



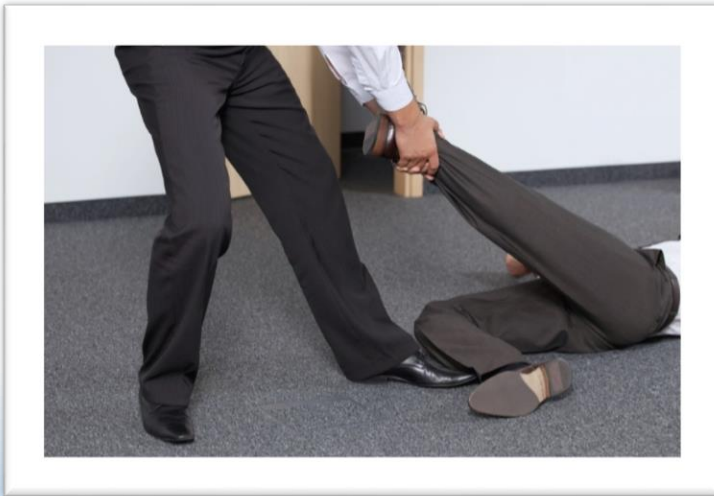
New Charging Arrangements And D-Mex



**Presentation by Ray Farrow
Chief Executive of TDS Holdings Ltd
&
Senior Consultant to the HBF**

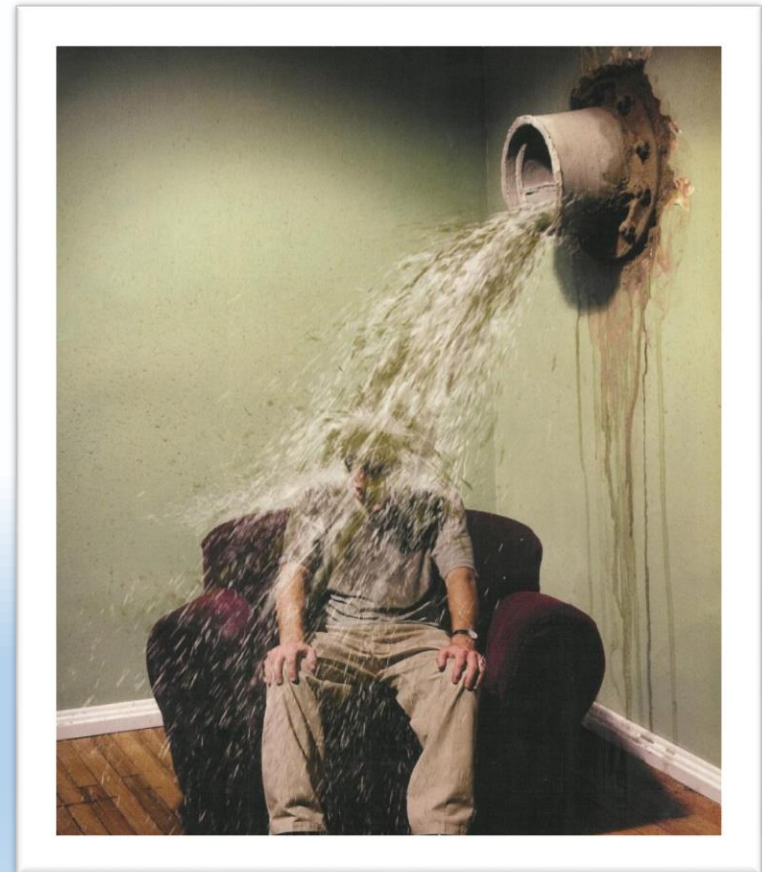
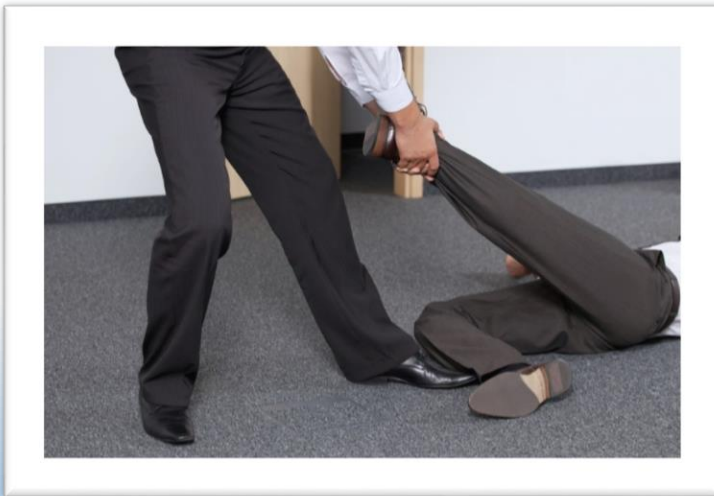


Why The New Charging Arrangements?



- Lack of transparency of Charges.
- A “one-liner” of what a developer is required to pay.
- Trust us we are the water company.
- OFWAT Determinations and Refunds of Charges.

Why The New Charging Arrangements?



The History



- Pre 2014 – Industry concerns raised with Government on charges being required from developers
- Charging Rules set in legislation in the Water Act 2014
- What happened next:
 - DEFRA GUIDANCE TO OFWAT ON “THE PRINCIPLES”
 - OFWAT TO ISSUE “CHARGING RULES”
 - THE COMPANIES TO PUBLISH MAIN BOARD APPROVED “CHARGING ARRANGEMENTS” IMPLIMENTED FROM 1ST APRIL 2018.
- A point to note is that OFWAT was instigating all of this under their new policy of “light touch regulations”
- No detail set out by OFWAT, its up to the companies to comply!

DEFRA PRINCIPLES



- Stable and Predictable Charges
- Transparent and Customer Focussed Charging
- Fairness and Affordability (including to both new and existing customers)
- Environment Protection

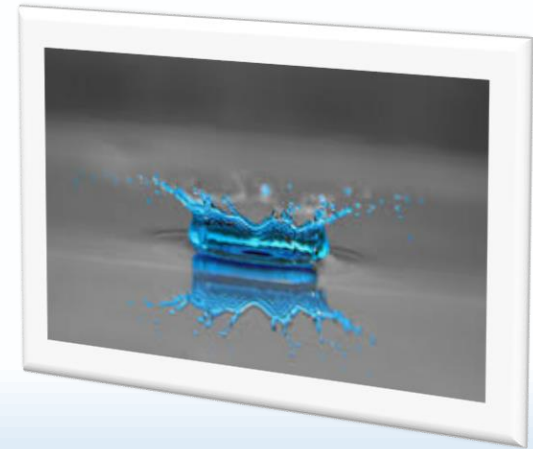
The Timelines

- DEFRA Principles published in November 2016
- OFWAT Charging Rules published in December 2016
- Companies Charging Arrangements to be consulted on and published on 1st February 2018 & implemented 1st April 2018

WHAT ARE THE CHARGING RULES TRYING TO ADDRESS?

Charging Rules

1. Pre- Development Enquiry Charges
2. Water Main Requisition Charges
3. s45 Plot Connection Charges
4. Sewer Requisition Charges
5. Sewer Connections
6. Diversion Charges
7. Charges for Self Lay Organisations
8. Security/Deposit Arrangements



WHAT ARE THE CHARGING RULES TRYING TO ADDRESS?



- Infrastructure Charges were part of the Charging Scheme Rules.
- Infrastructure Charges were and are the big issue – OFWAT has no idea what they have been spent on from April 1991 to 31st March 2018 – estimated at about £2.8 billion.
- Infrastructure Charges – (1) Offsite Reinforcement
 - (2) Credits/Offsets on Redeveloped Sites
 - (3) The Relevant Multiplier
- **IC's were the major issue in relation to Offsite Reinforcement and probably still are unfortunately.**

What have we learnt from the Companies Charging Arrangements



Lets pick out three key areas of Charging from the eight.

1. Water Main Requisition Charges – A number of ways to do the same thing.

- DADS.
- Income Offset.
- Income Offset with a Plot Allowance.
- Amalgamation of a plot charge deducted from the infrastructure Charge.
- Wessex Water pre 1st April cost per plot £70 and post £800.

2. \$45 Plot Connection Charges

- Range of charges that go from £146 to £732 for a new site clean unmade ground 25mm plot connection.

So what have we learnt from the Companies Charging Arrangements



3. The New Infrastructure Charge.

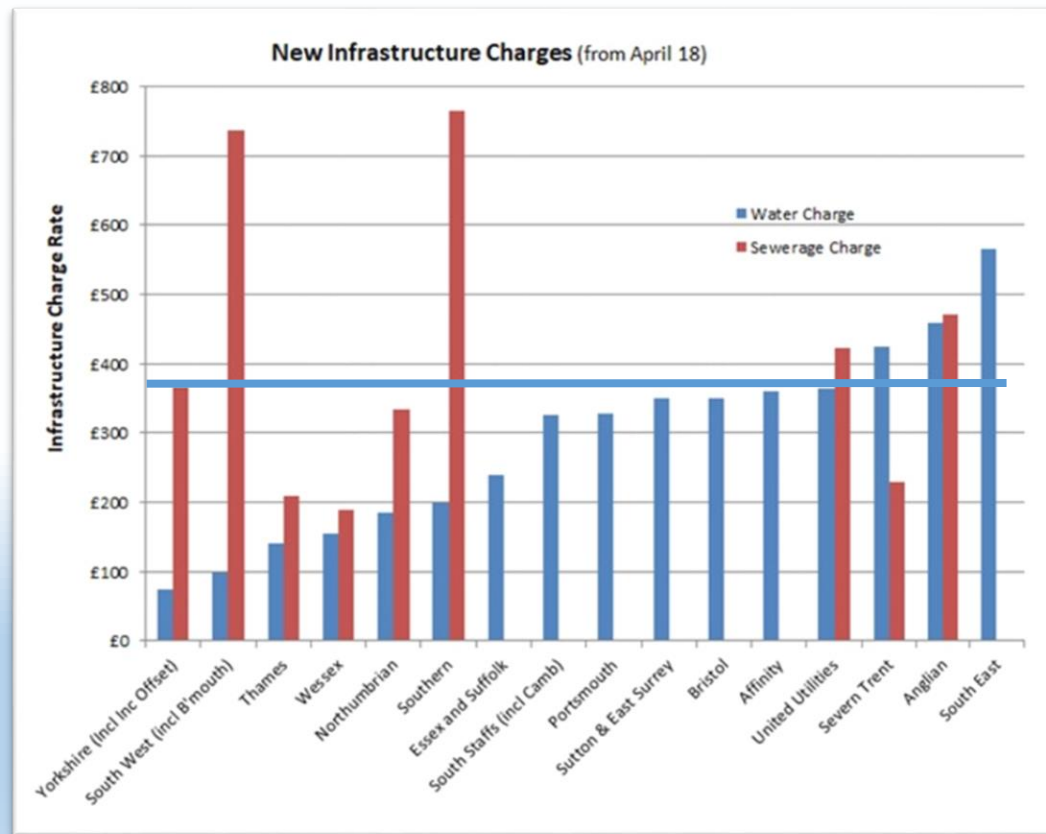
A big win for developers is the new Infrastructure Charge – Why?

- I. Now you can connect to the nearest water main or foul sewer of the same size or greater.
- II. Developers do not have to pay for any modelling.
- III. No offsite reinforcement can be requisitioned, it is now accounted for by the new Infrastructure Charge.
- IV. There has been some significant reductions in both the Water and Sewerage Infrastructure Charges per plot.
- V. Even more reductions are on offer with some Companies for reduced water usage, re-developed sites and SuDS.

The New Infrastructure Charge



The chart below includes the previous infrastructure charge plus offsite reinforcement charges.



The New Infrastructure Charge

The bad news about Infrastructure Charges.

1. Companies have only set them on a yearly basis.
2. You may find a connection to a pre 1991 and post 1991 water mains and foul sewer have different charges.
3. Some WaSC's may still use the Planning System to stop developments being connected to existing foul sewers and get financial contributions using s106 Planning Agreements .
4. The required offsite network reinforcement is a derivative of modelling and therein lies the problem, as there are some major issues with the modelling that Companies undertake.

Pre 1st April 2018 Water Main & Foul Sewer Offsite Reinforcement Charges



If you have paid for any reinforcement before 1st April 2018 there is a probability that one of these pictures applies to you!!!

D-Mex



- PR19 wants the focus on building trust and confidence in the Water and Sewerage sector. For developers this is called D-Mex.
- It aims to incentivise those companies that provide an excellent customer service and there will be penalties for those Companies who do not.
- The excellent will get up to 2.5% of their annual developer services revenue and the “not so excellent” will have penalties of up to 5% of the same.
- How will the good, the bad and the ugly be determined?
 - Customer Satisfaction Surveys against a set of key metrics
- Will apply from April 2020 and is very much work in progress at the moment.

Some other issues to be aware of in the future



- OFWAT Code for Adoption Agreements
- From April 2020 the Income Offset will be deducted from the Infrastructure Charge and there will be no Asset Payment for onsite Water Mains!!!!
- NAV's - is this the way forward? OFWAT seem to think so



**Thank you for listening
&
I will look forward to any
questions you may have.**