

**CHARGES FOR CONNECTIONS
TO THE
WATER AND SEWERAGE NETWORKS**

A CONSULTATION DOCUMENT

June 2006

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Ministerial Foreword

The Government's water reform programme promises major improvements in the delivery of water and sewerage services. The ambitious programme of investment that has already begun will improve the water we drink, better protect our environment, give us cleaner beaches and waterways, enhance our ability to sustain economic growth and introduce important new protections for customers. Over the past two years the Government has set out its plans for the reform and improvement of these services.

A key element of these changes is the introduction of a comprehensive water and sewerage charging regime from 1st April 2007. This will provide a reliable source of revenue to deliver sustained investment without having to use money which could otherwise be spent on other services such as health, transportation and education. In fact, by virtue of the introduction of water charges something in the region of £300 million per year will be released by the end of the decade to be spent on these other services.

From April 2007 all customers will begin to pay charges for the services they receive – new charges will be phased in over three years with full charges being payable from 1st April 2009 – domestic charges will be pegged at the average level of charges in England and Wales.

Shaun Woodward's announcement on 8th December 2005 provided details of a low income protection scheme and explained the role that domestic metering would play within the overall charging regime. As many as 200,000 households will benefit from the low income protection scheme which will ensure that no low income household should have to spend more than 3% of their income on water and sewerage charges.

The final element of the proposals for 2007 relates to the specific costs arising from making new connections to the water and sewerage networks and this is set out in this consultation document. It is proposed that these costs should be recovered through specific charges for new customers and first time services. This reflects the principle that costs should fall where they are incurred and is in line with the approach used in GB. Water is becoming a less plentiful resource, even in Northern Ireland, and the treatment of waste water is subject to increasingly rigorous standards. It is important that the cost of placing additional demands on the service is recovered from those customers who impose those demands rather than from consumers or charge payers in general.

These proposals are part of our overall plans to introduce charges which are fair and affordable for all customers. I welcome your comments on them.

David Cairns MP

Parliamentary Under-Secretary of State
June 2006

1. INTRODUCTION

- 1.1 The purpose of this consultation document is to seek your views on the proposals of the Department for Regional Development (the Department) for amending the current Water Service policy for charging for connections to the water and sewerage networks, in light of the establishment of the Agency as a Government owned company (NI Water Ltd).

Timetable

- 1.2 This consultation document will be available for public response and comment for a period of twelve weeks from 1st June 2006 to 24th August 2006.
- 1.3 After all responses have been considered, the finalised proposals for charging for connections to the water and sewerage networks will be set out in the NI Water Scheme of Charges for 2007/08 which will require the approval of the Department by December 2006. The new charging arrangements are expected to come into operation in April 2007.

Your views

- 1.4 This document sets out the Department's proposals for changes to the current allowances for the requisitioning of water mains and sewers and for the introduction of infrastructure charges. It includes a number of questions to guide your response (these questions are summarised in chapter 9) but you do not need to answer every question and you can comment on any aspect of the proposals even if a question has not been included. Your views on the proposals will be welcomed.

Where to send views

- 1.5 You are requested to provide comments in writing to arrive not later than 24th August 2006. Comments should be addressed to:

Norma McCrory
Finance and Regulation Directorate
Water Service
Mark Royal House
70-74 Donegall Street
BELFAST
BT1 8JP

Email responses may be sent to: WaterChargingQueries@waterni.gov.uk

Comments may also be faxed to: 028 9035 7678

Freedom of Information Act 2000

- 1.6 The Department will publish a summary of responses following completion of the consultation process. If you would prefer your comments not to be published please indicate this when responding. The Department will respect requests for non-publication of responses but, in accordance with the Freedom of Information Act 1998, cannot guarantee confidentiality.
- 1.7 The consultation document can be made available in alternative formats or languages on request.

2. BACKGROUND

Existing Legislation

- 2.1 Article 3 of the Water and Sewerage Services (NI) Order 1973 requires the Department for Regional Development to:
- Supply and distribute water;
 - Provide and maintain sewers for draining domestic sewage, surface water and trade effluent; and
 - Make provision for effectually dealing with the contents of its sewers.
- 2.2 Article 4 provides that this duty '*shall not require the Ministry to do anything which is not practicable at a reasonable cost*'. To date, the Department has used a system of reasonable cost allowances to give effect to Articles 3 and 4. These reasonable cost allowances are currently set at a level of £2,900 per property for water and £2,300 per property for sewerage. This means that Water Service will pay for the provision of new water mains and sewers up to these values. Any cost above these values is paid for by the developer requesting connection. This reasonable cost allowance, of course, was drawn up in the circumstances where the costs of water and sewerage services were being recovered through public expenditure rather than directly from customers.
- 2.3 Special arrangements for existing properties which are unconnected to the public networks have been in place since May 2000. From that date the reasonable cost allowances for existing properties were raised to £5,000 and £4,000 for water and sewerage respectively. It was estimated that this would enable around 1,800 householders in remote and isolated areas of Northern Ireland to be connected to the water and sewerage systems for the first time. Since then, it has been estimated that around 500 existing properties have been connected to mains water and around 1,000 to mains sewerage. The announcement also stated that the reasonable cost allowances for new properties were under review but that they would remain at £2,900 for water and £2,300 for sewerage until 1st January 2001 when revised charging guidelines would be introduced. Although the review took place, no change to the reasonable cost allowances for new properties was made.

New Legislation

- 2.4 New legislation is being developed to implement the water reform agenda which will result in the responsibility for delivering water and sewerage services being transferred to a Government-owned company appointed under licence (NI Water Ltd). In a significant change, these services will be funded on a self-financing basis by means of direct charges on customers as has been the case in GB for many years. The legislation will come into effect on 1st April 2007 and will replace the 1973 Order. It will place a duty on NI Water Ltd to make connections to the water and sewerage networks and to recover the costs associated with doing so. A period of public consultation on the draft Water and sewerage Services (Northern Ireland) Order commenced on 1st June 2006. This, and other information regarding water reform is available at www.waterreformni.gov.uk or by telephoning (028) 9054 2985.
- 2.5 The recovery of costs will be achieved through charges which will be consistent with the charging principles and objectives set out in the Department's IIA Policy Proposals paper which was published in November 2004. The purpose of the charging regime is to recover the full costs incurred in the provision of water and sewerage services from those customers whose access to, and use of, the system imposes those costs. The charging principles agreed include the following:
- pricing and charging policies should reflect and support long term water and sewerage infrastructure investment requirements and plans;
 - charges should not be unduly preferential or discriminatory;
 - charges for each service should reflect the overall costs of providing that service; and
 - customers should only be required to contribute to the costs of the services they receive.
- 2.6 What these charging principles mean at the practical level is that only those customers who receive a service will contribute towards the cost of it. For this reason households that are not connected to mains water will not be liable for a water charge and those not connected to the public sewer will not be liable for a sewerage charge.
- 2.7 The charging principles will apply in the calculation of all charges. The application of the charging principles in the case of 'developers'

charges' means that the costs arising from adding new customers to the networks should be borne by those new customers and not by existing customers. The policy being proposed is intended to deliver this outcome.

New Connections

2.8 Making new connections involves the following activities:

- i. laying a service pipe or drain and making the final connection to the water main or sewer (service connections) – the final connection is usually exclusive to an individual property;
- ii. laying a new water main or sewer if there is none nearby (requisitioning) – this comes into play where an extension to the water main or public sewer is required;
- iii. upgrading the physical capacity of the local distribution network or sewerage network including local service reservoirs or local pumping stations to accommodate the increased demand (infrastructure charges).

2.9 This consultation paper sets out the proposals for each of these three areas in turn.

3. SERVICE CONNECTIONS

- 3.1 The general policy throughout GB is that charges for service connections should broadly reflect the cost of the work done. Most water companies have standard charges calculated according to the length of pipe laid or the ground surface excavated, although some companies do charge based on actual costs incurred on an individual case by case basis. Whatever the precise detail in GB, full cost recovery is the basis of the charges.

Water Connections

- 3.2 In Northern Ireland, the standard connection for new residential dwellings is a pipe up to 25mm in diameter. For public health reasons Water Service has, historically, carried out this work which involves laying the service pipe between the main and an external stopcock, making the connection to the main and fitting the external stopcock. From 1st April 2007, it will also involve the installation of a meter following the announcement on 8th December that all new connections will be metered. The applicant is responsible for excavation, reinstatement and for providing and laying the service pipe from the external stopcock to the internal stopcock.
- 3.3 Charges are set to recover both the cost of works and the overheads required to connect a property to the water main. There are currently two levels of charge depending on the size of the connection:
- For each connection up to 25mm diameter, the 2006/07 charge is £185;
 - For all other connections customers are charged actual cost.

Sewer Connections

- 3.4 Water Service does not normally make connections to the sewer – this work is normally done by the applicant. Water Service simply inspects the connection to ensure that it is up to standard. The 2006/07 sewer inspection fee is £97. If there is an existing sewer network within the site then the developer is responsible for connecting each property to the sewer – the standard fee per property is charged in these instances.

Policy Proposal

- 3.5 Water Service currently operates a service connection policy on the basis of full cost recovery which is in line with practice throughout GB. No change of policy in this area is proposed.

4. LAYING A NEW WATER MAIN OR SEWER – REQUISITIONING

- 4.1 For some new developments, the existing water or sewerage system has to be extended to enable a connection to be made to it. Where the supply is for domestic purposes this is called requisitioning and the requisition can be made by a developer, the property owner or the occupier.
- 4.2 In GB water and sewerage companies can charge for the costs reasonably incurred in carrying out the work requested. These costs include, inter alia, the reasonable cost of design, labour, plant, materials, supervision and administration costs. Furthermore, the nearest main or sewer may have insufficient capacity to provide the new service so the charge may include the cost of all piping and pumping works to bring the service from the point in the network where capacity is available. The charge may also include a proportion of the cost of mains or sewers which have already been laid, but were oversized in anticipation of further demand.

Current Policy in Northern Ireland

- 4.3 There are currently two elements to requisitioning in Northern Ireland:
- Internal to the site – within the site boundary;
 - External to the site – from the existing main up to the site boundary.
- 4.4 A reasonable cost allowance (RCA) is provided by Water Service towards the cost of requisitioning (paragraphs 2.2 and 2.3) – this amount represents the maximum cost (per property) that Water Service will bear in respect of the requisitioning scheme.
- 4.5 At present the cost of the scheme is estimated based on direct costs – overhead costs are not included. If the cost is less than the total allowance (i.e. the total number of properties multiplied by the RCA), Water Service pays for the whole scheme. If the extension cost is greater than the total cost allowance then the developer must pay the difference, in advance.
- 4.6 Water main internal to the site – Water Service provides the pipes and fittings and carries out the installation of all new water mains within the development although the developer has to carry out the excavation and reinstatement work and the positioning of all associated street

furniture. The developer does this work at their own cost. Water Service bears its own costs in relation to the water main installation.

- 4.7 Water main external to the site – Water Service arranges installation of water mains to the site boundary and is responsible for all excavation and reinstatement. Contractors may carry out this work in some cases although Water Service always carries out the connection between the new main and the existing one. This work is subject to the reasonable cost allowance of £2,900 per property (£5,000 for an existing property).
- 4.8 Sewers Internal to the site – Developers are responsible for designing and laying all foul and storm sewers within the development at their own cost and to the Department's specifications (Article 17). After inspection these sewers may be adopted by the Department. Part of this process is the commissioning by Water Service of a CCTV video of the installed sewer the cost of which Water Service bears. If subsequent CCTV videos are required the developer will pay the cost of these.
- 4.9 Sewers External to the site – Water Service arranges the installation of the new sewerage system, often using a contractor due to the high costs associated with third party indemnity. Water Service is responsible for all works required although this is subject to the reasonable cost allowance of £2,300 per property (£4,000 for an existing property).

Nett Costs of Requisitioning

- 4.10 Under the current policy in Northern Ireland Water Service meets the bulk of the total costs of requisitioning (up to 99%). In contrast, in Great Britain developers (who ask for the work to be done) meet a significant proportion of the costs. However, they do not face the total cost of the work required for the requisitioning request and the reason for this is set out as follows.
- 4.11 When a new connection is made, the water or sewerage company receives revenue from that property for as long as the property is occupied. Given that the new customer is served by a new asset which they have paid for and which should not require maintenance for a considerable period there is a net benefit to the company. Since new customers do not place capital costs on the network in the short

term (outside the cost of connection which they pay for) the net benefit can be calculated as the proportion of their additional revenue that can go towards the capital costs imposed by others. If an asset can be expected to need no maintenance for, say, 25 years and approximately half the costs associated with serving a customer are related to infrastructure investment (the other half being the ongoing operating costs), the financial benefit could be assessed as half the maintenance free period or approximately 12 years.

- 4.12 The above rationale is applied in both England & Wales and Scotland but is implemented in two different ways.
- 4.13 **England and Wales** – the actual cost to the developer is calculated as the difference between the annual cost of borrowing to pay for the work and the water or sewerage charges which will become payable by the newly connected properties. The annual borrowing cost is calculated at a rate of interest approved by OFWAT. The cost can then be charged to the developer, either as 12 annual deficit payments, or commuted to a single payment by agreement (between the developer and the company). The commuted sum is simply the nett present value (NPV) of the annual deficit payments (i.e. the total value of the payments in today's prices).
- 4.14 **Scotland** – a reasonable cost allowance policy is in operation. Historically, these allowances have been relatively low at a level of £500 for water and £1,000 for sewers (between £2,000 and £6,000 for sewer connections to existing properties). From 1st April 2006 the level of the allowances has been set with reference to the water / sewerage charges payable per property – the calculation of the relevant revenue is averaged for all new properties rather than worked on a case by case basis. Consequently from 1st April 2006, the allowances have been increased to £1,321 for water and £1,493 for sewerage. These are maximum amounts – where the actual cost of requisitioning is less than these figures Scottish Water will bear the full costs of requisitioning.
- 4.15 Although the approaches are slightly different there is little significant difference, financially, between them – it is more a difference of presentation. The Scottish approach is, however, simpler in terms of application as it involves a set allowance rather than case by case calculation.

4.16 In Scotland, the reasonable cost allowance is the same for both new and existing properties. In England and Wales the same 'relevant deficit' calculation is applied whatever the situation.

Policy Proposals

4.17 The charging principles already outlined (paragraph 2.5) mean that where a particular class of customer gives rise to specific costs, those costs should be borne by that class of customer. This is the philosophy that underlies the approaches adopted in GB which also provide a rationale for assessing the level of costs that should not be borne by new customers.

4.18 The Consumer Council has made representations to the Department in respect of the cost of development. Most recently, in their response to the Department's Water Reform Integrated Impact Assessment consultation paper (March 2005), they have expressed the view that existing householders should not be responsible for paying for the burden of connecting new households and / or developments to the water and sewerage networks. In general terms, this is reflected in the charging principles.

4.19 Requisitioning costs do not arise in every new development but only in those cases where the site is not currently served by a water main or sewer. Consequently, only a small number of new developments require requisitioning. In contrast, making a connection to an existing property that is without mains water requires requisitioning in every case and therefore adds to the overall cost of connection. Accordingly, different approaches are proposed for new and existing properties.

New Developments and New Properties

4.20 The rationale for a GB water company bearing a portion of the costs is set out at paragraph 4.11. A similar situation will pertain in Northern Ireland when comprehensive water and sewerage charging is introduced in April 2007. Taking account of this would ensure that requisitioning is paid for on an equitable basis and that developers and new customers are neither preferred nor discriminated against through the charging mechanism.

4.21 It is proposed that the costs of requisitioning borne by developers should be reduced to reflect the lower maintenance costs of the new infrastructure in the early years. Do you agree with this approach?

4.22 There are broadly two ways in which this reduction could be effected. The 'relevant deficit' approach where the costs are allocated on a scheme by scheme basis (as in England and Wales – see paragraph 4.13), or the reasonable cost approach (as in Scotland – see paragraph 4.14).

4.23 The reasonable cost allowance applied in Scotland is a simpler approach as it avoids the need to make scheme specific calculations of payments. It is also similar to the existing practice in Northern Ireland and it enables a developer to more easily estimate in advance the cost to be borne by the water company.

4.24 It is, therefore proposed that the water company will provide a reasonable cost allowance (as is the case at present). Do you agree that a reasonable cost allowance approach should be retained?

Setting the level of costs borne by the water company

4.25 The approach adopted in GB is directed at ensuring that new customers pay the full cost of requisitioning but that they are not 'double charged' through their annual water or sewerage charges. This argues for a reasonable cost allowance calculated with reference to charges. Both the relevant deficit calculation in England and Wales and the new method for setting the reasonable cost allowance in Scotland are linked to the level of charges from the newly connected properties and use a twelve year horizon (as explained at paragraph 4.11). The nett present value (NPV) of the relevant charges is calculated using the interest rate applicable for capital borrowing.

4.26 It is proposed that the Northern Ireland reasonable cost allowances for water and sewerage should be set annually on the basis of a rolling 12 year NPV calculation of average water and sewerage charges. Do you agree with this approach?

4.27 On the basis that average domestic water charges in 2007/08 (without phasing) will be around £150, a nett present value approach suggests that the reasonable cost allowance for water would be around £1,600 (current level £2,900). For sewerage, where the average sewerage bill

in 2007/08 (again without phasing) will be around £160 the reasonable cost allowance would be around £1,750 (current level £2,300).

4.28 It is proposed to set a uniform reasonable cost allowance across Northern Ireland. This would mean that the approach being taken is the same for all developers, reflecting the analysis above that lower maintenance costs result from the new infrastructure. It is the case that, in reality, requisitioning costs will vary and the costs to some developers may be higher. This is more likely to be the case in rural areas. Do you agree that the same RCA should be set for all developments?

Costs

- 4.29 In assessing costs, it is important to remember that not every new development requires the requisition of a water main or sewer. Furthermore, not every requisition will result in a contribution from a developer – in every case where the cost of the scheme is less than the reasonable cost allowances, the cost will be recovered from the annual charges to the new customers.
- 4.30 In respect of water it is estimated that requisitioning is sought for around 600 new properties each year. The total cost of these requisitions is estimated at around £1.6 million per annum, of which around £1.0 million per annum would be borne by developers under these new proposals.
- 4.31 For sewerage it is estimated that a sewer is requisitioned for around 2,500 new properties each year. This figure is higher than the figure for water requisitions because of the ongoing programme of providing separate provision for storm and foul water. The total cost of these requisitions is estimated at around £5.3 million per annum, of which around £2.1 million per annum would be borne by developers under these new proposals.
- 4.32 Under these proposals around £3 million of NI Water costs will be charged to developers in respect of requisitions. This is in line with the principle that costs should be recovered from those who impose the costs.

Existing Properties

- 4.33 Historically, Water Service has provided the same reasonable cost limits for both new and existing properties. On 4th May 2000, the then Minister announced an increase in the reasonable cost allowances for existing properties. These were set at £5,000 for water and £4,000 for sewerage (paragraphs 4.7 and 4.9).
- 4.34 The higher allowances for existing properties were set in order to increase the number of existing properties that could be connected 'at reasonable cost'. It was expected that this increase would have made it possible for up to 1,800 properties to be connected and this is reflected in the Department's New TSN objective in this area which was to seek to provide a public water supply, where requested by the householder, to some of the 1% of houses currently without a public supply.
- 4.35 Since 2000 it has been estimated that up to 100 existing properties per annum have been connected to the water mains and around 200 existing properties per annum to the public sewer.

Water

- 4.36 In respect of water this outcome is considerably less than the figure of 1,800 connections that was expected when the policy was amended in 2000. It is not clear why this has been the case and there may be a combination of reasons but what is clear is that reducing the level of the reasonable cost allowance to that proposed in paragraph 4.26 for new properties would effectively end the provision of mains water to unconnected existing properties. It is estimated that the total cost of water requisitions to existing properties is around £0.6 million and the total cost of sewerage requisitions to existing properties is up to £0.6 million. The bulk of these requisitions would have been carried out within the higher reasonable cost allowances. The application of the proposed level of allowances would have required a total contribution of around £0.5 million (water) and around £0.4 million (sewerage) from existing householders (around 75% of the total cost) – informal consultation with rural and age sector groups have made it clear that at £5,000 per water connection this would be well in excess of what is affordable for these households. It would seem reasonable to conclude that in the majority of cases providing mains water to those

properties remaining unconnected would cost well in excess of the existing reasonable cost allowance.

- 4.37 In England and Wales there are no special allowances or arrangements for existing properties. Scotland operated a system which gave a different allowance for sewerage connections depending on whether the connection was for an existing or new property. The Scottish allowance for sewer connections was £1,000 for new properties but ranged between £2,000 and £6,000 for existing properties. From 1st April 2006 these arrangements have been discontinued and the reasonable cost allowances for both new and existing properties are the same (as set out at paragraph 4.14).
- 4.38 Although reasonable cost allowances related to the level of average water charges would be consistent with the full cost recovery imperative within the water industry and would enable NI Water to ensure that there was no cross subsidy in respect of connection charges between new and existing customers it would run very much counter to the Department's New Targeting Social Need (New TSN) objective. The number of existing properties that have been connected since the higher allowance was made available compared to the initial estimate also suggests that there is an ongoing need to continue to provide additional assistance.
- 4.39 Based on existing Valuation and Lands Agency data it is currently estimated that around 1% of households may not be connected to mains water. It is difficult to assess precisely the circumstances or preferences of those living in houses without connection to the mains water supply. It may be that a proportion of the estimated 6,000 houses without a mains connection have a private supply and a preference not to be connected. Others may not be occupied. Of the rest, some may be too far away from the nearest mains supply for connection to be affordable even at a higher allowance. In the run up to the introduction of domestic water and sewerage charges, Water Service is drawing up a customer database which will provide better information on those properties which remain unconnected but it is clear that further research is needed to provide a better estimate of the magnitude of the issue and the cost of providing further assistance.
- 4.40 In light of this it is proposed that an additional reasonable cost allowance will continue to be available in respect of existing properties seeking connection to mains water and that the cost of this will be met

by the Department for Regional Development as a subsidy to these prospective customers.

4.41 Do you agree that special provision should be made for those currently living in properties without a mains connection? Do you consider that there are specific circumstances where this special allowance should be provided? Do you have any other suggestions as to how the extra cost of connection should be met without requiring other customers to subsidise the additional expense?

4.42 The existing level of the allowance has been in place for six years and the number of households benefiting appears to have been reducing over those years. This might be attributable, at least in part, to cost increases. Taking account of RPI inflation would suggest that the allowance should be increased by around £500 – construction output inflation over that period would suggest an increase of the order of £1,500. Whether the allowance needs to be increased above this level would depend on the results of the research mooted at paragraph 4.39.

4.43 It is proposed that DRD will make a subsidy available for existing properties to provide assistance (including the NI Water RCA of £1,600) totalling £6,500 against the costs of a water requisition to an existing property.

Sewerage

4.44 It is estimated that there are in excess of 100,000 existing properties in Northern Ireland (around 17%) without public sewerage provision. For the majority of these septic tanks afford adequate alternative sewerage provision. In many cases connection to a public sewer will never be a feasible option. The greater number of properties unconnected to the sewer means that the current sewerage RCA (£4,000 per existing property) has been applied in different circumstances than the water RCA. In general terms, the connection of an existing property to the public sewer can happen in the following circumstances:

- i. The Water Service policy of providing separate foul and storm water sewerage means that all developments are required to have separate sewers. These in-site sewers may temporarily empty into a combined public sewer but when further development is

undertaken or when the public storm sewer is constructed the earlier development is counted as existing properties in the reasonable cost calculation. It is estimated that this applies in around half of the requisitions to existing properties.

- ii. As new development moves outwards from a town the public sewer network is extended and existing properties with septic tanks are, in process of time, 'swallowed up'. This has been particularly attractive in the past because no sewerage charges have been levied but in the future, where connection will give rise to a liability for sewerage charges householders may be less inclined to take this option up – particularly where their property sewerage is combined system. It is estimated that this situation pertains in around half of the requisitions to existing properties.
- iii. A small number of property owners seek a requisition where there is a problem with a septic tank or for the convenience of a public sewer connection. For the purposes of calculating a reasonable cost other nearby properties that express an interest in a sewerage connection may be counted but it is often the case that they do not immediately connect to the sewer because of the adequacy of their existing septic tank. It is estimated that around 20 per annum may actually be connected.

4.45 The three situations set out above are significantly different from the situation of a property unconnected to mains water where the main issue, from the Department's point of view, is one of social need (New TSN). In the first case the properties are really 'new development' and in the second, the arrival of a public sewer in the vicinity implies that the cost of connecting these properties will be relatively low. In the third case it is unlikely that the additional allowance is addressing a social need – there is a risk that, once domestic water and sewerage charges are introduced, it will simply result in existing customers providing a subsidy to new sewerage customers.

4.46 It is recommended that the differential reasonable cost allowance available for connecting existing properties to the public sewer be ended because the situation is quite different to the water supply issue as ready alternatives are in place in most cases. Do you agree with this proposal? If not, can you provide any information that would explain the need to retain a higher sewerage allowance for existing properties?

Self-Lay

- 4.47 In England and Wales a developer can employ its own contractor to install the pipes instead of requisitioning the company. The water company takes over responsibility for (adopts) the pipes once installed provided the work carried out meets the standards required by the company. This is known as self-lay. Developers are entitled to an asset payment from companies when they 'adopt' the pipes from the developer. This payment is calculated as the difference between the annual cost of borrowing to pay for the work (assuming the company had carried out the work) and the estimated water / sewerage charges payable for the newly connected properties.
- 4.48 All companies have policies setting out the standards which must be met and OFWAT have published guidance for companies and customers on the issue of self-lay. Not all work is able to be completed by developers, the work which developers are not allowed to do is called non-contestable work. Companies are only allowed to recover the reasonable costs incurred while carrying out non-contestable work. Any dispute over any aspect of self-lay can be referred to OFWAT for determination.
- 4.49 Under a self-lay provision in Northern Ireland a similar regime would be put in place. Developers or existing householders would be able to make their own arrangements for requisitioning (this might, in some cases, reduce the overall cost) and the work would have to conform to certain standards set out by NI Water and / or the Regulator in order to have the water main adopted. NI Water would put in place an inspection regime to ensure that these standards were maintained and this would involve an inspection charge.

4.50 Do you consider that a self-lay policy should be developed for NI Water?

5. INFRASTRUCTURE (OR NETWORK) CHARGES

- 5.1 While requisitioning charges relate to the demands imposed by specific developments at the time when they are connected to the network, it is usually the case that costs will eventually be incurred in enhancing the local network of mains and sewers to provide extra capacity to be able to cope with the additional burden on the system. These costs relate to local network constraints that have arisen because of a general background growth in demand which cannot reasonably be attributed to any individual or group of developers although they do arise from new development as a whole and should, therefore, be borne by new customers. In GB these costs are recovered through the imposition of an 'infrastructure charge' which ensures that the broader reinforcement of the network, where such reinforcement is neither of a strategic nature nor can be attributable to any individual development or group of developments, is funded collectively by all new development.
- 5.2 In certain circumstances, the infrastructure charge limit is increased by a multiplier which reflects the potential for extra use of water. This is based on the number and type of water fittings in the property (the loading). The basis on which these loadings are to be calculated is set out in each company's licence. This can apply where:
- houses and flats share a common supply pipe and have a common billing agreement for water or sewerage services; and
 - the property is served by pipes larger than the standard size, e.g. hotels and rest homes.
- 5.3 OFWAT takes the view that infrastructure charges should not be charged if a new development does not use the company's local distribution network and includes on-site distribution systems. Where a site is re-developed, or a building converted, companies must make a credit for water usage at the site within the past five years. OFWAT also takes the view that infrastructure charges do not have to be paid in advance of the connection to the main or sewer, but are recoverable as soon as the connection is made and the premises are supplied with water.
- 5.4 At the 1999 review of price limits, the OFWAT Director General determined limits of £226 for each service for all standard water and

sewerage domestic infrastructure charges. The limit rises in line with inflation each year and is currently (2006/07) £266 for water and £266 for sewerage. In Scotland it is proposed that the infrastructure charges will be set in the region of £250 per water connection and £250 per sewerage connection.

Proposals for Northern Ireland

5.5 No infrastructure charges are currently levied in Northern Ireland but the same impacts exist in respect of new development. To date in Northern Ireland, these costs have simply been borne within the existing Water Service budget. To continue this arrangement in the future alongside a comprehensive charging regime would mean the costs being borne by existing customers. Such a situation would represent a subsidy to new customers but this would be in contravention of the charging principles set out at paragraph 2.5.

5.6 Do you agree that there is a valid rationale for the introduction of infrastructure charges for water and sewerage in Northern Ireland?

5.7 It has been difficult to gather information on the methodology employed in the setting of the level of infrastructure charges in GB. The Water Industry Act 1991 provided for Infrastructure charges to be made but did not prescribe how they were to be calculated. In 1994/95 water infrastructure charges ranged from £130 to £1,218 between companies. Sewerage infrastructure charges ranged from £269 to £871. OFWAT believed that the level of infrastructure charges placed an unfair burden on new customers who were effectively paying twice for new works through infrastructure charges and through the capital component of regular billing.

5.8 OFWAT acknowledged that it was impossible to accurately identify what costs were directly attributable to new customers as opposed to existing customers as either could increase demand on the system. OFWAT therefore decided to set a single common charge for all water and sewerage companies to cover infrastructure charges.

5.9 This charge related solely to the costs of any new distribution mains and local sewers which were required to link new connections to the existing systems. The infrastructure charge was set at £200 per service and although OFWAT recognized that this was not sufficient to meet local development costs for all companies it concluded that the level

of the charge represented a reasonable compromise between cost reflectivity and fair treatment for new customers.

- 5.10 Two companies disputed OFWAT's determination with regard to infrastructure charges and their cases went before the Monopolies and Merges Commission (MMC), now the Competition Commission. The MMC determined that OFWAT's standard charge for infrastructure was reasonable and appropriate.
- 5.11 In setting an infrastructure charge for Northern Ireland an assessment must be made of the general level of the relevant infrastructure costs in the future. Infrastructure charges are intended to recover the costs associated with enhancing the local network of mains and sewers which arise as the result of new development, so the relevant costs of infrastructure development are those relating to growth of the networks.
- 5.12 Not all of the costs of growth, however, would be attributable to new development. Part of this would relate to increased demand from existing customers. An evaluation of the data in the Water Resource Strategy (WRS) has been used to allow for this in estimating the proportion of extra demand which might be attributable to new development.
- 5.13 The WRS estimates that in the period up to 2029-30 total water demand will increase by 10%. Over the same period the population increase is estimated at 8.6% and the per capita consumption increase is estimated at around 1.4%. Assuming that the average size of a household remains fairly constant, the population increase equates to an increase in the customer base of the same proportion. These figures suggest that around 85% of the increase in demand would be the result of new development.
- 5.14 It is estimated that in excess of £100 million will be invested for growth over the next twelve years. Data from the House Condition Survey provides an estimate of the total number of new domestic connections at around 12,600 per annum for water and 10,800 per annum for sewerage. New non-domestic connections are considerably lower than this – suggesting that the total number of new connections per annum is of the order of 25,000. Assuming that around 85% of the 'Growth' investment relates to new development infrastructure costs

per property can be estimated to be of the order of £300 – 400 per annum.

5.15 Although these are broad estimates they do provide a reasonable indication of the order of magnitude of infrastructure costs for water and sewerage and this is confirmed by the level of these charges in GB.

5.16 Do you agree that infrastructure charges should be levied on a 'per property' basis in respect of each new connection (separate charges for water and sewerage)? Do you accept that they should be set at a comparable level to the charges in GB?

5.17 Setting charges at around £250 each for water and sewerage (the proposed Scottish level) would raise revenue of around £6 million per annum from new connections and avoid the creation of a subsidy from existing customers as domestic water and sewerage charges are introduced.

6. EQUALITY OF OPPORTUNITY SCREENING

- 6.1 The Department is required, under Section 75 of the Northern Ireland Act 1998, to have due regard to the need to promote equality of opportunity across nine categories set out in the Act and to have regard to the desirability of promoting good relations between persons of different religious belief, political opinion or racial group. It is particularly important, therefore, that in developing policy account is taken of any differential impacts on Section 75 groups.
- 6.2 The first stage in considering equality impacts is to conduct a screening exercise to determine whether the proposed policy is likely to have a significant impact on equality of opportunity and thus require full equality impact assessment or whether it might be 'screened out'. In order to conduct the screening exercise the overall developers' charges policy has been separated into its constituent elements as follows:
- a. Service connection charges;
 - b. Requisitioning charges to new and existing properties; and
 - c. Infrastructure charges.

Service connections

- 6.3 The current policy on service connection charges is set out in chapter 3. No change in policy is proposed. In summary, charges are currently levied – a £185 connection charge for water and a £97 inspection charge for sewerage. The charge is calculated on the basis of full cost recovery and this will continue.
- 6.4 The policy impacts primarily on all property developers who lay a pipe or drain and seek a connection to the water and sewerage network but it also impacts on individual householders who seek connection. This will continue to be the case. The question to be considered is whether there are any differential impacts on any of the Section 75 groups.

6.5 The following table summarises the screening of the policy on service connections:

Screening Questions	Yes/No
Is there any evidence of higher or lower participation or uptake by the following Section 75 groups?	No
Is there evidence that any of the following Section 75 groups have different needs, experiences, issues and priorities in relation to this policy issue?	No
Have consultations with the relevant representative organisations or individuals within any of the Section 75 categories, indicated that policies of this type create problems specific to them?	No
Is there an opportunity to better promote equality of opportunity or community relations by altering the policy, or by working with others, in Government, or in the larger community in the context of this policy?	No

6.6 It is recognised that over a short timescale there may well be small differential impacts because of the short term pattern of development in Northern Ireland. For example, in a given year the bulk of new connections may be carried out in the east of Northern Ireland and this might suggest that there would be a differential impact on Protestants. However, over a longer timeframe the pattern of development will more closely reflect the characteristics of Northern Ireland as a whole and these differential impacts will disappear.

6.7 Furthermore, these charges have been levied on existing properties for many years and the overwhelming majority of properties in Northern Ireland benefit from service connections to the network. The result of this is that, overall, the payment of these charges has impacted and will continue to impact on the Section 75 groups in proportion to their representation across the Northern Ireland population.

6.8 It has, therefore, been concluded that the charges for service connections have no impacts on equality of opportunity for Section 75 groups, or on good relations, and may be screened out from further equality consideration.

Requisitioning

6.9 The current policy on requisitioning charges is set out in chapter 4. In summary, Water Service has borne the cost of requisitioning up to a maximum reasonable cost allowance (RCA) (£2,900 per property for water and £2,300 per property for sewerage) with costs in excess of the RCA being borne by the developer. In the case of an existing property

a higher RCA is applied (£5,000 per property for water and £4,000 per property for sewerage) with costs in excess of these amounts being borne by the person requesting the requisition.

- 6.10 It is proposed that water and sewerage RCAs will be retained but that they will be calculated annually on the basis of the average water and sewerage charges in Northern Ireland over a period of 12 years. This will entail a reduction in the level of the RCAs to £1,600 per property for water and £1,750 per property for sewerage. However, the total RCA for water requisitions to existing properties will be increased to £6,500, by way of mitigation of potential Section 75 impacts.
- 6.11 Requisitioning of a water main or sewer is generally not required except in two situations:
- i. Where a new development is not nearby an existing main or sewer. In the case of water this applies in around 5% of cases (approximately 600 per annum) and in the case of sewerage in up to 25% of cases (approximately 2,500). The latter figure is higher because of the ongoing programme of providing separate provision for storm and foul water.
 - ii. For existing properties which are unconnected to the networks. It is estimated that around 1% of NI domestic properties are not connected to mains water (many of these are adequately served with well water) and approximately 2% have no sewerage provision (a further 15% are served by septic tanks). With very few exceptions, connecting these properties to the networks will require the requisitioning of a main or sewer.

New developments

- 6.12 The cost of requisitioning for new development can vary depending on the size of the development and the distance from the mains. In some cases the cost of requisitioning per property is relatively low and a reduction in the RCA will have no impact because the full cost will still be covered by the allowance. It is estimated that this might apply in around 40% of water requisitions and around half of sewerage requisitions. A change to the RCA for new development requisitioning will, therefore, impact upon those developments which are deemed 'not served' and where the cost exceeds the level of the RCA. It is estimated that a reduced RCA for water might have an impact on 3% of new developments (400 per annum); a reduced RCA for sewerage might have an impact on 12% of new developments (1,200 per annum).
- 6.13 In the case of water, the bulk of these 400 properties will be located in rural areas. The information contained in the draft EQIA on draft

Planning Policy Statement 14 (PPS14) '*Sustainable Development in the Countryside*' suggests that policies which impact on rural areas might create negative differential impacts upon Roman Catholics, Nationalists, married people, those with dependent children and males. However, the fact that requisitioning applies to only a small proportion of new connections means that it is not clear how representative the 'requisitioning' cohort might be of the rural population in any case and it is clear that any differential impacts which might arise would be very minor. In the case of sewerage, the policy of requiring separate provision for storm water and foul water, means that the need for requisitioning is more widespread and is not confined to rural areas. This would result in a more general geographic spread of charges which is unlikely to create Section 75 impacts.

6.14 The following table summarises the screening of the policy on water and sewerage requisitions to new properties:

Screening Questions	Yes/No
Is there any evidence of higher or lower participation or uptake by the following Section 75 groups?	No
Is there evidence that any of the following Section 75 groups have different needs, experiences, issues and priorities in relation to this policy issue?	No
Have consultations with the relevant representative organisations or individuals within any of the Section 75 categories, indicated that policies of this type create problems specific to them?	No
Is there an opportunity to better promote equality of opportunity or community relations by altering the policy, or by working with others, in Government, or in the larger community in the context of this policy?	No

6.15 It is important to note that the cost of requisitioning does not impact directly on householders in any case but is part of the total cost of house building in Northern Ireland. The costs are borne by developers rather than individual householders and are recovered through property sales which are determined by market forces. The additional costs of requisitioning in rural areas is also considerably mitigated by lower land prices.

6.16 It should also be noted that the apportionment of requisitioning costs between NI Water and developers on an equitable basis is aimed at preventing an inequality that might otherwise arise through cross-subsidy of new customers by existing customers.

6.17 It has, therefore, been concluded that the proposed policy for requisitioning of water mains and sewers to new properties has no

impacts on equality of opportunity for Section 75 groups, or on good relations, and may be screened out from further equality consideration.

Existing properties

- 6.18 Approximately 100 existing properties, currently not served, have been connected to the water mains each year since 2000. As explained in paragraphs 4.44 and 4.45 the number being connected to the public sewer is around 200 but these reflect a considerably different set of circumstances than their water counterparts. Requisitioning would be required in all of these cases.
- 6.19 All of these water requisitions are in rural areas and, in particular, in relatively remote areas. Consultation with rural and age sector interest groups suggests that those households that remain unconnected to mains water are likely to be disproportionately older people with low incomes. It also seems likely that they might be disproportionately Roman Catholic and male. Any reduction in the RCA for water might, therefore, have a differential impact on Roman Catholics, males and older people.
- 6.20 The following table summarises the screening of water requisitions to existing properties:

Screening Questions	Yes/No
Is there any evidence of higher or lower participation or uptake by the following Section 75 groups?	Yes
Is there evidence that any of the following Section 75 groups have different needs, experiences, issues and priorities in relation to this policy issue?	Yes
Have consultations with the relevant representative organisations or individuals within any of the Section 75 categories, indicated that policies of this type create problems specific to them?	Yes
Is there an opportunity to better promote equality of opportunity or community relations by altering the policy, or by working with others, in Government, or in the larger community in the context of this policy?	Yes

- 6.21 Paragraphs 4.34 and 4.38 make reference to the DRD New TSN objective in respect of assisting the making of water connections to existing householders. Any reduction in the RCA would clearly have an impact upon the Department's ability to fulfil that objective.
- 6.22 In order to avoid these differential impacts, it is proposed that assistance will continue to be available for water requisitions to existing properties. This assistance would be provided by the Department (this

will ensure that existing customers do not bear the cost of the higher allowance) and be in addition to the RCA provided by NI Water. It is proposed that NI Water and DRD will provide a combined assistance of up to £6,500 per property (as explained in paragraph 4.43). The increase in the total maximum allowance available will also mitigate differential impacts.

6.23 The issue of sewerage requisitions to existing properties is not, in general, a specifically rural issue because the sewerage network is less extensive than the water mains network in rural areas. The requisitioning of storm sewers is occurring throughout Northern Ireland (in both urban and extra-urban areas) and development at the edge of towns, where the sewerage network is moving outwards and 'swallowing up' additional numbers of properties which have adequate septic tank provision is at the urban / rural interface. For these 'existing' properties (very many of which are of relatively recent construction) there is not the same public health issue as for water nor the same New TSN need as those households that remain unconnected to mains water. These factors suggest that there is no evidence that a reduction in RCA for sewerage would have differential impacts on any of the section 75 groups.

6.24 The following table summarises the screening of the policy in respect of sewerage requisitioning charges:

Screening Questions	Yes/No
Is there any evidence of higher or lower participation or uptake by the following Section 75 groups?	No
Is there evidence that any of the following Section 75 groups have different needs, experiences, issues and priorities in relation to this policy issue?	No
Have consultations with the relevant representative organisations or individuals within any of the Section 75 categories, indicated that policies of this type create problems specific to them?	No
Is there an opportunity to better promote equality of opportunity or community relations by altering the policy, or by working with others, in Government, or in the larger community in the context of this policy?	No

6.25 It has, therefore, been concluded that the proposed policy for requisitioning of water mains and sewers to new and existing properties may impact negatively on Roman Catholics, older people and males living in a small number of households currently not connected to mains water. An increase in the RCA for such properties is, therefore, proposed as mitigation of these impacts. There are no impacts on

good relations and further equality impact assessment is not considered necessary.

Infrastructure charges

- 6.26 There is no current policy on infrastructure charges in Northern Ireland and, therefore, no charges are levied. The costs of infrastructure upgrade arising from new connections to the networks are borne by Water Service. The proposed policy is that the future costs will be recovered from a new infrastructure charge set at around £250 per property for water and around £250 per property for sewerage.
- 6.27 The introduction of infrastructure charges for water and sewerage will impact upon all property developers or individuals seeking a connection to the water (estimated at 12,600 new and 100 existing properties per annum) and sewerage (estimated at 10,800 new and around 200 existing properties per annum) networks.
- 6.28 As in the case of service connections, over a short timescale there may well be small differential impacts because of the short term pattern of development in Northern Ireland. However, over a longer timeframe the pattern of development more closely reflects the characteristics of Northern Ireland as a whole and these differential impacts will disappear.
- 6.29 Furthermore, as with the bulk of the costs associated with making new connections to the water and sewerage networks, these costs will form part of the total cost of house building where market forces play a large part in determining the price paid by the purchaser.
- 6.30 The following table summarises the screening of the policy in respect of infrastructure charges:

Screening Questions	Yes/No
Is there any evidence of higher or lower participation or uptake by the following Section 75 groups?	No
Is there evidence that any of the following Section 75 groups have different needs, experiences, issues and priorities in relation to this policy issue?	No
Have consultations with the relevant representative organisations or individuals within any of the Section 75 categories, indicated that policies of this type create problems specific to them?	No
Is there an opportunity to better promote equality of opportunity or community relations by altering the policy, or by working with others, in Government, or in the larger community in the context of this policy?	No

6.31 It has, therefore, been concluded that the proposal to introduce infrastructure charges has no impacts on equality of opportunity for Section 75 groups, or on good relations, and may be screened out from further equality consideration.

Conclusion

6.32 It is concluded that the implementation of these policy proposals is unlikely to have any negative differential equality impacts on Section 75 groups or any impact on good relations. The potential for negative equality impacts in the case of water requisitions to existing properties, if the total assistance provided was to be reduced to the level proposed for new development, was recognised at the outset. The final policy proposal mitigates against such impacts by retaining and increasing the RCA for such properties. This will also be positive in terms of social exclusion and New TSN.

6.33 In these circumstances it is not considered necessary to subject the policy proposals to full EQIA.

6.34 Do you agree that the policy proposals should be screened out from a full EQIA?

7. PARTIAL REGULATORY IMPACT ASSESSMENT (RIA)

Purpose and intended effect

7.1 The background to the policy proposals is set out in chapter 2 of this document and the proposals themselves are summarized in the following table.

Service	Current Policy	Proposed Policy
New properties		
Service connections	Charge calculated on a full cost recovery basis	No change to existing policy
Requisitions	Reasonable cost allowances against the total cost of requisitioning a water main or sewer – £2,900 per property for water mains and £2,300 per property for sewers	Retain reasonable cost allowances but calculate them on the basis of charge income from the newly connected properties – £1,600 per property for water and £1,750 per property for sewers
Infrastructure upgrade	No charge	Introduce infrastructure charges for water and sewerage at around the level of the infrastructure charges in GB – around £250 per property for water and around £250 per property for sewerage
Existing properties		
Service connections	Charge calculated on a full cost recovery basis	No change to existing policy
Requisitions	Reasonable cost allowances against the total cost of requisitioning a water main or sewer – £5,000 per property for water mains and £4,000 per property for sewers	Retain reasonable cost allowances – increase the water allowance to £6,500 (to take account of construction cost increases) and reduce the sewer allowance to the level for new properties (£1,750)
Infrastructure upgrade	No charge	Introduce infrastructure charges as for new properties

Rationale for intervention

- 7.2 The introduction of water and sewerage charges is one of the main drivers behind this proposed change in policy. With the introduction of charges it is important that the charges customers face reflect the costs which they place on the system as set out in the charging principles summarized in paragraph 2.5. In the case of new connections, new customers should be expected to pay the costs they impose on the system.
- 7.3 Without a change in policy existing customers will be paying a subsidy towards new customers connecting to the network. This subsidy will lead to higher charges being faced by all customers connected to the networks. The longer this policy remains unchanged the larger the additional charge becomes as costs are added each year.
- 7.4 The subsidy towards any new connection would arise from additional assets being added to the asset base of the water company. This asset base would be paid for through capital interest payments and depreciation charges each year. Treatment works, for example, are typically depreciated over at least a forty year lifetime so customers would be paying a financing and depreciation charge for at least forty years. The effect of this is cumulative because each year's new assets incur additional depreciation and financing charges and the size of the subsidy increases year on year.

Consultation

- 7.5 This paper is being published as part of the consultation document.

Options

- 7.6 There are a number of alternative options which could have been proposed for this policy. These are listed below.
- a. Do nothing** (this simply means continuing with the current policy)
- Service connections would be charged on a cost recovery basis;
 - Requisitions would attract the current reasonable cost allowances;
 - There would be no infrastructure charges.
- b. Full charging**
- New connections would be charged all of the costs associated with making a connection to the network. This would include full charging of all three elements which make up the connection charge. The current reasonable cost allowance for requisitions

would be removed and the requisition would be charged on the basis of the full cost of the work required.

c. Connections free of charge

All new connections would be carried out without direct charge to the customer requesting the connection. The existing service connection charge would be removed and the total cost of connections would be recovered from the general body of customers through annual water and sewerage charges.

d. Flat rate charging

All new connections would be charged a fixed rate in respect of all three aspects of the costs of making new connections to the networks. The fixed rate could be set at a level less than that required for full cost recovery with the remainder of the cost being borne by NI Water and recovered through annual water and sewerage charges to the general body of customers.

e. Full charging with revised reasonable cost allowance (RCA)

This is the proposed policy as summarized in the table at paragraph 7.1.

Costs and benefits

7.7 It is considered that the proposed policy will directly affect the following groups:

- Private developers
- Public sector developers (Housing Associations and, potentially, the NI Housing Executive)
- Existing property owners seeking a first time connection to the water and / or sewerage network
- NI Water (currently Water Service)
- Existing customers
- The regulator of the new water company and DRD are also stakeholders

7.8 Do you consider that this is a complete list of groups affected? If not, can you identify any sectors or groups not listed above that you believe may be affected by this new policy?

7.9 The following table sets out how the total cost of making new connections in Northern Ireland is made up. These are the current estimated costs regardless of who actually pays for the work (whether Water Service, Government or new customers). The estimated costs

are derived from estimated average costs for each group because the cost of making a connection to the networks is very case specific, particularly where a requisition is required. A property which is further away from the existing network as another similar property will incur a higher percentage contribution from the developer for connection to the network.

	Number of connections	Total cost £m	Number of connections	Total cost £m
	Water		Sewerage	
New properties				
Service connections	12,600	2.3	10,800	1.0
Requisitions	600	1.6	2,500	5.3
Infrastructure upgrade	12,600	3.2	10,800	2.7
Existing properties				
Service connections	100	0.0	200	0.0
Requisitions	100	0.6	200	0.6
Infrastructure upgrade	100	0.0	200	0.0
Total cost		7.7		9.6
Cost currently borne by developers		2.5 (32%)		1.3 (14%)

Option a. – Do nothing.

- 7.10 Benefits: option a. would retain the status quo and would impose no further costs on developers as NI Water would continue to make a contribution to new connection requisitions in excess of the revenue benefit arising from the new connection. Developers would continue to benefit from the infrastructure costs arising from their development being borne by NI Water. This option would also continue to benefit those households seeking first time connection for existing properties as it would retain the higher reasonable cost allowances for those properties.
- 7.11 Costs: developers would continue to bear around 22% of the total costs imposed by new development (almost entirely the connection charge element) – the 78% of costs borne by NI Water would be a cost passed on to existing customers through increased bills.

7.12 Charges: under this option existing customers could expect to pay (through their annual water and sewerage bills) almost all of the cost of new connections (excluding the cost of service connections). This would amount to between £10 – 15 of the average annual bill with no additional costs borne by developers.

Option b. – Full charging

7.13 Benefits: option b. would benefit NI Water as the company would receive new assets without making a contribution towards their construction. It would also benefit customers who would see a reduction in the level of bills.

7.14 Costs: NI Water would make no contribution to the costs which would be borne, in full, by developers. In light of the fact that ownership of these new assets would be passed to NI Water and the company would also receive new revenue from these new connections there is an issue as to whether this is fair. In the case of existing property owners without mains connections, the existing assistance (£5,000 for water and £4,000 for sewerage) would be removed and this would, effectively, terminate the provision of mains water to any of the remaining unconnected properties. Developers might be expected to pass on the increased cost to homebuyers in the form of increased prices for new houses although the overall cost of new property is generally determined by market forces. In the case of self-build, the cost will form part of the total house building costs.

7.15 Charging: under this option the total cost would be borne by developers in the case of new build and householders in the case of first time connections to existing properties. In the latter case it is unlikely that the cost would materialize because householders would be unable to bear the requisitioning costs. This option would reduce the costs borne by existing customers (compared to the ‘do nothing’ option) by between £10 – 15 per annum.

Option c. – Connections free of charge

7.16 Benefits: option c. would entail the removal of the existing charge for service connection and increase the reasonable cost allowance to cover the full costs of requisitioning. Developers of new build and existing households without a connection could benefit as NI Water would bear all costs associated with the connection.

7.17 Costs: NI Water would bear all the costs of new connections to the networks and this would be passed on to customers through annual charges.

- 7.18 Charging: under this option the level of cost borne by NI Water would increase from the current level. This would amount to between £ 15 – 20 of the average annual water and sewerage bill – around £5 higher than the ‘do nothing’ option.

Option d. – Flat rate charging

- 7.19 Benefits: the key issue in option d. is whether the level of the flat charge is set to recover all of the total costs associated with connections or only part of the cost. Where the total costs are recovered the benefits are similar to option a. Where only part of the costs is covered by the flat rate charge these benefits are reduced. In either case, developers who require expensive connections (i.e. where there is a requisition involved) could be expected to benefit most from this type of proposal.
- 7.20 Costs: again, the level of the flat rate charge is the determining factor here but the costs would be disproportionately borne by developers with lower cost connections (where no requisition is required or where the development is larger). In the case where the flat rate charges did not cover the full cost of the connections, existing customers could lose out as they would bear part of the cost through their annual charges.
- 7.21 Charging: this depends on the level of the flat rate charge. A flat rate charge of around £315 per water and sewerage connection would recover the same level of costs as is currently recovered under the ‘do nothing’ option. A higher charge would move in the direction of option b. whereas a lower charge would move in the direction of option c. Flat rate charges are currently in operation for the majority of service connections and are proposed for the infrastructure charges. It is the variation in requisitioning costs that argues against this option – should the bulk of the cost of requisitioning be borne by developments that do not require it?

Option e. – Full charging with revised reasonable cost allowance (RCA)

- 7.22 Benefits: option e. would pass the full cost of service connection and infrastructure charges to developers and represent a balanced apportionment of the cost of requisitions between NI Water and developers by relating the level of reasonable cost allowance to the level of new revenue. Existing customers would be protected from subsidizing the cost of new connections. The enhanced assistance available to existing households (and funded by DRD) would retain the ability to extend connections to isolated households without penalizing existing customers and increasing it in line with the increase in construction costs would be an improvement over the ‘do nothing’ option.

- 7.23 Costs: the introduction of infrastructure charges will be a cost for all new connections. Developers that require requisitions which cost in excess of the revised reasonable cost allowance will have an additional cost but not as high a cost as under option b. (full charging). The reduction of the sewerage reasonable cost allowance for existing properties would increase the cost for the small number of properties where a sewer connection is requisitioned.
- 7.24 Charging: charges to developers would increase from the current £3.8 million (£2.5 million water; £1.3 million sewerage) to £12.8 million (£6.6 million water; £6.2 million sewerage) – i.e. charges would raise around 74% (of the total cost) as compared to around 22% under the 'do nothing' option. These proportions will, of course, vary on a case by case basis depending on the work involved in making the connection required but the estimated overall increased cost for developers will amount to around £9.0 million per annum – i.e. an average additional cost of £325 per property for water and an average additional cost of £445 per property for sewerage. The average house price in Northern Ireland (Q4 2005) is around £118,000.
- 7.25 Option e. has been identified as the preferred option on the basis that it offers an equitable basis for funding new water and sewerage connections for both new and existing customers. It enables developers to see clearly what contribution they can expect to receive from NI Water Service towards the costs of connection. It also achieves a fair balance between charging the full costs which result from making the connection and providing a water company contribution in recognition that NI Water also receives a benefit from the work carried out.
- 7.26 Option e. is the option which achieves the objectives of the charging regime set out in paragraph 2.5. It is the only option which attempts to balance the full cost imposed by connection with the benefit resulting from it.

Small firms impact test

- 7.27 Consultation on this partial RIA will inform the Department of the impact this new policy will have on this important sector of the economy. This consultation is particularly aimed at seeking the views of businesses on the implication of these proposals for them. Small businesses and their representatives are particularly invited to respond to this consultation.

Competition Assessment

- 7.28 This proposed policy is not expected to have an impact on competition within the house building industry. The reasonable cost allowance will be available equally across the sector to all developers. The use of average income from charges as the basis of the reasonable cost allowance rather than the actual charges paid by a particular property will remove the possibility that larger housing units will be built at the expense of smaller units. The cost of infrastructure provision is only a small proportion of the cost involved in the decision to build new housing. The provision of housing is primarily driven by the existing demand and supply of housing.
- 7.29 Giving a set reasonable cost allowance to all new connections and charging a set infrastructure charge will make it easy for developers to see what charges they are likely to face for new connections and make it clear what size of a contribution they can expect from NI Water.

Enforcement, Sanctions and Monitoring

Enforcement

- 7.30 The new utilities regulator NIAUR and NI Water will be responsible for ensuring that the new policy is implemented properly.

Sanctions

- 7.31 There is no need for sanctions with regard to the new policy. Where charges are not paid, connections will not be made.

Monitoring

- 7.32 The proposed policy will be monitored by the Department, taking into account advice from the Consumer Council in its customer representative role, NIAUR and representations from developers.

8. IMPLEMENTATION OF THE PROPOSALS

8.1 The introduction of comprehensive water and sewerage charges is currently scheduled for 1st April 2007 with charges being phased in over three years – one third of the new charges will be payable in the first year, two thirds in the second year and the full charges payable from the third year. From 2007 existing customers will start to bear the cost of water and sewerage services and should not, therefore, be expected to bear the specific costs arising from new connections. Consequently, the implementation of these charging proposals should occur on the same date.

8.2 The introduction of these proposals will ensure that a subsidy from existing customers to new customers will be avoided when the comprehensive water and sewerage charging regime is introduced from 1st April 2007.

8.3 During the first two years when new domestic charges are being phased in, existing customers will not bear the full costs of the services that they receive but rather one third in 2007/08 and two-thirds in 2008/09. A cross subsidy between new and existing customers would also be avoided by phasing in the proposals on a similar basis. In these circumstances, the subsidy would be from DRD (through the general phasing subsidy for those two years).

8.4 Phasing in the proposals would entail introducing infrastructure charges on a 1/3 : 2/3 : 3/3 basis between 2007/08 and 2009/10. It would involve implementing the changes to the reasonable cost allowances on a similar basis. This would effect a transition from the current level of reasonable cost allowances to the proposed level and play a part in mitigating against a rush of applications before the cut off date of 31st March 2007.

8.5 It is proposed that the changes be phased in from 1st April 2007, in line with the phasing in of all other aspects of the comprehensive water and sewerage charging regime. Do you agree that these changes should be phased in?

8.6 The only exception to phasing would be applied in the case of the increased reasonable cost allowance for requisitioning a water main where the total allowance would be increased by the full amount to £6,500 on 1st April 2007.

8.7 Do you agree that the increase in the reasonable cost allowance for water main requisitions in respect of existing properties should be applied, in full, from 1st April 2007.

8.8 If this policy were to be adopted it would, practically, result in the following:

Connection charges: No change to the current full cost recovery policy – no change to be phased in.

Requisitioning charges: The reasonable cost allowances would change each year in line with the following table.

Allowances	2006/07	2007/08	2008/09	2009/10
Water				
New properties	£2,900	£2,450	£2,050	£1,600
Existing properties	£5,000	£6,500	£6,500	£6,500
Sewerage				
New properties	£2,300	£2,100	£1,950	£1,750
Existing properties	£4,000	£3,250	£2,500	£1,750

Note: for clarity, the above table is presented in 2007/08 prices and is simply illustrative. In practice, it is proposed that the reasonable cost allowances will be updated each year and will change as water and sewerage charges change.

Infrastructure charges: These would be introduced in 2007/08 at around one third of the proposed level, rising to the full charges in 2009/10.

9. SUMMARY OF CONSULTATION QUESTIONS

The following is a summary of the questions raised in this consultation document. However, you do not need to answer every question and you can comment on any aspect of the proposals even if a question has not been included.

Requisitioning

- | | |
|----------------|--|
| Paragraph 4.21 | It is proposed that the costs of requisitioning borne by developers should be reduced to reflect the lower maintenance costs of the new infrastructure in the early years. Do you agree with this approach? |
| Paragraph 4.24 | It is proposed that the water company will provide a reasonable cost allowance (as is the case at present). Do you agree that a reasonable cost allowance approach should be retained? |
| Paragraph 4.26 | It is proposed that the Northern Ireland reasonable cost allowances for water and sewerage should be set annually on the basis of a rolling 12 year NPV calculation of average water and sewerage charges. Do you agree with this approach? |
| Paragraph 4.28 | It is proposed to set a uniform reasonable cost allowance across Northern Ireland. This would mean that the approach being taken is the same for all developers, reflecting the analysis above that lower maintenance costs result from the new infrastructure. Do you agree that the same RCA should be set for all developments? |
| Paragraph 4.41 | Do you agree that special provision should be made for those currently living in properties without a mains connection? Do you consider that there are specific circumstances where this special allowance should be provided? Do you have any other suggestions as to how the extra cost of connection should be met without requiring other customers to subsidise the additional expense? |
| Paragraph 4.46 | It is recommended that the differential reasonable cost allowance available for connecting existing properties to the public sewer be ended because the situation is quite different to the water supply issue as ready alternatives are in place in most cases. Do you agree with this proposal? If not, can you provide any information that would explain |

the need to retain a higher sewerage allowance for existing properties?

Paragraph 4.50 Do you consider that a self-lay policy should be developed by Water Service?

Infrastructure charges

Paragraph 5.6 Do you agree that there is a valid rationale for the introduction of infrastructure charges for water and sewerage in Northern Ireland?

Paragraph 5.16 Do you agree that infrastructure charges should be levied on a 'per property' basis in respect of each new connection (separate charges for water and sewerage)? Do you accept that they should be set at a comparable level to the charges in GB?

Equality Impact Assessment

Paragraph 6.34 Do you agree that the policy proposals should be screened out from a full EQIA?

Partial Regulatory Impact Assessment

Paragraph 7.8 Do you consider that this is a complete list of groups affected? If not, can you identify any sectors or groups not listed above that you believe may be affected by this new policy?

Implementation of the proposals

Paragraph 8.5 It is proposed that the changes be phased in from 1st April 2007, in line with the phasing in of all other aspects of the comprehensive water and sewerage charging regime. Do you agree that these changes should be phased in?

Paragraph 8.7 Do you agree that the increase in the reasonable cost allowance for water main requisitions in respect of existing properties should be applied, in full, from 1st April 2007.

How to give your views

You are requested to provide comments in writing to arrive not later than 24th August 2006. Comments should be addressed to:

Norma McCrory
Finance and Regulation Directorate
Water Service
Mark Royal House
70-74 Donegall Street
BELFAST
BT1 8JP

Email responses may be sent to: WaterChargingQueries@waterni.gov.uk

Comments may also be faxed to: **028 9035 7678**