statement of Significant Changes in Charges for New Connections and New Developments 2021-22

## Summary

Each year we publish our charges for new connection services. We set these charges to ensure that all customers pay the correct amount for the work they are receiving. This ensures that we are providing a level playing field for all participants in this market.

Central to this is the need for our charges to be fair, transparent, and cost reflective. We review each charge annually, updating our cost models to reflect the actual costs we have seen over recent history as well as any known upcoming changes.

For 2021-22, we are observing changes of over 10% across our range of sample developments that we use to demonstrate any changes to our customers. These are driven principally by an increase in the infrastructure charges, which cover the costs of reinforcing or upgrading existing infrastructure required to cater for new development. If there were no change in infrastructure charges, we would see changes ranging from 0% to +7%.

Driving this increase in infrastructure charges are:

1. An increase in the network reinforcement that is required in the coming years,
2. The requirement to be cost reflective of network reinforcement expenditure (when adjusting for income offset) on a 5-year rolling basis from 2022-23.

We have completed a review of local development plans and sewer capacity models to set out a robust investment plan. We are expecting significant development in small catchments that are already at, or approaching, full capacity. This necessitates investment for which we:

- use a robust internal governance process to challenge if, when and what level of investment is required, and to ensure that it is delivered efficiently;
- have consulted with developers in September 2020 to understand how they would prefer to see bill changes implemented over time;
- are publishing indicative charges in November 2020 to give an early view of the increase so that developers can plan accordingly; and,
- continue to offer alternative charge levels where surface water is not discharged into our network, giving developers the option to reduce their costs and associated incidence effects.

We also considered recovering the costs of the investment over a longer time period. In many cases the investment we are making will provide capacity for development beyond 2023. However, recovering the income over this longer timeframe would not be in accordance with the regulatory requirement to be cost reflective by the end of 2023.

We will continue to manage this in future years by investigating alternative levels of charge. Options could include offering lower charges where development decisions result in reducing the network reinforcement investment required and/or by considering zonal charges.

Alongside this, we have completed an impact assessment to see if our proposed infrastructure charges will unfairly penalise development that occurs in our region. We have compared our proposed infrastructure charges with those across the rest of the country and note that our proposed charges are within the range observed (based on 2020-21 charges). Therefore, we do not consider that they should create any undue issues in our region.

The handling strategies and impact analysis give us confidence that we have appropriately minimised the impact that these changes will have on our customers.

## Reasons for increased expenditure and calculation of our charges

Since setting our charges for 2020-21, we have reviewed the local authority housing plans in conjunction with our sewer capacity models to assess where investment will be required to support development. We have used our internal governance processes to inform a firm plan.

The outcome of this analysis is a requirement to invest more in network reinforcement than previously forecast. We have spent more over 2019-21 and are planning more over 2021-23 than was assumed when we set our charges for 2019-20.

This is primarily due to significant development occurring in catchments with limited capacity.

Where we need to invest, we will be investing not only for development now, but also for development that is forecast over the coming years. We will continue to see the benefits of this investment beyond 2023. Despite this, the charging rules (as they currently stand) require us to get to a cost reflective position by the end of 2022-23.

Our expenditure forecasts drive the following planned infrastructure charges up to 2022-23.

| | | **2018-21** | **2021-22** | **2022-23** | **2018-23** |
|---|---|---|---|---|---|
| Network reinforcement expenditure | £m | 14.6 | 4.2 | 5.9 | 24.6 |
| | | | | | |
| Income offset to recover 89% of total expenditure[1] | £m | 1.4 | 1.5 | 1.7 | 4.7 |
| | | | | | |
| Phased recover of past under recovery[2] | £m | | 2.4 | 0.8 | |
| | | | | | |
| Total we are aiming to recover | £m | 9.9 | 5.1 | 5.0 | 20.0 |
| | | | | | |
| Net income plus income offset | £m | 11.3 | 6.6 | 6.7 | 24.6 |
| | | | | | |
| Variance to total expenditure | £m | | | | 0.0 |
| | | | | | |
| Total to recover: supply | £m | | 1.2 | 1.1 | |
| Total to recover: waste | £m | | 3.9 | 3.8 | |
| | | | | | |
| Forecast connections | | | | | |
| Supply | nr | | 6852 | 6578 | |
| Waste - no SW separation | nr | | 7376 | 7245 | |
| Waste - SW attenuation | nr | | 1035 | 1017 | |
| Waste - full SW separation | nr | | 4529 | 4449 | |
| | | | | | |
| Full Charges | | | | | |
| Supply charge | £/unit | | 239 | 233 | |
| Waste charge - no SW separation | £/unit | | 596 | 630 | |
| Waste charge - SW attenuation | £/unit | | 298 | 315 | |
| Waste charge - full SW separation | £/unit | | 60 | 63 | |
| | | | | | |
| Discounted Charges | | | | | |
| Supply charge | £/unit | | 172 | 172 | |
| Waste charge - no SW separation | £/unit | | 468 | 468 | |

[1] before 2020-21 there was no income offset on infrastructure charges. Note that 'total spend' includes all expenditure on new connections, not just infrastructure costs.
[2] We have chosen this phasing with the aim of keeping the charges customers pay stable over 2021-22 and 2022-23.

## Sample development charges – the impact of infrastructure charges

If we were not increasing infrastructure charges, we would not see incidence effects greater than 7% in any of the sample developments (note, the income offset has not been assumed to change as this is a function of all developer related expenditure and would have increased even if gross infrastructure charges did not change, even if this is fixed at 2020-21 values there are no changes greater than 10%).

| Figures in £k | **2020-21** | **2021-22 No change to ICs** | **% Change** |
|---|---|---|---|
| Single Short Connection | 1.9 | 2.0 | +7% |
| Single Long Connection | 4.9 | 5.2 | +6% |
| Short Connection to block of 10 flats | 5.2 | 5.2 | 0% |
| Long Connection to block of 10 flats | 8.3 | 8.5 | +2% |
| Small Development | 16.0 | 16.1 | +0% |
| Medium development | 66.7 | 65.3 | -2% |
| Large development | 214.1 | 211.5 | -1% |
| Small development (SLP) | 5.8 | 5.7 | -3% |
| Medium development (SLP) | 17.3 | 15.3 | -12% |
| Large Development (SLP) | 46.6 | 41.7 | -10% |

However, due to the proposed increase in infrastructure charges we see incidence effects greater than 10% in all sample developments.

| Figures in £k | **2020-21** | **2021-22 New ICs** | **% Change** |
|---|---|---|---|
| Single Short Connection | 1.9 | 2.4 | +29% |
| Single Long Connection | 4.9 | 5.7 | +15% |
| Short Connection to block of 10 flats | 5.2 | 9.5 | +81% |
| Long Connection to block of 10 flats | 8.3 | 12.7 | +53% |
| Small Development | 16.0 | 18.6 | +16% |
| Medium development | 66.7 | 77.9 | +17% |
| Large development | 214.1 | 261.7 | +22% |
| Small development (SLP) | 5.8 | 8.2 | +40% |
| Medium development (SLP) | 17.3 | 27.8 | +60% |
| Large Development (SLP) | 46.6 | 91.9 | +97% |

We have published full details of the calculations behind these charges using our charges calculator as part of our new connection charges scheme.

## Handling strategies

### Internal challenge process

We have a robust internal challenge process that considers all proposed investment. The groups involved include technical experts from our developer services, operations, finance, investment planning and engineering teams. This group consider the following questions:

- Do we need to make this investment?
- Do we need to make this investment now?
- Is the proposed solution the best option?
- Are we delivering this project efficiently?

These challenges ensure that we are only investing where there is an immediate need and that we are making the most cost-efficient investment. These decisions are then agreed and approved by senior management through our capital approvals process.

### Consulting and communicating with affected customers

We launched our consultation with developers in September 2020 and reached out with it to all customers who had recently engaged with us. This was two months earlier than in previous years.

In this consultation, we outlined the risk that certain charges were to increase and asked customers how best we could deal with this; either through gradual change or a single step change and stability thereafter. Although responses were limited, there was no objection and no preference on approach. Our consultation can be found on our website.

To ensure full transparency, we have published indicative charges in early December. This will give developers early visibility and enable them to plan for our revised charges. Further, we will continue to offer transitional arrangements that remove the impact on customers whose developments are currently underway. These arrangements can be found in our charging scheme.

### Offering lower cost options

We continue to offer a range of wastewater infrastructure charges that can help save our customers money. We offer distinct charges for:

- No surface water separation
- Attenuated flow of surface water into our sewers
- Complete surface water separation

The latter two charges give our customers opportunities to take significantly cheaper options. If developers commit to complete surface water separation, then we see no incidence effects in eight of the ten scenarios. The incidence effects only occur where an SLP does the requisition work. In these cases, we are only considering transactions between the customer and us, not what the customer would pay in total and so the incidence effects are exaggerated compared to those that would be seen across the entire value chain.

Finally, we are in the process of reviewing additional levels of charges that could help our customers save money. We are considering the options for:

- Additional charge levels where our customers can commit to developments that will help reduce our network reinforcement expenditure such as water efficient homes.

- Zonal infrastructure charges whereby, if developments occur in areas with spare capacity, they could benefit from lower infrastructure charges. We note, however, that this is extremely complex and may have unintended consequences so needs careful consideration.

We could utilise these different charging levels to help manage future changing requirements in investment.

**Spreading the impact out over a longer period**

One possible mitigation that we were forced to discount was to spread the impact of the increase over several years. This was due to the regulatory requirement to show that our charges are reflective of our network reinforcement costs (when accounting for the income offset) over the five years up to and including 2022-23. This leaves us only two years to ensure we are in a cost reflective position.

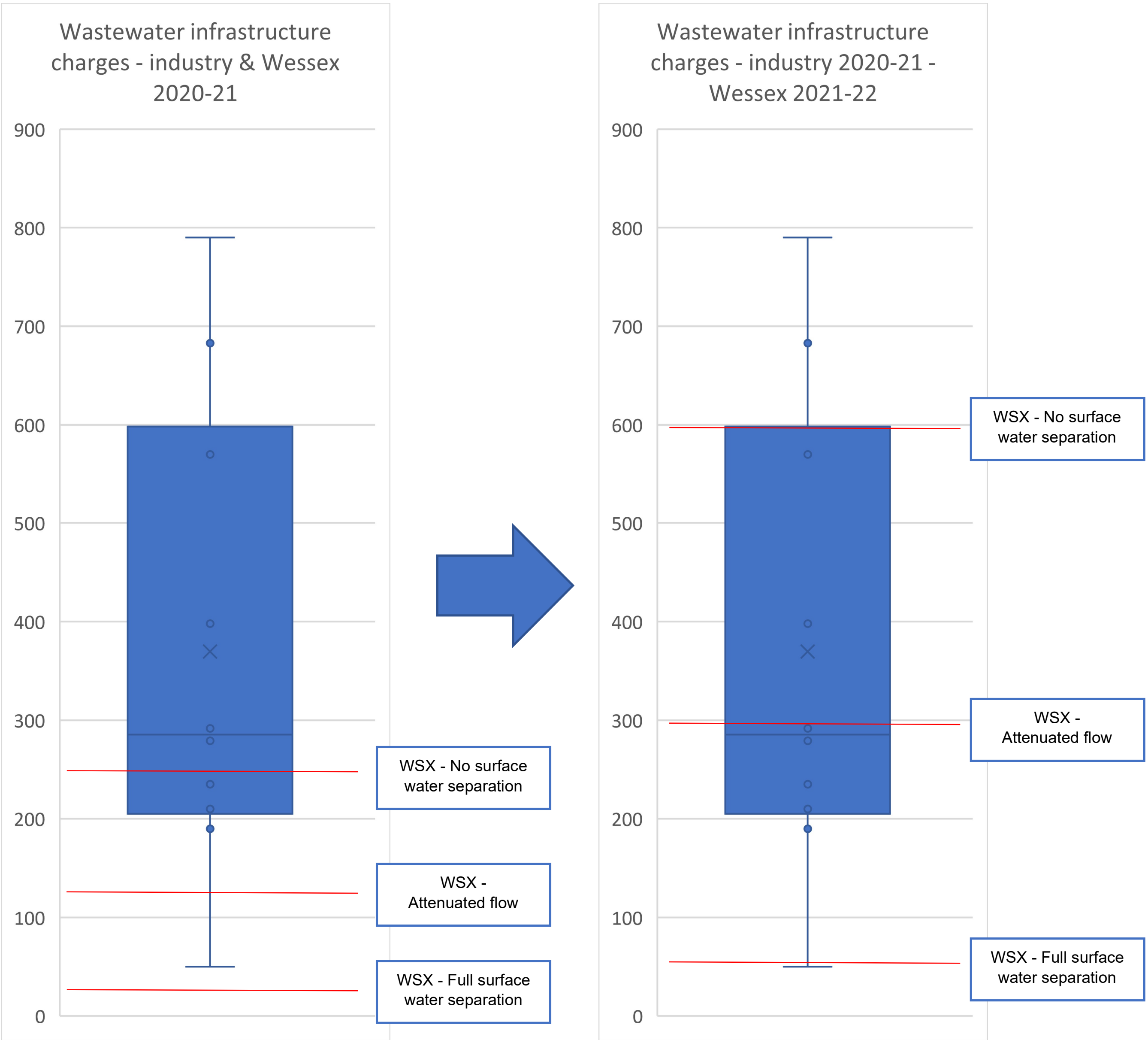
## Analysis of industry charges

We have compared the published 2020-21 industry charges with our proposed 2021-22 charges. This has been done on the full charge, pre income offset.

**Wastewater**

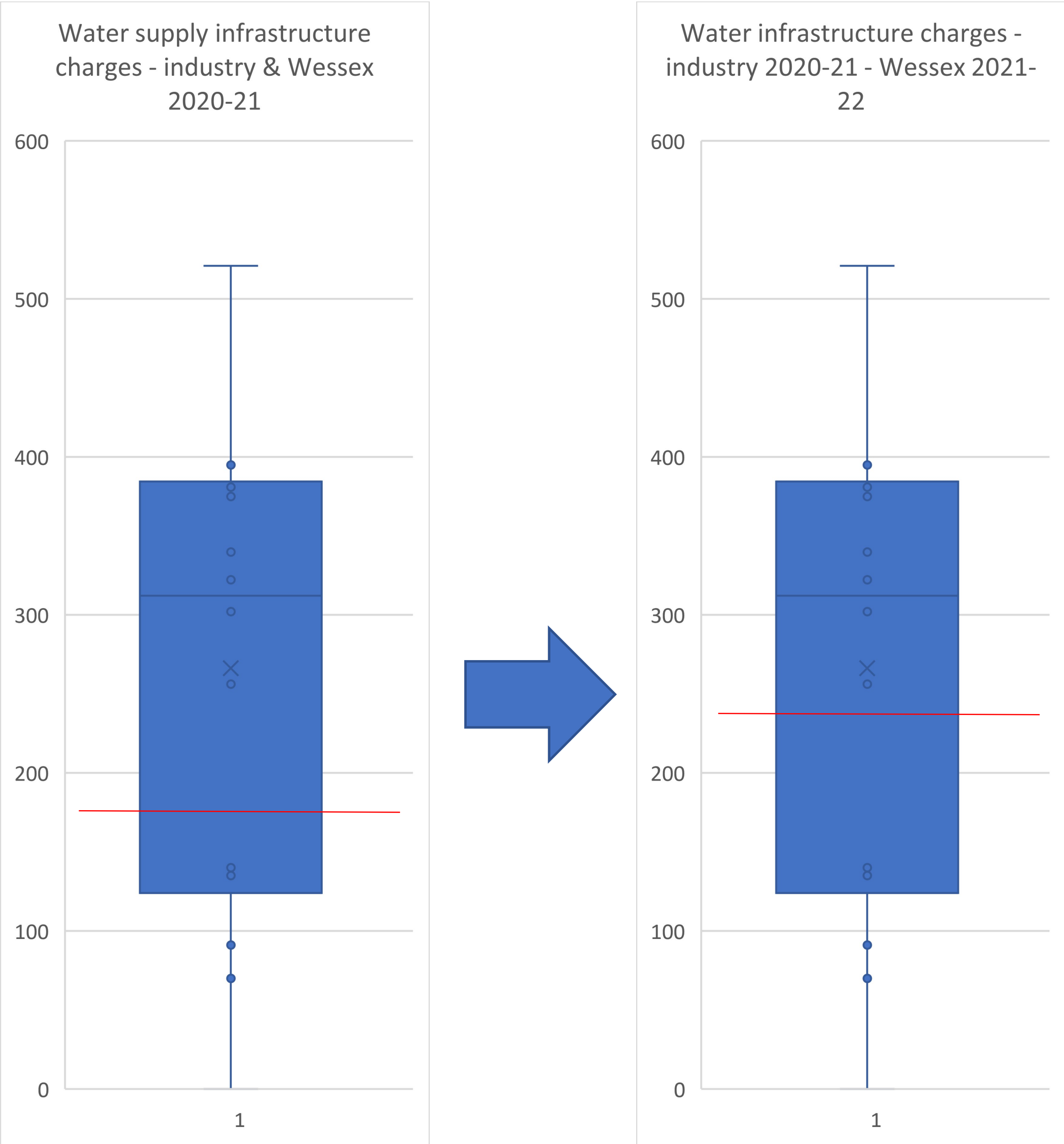
For wastewater, our charge for no surface water separation of £596 would still be lower than the 75th percentile of equivalent industry-wide charges. Our charge for attenuated flow of £298 would be well below the median, and our charge for complete surface water separation of £60 would be one of the very lowest.

Note that none of the three highest charging companies have multiple charge levels, and we are therefore confident that we are comparing like with like.



**Water supply**

The picture is similar on water supply. Our new proposed charge is still less than the industry median.




We conclude that our proposed charges are still comfortably within the range that our customers are likely to be paying elsewhere. Therefore, our new charges should be no barrier to them operating within our region.

For single property developments, where our customers may not be operating nationally, we continue to offer options that can reduce our charges to amongst the lowest seen in the country.

Note that we have excluded any income offset from this as income offsets reflect legitimate differences between companies as they should be based on the historic cost recovery for that specific company.

## Board Assurance

I confirm on behalf of the Board, that the Board has assessed the effects of the new charges on customers' bills for a range of different types of development and finds that there are cases where the impact exceeds +10%. These changes and associated handling strategies and mitigations are set out in this statement of significant changes for new development charges.

The Board approves the impact assessments and handling strategies set out in this statement of significant changes and is confident that the Company has followed robust and rigorous procedures in developing and approving the 2021-22 Charging Arrangements for new connections.

This document is signed by Andy Pymer on behalf of the Board.

Signed: Date: 28.01.2021

Andy Pymer

Executive Director of Finance and Regulation