

**SOUTH WEST WATER
BULK CHARGES FOR NAVs
2019/20**



Introduction

South West Water (SWW) is the water and wastewater service provider for a population of around 1.7 million in Cornwall, Devon, and parts of Somerset and Dorset. Since 2016 it has also been providing water-only services in the Bournemouth Water (BW) region to a population of 0.5 million.

South West Water and Bournemouth Water are part of South West Water Limited, which is a member of Pennon Group PLC.

This document sets out South West Water's methodology for calculating bulk charges for New Appointments and Variations (NAVs) in situations when Ofwat appoints a new water and sewerage company for a site within the company's combined area of supply.

It also sets out the standard 2019/20 charges for NAVs requesting a bulk supply of water and/or bulk discharge of sewage.

The assumptions set out below apply, in the main, to NAVs in both the SWW and BW regions. Where this is not the case we refer to the two regions individually.

We will provide costs for additional services such as meter reading separately.

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Background

The New Appointments and Variations (NAV) regime was introduced under the Water Industry Act 1991 (WIA91) to provide a mechanism to facilitate new entry into the water and wastewater sector and to allow appointed undertakers (incumbents) to expand outside of their geographical area of appointment.

- A new appointment is made when Ofwat, the economic regulator for the water industry in England and Wales, appoints a limited company to provide water and/or sewerage services to a specific geographic area. A new appointee has the same duties and responsibilities as the previous company.

- A variation occurs when an existing appointed company requests Ofwat to vary its appointment to extend the area it serves.

Following a review of the NAV market, Ofwat consulted in November 2017 on proposals for a new approach to calculating the bulk supply charges incumbent water companies charge NAVs. It published its final guidance on pricing for bulk supply services provided to NAVs in England and Wales in May 2018¹.

The guidance sets out the principles Ofwat will use when making determinations on bulk supply agreements, and places new requirements on incumbent companies for the publication of charges that NAVs can use to estimate bulk supply charges ahead of bidding for developer work.

Incumbents are expected to:

1. Publish tariff information that NAVs can use to estimate bulk supply charges ahead of bidding for developer work.
2. Publish an explanation of the methodology a NAV should use to estimate its overall bulk supply charge.
3. Promptly adjust their bulk supply charges to reflect any material changes.

Purpose

The charges laid out in this document are provided to assist NAVs to estimate their bulk water and/or wastewater charges for a site.

In practice actual charges may be a weighted average and will depend on the number and type of properties supplied and the volumes consumed or discharged.

We have assumed a standard set of assumptions and expect that the charges set out here will be relevant to the majority of NAV sites.

Non-standard sites

Where a site has characteristics that are significantly different to these assumptions we will assess it on a site-specific basis. Please note therefore that nothing in this document constitutes an offer.

Examples of significantly different sites include those:

- Requiring trade effluent services
- With non-standard infrastructure length eg flats, student accommodation or office blocks, or
- If a non-household customer on site exceeds the company's large user tariff thresholds.

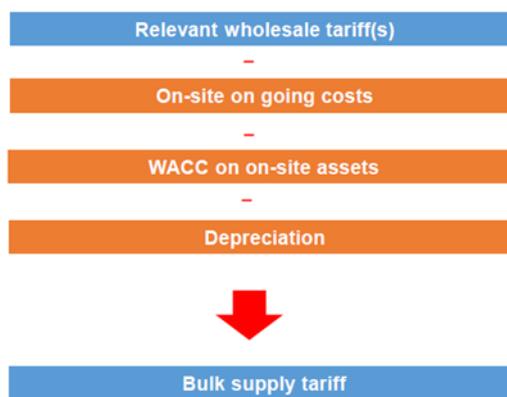
¹ <https://www.ofwat.gov.uk/wp-content/uploads/2018/05/Bulk-charges-for-NAV-fnal-guidance.pdf>

Any specific charge resulting from a site-specific assessment will be incorporated in this document in the following year.

General principles

South West Water is committed to supporting a level playing field. In developing our charges and in producing this document we have incorporated the principles and expectations set out in Ofwat's guidance.

We have developed the charges set out here in accordance with Ofwat's 'wholesale minus' principle, laid out in its NAV guidance:



Stage 1: Relevant wholesale tariffs

We have used South West Water's and Bournemouth Water's 2019/20 standard wholesale water and wastewater charges for household and non-household customers to form the basis of the NAV bulk charges set out below.

For the South West Water region dual-service charges have been used on the basis that a NAV must equal our charges, and therefore to ensure there is no detriment we have used charges equal to those we would have applied had South West Water provided both services. This does not apply to Bournemouth Water charges.

Stage 2: On-site ongoing costs

Information on how we established on-site ongoing cost for each of the services is provided below.

General

- We have based our calculations on audited published information contained in South West Water's Annual Performance Report and Regulatory Reporting document, published in accordance with detailed requirements established by Ofwat.
- Data for each of the three years to 31 March 2016, 31 March 2017, and 31 March 2018 has been averaged.
- For the year ended 31 March 2016, when Bournemouth Water Limited was last required to report separately we have used information from these Regulatory Accounts.
- Source data includes all costs as reported. Regulatory reporting of opex transfers was not required until 2017/18, but for consistency we have added the costs for the 2015/16 and 2016/17. For 2015/16 and 2016/17, in the case of waste water, we have also allowed for the correction (an increase of 1,800km) to sewer lengths following detailed survey work by a third party. There are no other adjustments and in particular no adjustments in respect of 2017/18. It is likely that the reported costs used for the calculation of these bulk tariffs will exceed those experienced by NAVs. They may also reflect costs where South West Water will not be able to achieve cost savings. However, we have retained these items in the calculations in the interests of transparency, clarity and simplicity.
- Tariffs adjusted for on-site leakage incorporate a reduced volume charge which allows for estimated leakage of 2.32% beyond the point of supply. This represents 20% of the on-site leakage for a new development in South West Water's area of supply. This percentage is that laid out in the Water Resources Management Plan. These rebated tariffs will only apply to NAVs where volumes charged are measured at the site boundary and not at customer meters.

Water charges

- Wholesale clean water totex is sourced from Table 4D data contained in the company's Annual Performance Report and Regulatory Reporting report (the Regulatory Accounts).
- No discount will be provided on account of potential reductions in Cumulo rates chargeable on clean water infrastructure assets. The reason for this is that the company will not benefit from any increase in its Regulatory Capital Value (RCV) because of the investment, the gross equivalent annual value of rateable assets is fixed until the next revaluation in 2021 and no account is taken of future increases in either RCV or rateable values.
- We have assumed a standard infrastructure length of 10.0m per property.

Wastewater charges

- Wholesale wastewater totex is sourced from Table 4E data from the company's Annual Performance Report and Regulatory Reporting report (the Regulatory Accounts).
- The volume charges adjusted for on-site leakage will generally only be relevant where a NAV provides both clean and waste water services, and billing of waste water services is based on supplies measured at a point of supply to the NAVs clean water network rather than customers' meters.
- No surface water or highway drainage charge will be applied to NAVs who make separate provision for surface water drainage.
- We have assumed a standard infrastructure length of 7.70m per property.

Stage 3: WACC on on-site assets

Ofwat considers that an appropriate central estimate for an adjusted WACC relevant to bulk supply agreements is 4.74%, and where a WACC calculation is appropriate we have used this value.

Ofwat's rationale is laid out in Annex 2 of its guidance document.

Stage 4: Depreciation

Depreciation is potentially relevant where NAVs provide assets which would otherwise have been both provided as a result of a requisition and those assets would not have been financed by developer contributions. Depreciation is also relevant where the NAV has installed additional assets by agreement with South West Water.

We have not identified any situations where this applies but NAVs who believe this applies should contact us for further information.

Stage 5: Bulk supply tariff

Charges for 2019/20 are laid out in Appendix 1.

Examples of how they will be applied are laid out in Appendix 2.

Applying the charges

We have calculated the avoided cost on a per connection basis and have concluded that to maintain transparency we should apply charges in the same way.

At the start of the charging year we will require the NAV to provide us with mid-point forecasts (as at 30 September) of charge multipliers. This will include property types and property numbers.

At the end of the charging year we will true-up the difference between the forecast and final multipliers, and, where there is a greater than 5% variance, adjust the final charge for the year accordingly.

Where volumetric charges are adjusted for on-site leakage the discount will be applied through the tariff itself.

We will raise bills on a monthly basis.

Government contribution

South West Water household customers currently receive government bill subsidies of £50 per annum, to address the unfairness of the low population in the area supporting one third of the country's bathing waters.

As the agreement is between the Government and South West Water wherever possible South West Water will administer household grants on behalf of the NAV. If this is not possible the system created to allow water resellers to administer the grants will be applied to NAVs.

The bill reduction is not available for non-household customers.

Updating the charges

- Wholesale charges (the relevant start point) will be updated annually in line with the wholesale charging schedules, and take effect from 1 April each year.
- The calculation of avoided costs will be expanded over time to be based on the average rolling 5 years of data reported in the company's Annual Performance Report and Regulatory Reporting document. For consistency and transparency we will use only AMP6 data.
- The Retail Price Index (RPI) will be applied to derive outturn values for data up to 31 March 2020. From 1 April 2020 we will use the Consumer Prices Including Housing (CPIH) index.
- The adjustment for on-site leakage will be reviewed in line with the Water Resources Management Plan.

- We will also adjust charges if required by Ofwat, for example if Ofwat's central estimate for an adjusted WACC relevant to bulk supply agreements of 4.74% is amended.

Other information

VAT

All charges in this document exclude VAT. Where the use of water on a NAV site requires that VAT is charged we will add it at the appropriate rate.

Wholesale charges schedules for 2019/20

South West Water

<https://www.southwestwater.co.uk/siteassets/document-repository/regulatory-submissions/sww-wholesale-charges-document-2019-20.pdf>

Bournemouth Water

http://www.bournemouthwater.co.uk/Uploads/Docs/economic%20regulation-competition/2019-20%20tariffs/BW%20Wholesale%20charges%20document%202019-20_corrected.pdf

Developer Services Charging Arrangements 2019/20

South West Water and Bournemouth Water

https://www.southwestwater.co.uk/siteassets/document-repository/charges/new-connections-and-developer-services-charging-arrangement-2019_20.pdf

2019/20 charges

Where volumes are measured at the site boundary, a volumetric adjustment for on-site leakage of 2.32% will be applied. The adjusted value is shown in the shaded area.
Where volumes are measured at the customer meter standard volumetric charges will apply.

In all cases the fixed NAV discount per property per year will apply.

Note: the adjustment for on-site leakage will only apply to wastewater charges where the NAV also provides the clean water service and water entering the site is measured at the boundary.

South West Water region – water

	Household	Non-household
Standard 2019/20 volumetric charge per m ³	£1.7865	£1.8330
Leakage adjustment per m ³	2.32%	2.32%
Adjusted NAV volumetric tariff	£1.7450	£1.7904
Fixed NAV discount per property / year	£22.96	£22.96

South West Water region – wastewater (no surface water or highway drainage)

	Household	Non-household
Standard 2019/20 volumetric charge per m ³	£2.5900	£2.6825
Leakage adjustment per m ³	2.32%	2.32%
Adjusted NAV volumetric tariff	£2.5298	£2.6202
Fixed NAV discount per property / year	£19.53	£19.53

South West Water region – wastewater (with surface water and highway drainage)

	Household	Non-household
Standard 2019/20 volumetric charge per m ³	£3.4878	£3.5803
Leakage adjustment per m ³	2.32%	2.32%
Adjusted NAV volumetric tariff	£3.4068	£3.4971
Fixed NAV discount per property / year	£21.46	£21.46

Bournemouth Water region – water

	Household	Non-household
Standard 2019/20 volumetric charge per m ³	£1.0810	£1.0810
Leakage adjustment per m ³	2.32%	2.32%
Adjusted NAV volumetric tariff	£1.0559	£1.0559
Fixed NAV discount per property / year	£22.96	£22.96

Examples

The following example illustrates a hypothetical site with 200 household properties and 2 non-household properties. It shows the components of a monthly bill and the calculation we will use to establish the bill value.

We have prepared it for both the South West Water and Bournemouth Water regions. As Bournemouth Water is a water-only company a NAV may need to refer to Wessex Water or Southern Water for wastewater services if required.

In preparing the examples we have used the following assumptions and wholesale fixed charges:

	Households	Non-Households
Days in month	31	31
Leap year	No	No
Number of properties	200	2
Meter size	15mm	1 x 25mm 1 x 50mm
Adjustment for on-site leakage appropriate (volume measured at site boundary)	Yes	Yes
NAV requires water and wastewater bulk services	Yes	Yes
Separate provision for surface water drainage (no surface water or highway drainage charges)	Yes	Yes
Return to sewer rate	95%	95%

	m³	Estimated annual m³
Total monthly use recorded at site boundary	3,000	36,000
Total monthly use recorded on 25mm meter	250	3,000
Total monthly use recorded on 50mm meter	500	6,000
Total non-houshold use	750	9,000
Total household use	2,250	27,000

Standard wholesale fixed charge – 2019/20	Household £	Non- Household £
South West Water – water	15.24	25mm: 28.68 50mm: 82.20
South West Water - waste	19.68	25mm: 5.64 50mm: 28.20
Bournemouth Water	0.00	2-4 MI pa: 15.16 5-10 MI pa: 38.09

Please note that calculations shown in the examples below may not add, due to rounding.

South West Water region

WATER CHARGES		
	£	Calculation
Household		
Water charges (including NAV leakage adjustment)	3926.25	1.7450×2250
Fixed charges	258.87	$(15.24 \times 31/365) \times 200$
Subtotal	4185.12	
Per property fixed reduction	-382.67	$(-22.96 \times 200) / 12$
Total HH monthly charge	3802.45	
Non-household		
Water charges (including NAV leakage adjustment)	1342.81	1.7904×750
Fixed charges	9.42	$(1 \times 28.68 + 1 \times 82.20) * 31/365$
Subtotal	1352.23	
Per property fixed reduction	-3.83	$(-22.96 \times 2) / 12$
Total NHH monthly charge	1348.41	
Total water charges	5150.86	$3802.45+1348.41$

WASTEWATER CHARGES		
	£	Calculation
Household		
Wastewater charges (including NAV leakage adjustment)	5407.52	$2.5298 \times (2250 \times 0.95)$
Fixed charges	334.29	$(19.68 \times 31/365) \times 200$
Subtotal	5741.81	
Per property fixed reduction	-325.50	$(-19.53 \times 200) / 12$
Total HH monthly charge	5416.31	
Non-household		
Wastewater charges (including NAV leakage adjustment)	1866.88	$2.6202 \times (750 \times 0.95)$
Fixed charges	2.87	$(1 \times 5.64 + 1 \times 28.20) \times 31/365$
Subtotal	1869.76	
Per property fixed reduction	-3.26	$(-19.53 \times 2) / 12$
Total NHH monthly charge	1866.50	
Total wastewater charges	7282.81	$5416.31 + 1866.50$

Bournemouth Water region

BW WATER CHARGES		
	£	Calculation
Household		
Water charges (including NAV leakage adjustment)	2375.75	1.0559×2250
Fixed charges	0.00	$(0.00 \times 31/365) \times 200$
Subtotal	2375.75	
Per property fixed reduction	-382.67	$(-22.96 \times 200) / 12$
Total HH monthly charge	1993.08	
Non-household		
Water charges (including NAV leakage adjustment)	791.92	1.0559×750
Fixed charges	4.52	$(1 \times 15.16 + 1 \times 38.09) * 31/365$
Subtotal	796.44	
Per property fixed reduction	-3.83	$(-22.96 \times 2) / 12$
Total NHH monthly charge	792.61	
Total water charges	2785.69	$1993.08 + 792.61$