



Water today, water tomorrow

**Dispute referred under section 42, section 51C and section 30A  
Water Industry Act 1991**

**Requisition of offsite water infrastructure for the Parc Brymbo  
development in Wrexham**

**Taylor Wimpey UK Limited vs. Dee Valley Water Plc**

**Final Determination**

**Issued - August 2013**

**Amended - February 2014**

---

## Contents

1. Introduction	3
2. Legal Background	5
3. Factual background	9
4. Ofwat's draft determinations	14
5. Ofwat's final determination	17
6. Conclusion	22

---

# 1. Introduction

## A. The purpose of this document

- 1.1 This determination concerns a dispute referred to the Water Services Regulation Authority (“**Ofwat**”) by Taylor Wimpey UK Limited (“**Taylor Wimpey**”), under section 42(6), section 51C(11) and section 30A of the Water Industry Act 1991 (“**the Act**”) on 14 December 2009.
- 1.2 The dispute is between Taylor Wimpey and Dee Valley Water Plc (“**Dee Valley Water**”) and, as set out in section 42(6) and section 51C(11) of the Act, concerns the payments and security required to be provided under section 42 and section 51C of the Act.
- 1.3 More specifically, Taylor Wimpey disputes the amounts which Dee Valley Water may require Taylor Wimpey to pay to Dee Valley Water:
  - (a) as a condition of Taylor Wimpey's compliance with an adoption agreement under section 51C of the Act; and
  - (b) in relation to Taylor Wimpey's requisition under section 41(1)(c) of the Act

in respect of provision of a water supply to the Parc Brymbo housing development in Wrexham (“**the Site**”).
- 1.4 The payments under dispute relate specifically to the total amount charged by Dee Valley Water to Taylor Wimpey for the provision of offsite infrastructure, namely an upgrade to the Tanyfron pumping station (“**the Works**”).
- 1.5 Having reviewed the matter, it is clear that both parties are in dispute and a resolution cannot be achieved between the parties without our intervention. We are satisfied that we have jurisdiction to make a determination in accordance with section 42, section 51C and section 30A of the Act.
- 1.6 We considered that the most appropriate way to reach determinations in this case was in two stages. In stage 1 we considered whether the Works were necessary to provide a water supply to the Site.
- 1.7 We issued a stage 1 draft determination to the parties on 1 March 2012. This stated that we considered the Works were necessary in order to provide a

---

water supply to the Site. Both parties provided comments on our stage 1 draft determination.

- 1.8 We then issued a stage 2 draft determination to the parties on 17 May 2013. The stage 2 draft determination considered what costs can be reasonably recovered by Dee Valley Water from Taylor Wimpey in relation to the Works under section 42 and section 51C of the Act.
- 1.9 The parties made representations on our stage 2 draft determination and we have taken these into account. This document sets out our final determination in this matter.
- 1.10 It should also be noted that in preparing this final determination we have not sought to respond to every point made by the parties in the significant volume of documents and correspondence received. Nor do we seek in this final determination to summarise or deal explicitly with each individual point made by the parties. This final determination refers only to the facts and information that we have considered, acting reasonably, are relevant to enable us to reach a decision.

## **B. Overview of Ofwat's determination**

- 1.11 In reaching our decision we have considered the legal framework and evidence provided to us by the Parties on the costs incurred relating to the Works, and how they are apportioned to new development and the Site itself.
- 1.12 We determine, as set out in detail in this determination, that the Works were necessary in order to provide a water supply to the Site, and the total costs of the Works carried out by Dee Valley Water were reasonably incurred.
- 1.13 However, we disagree with the method of cost apportionment used by Dee Valley Water. We determine that Dee Valley Water should have apportioned the total costs of the upgrade to new development based on the percentage of the total capacity to be used for new development.
- 1.14 We expect Dee Valley Water to refund any monies which it has previously recovered from Taylor Wimpey in line with our determination. This should include any interest payable which should be calculated in accordance with [Ofwat's information notice on interest rates](#).

---

## 2. The Legal Framework

### A. Supplies for domestic purposes

- 2.1 Where an owner or occupier of premises requires a supply of water to its premises for domestic purposes:
- (i) under section 41(2) of the Act, the owner or occupier may requisition the water undertaker to provide a main. Subject to the conditions set out in section 41 of the Act being fulfilled, the water undertaker is under a duty to provide the water main (“**requisition**”); or
  - (ii) under section 51A(1) of the Act, a water undertaker may agree with any person constructing or proposing to construct a water main or service pipe that if the water main is constructed in accordance with the terms of an adoption agreement, the undertaker will, at an agreed date, adopt the water main or service pipe (“**self-lay**”).
- 2.2 The Act does not prevent an owner or occupier of premises from self-laying parts of the infrastructure under section 51A(1) but also requisitioning a water main from a water undertaker under section 41(2), at the same time, to provide a supply of water to a site. For example, the owner or occupier of the premises may have self-laid the entire onsite infrastructure needed within the boundary of the development site, but, in order to provide a supply of water to the properties on the site, provision of a water main will be required outside the boundary of the site. The owner or occupier could requisition the offsite water main in addition to providing the self-laid works.
- 2.3 In certain circumstances the works required to provide a supply of water to the site will involve enlarging the capacity of the water supply network already in place as opposed to providing a completely new water main. In both scenarios a requisition can be used to have the required infrastructure provided to enable a supply of water to the site.

### B. Requisition charge

- 2.4 Under section 41(1)(c), section 42(2) and section 51C of the Act, as part of the duty to comply with a water main requisition or self-lay adoption agreement, a water undertaker can recover a contribution from the owner or occupier of the premises towards the costs of providing the water main (the “**requisition charge**”).

- 
- 2.5 Under sections 42-43A of the Act, the requisition charge is calculated by reference to the water charges payable (by customers) over the 12 years following provision of the water main. Where the water charges exceed the actual costs incurred in providing the water main, the owner or occupier of the premises will not be required to make any payment. Where the costs exceed the water charges payable, the water undertaker is entitled to require the owner or occupier of the premises to pay the difference to the water undertaker.
- 2.6 Section 42(2)(a) provides for the owner or occupier of the premises to pay the water undertaker the requisition charge either by way of an:
- a) annual amount over the 12 years following provision of the water main (the “**relevant deficit**”); or
  - b) a single lump sum payment made following provision of the water main, which is referred to as the discounted aggregate deficit (the “**DAD**”, often referred to as the “**commuted sum**”).

The relevant deficit is calculated in accordance with section 43 of the Act and the DAD is calculated in accordance with section 43A of the Act.

- 2.7 Where any amount has been deposited by the owner or occupier of the premises with a water undertaker as security, the water undertaker is required to pay interest to that person. Interest rates should generally be applied in accordance with [Ofwat’s information notice on interest rates](#).

### **C. Asset Payment**

- 2.8 When a developer or self-lay organisation (SLO) lays a new main for domestic purposes, they enter into a self-lay agreement with the water company under section 51A of the Act. This agreement includes a payment from the water company to the developer / SLO (the “**asset payment**” or “**discounted offset amount**”), payable when the main is adopted by the water company.
- 2.9 Under section 51C(6), section 51C(7) and section 51C(9) of the Act, the asset payment is calculated over a 12 year period following the main’s adoption and reflects both the revenue the water company will receive from the properties that will be connected to the new main and costs the water company would have reasonably incurred had they provided the mains under a requisition.

---

## D. Costs reasonably incurred

2.10 Section 43(4) of the Act states that the costs that a water undertaker may include in providing a water main are:

- a) **“the costs reasonably incurred in providing such other water mains and such tanks, service reservoirs and pumping stations as it is necessary to provide in consequence of the provision of the new main”;**
- b) **“such proportion (if any as is reasonable of the costs reasonably incurred in providing or procuring the provision of any such additional capacity in an earlier main as falls to be used in consequence of the provision of the new main”.**

2.11 Section 43(1) of the Act states that the costs that a water undertaker may include in calculating the requisition charge are the annual borrowing costs of a loan (including interest and capital repayments) for the costs that would be reasonably incurred in providing the new main.

2.12 Section 43(2) of the Act specifically provides that costs incurred in the provision of additional capacity are not to be included in the costs reasonably incurred when calculating the requisition charge. This is expanded on by section 43(6) of the Act, which states:

“Any reference in this section to the provision of additional capacity in a water main provided in pursuance of a requirement under any enactment is a reference to such works carried out or other things done in connection with the provision of that main as are carried out or done for the purpose of enabling that main to be used for the purpose in addition to those for which it is necessary to provide the main in order to comply with the requirement”.

2.13 There are no specific provisions in section 43 of the Act setting out how costs should be apportioned when additional capacity is provided by the water undertaker, beyond the capacity requisitioned under section 41 of the Act. As set out above the Act only requires that **“costs reasonably incurred”** are recovered. There are two main approaches to apportioning the costs of the requisitioned works from the total costs incurred by the water undertaker in providing greater capacity:

- a) a notional costs approach, which estimates the costs that would have been incurred had the water undertaker provided just the infrastructure necessary to fulfil the capacity requirements of the requisition and nothing more. Clearly

---

where additional capacity has been provided, an undertaker will not know the final costs of the scheme, so can only use an estimate of the costs that would have been incurred; or

- b) an approach based on the percentage of the total capacity of the actual infrastructure provided that is used to fulfil the requirements of the requisition (based on the flow rates through the infrastructure provided). This as-built approach uses the actual, final costs incurred in providing the infrastructure and technical modelling to determine and apply the percentage of capacity used to fulfil the requisition.

## **E. Infrastructure charges**

- 2.14 Infrastructure charges are charges that a water undertaker is entitled to raise pursuant to section 146 of the Act for connection to a water supply or public sewer of premises which have never previously been connected to a water supply or sewer for domestic purposes.
- 2.15 The methods for calculating the amount of infrastructure charges a water undertaker can recover are set out in Condition C of a water and sewerage company's Instrument of Appointment.

---

### 3. Factual background

3.1 The key facts and background based upon our understanding of the information provided to us are as follows:

#### A. The parties

##### (i) Dee Valley Water

3.2 **Dee Valley Water** is appointed under the Act to provide water services to customers in parts of England and Wales.

##### (ii) The developer

3.3 **Taylor Wimpey** is a large developer who specialises in constructing residential and mixed use premises.

##### (iii) Other organisations involved

3.4 **Core Utility Services** is a self-lay organisation. Taylor Wimpey appointed Core Utility Services to lay the onsite water mains for the first two phases on the Site.

#### B. Charges levied in relation to the Site

3.5 Taylor Wimpey (via their contractor Core Utility Services) delivered the onsite water mains for the first two phases of the Site (Central and Southern phases) via the self-lay mechanism under section 51A(1) of the Act. For the third phase (Western phase) Taylor Wimpey requisitioned Dee Valley Water to provide the onsite infrastructure under section 41(2) of the Act. Dee Valley Water provided the offsite infrastructure for all three phases of the Site. Both the self-laid and requisitioned onsite infrastructure was adopted by Dee Valley Water under section 51A of the Act.

3.6 As a result of these two methods, Dee Valley Water's agreements with Taylor Wimpey comprised two types with related financial calculations:

a) a requisition agreement with a requisition charge payable by Taylor Wimpey to Dee Valley Water under section 41(1)(c) and section 42(2) of the Act; and

---

b) self-lay agreements with related asset payment by Dee Valley Water to Taylor Wimpey's self-lay operator for the infrastructure adopted under section 51C of the Act.

3.7 In addition Dee Valley Water levied water infrastructure charges for the Site, totalling £135,372.16, reflecting a charge of £288.64 for each of the Site's 469 properties.

### **C. Cost of the Works**

3.8 Our stage 1 determination concluded that the Works were necessary as part of the three phases of the Site's development (both the requisitioned and self-laid mains) in order to provide a water supply to the Site. This final determination considers what costs can be reasonably recovered by Dee Valley Water from Taylor Wimpey in relation to the Works provided under section 42 and section 52C of the Act, by means of their inclusion in the calculations for the commuted sum for the requisitioned main and the financial conditions of adoption for the self-laid mains.

3.9 The Works involved Dee Valley Water replacing an existing pumping station at Tanyfron with a new one. Dee Valley Water stated that the costs incurred consisted of:

- the costs of installing a generator;
- the costs of installing new pumps; and
- building costs.

3.10 In June 2008, Dee Valley Water provided an estimate of the total costs of the Works to Taylor Wimpey of £203,927.52.

3.11 Dee Valley Water provided us with a detailed breakdown of the activities that were the subject of this estimate. Table 1 below is a high level summary of the individual cost components that totalled £203,927.52.

**Table 1 – Dee Valley Water's estimated total costs of the Works (June 2008)**

<b>Activity</b>	<b>Cost</b>
Building	£67,633.51
Pumps	£88,705.11
Generator	£47,588.90
<b>Total</b>	<b>£203,927.52</b>

---

3.12 On 6 September 2012, Dee Valley Water confirmed that their final costs for the Works were £289,506.36.

#### **D. Apportionment of the cost of the Works**

3.13 In December 2007, when assessing the spare capacity of the local water network, Dee Valley Water said that the area was experiencing a large amount of new household and non-household development. Dee Valley Water considered all known and potential developments in the area, and estimated that new development would generate an increase of 1,000 properties. Using their meter monitor results, they estimated that each of these properties would generate an average demand of 0.4m<sup>3</sup>/day.

3.14 The Site consists of 469 properties which is 46.9% of the 1,000 new development properties forecast for the area.

3.15 Dee Valley Water's estimated total costs of the Works were £203,927.52. Table 2 below shows how much of the total costs of the Works Dee Valley Water apportioned to new development.

3.16 Dee Valley Water apportioned 100% of the cost of extending an existing building to all new developments in the area. Dee Valley Water's reasoning for this is that if there had been no new development, there would have been no need to extend the building.

3.17 Dee Valley Water apportioned 33.3% (one third) of the cost of pumps to all new developments in the area (including the Site). Dee Valley Water's reasoning for this is that although it installed three pumps, only one pump was required to supply the additional demand resulting from the new development.

3.18 Dee Valley Water apportioned 21.15% of the cost of the generator to all new developments in the area. Dee Valley Water's reasoning for this is that the new development will lead to an increase in water consumption of 21.15%. It carried out network modelling which predicted there will be 1,000 new development properties in the area, which will consume in total 400m<sup>3</sup>/day of water. Dee Valley Water has calculated that existing demand in the area is 1,891m<sup>3</sup>/day. An extra 400m<sup>3</sup>/day constitutes a 21.15% increase in demand.

3.19 As a result of the apportionment percentages set out above, Dee Valley Water apportioned £107,353.69 of the estimated total costs of £203,927.52 to new development. This equates to 52.64% of the estimated total cost of the Works.

**Table 2 – Dee Valley Water’s apportionment of the estimated total costs of the Works<sup>1</sup>**

<b>Activity</b>	<b>Cost</b>	<b>Percentage of the cost apportioned to all new development in the area</b>	<b>Amount apportioned to all new development in the area</b>
Building	£67,633.51	100%	£67,633.51
Pumps	£88,705.11	33.30%	£29,538.80
Generator	£47,588.90	21.15%	£10,181.38
<b>Total</b>	<b>£203,927.52</b>	<b>52.64%</b>	<b>£107,353.69</b>

3.20 Dee Valley Water’s total cost for the Works (provided in September 2012) was £289,506.36. Dee Valley Water have deflated this figure to 2006/07 prices to reach a total cost figure of £267,515.98. They applied the same total apportionment figure used for the estimated costs (52.64%) to attribute £140,828.60 of the final costs to new development, as shown in table 3.

**Table 3 – Dee Valley Water’s apportionment of the total costs of the Works**

<b>Cost</b>	<b>Percentage of the cost apportioned to all new development in the area</b>	<b>Amount apportioned to all new development in the area</b>
<b>£267,515.98</b>	<b>52.64%</b>	<b>£140,828.60</b>

3.21 Dee Valley Water has split these costs between the 1,000 new development properties forecast for the Site, attributing a unit cost of £140.83 per property. The Site consists of 469 properties and hence Dee Valley Water apportioned £66,048.61 (469 x £140.83) of the costs incurred to the Site.

3.22 The remaining assumed new development consists of 531 properties, resulting in Dee Valley Water apportioning £74,779.99 (531 x £140.83) to further new development.

<sup>1</sup> These calculations are based on information provided to us by Dee Valley Water on 6 September 2012.

---

## **E. Apportionment of new total capacity between existing customers and new development**

- 3.23 Dee Valley Water explained that it replaced the existing pumping station, which had a total maximum capacity of 1,992m<sup>3</sup>/day, with a new pumping station which has a total maximum capacity of 2,352m<sup>3</sup>/day. However, although it has a maximum capacity of 2,352m<sup>3</sup>/day, the pumping station is only used for between 11.5 hours and 15.5 hours per day, resulting in a total capacity of 1,323m<sup>3</sup>/day.
- 3.24 It explained that the new pumping station provides water for both new development and existing customers. 400m<sup>3</sup>/day (30.23% of the new total capacity) is for new development, while the remaining 923m<sup>3</sup>/day (69.77%) is for existing customers.

## **F. Revenue income from the Site**

- 3.25 Details of the revenue income to be generated from the Site's properties are fed into Dee Valley Water's calculation of both the requisition charge (for the Site's requisitioned infrastructure) and the asset payment (for adoption of the Site's self-laid infrastructure).
- 3.26 In June 2008 Dee Valley Water included in the estimates to Taylor Wimpey, an annual revenue per property figure of £65. Dee Valley Water based this figure on similar modern developments in the area.
- 3.27 After Taylor Wimpey queried this figure Dee Valley Water agreed to revisit it to determine the actual revenue income per property. Using actual meter readings for the occupied properties at the Site (94% of the Site), the company calculated annual revenue income per property to be £71.58. In September 2012 Dee Valley Water confirmed that they would use this final actual income figure in its final calculations of the requisition charge and asset payment. This revised figure has not been disputed by Taylor Wimpey and hence is not subject to this determination.

---

## 4. Ofwat's draft determinations

### A. Stage 1 draft determination dated 1 March 2012

- 4.1 We issued a stage 1 draft determination to the parties on 1 March 2012. It concluded that we considered the Works were necessary in order to provide a water supply to the Site. Dee Valley Water has provided Ofwat with robust data that it used to determine the demands on the network and hence determine whether or not capacity was available for the increased demands of the Site. As such, we concluded that there was sufficient evidence that the works Dee Valley Water carried out were necessary.
- 4.2 We provided both parties with the opportunity to make written representations on the stage 1 draft determination. We received representations from Taylor Wimpey on 15 March 2012 and from Dee Valley Water on 22 March 2012.
- 4.3 Taylor Wimpey considered that the Tanyfron pumping station provided sufficient capacity to supply the Site with no need for upgrades. Therefore, it considered that it should not have to contribute towards such Works. However, in Ofwat's view, in the absence of the Works, the pumping station would not have had sufficient capacity to provide water to the rest of Dee Valley Water's area.
- 4.4 Dee Valley Water agreed with the conclusions set out in our stage 1 draft determination.

### B. Stage 2 draft determination dated 17 May 2013

- 4.5 We issued a stage 2 draft determination to the parties on 17 May 2013. It concluded that we disagreed with the method Dee Valley Water had used to apportion costs of the Works between the new development and the existing development.
- 4.6 We provided both parties with the opportunity to make written representations on the stage two draft determination. We received representations from Dee Valley Water on 5 June 2013 and from Taylor Wimpey on 7 June 2013.
- 4.7 Dee Valley Water disagreed with our method of calculating apportionment for the following two reasons:

- 
- a) It said we did not consider the normal operating regime of a pumping station. We had assumed the pumping station was run for 24 hours per day at an hourly capacity of 98m<sup>3</sup> to create a daily capacity of 2,352m<sup>3</sup>. However, Dee Valley Water explained that pumping stations such as Tanyfron are not designed to operate continuously, but are designed to run economically and usually at night when it is cheaper to do so. It says that the pumping station is operated for between 11.5 hours and 15.5 hours per day, creating a total daily capacity of between 1,127m<sup>3</sup>/day and 1,519m<sup>3</sup>/day (1,323m<sup>3</sup> on average).

### **Our Response**

We have considered Dee Valley Water's argument, and believe it is reasonable. As a result, we accept that the pumping station creates a capacity of 1,323m<sup>3</sup>/day, rather than 2,352m<sup>3</sup>/day and have reflected this in our apportionment calculation below in paragraphs 5.13 to 5.15.

- b) Alternatively, Dee Valley Water said that if we consider the maximum pumping capacity pumping station should be used in the calculation of the apportionment of costs, we should take into account the seasonal variation in demand for water.

### **Our Response**

Because we took account of Dee Valley Water's argument in a) that the pumping station does not operate for 24 hours per day, we do not believe that it is necessary to make any further adjustments in relation to Dee Valley Water's argument about the seasonal variation in demand.

#### 4.8 Taylor Wimpey made three points:

- a) It asked us to set out in our final determination the timescales for Dee Valley Water to provide it with a refund.

### **Our Response**

We have specified that Dee Valley Water must pay the refund to Taylor Wimpey within 28 days of the date of this determination.

- b) It asked us to clarify what Dee Valley Water spent infrastructure charges on.

---

## **Our Response**

The agreed scope of this determination has been limited to considering the apportionment of the cost of the offsite infrastructure. We have not sought or received evidence on possible double recovery.

- c) It considered the assumption made by Dee Valley Water that each new development property would consume 400 litres of water per day to be high.

## **Our Response**

We are comfortable with Dee Valley Water's consumption assumption of 400 litres per property per day for the 1,000 new development properties. This figure is an average forecast across all new development in the area and is a mixture of at-the-time-unknown household and non-household consumption, and comprises allowances for leakage and bad debt. Dee Valley Water provided Ofwat with robust data that showed this consumption assumption was broadly in line with its actual metered consumption. Dee Valley Water also provided us with robust data that showed leakage was increasing, even on new developments, so it was prudent to assume such a leakage allowance.

---

## 5. Ofwat’s final determination

### A. Overview

- 5.1 We have carefully considered the evidence provided by the parties to us and the responses on both draft determinations in order to determine the reasonable cost of the work that is attributable to the Site.
- 5.2 We set out our final determination on each of the issues raised below.

### B. Reasonableness of costs

- 5.3 The total cost of the Works was £267,515.98, which comprised the cost elements set out in Table 2. We only collect data on certain standard cost items relating to pumping stations during the price setting process in 2009 (known as ‘PR09’). As a result, we have only been able to judge the reasonableness of the “pipework” and “electrical” costs associated with the pump and generator costs. However, we have not received any evidence that questions the reasonableness of the building costs. We have compared the pipework costs and the electrical costs assumed by Dee Valley Water with data we have for other companies, and do not consider Dee Valley Water’s estimates to be radically different. For instance, the proportion of pipework costs comprising total costs in the data we have ranges from 2% to 14%. The proportion for Dee Valley Water is within this range. Additionally, although Dee Valley Water only submitted one pumping station standard cost to us at PR09, the company’s cost was the lowest of the 15 submitted to us.
- 5.4 For the reasons set out in section 5.3 above, we are satisfied that the costs incurred by Dee Valley Water were reasonably incurred in accordance with section 43(2) of the Act.
- 5.5 By looking at actual meter readings for occupied properties at the Site, Dee Valley Water calculated the annual revenue per property to be £71.58. We are satisfied that this provides an accurate representation of annual income revenue per property at the Site and that this should be the figure used in calculating the requisition charge and asset payment.
- 5.6 Dee Valley Water provided us with a breakdown of the costs it incurred for self-lay design, including job card details. It had initially quoted £5,000 for this work. The total costs of £3,784.31 are in line with standard industry costs, and

---

we are satisfied that they were reasonably incurred in accordance with section 43(2) of the Act.

- 5.7 Dee Valley Water provided us with a breakdown of the costs it incurred for supervision of the requisitioned mains, including job card details. It had initially quoted £10,000 for this work. The total costs of £8,200.45 are in line with standard industry costs, and we are satisfied that they were reasonably incurred in accordance with section 43(2) of the Act.

### **C. Costs attributable to the Site**

- 5.8 In order to calculate the requisition charge and asset payments for the Site, Dee Valley Water apportioned the individual costs incurred in the Works (building, pumps, and generator) according to the extent to which they were required for the new and/or existing development (see sections 3.16 – 3.18). The total of these were then subsequently apportioned according to the percentage of new development as set out in table 3.
- 5.9 We have determined that this is not an appropriate apportionment of the costs incurred in the Works. The way Dee Valley Water has apportioned the three components of the cost is inconsistent: the building costs being driven by a principle of being in consequence of the requisition; the pump costs by the percentage of the capacity provided that is used by the new development; and the generator costs driven by the increase in demand arising from the new development. Likewise applying the total percentage of apportionment resulting from the estimated costs (52.64%) to Dee Valley Water's higher, actual costs assumes a proportionate increase across the three components.
- 5.10 As set out in section 2.13 above, we consider that there are no specific provisions in section 43 of the Act setting out how apportionment must be calculated. The requirement is to ensure that only those "**costs reasonably incurred**" with the provision of the relevant infrastructure in accordance with section 43(2) of the Act are recovered.
- 5.11 We consider that, in general, an approach to recovery based on the percentage of capacity used is consistent with the legal provisions as set out in section 43 of the Act and is consistent with ensuring that Dee Valley Water recovers only those costs reasonably associated with the provision of the relevant infrastructure. By apportioning requisition charges based on the percentage of capacity of infrastructure used by new development, water companies will recover from developers only those costs which are attributable to a development and not any more or less. It will also result in any subsequent developers making a fair contribution to the provision of the

---

infrastructure. We consider that recovery of costs based on percentage of capacity of infrastructure used, is a reasonable and equitable manner in which to apportion the costs and risks between developers and the water undertaker.

- 5.12 We consider that the principle of “**costs reasonably incurred**” as specified in section 43(2) of the Act supports the percentage of capacity used approach. “**The costs reasonably incurred**” in providing a main can be interpreted to include the proportionate splitting of the cost of a pumping station which is increased in capacity to ensure that the requisitioning developer only pays the proportion of the cost of building and using the proportion of the new pumping station that is attributable to that development.
- 5.13 We determine that Dee Valley Water should apportion the total costs of the upgrade to new development based on the capacity of the infrastructure that will be used by the new development. Therefore, 30.23% of the total capacity is for new development while the remaining 69.77% is for existing customers.
- 5.14 We determine that the total (rather than sub-component) costs incurred for the Works should instead all be apportioned on the basis of the percentage of the capacity of the infrastructure provided that is directly attributable to the Site. The upgrade creates a total capacity of 1,323m<sup>3</sup>/day. This consists of 400m<sup>3</sup>/day for new development and 923m<sup>3</sup>/day for existing customers.
- 5.15 As a result, demand from the new development accounts for 30.23% of the capacity provided by the new infrastructure (see 3.22-3.23). Therefore 30.23% of the total costs incurred, £267,515.98, should be apportioned to new development, resulting in a figure of £80,870.08. This should be subsequently apportioned between the proportion of the new development made up by the Site. The Site consists of 469 of the 1,000 properties forecast, resulting in apportioned costs of £37,928.07, with the remaining costs of £42,942.01 apportioned to the remaining new development in the area. As such £37,928.07 should be the costs incurred used in Dee Valley Water’s calculations for the Site’s requisition and self-lay agreements.
- 5.16 Table 4 below sets out the differences between how Dee Valley Water apportioned the cost of the upgrade, and how we determine the apportioned costs.

**Table 4: Our final determination of the apportionment of total costs incurred (in 2006/7 prices)**

	Total costs	Amount apportioned to new development	Amount apportioned to Taylor Wimpey's Site	Amount apportioned to remaining new development
<b>Dee Valley Water's cost apportionment</b>	£267,515.98	£140,820.41 (52.64% of total upgrade costs)	£66,048.69 (46.9% of costs apportioned to new development)	£74,779.99 (53.1% of costs apportioned to new development)
<b>Ofwat's draft determination</b>	£267,515.98	£80,870.08 (30.23% of total upgrade costs)	£37,928.07 (46.9% of costs apportioned to new development)	£42,942.01 (53.1% of costs apportioned to new development)

5.17 As set out in 5.15 we have determined that £37,928.07 is the proportion of the costs reasonably incurred that should be attributed to the Site. These are the costs that should be fed into Dee Valley Water's calculation of the requisition charge (for the Western phase of the Site) and the asset payment (for the Central and Southern phases of the Site), reflecting the number of properties on each phase. The resulting requisition charge and asset payment figures can then be set against payments made to date to enable outstanding payments and/or refunds to be made. Interest due on these should be calculated in accordance with [Ofwat's information notice on interest rates](#).

We expect Dee Valley Water to make any refund to Taylor Wimpey within 28 days of the date of this final determination.

#### **D. Interest rates**

5.18 Where any amount has been deposited by the owner or occupier of the premises with a water undertaker as security under section 42 or section 51C of the Act, the water undertaker is required to pay interest to that person under section 42(4) of the Act.

5.19 The amount paid by Taylor Wimpey under the terms of the requisition was a deposit by way of security to ensure payment of the full amount due when the

---

Works had been completed. Therefore, interest is payable by Dee Valley Water for the amount held as security. This should be calculated in accordance with [Ofwat's information notice on interest rates](#).

## **E. Infrastructure charges**

5.20 We determine that Dee Valley Water is entitled to recover water infrastructure charges for the Site under section 146 of the Act (see paragraph 2.14). We would however only expect infrastructure charges to be levied in addition to the requisition charge where this is required to cover additional costs incurred by the water company due to the requisition necessitating other, wider local network reinforcement works. We would expect these costs to be distinct from those covered by the requisition charge. If infrastructure charges are levied for this Site, we would expect Dee Valley Water to be able to demonstrate that there has been no double recovery of costs.

---

## 6. Conclusion

- 6.1 We determine that the total costs incurred by Dee Valley Water in completing the Works were reasonable.
- 6.2 As outlined in section 5.13, we have determined that Dee Valley Water should apportion the total costs incurred to new development based on percentage of the provided infrastructure used by new development. This is 30.23% of the total capacity, which should then be apportioned between the Site (46.9%) and the remaining new development (53.1%). As such we determine that £37,928.07 (2006/07) of the costs incurred should be attributed to the Site and this figure should be used in Dee Valley Water's calculations for the requisition charge and asset payment. Interest is payable by Dee Valley Water to Taylor Wimpey for the amount held as security and should be applied in accordance with [Ofwat's information notice on interest rates](#).
- 6.3 We determine that Dee Valley Water is entitled to levy water infrastructure charges in addition to the requisition charge for the Site's infrastructure. We would however only expect infrastructure charges to be levied in addition to the requisition charge where this is required to cover additional costs incurred by Dee Valley Water to undertake wider local network reinforcement as a result of the Site's new demand. We would expect these costs to be distinct from those covered by the requisition charge and that, should they be levied, Dee Valley Water would be able demonstrate that there has been no double recovery of costs.