



## Wholesale Policy – Capital Contributions (Infrastructure Enabling Bulk Services to Other Incumbent Water Companies)

### 1. Introduction

#### 1.1. The Wholesale Policy Suite

This document forms part of our wholesale policy suite which aims to ensure that we provide all our wholesale services on a fair and equivalent basis. Other documents that include reference to charges for creating new infrastructure include our:

- [Developer Charging Arrangements](#): these set out our charges in respect of those activities regulated by Ofwat’s [Charging Rules for New Connection Services \(English Undertakers\) from April 2020](#) as well as our infrastructure charges, which are regulated by Ofwat’s [Charges Schemes Rules from April 2020](#);
- [Wholesale Charges Schedule](#): these set out our charges to retailers, which are regulated by Ofwat’s [Wholesale Charging Rules](#);
- [NAV Charging Arrangements](#): these set out our charges to new appointees for supplies of water or sewerage services in bulk – they are not currently regulated by any charging rules, although Ofwat has power to publish such rules in future;
- [Wholesale Policy – Capital Contributions \(Infrastructure for Non Domestic Purposes\)](#): this sets out how we charge for new infrastructure built to accommodate the supply of trade water or the removal of trade effluent.

#### 1.2. The Purpose of this Document

From time to time, in order to facilitate such a supply or such sewerage services, new infrastructure linking Anglian Water’s network to the other company’s network may be required. It may also be necessary to upgrade Anglian Water’s network upstream of any new connection, or even its treatment facilities. Sometimes this infrastructure can be substantial. This section of our incumbent charging arrangements relates to:

- (i) the capital contribution that the other water company must make in respect of that infrastructure; and
- (ii) how infrastructure charges will be dealt with.

### 2. Developer and NAV Charging

When constructing infrastructure for developers, our charges for that service follow developer charging rules. A capital contribution is payable and this is reflective of the work involved where capital costs are incurred in carrying out site-specific work, meaning work on the developer’s side of the point of connection. It is not payable in respect of network reinforcement, meaning work on Anglian Water’s side of the point of connection.

Network reinforcement is funded via “infrastructure charges” paid by developers each time a property is connected to Anglian Water’s network. Infrastructure charges are calculated by reference to all network reinforcement within the Anglian Water region over a five year period. In other words, network reinforcement costs are “socialised” into an average unit charge.

When constructing infrastructure for NAVs, we follow the same principles. Because NAVs compete with Anglian Water within its area, and invariably need water and sewerage services from Anglian Water to do so, our charges to NAVs follow the same principles. In this way, there is a “level playing

field” between NAVs and Anglian Water when competing to serve the development in question.

However, we have concluded that it is not appropriate for us to charge another incumbent in the same way because:

- (i) Anglian Water is not competing with the other incumbent to supply the end-users.
- (ii) The end-users are outside Anglian Water’s appointed area, and so there is a conundrum in the application of the infrastructure charges. The infrastructure charges that Anglian Water sets must reflect network reinforcement costs in its region. But the infrastructure charges that the other water company sets (and may collect from its end users) must reflect network reinforcement costs in its own region. The two differ, and this means that either Anglian Water’s infrastructure charge revenue is incorrect, or (where Anglian Water’s infrastructure charges exceed the other water company’s) the other water company must pay infrastructure charges which it cannot entirely recover from developers in its area.

### **3. Definitions**

#### **3.1. Capital Contributions**

A capital contribution is payable by where capital costs are incurred in providing infrastructure for the purposes of providing new or additional water supply and/or sewerage services to another water company. It is not payable to the extent that the capital costs have already been recovered from an existing development or applicant or covered by funding in the Final Determination.

#### **3.2. Definition of “Infrastructure”**

Capital contributions are required to the extent that capital costs are expended in providing infrastructure in respect of the following, in order to facilitate water supply or sewerage services to another water company:

- our water supply network
- our sewerage network
- our water resources facilities;
- our water treatment works;
- our sewage treatment works; and
- our sewage disposal infrastructure.

#### **3.3. Definition of “Incumbent”**

An “incumbent” is a term used regularly by Ofwat. It simply means a company that has held its appointment as a water or sewerage undertaker (under what is now section 6 of the Water Industry Act 1991) since 1 September 1989. The term would theoretically extend to any company having a replacement appointment of the whole or a substantial part of that undertaking (in accordance with section 7 of that Act). It is not intended to include a NAV as that term is currently understood.

### **4. Principles of these Charging Arrangements**

#### **4.1. No Discount Applied to Charges**

In line with Developer Charging Arrangements (which must in turn comply with Ofwat’s rules), a discount is no longer given against charges based on the cost of constructing the new infrastructure for domestic purposes (whether water supply or sewerage). Hence, developer requisition charges are based on 100% of the construction cost, there are no longer asset payments to self-lay operators, and therefore also no equivalent discount or asset payment for NAVs. So:

- for requests by other incumbents for Anglian Water to provide new water mains or public sewers, whether for domestic or non-domestic purposes between Anglian Water’s current network and the boundary of the other incumbent’s appointed area (including the new connection itself), we

- will not discount the charges;
- if the other incumbent wishes to construct such infrastructure itself and offer it for adoption by Anglian Water, we will make no asset payment; and.
- if the other incumbent wishes to construct such infrastructure itself to remain vested in it, we will make no asset payment.

#### 4.2. No Fixed Charge Methodology

Also in accordance with Ofwat's rules, our Developer Charging Arrangements provide for a fixed charge calculation in respect of requisitions of new infrastructure for domestic purposes, to enable developers to calculate charges up-front. However, we do not offer the fixed charge calculation in respect of infrastructure at the request of other incumbents, since:

- the rates provided in the tables set out in the Developer Charging Arrangements are predicated on known or projected development within our region;
- the activities required to build infrastructure to supply other incumbents with services are difficult to predict, due to its complexity; and
- given that the overall charges cannot be known, the strategic objective of providing an up-front figure cannot be achieved in any event.

Accordingly, the charges will be matched to the costs of construction by way of a reconciliation, once the costs are known. The bulk agreement will require a balancing payment against any payments made under paragraph 4.3.

#### 4.3. Up-front payment

Where the works are by nature of their size or complexity likely to attract substantial charges, or likely to take a long time, the bulk agreement may provide for some or all of the charges to be paid in advance. It is stressed that this is not because there is any doubt about the ability of another incumbent to pay: it is merely to alleviate any cash-flow concerns involved in providing for the other incumbents needs.

#### 4.4. Network Reinforcement and the Infrastructure Charge

There are two ways that funding network reinforcement is approached in the water industry.

- (i) Developer charging rules prohibit the costs of network reinforcement being added to charges for requisitions for domestic purposes. Instead, these are socialised into our infrastructure charge, details of which can be found in part K of our new connections (developer) charging arrangements. We apply the principles of the infrastructure charge in exactly the same way, whether the application is by a developer under sections 41 and 55, by a developer with its retailer under section 66A, or by a NAV under sections 40A and 110B of the Act.
- (ii) On the other hand, where we supply infrastructure for our own customers' non-domestic purposes (as understood from sections 117 and 219 of the Water Industry Act 1991), we charge for all network reinforcement consequent on that provision and make no infrastructure charge.

Following a review of our policy in respect of the provision of infrastructure to other incumbents, we recognised that taking the approach in (i) has led to difficulties: whereas our own published infrastructure charge represented the socialised costs of network reinforcement over five years in *our* region, the other incumbent's published infrastructure charge represented the socialised costs of network reinforcement over five years *its own* region. Given that the network reinforcement cost would be incurred in respect of our region, but the charges that could be recovered would reflect network reinforcement costs in the other incumbent's region, then assuming these figures are different, taking the approach in (i) results in a conundrum. Applying a charge equal to our infrastructure charges would mean the other incumbent suffered an inability to recover charges

according to costs; applying a charge equal to the other incumbent's infrastructure charges would mean that we would suffer an inability to recover charges according to costs.

We have therefore decided to take the approach in (ii). All costs of creating infrastructure required to provide the service in question to the other incumbent will form the basis of a charge in accordance with paragraph; and it will make no difference whether:

- the end-users' purpose is domestic or non-domestic;
- the end-users' premises are household or non-household;
- the infrastructure is upstream or downstream of any new connection point; nor
- the infrastructure forms part of any of the elements set out in paragraph 3.2

#### **4.5. Maintaining headroom**

Headroom (in other words capacity to provide a service to future end-users) within the network that the other incumbent has generally been funded from historic charges levied within our own region. If we were not, when making provision for other companies, to preserve that margin for our own customers, we would in effect be giving away an "asset" that they had paid for.

Consequently, we will design the infrastructure that must be provided to make supplies of water or sewerage services for other water companies in a manner that preserves any existing headroom, and our charges will reflect this design.

#### **4.6. Supporting greater capacity than that required by the other incumbent**

Where it is appropriate to do so, we may decide to provide additional capacity beyond that required by the other incumbent in anticipation of demand from future developments within our own region. In such circumstances it would be unreasonable to request a capital contribution for the entire scheme from that company.

In this case we will apportion the cost of the infrastructure in accordance with the capacity provided to the other company.

### **5. Date these arrangements comes into effect**

This policy comes into effect in full on the date of publication, which means that we will apply it to any new bulk agreements from that date. However, since our previous policy was to forgo charges relating to network reinforcement on the basis that network infrastructure costs would be funded from a connection charge equivalent to our infrastructure charge under section 146(2), we do not intend to apply this policy by varying bulk agreements that precede the commencement of this policy.

### **6. Application**

These charging arrangements, along with Ofwat's charging rules for new developments and our charges regime, will guide our approach to collecting contributions for capital infrastructure as a result of additional demand. Setting out our principles in - and consistently applying - these arrangements will ensure that we treat all of those to whom we provide a service fairly, transparently and equivalently.