

Statement of Board Assurance provided to the Water Services Regulation Authority 2019-20 charges for new connection services

31 January 2019



from
**Southern
Water** 



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Statement of Board Assurance provided to the Water Services Regulation Authority – 2019-20 charges for new connection services

The Company, under the direction of the Board, has undertaken a thorough process of internal and external assurance with regard to the setting of charges for new connection services for the 2019-20 charging year. As a result of the assurances it has received, the Board has satisfied itself to the best of its ability that:

- i. the Company complies with its obligations relating to Ofwat’s Charging Rules for New Connection Services;
- ii. the Company has appropriate systems and processes in place to make sure that the information contained in the Charging Arrangements document, and the additional information covered by the annex to Ofwat’s Charging Rules for New Connection Services, is accurate; and
- iii. the present balance of charges between Developers and other customers is broadly maintained.

We provide information on our compliance with Ofwat’s Charging Rules for New Connection Services rules in the Annex to this assurance statement.

Ian McAulay
Chief Executive Officer

Paul Sheffield
Senior Independent Non-Executive Director

Annex to new connections services charges assurance statement – compliance with Ofwat’s Charging Rules for New Connection Services

Rule no.	Charging rule	Compliance statement
1-6	Introduction and Interpretation	N/A
7	Consultation	
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>Compliant.</p> <p>For 2019-20 we conducted a multi-stage engagement and feedback approach. This included:</p> <ul style="list-style-type: none"> • a general consultation distributed to developers, stakeholders and regulators on our approach to updating our charges for 2019-20; • discussions with CCWater on their initial review and perceptions of our Charging Arrangements post release and implementation; • face-to-face meeting and subsequent telephone conversation with Ofwat with specific feedback on our Charging Arrangements. <p>We adapted our approach for our water site-specific charging update following feedback from stakeholders and our Developer Services customers who sought a greater focus on price reflectivity. Examples of how we have incorporated feedback from stakeholders is provided in a number of the compliance statements below. CCWater confirmed in writing on 8 January 2019 that, in the area of New Connection Charging, they are broadly content with progress.</p>
8-16	Publication and Transparency	
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.	<p>Compliant.</p> <p>Our charges have been published in our Charging Arrangements document. This document has been published on our website.</p>

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Rule no.	Charging rule	Compliance statement
9	The maximum amount of any charge that may be imposed by an undertaker under the provisions of 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.	Compliant. Our charges represent the maximum charge for the specified activities. These include all necessary assessment, inspection, design, legal and supervision charges that we are entitled to recover.
10	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.	Compliant. Our Charging Arrangements document was published by the deadline of 1 st February 2019. This is our annual update following the original Charging Arrangements document that was published on 31 st January 2018.
11	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.	Compliant. Our Charging Arrangements document details how the charges have been derived. The methodology for determining charges that are not fixed are clearly explained in the Charging Arrangements document. For 2019-20 we have improved the detail of how we calculated and derived our various charges following feedback from stakeholders.



Rule no.	Charging rule	Compliance statement
12	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.	Compliant. Our Charging Arrangements has been developed and presented in a manner that all our Developer Services customers will be able to comprehend, with appropriate levels of detail and explanation to reflect the knowledge and understanding of any class of Developer Services customer who would request any given service. For our 2019-20 update we sought feedback from stakeholders and regulators who generally felt that the Charging Arrangements document was clear and accessible. Publication of worked examples were highlighted as an opportunity for improvement. We have developed examples of these for 2019-20.
13	Charges must be published with such additional information or explanation as is necessary to make clear what services are covered by each charge.	Compliant. Each section within our Charging Arrangements document details the services included within the charge to allow the Developer Services customer to build a clear picture of the charges applicable.
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.	Compliant. The design of our charges allows our Developer Services customers to work out the charges payable from the earliest stages of a development proposal.
15	The Charging Arrangements must identify which charges are associated with Contestable Work and Non-contestable Work.	Compliant. Our Charging Arrangements document clearly defines contestable and non-contestable activities and associated charges.
16	Undertakers must provide a reasonable choice of times and methods of payment of the charges and set these out in the Charging Arrangements.	Compliant. For 2019-20 our external assurance highlighted areas for improvement when clarifying times and methods of payments for the various charges detailed within our Charging Arrangements document. These have descriptions have been strengthened in the 2019-20 revision.

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Rule no.	Charging rule	Compliance statement
17	Small companies	N/A
18	General charging principles	
18	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:	
(a)	fairness and affordability;	Compliant. The majority of our charges are fixed and visible up-front to our Developer Services customers. We will ensure that across individual charging areas the broad balance of contribution is maintained, so that affordability is not unduly impacted as the new charging rules embed. For many areas of work that are contestable, Developer Services customers will also have a benchmark cost to enable them to look at alternative methods of provision.
(b)	environmental protection;	Compliant. Our Water Infrastructure Charge has a potential discount for water efficient development approaches. See our Charges Scheme Assurance Statement.
(c)	stability and predictability;	Compliant. The majority of our charges are fixed and published up-front, providing for a high degree of predictability. Water related charges are predominantly based on supplier costs and rates, and should therefore be stable. We are currently reviewing our supply chain options ahead of AMP7 to secure similar back-to-back arrangements for wastewater charges. This exercise will secure equivalent long-term stability.



Rule no.	Charging rule	Compliance statement
(d)	and transparency and customer-focused service.	Complaint. Our fixed charges provide a high degree of certainty for both our Developer Services customers and ourselves. This is an enabler for improved customer service in that charges are clear, transparent, and easier to administer. This, aligned with wider improvement activities, should result in a significant improvement in our Developer Services customer experience.
19-22	<i>Principles for determining the nature and extent of all charges covered by these rules</i>	
19	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.	Compliant. Within each charging area we have sought to broadly maintain the current balance of charges between Developers and other customers. Please see the Annex.
20	Consistent principles and approaches must be applied to the calculation of charges and when they are payable for different classes 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.	Compliant. Our charges are consistent for all types of Developer Services customer where appropriate. Charges for non-contestable activities are generally consistent regardless of who undertakes contestable elements of work. There are some exceptions to this rule; for example, Self-Lay Water Connections application fees differ from the application fees applied to requisitioned connections in accordance with the recognition that, as established through Ofwat determinations, the charges should reflect the nature of the services provided to different classes of Developer Services customers. Our charges have been built on the principle that they do not discriminate against any class of Developer Services customer whilst also considering appropriate legislation and determinations



Rule no.	Charging rule	Compliance statement
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.	Compliant. Our charges are, wherever possible, based on supplier information and therefore representative of the costs that are incurred directly in the execution of works. Where that has not been possible we are reviewing our AMP7 supply chain approach to generate increased alignment, particularly in the wastewater site-specific (Requisitions) area. For water mains, the methodology for the calculation of the Income Offset applied in respect of requisitioning charges is equivalent to the methodology applied in calculating any Asset Payment we will make in respect of the adoption of Water Mains. Our Charging Arrangements document also detail the range of delivery options available to our Developer Services customers for different types of work.
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.	Compliant. Our charges include appropriate administrative costs and overheads as allowed for under the provisions of the Water Industry Act 1991.
23-30	Charges for the requisition of water mains and public sewers	
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 ").	Compliant. Our Charging Arrangements document details the charges as required.
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.	Compliant. Our charges are directly relevant to site-specific items.



Rule no.	Charging rule	Compliance statement
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;	Compliant. Our charges are generally based upon upfront fixed charges, although there are some exceptions to this approach as permitted under these Charging Rules. Where exceptions may apply, full details, along with examples, are included in our Charging Arrangements.
b)	and may also provide for other alternative methods for calculating charges but, where it does so, each alternative method must be explained clearly in the Charging Arrangements.	Compliant. For the areas where it is impractical to offer upfront fixed charges, the mechanism for calculating charges is clearly explained in our Charging Arrangements document.
26	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.	Compliant. The charges that have been developed relate to the provision of site-specific water mains and sewers only. Any network reinforcement will be funded via Infrastructure Charges under the new charging rules.
27	Any Requisition Charges imposed by an undertaker:	
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;	Compliant. Our Requisition charges only relate to site-specific work carried out under sections 41(1) or 98(1) of the Water Industry Act 1991
b)	and 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, unrelated to requirements associated with the requisition.	Compliant. Our charges will not be used to address pre-existing deficiencies or to enhance network flexibility, in capacity or capability, unrelated to requirements associated with the requisition.



Rule no.	Charging rule	Compliance statement
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.	Compliant. We will only charge our Developer Services customers requesting a requisition the charges that relate to the capacity required by their requisition. Any capacity increases we choose to implement that is over and above the Developer Services customer's need will be funded through alternative sources. This could include our own funds in the case of network enhancement work, funds from the Infrastructure Charge funding source for proactive network reinforcement, or cost sharing exercises with adjacent developers.
29	In setting Requisition Charges an undertaker may (but is not required to) provide for an Income Offset.	Compliant. We have maintained an income offsetting approach to help maintain the current balance of contributions.
30	As regards the methodology for the calculation of Income Offsetting arrangements:	
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;	Compliant. Our mechanism for calculating the Income Offset has been set out within our Charging Arrangements document.
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	Compliant. In order to promote effective competition, the mechanism for calculating Asset Payments is the same as that employed to calculate the Income Offset.
c)	and 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.	Compliant. We continue to offer an income offset on sewer requisitions in order to maintain the current broad balance of contributions.



Rule no.	Charging rule	Compliance statement
31-34	Charges for the provision of lateral drains, the connection of water mains and communications with public sewers and for ancillary works	
31	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 (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) (together, "Connection Charges").	Compliant. A suite of charges has been published for Connection Charges in our Charging Arrangements document.
32	In relation to Connection Charges an undertaker:	
a)	must provide for the option of upfront Fixed Charges in respect of any work carried out by the undertaker;	Compliant There are fixed upfront charges for water connections and the majority of wastewater connections. We have chosen to cap the depth at which we provide fixed wastewater charges for our Developer Services customers as the risk due to ground conditions becomes very difficult to consistently assess. This would lead to an unduly high fixed price being offered to Developer Services customers, breaching the principle of fairness and affordability. We will provide a site-specific estimate for deep sewer connections that is appropriate, fair and not unduly risk averse. It is very rare that we construct wastewater connections on behalf of Developer Services customers as these are generally constructed by directly by customers utilising their own contractors.



Rule no.	Charging rule	Compliance statement
b)	and may also provide for other alternative methods for calculating charges but, where it does so, each alternative method must be explained clearly in the Charging Arrangements.	Compliant. See a) above.
33	Any Connection Charges imposed by an undertaker must relate only to Site Specific Work carried out and costs incurred by the undertaker pursuant to sections 45(1), 46(1), 98(1A), 101B or 107(1) of the Water Industry Act 1991.	Compliant. Our Connection Charges only relate to sections 45(1), 46(1), 98(1A), 101B or 107(1) of the Water Industry Act 1991
34	Undertakers shall not provide for Income Offsets in setting Connection Charges.	Compliant. We do not offer Income Offsets in relation to Connection Charges.
35-41	<i>Charges for asset payments in respect of an Agreement under Section 51A or 104 of the Water Industry Act 1991</i>	
35	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.	Compliant. Our Charging Arrangements document details the charges to be imposed and the Asset Payments, to be made in respect of an agreement under section 51A or section 104 of the Water Industry Act 1991

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Rule no.	Charging rule	Compliance statement
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.	Compliant. The charges only relate to site-specific works. Network Reinforcement will be funded through the Infrastructure Charge
37	Any charges imposed by an undertaker in respect of an agreement under section 51A or section 104 of the Water Industry Act 1991:	
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;	Compliant: The charges imposed only relate to site-specific works and the costs associated with these agreements
b)	and 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.	Compliant. Any work 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, will be funded from other sources.
38	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.	Compliant. In order to promote effective competition, we continue to offer Asset Payments. The mechanism for calculating Asset Payments is the same as that employed to calculate the Income Offset.
39	Insofar as section 104 agreements are concerned, sewerage undertakers may provide for Asset Payments for the adoption of a Sewer.	Compliant: We did not historically offer any Asset Payment in relation to Section 104 agreements. This position continued following the new charging arrangements coming into effect on 1 April 2018.
40	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 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.	Compliant. In order to promote effective competition, the mechanism for calculating Asset Payments for Water Mains is the same as that employed to calculate the Income Offset.



Rule no.	Charging rule	Compliance statement
41	Undertakers shall not provide for Asset Payments for the adoption of a Communication Pipe or Lateral Drain.	Compliant. We do not provide for Asset Payments for the adoption of a Communication Pipe or Lateral Drain.
42-43	<i>Charges for diversions of pipes and other apparatus under Section 185 of the Water Industry Act 1991</i>	
42	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 (“ Diversions Charges ”). In relation to Diversions Charges an undertaker:	
a)	may provide for the option of upfront Fixed Charges in respect of any work carried out by the undertaker;	Compliant. For the charging year commencing 1 April 2019 we will not offer fixed upfront charges for Diversions Charges. We will keep this under review for future charging years.
b)	and 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.	Compliant. We detail the method that will be employed for the calculation of Diversions Charges in our Charging Arrangements document.
43	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.	Compliant. Charges levied will only relate to costs reasonably incurred as a result of complying with the duty imposed by section 185(1) of the Water Industry Act 1991.



Rule no.	Charging rule	Compliance statement
44-46	Security/deposit arrangements	
44	An undertaker is allowed to require security prior to commencing work, whether in the form of a sum deposited with the undertaker or otherwise:	
a)	under section 42(1)(b), 47(2)(a), 99(1)(b), 101B(3A), 107(3)(b)(ii) or 185(4);	Compliant. We require security prior to commencing work.
b)	or for the purposes of any charges imposed under an agreement under section 51A or section 104 of the Water Industry Act 1991.	Compliant. We require security prior to commencing work.
45	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.	Compliant. The security required will not be unduly onerous. The type and amount of security, and the payment of interest on the security, will reflect the general charging principles (set out in rule 18). In general, our security and deposit requirements have not changed as a result of the implementation of these rules.
46	The undertaker must clearly set out requirements for security in relation to any charges to be applied in its Charging Arrangements.	Compliant. Our requirements for security in relation to any charges to be applied in our Charging Arrangements document will be clearly set out and documented in the applicable guidance notes and application forms, which will be accessible via our website. A summary will also be included within our Charging Arrangements document for ease of use for our Developer Services customers.



Rule no.	Charging rule	Compliance statement
47-48	Exception from requirements to provide fixed charges	
47	<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>Compliant.</p> <p>In this regard we worked with Water UK and adopted the principal arising from this work. Consequently, where exceptions from providing a fixed charge may apply these are fully detailed, along with examples, in our Charging Arrangements document, so that customers fully understand those areas where exceptions to fixed charges may apply. The key areas that exceptions apply are:</p> <ol style="list-style-type: none"> a. The technical complexity of the work is high, or the type of work required is bespoke or carried out infrequently. b. Third parties can legitimately recover their costs from companies and there is not a reasonable level of certainty of those costs in advance of connection work being undertaken. c. Third parties have rights to protect their assets or interests in a way that affects the construction method. The third parties' requirements are unknown upfront. d. The work is to be carried out on or close to land with particular environmental, historical or archaeological characteristics. These characteristics mean that specific measures are required during construction or reinstatement. The details of these measures may not be fully defined in advance of construction.
48	<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>Compliant.</p> <p>The mechanism for calculating charges in these circumstances is clearly detailed within our Charging Arrangements document. These are where the circumstances detailed in Rule 47 occur, and we are unable to provide a fixed upfront charge for the entire works. In these circumstances we will provide a budget estimate comprising:</p> <ol style="list-style-type: none"> i. Indicative or estimated charges for the elements of works affected by the circumstances above, and; ii. Fixed upfront charges for the elements of the work where there is sufficient certainty and it is reasonable to do so.

Annex to new connections services charges assurance statement – Approach to broadly maintaining the present balance of charges between Developers and other customers

Maintaining the broad balance of charges

A key requirement of the Charging Rules for New Connection Services is to broadly maintain the balance of charges between developers and other customers. In turn, this requirement has been key to informing our approach to setting charges under the new rules. Our plans on how we plan to achieve this are detailed below.

For 2019-20 we have proposed a stable overall approach to our charges with targeted improvements to particular charges to improve accuracy. We chose to do this for two main reasons:

- The new charging approach is new to Developer Services customers and stakeholders and we feel it is appropriate that the stability principle is paramount as Developer Services customers and stakeholders adapt to the new approach.
- A new ruleset for Connection Charging is due to be issued by Ofwat in early 2019 with details on how the income offset is to be treated from 2020. This will result in significant change to our approach.

We feel that, on balance, 2020-21 is a more appropriate charging year for significant change as the new rules will be published and stakeholders and Developer Services customers will be more familiar with the new charging approach. Significant change in 2019-20, with further change likely being necessary in 2020-21, would mean three years of continuous change for our Developer Services customers, stakeholders and internal team members. We feel that this would be contrary to the principle of stability and predictability.

Water

New property connections

Under the historic charging regime we recovered 100% of reasonably incurred costs. We propose to maintain this into the future (although at overall programme level), and therefore there is no change under our new approach.

Site-specific water mains

Analysis of our historic requisition projects (pre-new charging) indicated a typical income offset of circa 88%. This is determined by a complex calculation that we changed to meet the new rules. The approach that we have selected has had an impact on our Developer Services customer contributions with most now paying zero fee. This is primarily due to the removal of the build schedule 'taper' from the income offsetting calculation. At half year we had received approximately £80k of income. This would run rate would result in a circa 60% reduction in contributions to construction elements. As income was comparatively low in this area to start with due to the high income offset component, we believe our approach is consistent with the requirement to broadly maintain the present balance of charges between Developers and other customers.

Network Reinforcement

Analysis of our historic spend levels indicate that the historic infrastructure charge was covering the costs of water network reinforcement. The Developer Services customer contribution is essentially 100%. Under the

new rules the Infrastructure Charge can only be set at a level that covers the costs of network reinforcement over a rolling 5-year period.

At the end of the 2018 calendar year, we are receiving more income than we are expending on network reinforcement. We have however identified a number of sites that require network reinforcement and are working with our Developer Services customers to confirm the timings of the required capacity improvement. At this stage we propose to retain the same charge and review for the 2020-21 charging year when wider changes are required. Any decrease in the infrastructure charge would need to be balanced by an increase in other areas in order to maintain the balance of contributions at water price control level. The only opportunity to do this is through modifying the income offsetting approach which we do not believe appropriate this year, as discussed above.

We will review our overall approach for water charges for the 2020-21 charging year following the update to the new connection charging rules. This will give an opportunity to consider changes 'in the round' and ensure that the overall balance of contribution at water price control remains balanced.

Wastewater

New lateral property connections

Under the historic charging regime we recovered 100% of reasonably incurred costs. We propose to maintain this into the future, and therefore there is no change under our new approach.

Site-specific sewers

Analysis of our historic requisition projects (pre-new charging) indicated a typical income offset of 62%. This is determined by a complex calculation that we changed to meet the new rules. The approach that we have selected may have a small impact in the region of 8%, meaning the Developer Services customer contribution, on a like for like basis, would in future be in the region of 70%. We believe this is consistent with the requirement to broadly maintain the present balance of charges between Developers and other customers. Our initial assessment is that the types of projects that are now being delivered as requisitions are much lower in number and simpler in scope meaning a 'like for like' comparison is difficult at this stage.

Network Reinforcement

Analysis of our historic spend levels indicate that the current Wastewater Infrastructure Charge did not cover the costs of network reinforcement. To broadly maintain the balance of contributions we need to include external site-specific contributions through the current requisitions approach. For requisitions that include an element of network reinforcement work the percentage through AMP6 has been 35%.

The total Developer Services customer contribution levels equate to:

Infrastructure Charge income + Network Reinforcement Requisition income

To achieve a per property charge, this is simply divided by the number of properties over the period (the five year period of AMP6 has been selected for the purposes of this exercise). Although the higher Infrastructure Charge does allow for the balance of contributions to be maintained, it does not cover the full cost of our Network Reinforcement programme. A contribution still needs to be made by existing bill payers via the wholesale wastewater price control. The overall balance of contribution is approximately 73% Developer Services customer contributions, 27% wider Southern Water customer base.