

South Staffordshire Water PLC

Board Approval of Developer Charges for 2018-19

Assurance Statement

In approving the charges for 2018-19, the Directors confirm that they comply with the three provisions below. This statement also sets out how the Board has assured itself of each provision.

1. The Company complies with its obligations relating to these Charging Rules.

The Board has considered each of the 48 charging rules for new connection services as set out in Appendix A to ensure that the Company's charges scheme is compliant.

2. The Company has appropriate systems and processes in place to make sure that the information contained in its charges scheme, and the additional information specific to Developer Charges covered by this annex is accurate.

The information contained with the charges scheme has been collated by the Developer Services team who are familiar with the processes and data sources. This has been reviewed by both the Regulation department and members of the Executive team to ensure that it is reasonable.

The Company has considered the assurance requirements using its assurance framework. The outcome of this assessment was as follows:

Likelihood Score	Impact Score	Total Risk Score	Assurance Risk Category
2	4	8	Medium

The likelihood score is medium reflecting that some of the data used has been collated manually and uses projections of future developments.

The impact score is critical reflecting the potential impact of inaccurate data on competition and compliance with the level playing field.

Overall, the assurance risk category has been identified as medium and in line with the Company's assurance framework independent internal assurance has been used to check that the information is accurate.

3. The present balance of charges between Developers and other customers has been broadly maintained.

The Company has set its mains requisition charges such that it maintains the historic balance of charges between developers and other customers. This has been achieved by calculating the historic percentage of the income offset compared to the cost of mains requisitions over the last five years, which is 78.5%. The mains requisition charge, based on the historic average cost per plot of £779, has then been offset by the 78.5% to give a chargeable cost per plot to developers of £167. The equivalent asset payment to self-lay providers is therefore £612.

The infrastructure charge is a cost reflective charge based on the projected costs of off-site reinforcement over the next five years. This has been estimated by reviewing the expected future developments (taken from Local Plans) and current developer enquiries. This total cost has been estimated at £8.4 million, which when divided by the 25,937 expected connections gives a charge of £325 per plot.

Approved by the Board of Directors on 18 January 2018 and signed on its behalf.



Phil Newland
Managing Director
South Staffordshire Water PLC

Appendix A
Confirmation that the Company Complies with its Obligations Relating to
Developer Charging Rules

Charging rule number	Requirement	How the Company complies with the requirement
1-4	Introduction and relevant legislation	No specific requirement
5-6	Definitions of wording in the rules	No specific requirement
7	Undertakers must determine what types of charges covered by these rules may or may not be imposed, and the amount of such charges, in accordance with the principle that changes to charges covered by these rules should only be made after proportionate, timely and effective consultation with groups of persons likely to be significantly affected by the proposed Charging Arrangements (or their representatives) and any other persons the undertakers consider it appropriate to consult.	<p>The Company held two developer forums in November to discuss the new charging rules and the possible options on how they could work. These forums were attended by developers, self-lay providers and NAVs. The outcome of these forums is available on our website here: https://www.south-staffs-water.co.uk/media/2107/ssw-forum-event-summary-nov-2017.pdf</p> <p>http://www.cambridge-water.co.uk/includes/asp/download_file.asp?id=572</p> <p>Following feedback from these forums, the Company published a consultation to ensure the widest possible engagement. This can be accessed here: https://www.south-staffs-water.co.uk/media/2115/developer-services-charging-reform-consultation-15012018-final.pdf</p>
8	Relevant undertakers must publish charges developed under these rules in a single document (the Charging Arrangements). The Charging Arrangements must be published on the undertaker's website and in any other manner the undertaker considers appropriate for the purpose of bringing the Charging Arrangements to the attention of persons likely to be affected by it.	The Company has published its developer charges in a single document on its website and also contacted all stakeholders who either attended the developer forums or responded to the consultation.
9	The maximum amount of any charge that may be imposed by an undertaker under the provisions of	The Company will only charge developers based on the prices contained within its charging arrangements and will not

	<p>the Water Industry Act 1991 covered by these rules shall be the amount set out in, or calculated in accordance with, the Charging Arrangements published by that undertaker. For the avoidance of doubt, the charges and charging methodologies set out in the Charging Arrangements must therefore include any relevant miscellaneous and ancillary costs such as assessment, inspection, design, legal and supervision charges that the undertaker is entitled to recover, unless there is a different legal basis for the recovery of such costs.</p>	<p>include any additional ancillary costs not already set out in the document.</p>
10	<p>The Charging Arrangements must be published no later than two months before the period in relation to which they have effect. Charging Arrangements must be published at least once in every year from 2018 onwards.</p>	<p>The Company's charging arrangements were published on the 1 February 2018, in line with the charging rules.</p>
11	<p>The Charging Arrangements must explain how each charge has been calculated or derived. Where an undertaker determines the applicable charges other than by Fixed Charges, the methodology for the calculation of such charges must be explained clearly in the Charging Arrangements.</p>	<p>The Company's charging arrangements set out how each charge has been calculated and provide a methodology for how any exceptional work would be charged.</p>
12	<p>The Charging Arrangements are to be written and presented in a clear and accessible manner, which takes due account of the varying levels of expertise of all Developers or other customers who may rely on the Charging Arrangements. Undertakers should consider publishing worked examples where this could aid customers' understanding.</p>	<p>The charging arrangements have been reviewed to ensure that they are written in plain English and avoid the use of technical jargon. The Company's second consultation document includes worked examples of different sizes of developments and how these apply to developers, self-lay providers and NAVs. These have been replicated in the final charging arrangements.</p>

13	Charges must be published with such additional information or explanation as is necessary to make clear what services are covered by each charge.	The charging arrangements set out the detail of what service is provided for each charge.
14	Undertakers must publish the charges covered by these rules in such a way that a Developer or other customer can confidently work out a reasonable estimate of the charges payable if they know the relevant parameters of a Development.	The Company has set out a price list of charges in its published charging arrangements which allow developers or other customers to estimate the charges payable for all standard works.
15	The Charging Arrangements must identify which charges are associated with Contestable Work and Non-contestable Work.	The charging arrangements set out which charges are contestable and which are non-contestable.
16	Undertakers must provide a reasonable choice of times and methods of payment of the charges and set these out in the Charging Arrangements.	A number of different payment arrangements are set out including the option to offset future payments where appropriate, for example for Self Lay Providers and NAVs.
17	Rules for small companies	South Staffs is not classed as a small company
18	<p>Relevant undertakers must determine what types of charges may or may not be imposed and the amount of any charges that may be imposed in accordance with the principle that charges covered by these rules should reflect:</p> <p><i>(a) fairness and affordability;</i> <i>(b) environmental protection;</i> <i>(c) stability and predictability; and</i> <i>(d) transparency and customer-focused service.</i></p>	<p>The Company has set charges in accordance with this rule as follows:</p> <p><i>(a) fairness and affordability;</i> The charges have been set to ensure no type of customer is discriminated against irrespective of whether they are a developer, a self-lay provider or a NAV. The Company has set charges to only recover the costs incurred. These charges are based on the current contract rates it has in place with its contractors which were competitively tendered. The Company has set out a number of payment terms to ensure that it provides affordable options.</p> <p><i>(b) environmental protection;</i> The Company is incentivising developers to design and construct their new homes and buildings to be water efficient. The Building Research Institute (BRE) has established a recognised energy</p>

		<p>rating for new developments; Home Quality Mark (HQM) for residential housing or BREEAM for high-rise residential developments. Incentives will be available for new builds to a level of 100 litres per property per day or less.</p> <p><i>(c) stability and predictability;</i></p> <p>The Company has set charges based on the latest projection of development over the next five years. This has been based on Local Plans and current applications from developers.</p> <p><i>(d) transparency and customer-focused service.</i></p> <p>With regards to transparency of charges see charging rules 11 and 12. The Company has ensured that its charges are customer focused by ensuring that the document is easy to understand, allows developers to estimate likely charges without the need to contact the Company or have to wait for a quote and allowing different payment arrangements where applicable.</p>
19	<p>In setting charges in accordance with the present rules, undertakers should take reasonable steps to ensure that the present balance of charges between Developers and other customers prior to the implementation of these rules is broadly maintained. An undertaker may only depart from this general requirement where (and to the extent that) this is rendered necessary by circumstances providing clear objective justification for doing so. Any such justification must be clearly identified in any Charging Arrangements prepared pursuant to these rules.</p>	<p>The Company has set its mains requisition charges such that it maintains the historic balance of charges between developers and other customers.</p> <p>The infrastructure charge is a cost reflective charge which has been set based on the expected level of costs to be incurred on offsite network reinforcement over the next five years. This is based on information on local plans and developer enquiries received.</p>
20	<p>Consistent principles and approaches must be applied to the calculation of charges and when they are payable for different classes</p>	<p>As set out in charging rule 18, the Company has ensured that its charges are fair for different classes of customers.</p>

	of customer. For the avoidance of doubt, this includes the calculation of charges and when they are payable for Non-contestable Work, whether or not a person other than the undertaker is carrying out Contestable Work.	
21	Charges (including any Income Offsets), any Asset Payments and arrangements for when they are each payable must be set in accordance with the principle that they should promote effective competition for Contestable Work.	This is set out in charging rule 18.
22	For the avoidance of doubt, in charges covered by these rules undertakers may recover reasonable administrative expenses and other overheads incurred in discharging any rights or obligations under the relevant provisions of the Water Industry Act 1991.	The Company's charges include the reasonable recovery of costs for administration and other overheads. No additional charges on top of those already included in its charging arrangements will be levied.
23	Each undertaker shall set out in its Charging Arrangements 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 (together, "Requisition Charges").	The charging arrangements include charges for the provision of requisitioned mains. As we are a Water only Company it does not include charges for the provision of requisitioned public sewers.
24	These charges are concerned with the cost to the undertaker of providing Site Specific infrastructure necessary for the provision of a Water Main and/or Public Sewer.	No specific requirement.
25	In relation to Requisition Charges, an undertaker: a) must provide for the option of upfront Fixed Charges in respect of any work carried out by the undertaker; and b) may also provide for other alternative methods for calculating	The Company has clearly set out the charges for mains requisitions which are based on a cost per plot.

	charges but, where it does so, each alternative.	
26/27	<p>Requisition Charges must relate to the costs of providing the requisitioned Water Main and/or Public Sewer. Such charges may not include any amount for Network Reinforcement costs.</p> <p>Any Requisition Charges imposed by an undertaker:</p> <p>a) must relate only to Site Specific Work carried out and costs incurred by the undertaker in order to meet its duties under sections 41(1) or 98(1) of the Water Industry Act 1991; and</p> <p>b) must not relate to work needed or desired to modify or enhance existing network infrastructure in order to address pre-existing deficiencies or to enhance network flexibility, in capacity or capability.</p>	The requisition charge is only based on the cost of on-site mains. Any offsite reinforcement is covered within the calculated infrastructure charge.
28	Where an undertaker provides a Water Main or Public Sewer pursuant to a requisition and, in so doing, decides to increase the capacity of pipes or other infrastructure beyond that which is needed to meet the undertaker's duty under section 41(1) or section 98(1) of the Water Industry Act 1991, the costs of this work shall, if this increases the costs of the work, be apportioned so that the person making the requisition only pays costs which are in proportion to the particular capacity required by his or her requisition.	The Company confirms that any additional capacity beyond that required to meet the duties under the Water Industry Act for a mains requisition would not be charged to the developer.
29	In setting Requisition Charges an undertaker may (but is not required to) provide for an Income Offset.	The Company provides an income offset against the requisition charges for both developers and Self Lay Providers. There is also provision for an income offset against the infrastructure charges for NAVs to ensure a level playing field.
30	As regards the methodology for the	

	<p>calculation of Income Offsetting arrangements:</p> <p>a) Each undertaker has discretion as to the methodology to be applied to calculate an Income Offset. Such methodology must, however, be clearly explained in the applicable Charging Arrangements;</p> <p>b) In addition as regards Water Mains, the methodology for the calculation of any Income Offset applied in respect of requisitioning charges must be equivalent to the methodology applied in calculating any Asset Payment an undertaker may make in respect of the adoption of Water Mains and</p> <p>c) Nothing in these rules prevents an undertaker from providing for Income Offsetting arrangements in relation to the requisition of Public Sewers if it does not make any Asset Payments in respect of the adoption of Sewers. But if the undertaker does make Asset Payments in respect of the adoption of Sewers or Lateral Drains then the methodology for the calculation of any Income Offset applied in respect of Requisition Charges must be equivalent to the methodology applied in calculating any such Asset Payment.</p>	<p>a) The methodology for the calculation of the income offset is set out in the charging arrangements.</p> <p>b) The income offset is calculated on an equivalent basis for both requisitioning charges and for asset payments.</p> <p>c) As a Water only Company, this rule is not applicable.</p>
31-34	Charges for the Provision of Lateral Drains, the Connection of Water Mains and Communications with Public Sewers and for Ancillary Works.	These rules refer to sewer connections and so are not applicable to a Water only Company.
35-36	Each undertaker shall set out in the applicable Charging Arrangements the charges to be imposed and the Asset Payments, if any, to be made in respect of an agreement under section 51A or section 104 of the Water Industry Act 1991.	The charging arrangements for asset payments are set out in the Company's charges document.

	<p>36. These charges are concerned with the cost of Site Specific Work necessary as part of the adoption or connection of a Water Main, Communication Pipe, Public Sewer and/or Lateral Drain. Such charges may not include any amount for Network Reinforcement costs.</p>	
37	<p>Any charges imposed by an undertaker in respect of an agreement under section 51A or section 104 of the Water Industry Act 1991:</p> <p>a) must relate only to Site Specific Work carried out and costs incurred by the undertaker in order to meet its duties under such an agreement; and</p> <p>b) must not relate to work needed or desired to modify or enhance existing network infrastructure in order to address pre-existing deficiencies, in capacity or capability, unrelated to requirements associated with the agreement.</p>	<p>Similar to rule 28 for mains requisitions, the asset payment including any non-contestable charges will only cover the cost in relation to the needs of the site. Any work to resolve existing issues of capacity will not be included.</p>
38	<p>Insofar as section 51A agreements are concerned, water undertakers shall provide for Asset Payments where the undertaker calculates the requisition charge for a Water Main to include an Income Offsetting arrangement.</p>	<p>Both the requisition charge and the asset payment include the provision of an income offset. For NAVs, this offset can be made against the relevant infrastructure charge payable.</p>
39	<p>Insofar as section 104 agreements are concerned, sewerage undertakers may provide for Asset Payments for the adoption of a Sewer.</p>	<p>As a Water only Company this rule is not applicable.</p>
40	<p>Where an undertaker provides for Asset Payments in respect of the adoption of a Water Main pursuant to an agreement under section 51A of the Water Industry Act 1991, or the adoption of a Sewer pursuant to an agreement under section 104 of</p>	<p>See rule 30 and rule 38.</p>

	<p>the Water Industry Act 1991, the calculation of any Asset Payment must be equivalent to the methodology applied in calculating an Income Offset applied in respect of Requisition Charges.</p>	
41	<p>Undertakers shall not provide for Asset Payments for the adoption of a Communication Pipe or Lateral Drain.</p>	<p>The Company does not provide asset payments for communication pipes.</p>
42	<p>Each undertaker must set out in its Charging Arrangements its method(s) for calculating the charges imposed by that undertaker pursuant to section 185(5) of the Water Industry Act 1991 (“Diversion Charges”). In relation to Diversion Charges an undertaker:</p> <p>a) may provide for the option of upfront Fixed Charges in respect of any work carried out by the undertaker; and</p> <p>b) may also provide for other alternative methods of calculating charges but, where it does so, each alternative method must be explained clearly in the Charging Arrangements.</p>	<p>The Company has set out its methodology in relation to mains diversions.</p>
43	<p>Charges levied pursuant to section 185(5) must be calculated by reference to the principle that the undertaker is only entitled to recover costs reasonably incurred as a result of complying with the duty imposed by section 185(1) of the Water Industry Act 1991.</p>	<p>The Company will only charge for costs reasonably incurred and will make an appropriate adjustment for any ‘betterment’ or ‘deferment’ of the new main.</p>
44-46	<p>An undertaker is allowed to require security prior to commencing work, whether in the form of a sum deposited with the undertaker or otherwise:</p> <p>a) under section 42(1)(b), 47(2)(a), 99(1)(b), 101B(3A), 107(3)(b)(ii) or 185(4); or</p>	<p>The Company’s approach is set out in its charging arrangements.</p>

	<p>b) for the purposes of any charges imposed under an agreement under section 51A or section 104 of the Water Industry Act 1991.</p> <p>The type and amount of security should not be unduly onerous, taking into account the risk to be borne by the undertaker in carrying out the work in question. Where undertakers require security, the type and amount of security and the payment of interest on the security should reflect the general charging principles set out in paragraph 18.</p> <p>The undertaker must clearly set out requirements for security in relation to any charges to be applied in its Charging Arrangements.</p>	
47-48	<p>Undertakers are not required to provide for the option of upfront Fixed Charges in accordance with paragraphs 25 (Requisition Charges) of these rules, or to comply with paragraph 14, where, and to the extent that, it would be unreasonable to expect an undertaker to do so (having had regard to the practicality of setting a cost-reflective upfront Fixed Charge and the benefit to customers of producing such a charge).</p> <p>Where paragraph 47 applies, an undertaker must set out, and explain clearly, in its Charging Arrangements the alternative method or methods that will apply for calculating charges.</p>	<p>The Company has set out in its charging arrangements the method that will apply for charges which are unusual or difficult to estimate.</p>