

Dŵr Cymru Welsh Water's Policy on Security Requirements in relation to Self-lay and Requisition July 2015

This Policy sets out Dŵr Cymru Welsh Water's approach to its requirement for a security in certain circumstances relating to a self-lay design and/or construction and/or requisition of a new potable water mains and/or sewerage infrastructure.

This Policy has been created to assist developers and self-lay organisations (SLOs) in their decision as to whether to self-lay, or requisition the design and/or construction of the infrastructure from Welsh Water.

Welsh Water's security requirements are summarised in this table, and explained in detail below.

Self-lay of water mains	<ul style="list-style-type: none"> • Discounted Aggregate Deficit Option (DAD) – payment of estimated commuted sum • Retention - 10% of asset payment
Sewer adoption	<ul style="list-style-type: none"> • Surety – 33% of total estimated construction costs
Requisition of water mains	<ul style="list-style-type: none"> • Relevant Deficit Option (RD) – security; or • DAD – payment of estimated commuted sum
Requisition of sewers	<ul style="list-style-type: none"> • RD – security; or • DAD – payment of estimated commuted sum

1. Self-lay of water mains

- 1.1. If a developer decides to self-lay water mains all or some of the contestable works will be carried out by the SLO.
- 1.2. The non-contestable works, and any contestable works that the developer and/or SLO choose not to carry out, will be carried out by Welsh Water.
- 1.3. Welsh Water considers the activities included in the table at Appendix 1 will generally be non-contestable on the basis that they relate to Welsh Water's statutory undertakings or fundamental aspects that are key operational considerations that cannot be delegated to others to undertake.

DAD

- 1.4. Before any work commences on site, Welsh Water shall provide the SLO with an offer letter which explains the DAD payment which is due before commencement of the scheme. The DAD is a commuted sum which is calculated by offsetting the estimated future income based on occupancy that Welsh Water shall receive from the development's water charges over a 12 year period against the estimated total cost of providing the scheme from the date on which the water main is commissioned.
- 1.5. On completion of the self-lay, Welsh Water has a duty to adopt the water mains provided that the terms of the self-lay agreement are met. The self-laid water mains therefore become part of Welsh Water's live operational assets, and Welsh Water has an ongoing responsibility to maintain them in perpetuity.
- 1.6. Three months after the completion of the scheme, Welsh Water should normally be able to re-calculate the commuted sum amount based on the actual scheme costs and shall re-assess the income forecasts from the development. If the re-calculation shows that the developer has over-paid, Welsh Water shall reimburse the developer (with interest based on Ofwat's Information Notice on rates) within 30 days. If the developer has under-paid a further payment will be due to Welsh Water within 30 days.

Asset payment

- 1.7. On adoption of the water mains, Welsh Water pays an asset payment to the SLO which is calculated on the basis of the Water Industry Act 1991 and takes into account the cost of the contestable and non-contestable works.

Retention

- 1.8. To protect Welsh Water from the risk of discovering latent defects in the asset following adoption, Welsh Water retains 10% of the asset payment for a period of 1 year post-adoption to cover the cost of any rectification work required. Based on Welsh Water's experience and professional judgment, 10% is a fair, reasonable and non-discriminatory percentage to retain in relation to self-laid water mains. Welsh Water shall continue to monitor how this works in practice and keep it under review so as to ensure that it remains objectively justifiable.

2. Sewer adoption

- 2.1. If a developer decides to self-lay sewerage infrastructure, the developer/SLO will design the new sewerage system. Following inspection, and providing that the sewerage system is built in accordance with the mandatory adoption regime (or other recognised standards for those parts of a sewerage system that are not subject to the mandatory requirements), Welsh Water shall adopt the sewerage system. The adopted sewer therefore becomes part of Welsh Water's live operational assets which Welsh Water has an ongoing responsibility to maintain.

Surety

- 2.2. On agreeing to adopt the sewerage system and a sewer adoption agreement (ie. a section 104 agreement) being put in place, to protect Welsh Water from the risk of there being latent defects in the work, Welsh Water requires a surety from the developer in the form of a bond,

or a cash deposit if the sum is £2000.00 or less. This is set out in Welsh Water's standard section 104 agreement. Welsh Water shall accept sureties in the form of a bond from recognised AA rated insurers.

- 2.3. The level of surety payment is 33% of the total estimated construction costs. Based on Welsh Water's experience and professional judgment, 33% is a fair, reasonable and non-discriminatory percentage to hold pending completion of the work and satisfactory conclusion of the defects liability period in respect of self-laid sewers. Welsh Water shall continue to monitor how this works in practice and will keep the level of surety under review in order to ensure that it remains objectively justifiable.
- 2.4. Welsh Water shall hold the surety for a period of 1 year post-adoption to cover the cost of any rectification work required. If no work has been required by the end of this period, Welsh Water shall inform the developer/SLO that the surety is no longer needed and the bond can be cancelled or the cash bond returned (the latter with any interest due in accordance with Ofwat's guidance). Where remedial work is required, Welsh Water will draw on the surety in line with the sewer adoption agreement and hold the bond until such time as the developer's obligations have been fulfilled.

3. Requisition of water mains and/or sewerage infrastructure

- 3.1. If a developer decides to requisition water mains and/or sewerage infrastructure, Welsh Water constructs the infrastructure.
- 3.2. Two payment options are available to the developer in these circumstances:
 - 3.2.1. RD: With the RD Option Welsh Water calculates the guaranteed annual amount required to be received every year for 12 years to enable Welsh Water to recover the capital and loan cost of providing the water main and/or sewerage infrastructure. The developer agrees to reimburse Welsh Water annually over the 12 year period any shortfall between the guaranteed annual amount and revenue received from the water and/or sewerage charges from the development in that year. Before we commence work, we require the developer to provide a security in the form of a bond that we can call upon in the event that the developer does not pay the shortfall due in any of the 12 years. The security amount will start off as being the total estimated construction costs including financing costs (plus a 10% contingency) over the 12 year period, and will reduce on an annual basis over the 12 years as revenue from the new development starts to be received by Welsh Water. At the end of the 12 year period, or once the revenue received from the water and/or sewerage charges exceeds the total guaranteed amount, we shall confirm that the surety is no longer required and the bond can be cancelled; or
 - 3.2.2. DAD: The DAD is calculated by offsetting the estimated future revenue based on occupancy that Welsh Water shall receive from the development's water and/or sewerage charges over a 12 year period against the total cost of providing the scheme (including the financing costs). Before we commence work, we require the developer to provide a security payment in the sum of the estimated DAD. Welsh Water holds the estimated DAD until the construction is complete. On completion, we recalculate the DAD using the final cost data and we will either refund the developer the difference, or request an additional payment. Interest is also payable on the security payment held by Welsh Water and this will be taken into account during the preparation of the final account and reconciliation.

APPENDIX 1 – TABLE OF NON-CONTESTABLE ACTIVITIES

Design	<ul style="list-style-type: none"> • Hydraulic analysis of Welsh Water's existing water or sewerage systems; • Design of any complex connections to the existing water/sewerage systems; • Designing the diversion of any existing water mains; • Designing the diversion of any complex/significant existing public sewers; • Designing reinforcement of the existing water network; • Designing reinforcement of the existing sewerage network; and • Sizing of water mains – Welsh Water occasionally retains responsibility for this part of the design work if it has particular requirements although this rarely occurs in practice.
Design Approval	<ul style="list-style-type: none"> • Approving new water network designs that are solely required to supply the development; and • Approving new sewerage network designs that are solely required to supply the development.
Installation	<ul style="list-style-type: none"> • Off-site work to reinforce the existing water distribution network; • Off-site work to reinforce the existing public sewerage network; • Connections that involve risk to existing customers; • Initial mains connections to existing asset infrastructure other than that specified as contestable work (i.e. back-to-back connections); • Complex sewer connections to the existing sewerage system; and • Any work requiring the use of Welsh Water's statutory powers for entering third party land.
Commissioning	<ul style="list-style-type: none"> • Water sampling and quality testing; and • Decommissioning redundant mains following a diversion.