

**SOUTH WEST WATER
BULK CHARGES FOR NAVs
2023/24**



Introduction

South West Water (SWW) is the water and wastewater service provider for a population of around 1.8 million in Cornwall, Devon, and parts of Somerset and Dorset. Since 2016 it has been providing water-only services in the Bournemouth Water (BW) region to a population of 0.5 million and in 2020 it became the water and wastewater services provider to the Isles of Scilly

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 2023/24 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.

Our contact details for any queries about this document are:

Email	NAV@southwestwater.co.uk
Write to	Regulatory Directorate South West Water Rydon Lane Exeter EX2 7HR
Phone	01392 446688

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 and a subsequent consultation, in May 2018 Ofwat published its final guidance on pricing for bulk supply services provided to NAVs in England and Walesⁱ. The guidance sets out the principles Ofwat will use when making determinations on bulk agreements, and places requirements on incumbent companies for the publication of charges that NAVs can use to estimate bulk supply charges ahead of bidding for developer work.

Revisions to Ofwat's guidance

In July 2020 Ofwat consultedⁱⁱ on proposals to refine its guidance. The consultation was supported by a detailed analysis by CEPAⁱⁱⁱ of incumbent companies' 2019/20 charges. Ofwat committed to considering responses to the consultation and consult to on any changes to the guidance late in 2020.

Consequently, Ofwat issued its conclusions^{iv} and consultation^v on revising its guidance on 10 November 2020. The finalised revised guidance was published on 26 January 2021¹.

South West Water approach to 2023/24 charges

In developing our charges and in producing this document we have incorporated the principles and expectations set out in Ofwat's 2018 guidance. We have also continued to work to implement Ofwat's updated January 2021 guidance.

SWW's charges are currently calculated 'top down' using audited Annual Performance Review data. We have considered best practice, such as the industry Bulk Charging Working Group's (BCWG) wholesale-minus charging framework however do not currently have sufficient cost data to reliably estimate wholesale-minus costs through this approach. Informed by the BCWG's framework we are considering the practical implications and process requirements to transition tariffs to a bottom-up calculation methodology.

We will continue to monitor, review and engage on our NAV tariffs.

¹ <https://www.ofwat.gov.uk/wp-content/uploads/2021/01/Bulk-charges-for-new-appointees-guidance-on-our-approach-and-expectations.pdf>

Purpose

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

Household and non-household charges are presented separately. In practice actual charges for a given site may be a weighted average of the two, which will be driven by the number and type of properties supplied and the volumes consumed or discharged. To illustrate this we provide worked examples in Appendix 1.

We expect that the charges set out in this document will be relevant to the majority of NAV sites in our area of supply.

Where a site has characteristics that are significantly different to our underpinning assumptions we will assess the site-specific characteristics to ensure that they are representative of the situation and / or that there is no detriment to the NAV. In relation to the underpinning assumptions on infrastructure we would view 'differences to be significant' if a reasonable person would consider them likely to have a material impact on charges.

We anticipate that examples of significantly different sites could include those:

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

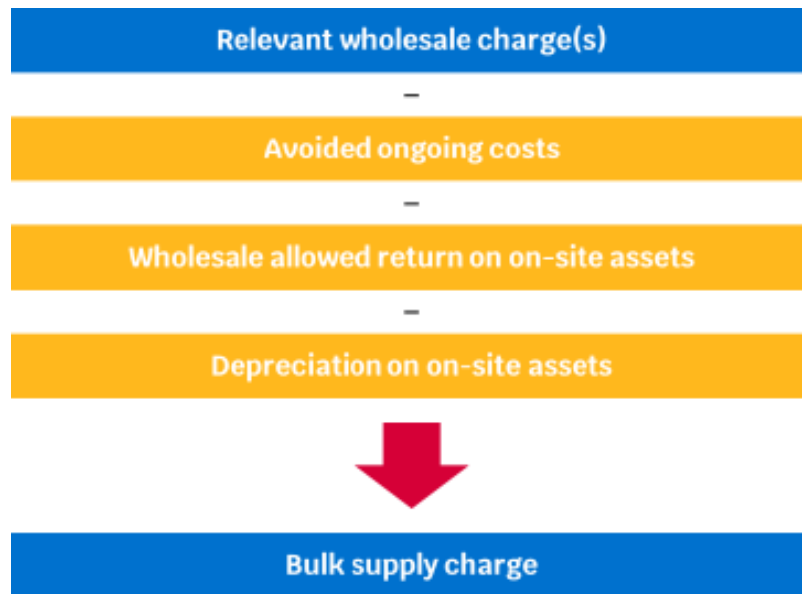
General principles

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 2018 guidance. We have commenced implementation of Ofwat's revised guidance where possible.

However, the implementation of a new bottom-up approach for calculating avoided cost will require material methodological change. To manage the risks associated with this change, further work and engagement will be undertaken before it is brought in to effect.

Ofwat's wholesale-minus approach to bulk charges



Methodology

Bulk charges for NAVs are deducted from site charges calculated from the relevant start point wholesale tariffs. The deductions are made in different ways, dependent on the avoided cost element.

- Avoided on-site costs are calculated and applied as fixed per-property deductions from the overall site bill.
- An allowance for on-site leakage, where relevant, is applied as a percentage reduction from the relevant startpoint wholesale water and wastewater volumetric tariffs.
- Surface water and highway discharge allowances, where relevant, are applied as a fixed reduction from the relevant startpoint wholesale wastewater volumetric tariff.

Further information is provided below.

Relevant start point

South West Water's and Bournemouth Water's 2023/24 standard wholesale water and wastewater charges for household and non-household customers are the basis of bulk charges for NAVs. These are the charges that form the start-point site bill, from which fixed per-property discounts are deducted, along with any other relevant reductions such that for on-site leakage or surface water / highway drainage arrangements.

These charges are shown below. Appendices 1 and 2 provide further detail and worked examples.

Relevant start points for 2023/24 charges

Company area	South West Water		Bournemouth Water	
	Household	Non-household	Household	Non-household
Water				
Standard tariff per m ³	1.9338	1.9338	1.0635	1.0635
Fixed charge per property*	21.89	29.25	0.00	5.73
Wastewater (full service)				
Standard tariff per m ³	3.2871	3.2871	N/A	N/A
Fixed charge per property*	31.26	44.19	N/A	N/A

** For South West Water non-household fixed charges are dependent on meter size. The sizes quoted here as examples are for a 15- 22mm meter with surface water drainage. Full details are available in the Wholesale Charges Schedule for the relevant company supply area. The 'Other Information' section below contains a link to this document.*

For the South West Water region household 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.

Bournemouth Water is a water-only company and does not provide wastewater wholesale services. These are provided by Wessex Water or Southern Water, depending on the location of a site within Bournemouth Water's area of supply.

Where trade effluent services are required we will agree these on a site-specific basis using the policies and charges laid out in our wholesale charges schedule as the start point.

Avoided on-going costs

Fixed per property reductions

This allowance is calculated over a five-year rolling average. Values for each year are calculated separately, averaged, and then uplifted to derive the allowance.

Step 1 – average cost per metre per annum of network infrastructure

Total cost is derived on a top-down basis, using regulatory Annual Performance Report (APR) data to derive a value per metre of network infrastructure.

This is calculated for each year of the rolling five years as:

$$\text{Average cost per metre} = (\text{total cost} / \text{network length})$$

Data is sourced from the following APR tables and cost categories for each year.

Avoided cost:

- Table 4D: Wholesale totex analysis – water: treated water distribution
- Table 4E: Wholesale totex analysis – waste: foul / foul + surface water drainage + highway drainage

- Other operating expenditure
 - Renewals expensed in year (infrastructure)
 - Other operating expenditure excluding renewals
- Capital expenditure
 - Maintaining the long-term capability of the assets – infra

Network length:

- Table 4P: Non-financial data for WR, WT and WD – wholesale water
- Table 4R: Non-financial data – Wastewater network and sludge – wholesale wastewater

Costs for each year are inflated to outturn values by RPI or CPIH, as appropriate. Allowances are not varied to take account of the size of the infrastructure assets installed as this is already allowed for in the averages based on the regulatory accounts.

Step 2 – annual fixed value per property on a typical NAV site

To derive an annual fixed value per property on a typical NAV site the value for each of the rolling five years calculated in step 1 is then multiplied by an assumed length of infrastructure on a typical NAV site.

This is calculated for each year as:

$$\text{Annual fixed value per property} = (\text{average cost per metre} \times \text{assumed standard length})$$

For 2023/24 charges we have maintained the standard infrastructure length used in previous years. The following standard infrastructure length assumptions are used for fixed allowances per property:

		2023/24 standard infrastructure length assumptions
Water		
Household	m	10.00
Non-household	m	15.00
Wastewater		
Household	m	9.50
Non-household	m	9.50

Step 3 – average fixed value per property on a typical NAV site

Annual fixed values per property for the five years are then then averaged to ascertain an average fixed value per property.

This value is inflated to the charging year using CPIH.

Step 4 – additional allowance

To calculate the final fixed per-property reduction in charges for the charging year an additional allowance to reflect operational risk is applied as a percentage uplift to the fixed per-property value derived in step 3.

This adjustment is 4.07% representing South West Water's PR19 WACC plus the 0.77% PR14 NAV-specific uplift calculated by Ofwat in its previous 2018 guidance to companies on bulk charges for NAVs.

Leakage

Where a bulk meter is used to measure site use, the relevant wholesale tariff underpinning site charges will be adjusted by 2.33%.

This adjustment will generally only be relevant where a NAV provides both clean and waste water services, and billing is based on volumes recorded by the bulk meter.

The value is derived from known losses within five District Metered Areas (DMAs) in four

new developments within the company's supply area, as follows:

- The sample uses data from five DMAs (5428 properties)
- The losses across these five DMAs are 10.58%
- Assuming that a proportion of these losses will be from the network and some will be from the customer side, we believe 10.58% overstates the losses with regard to the site-based tariffs
- Our analysis of leakage data calculates customer side leakage at 22% of total leakage
- The losses on new sites are more likely to reflect the customer side leakage situation so we believe it is appropriate to make this adjustment to the total losses
- This adjustment gives a value of 2.33%.

Wastewater: surface water drainage and highway drainage

In line with industry standard Bulk Agreement conditions our standard requirement is that the NAV will always ensure that anything other than foul water is excluded from the discharge. For these sites the surface water and highway drainage elements of the wholesale tariff will be deducted from the relevant start point. These values are shown in the third schedule of South West Water's Wholesale Charges Schedule, the link for which is provided in the 'Other Information' section below.

For NAV sites in the South West Water supply area where we have agreed to a different arrangement, we will consider surface water and highway drainage separately, reflecting the percentages of each that are not entering SWW's network within the bulk charge.

In this case the appropriate proportion of surface water and highway drainage elements of the wholesale tariff will be deducted from the relevant start point.

Environmental incentives

We do not offer any further environmental incentives in addition to a reduction in surface water and highway drainage charges detailed above. However, the fixed per-property discount offers NAVs a water efficiency incentive as it is not affected if lower volumes are consumed.

Where a NAV believes that the site characteristics are such that significant environmental benefit is derived and that this contributes to further material avoided cost for South West Water that should be reflected in bulk charges, the NAV should discuss this with us.

Wholesale allowed return on on-site assets and depreciation on on-site assets

Ofwat's 2018 guidance expects incumbent companies to deduct a return on on-site assets and the associated depreciation to reflect financing costs incumbents have avoided due to NAV entry. However, this was only relevant if the NAV was serving a site prior to 1 April 2018, before the rules relating to income offsets were amended to allow NAVs to operate on a level playing field.

This was not relevant to South West Water and therefore WACC and depreciation elements have not been incorporated in charges to date; and the need for them is now obsolete.

Applying the charges

General

Unless otherwise agreed charges will be raised monthly. Where charges are adjusted for on-site leakage and / or surface and highway drainage the discount will be applied through the volumetric tariff.

Dependent on the site characteristics (eg dual or single (water or waste) service) different billing arrangements may apply. For example dual-service and water-only sites will be billed using bulk meter data. Bills for waste-only sites may be billed using data from South West Water customer meters.

Before the start of the charging year we will request the NAV to provide mid-point (as at 30 September) and year-end (to 31 March) forecasts of charge multipliers. This will include volumes, property types and property numbers. Where a site contains household and non-household properties we will use this data, and any other relevant billing data held, to calculate the weighted tariff which reflects the site characteristics. Once agreed with the NAV this estimate will be used as the basis for invoicing charges.

Where it is agreed that we will bill for a site in twelve equal instalments, 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.

Return to sewer

Wastewater charges will be routinely applied at 95% Return to Sewer.

Government contribution

For 2023/24, household customers in the South West Water² supply area will receive a government bill subsidy 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 bill subsidy 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, whereby South West Water will apply the contribution by way of a deduction to the NAV's charges, and the NAV will pass the contribution on to its customers. The requirement will be reflected in the Bulk Agreements.

For dual-service NAV sites where SWW does not have a direct relationship with the customer, the NAV will be requested to submit a monthly application detailing the number of eligible customers on its site. When the site is fully built-out this requirement will reduce to an annual report of long-term (greater than 3-month) vacancies.

It is incumbent on the NAV to ensure that the correct number of properties are provided and for the contribution to be passed-on to customers. In order to satisfy its own

² For the avoidance of doubt, the contribution does not apply to customers in the Bournemouth Water supply area
Page 11 of 20

obligations in relation to the contribution SWW may require to audit the NAV's processes for doing so.

Watershare+

Watershare+ gives customers more of a say in their water company is run and was created in response to customer feedback. It is designed to give them a share in what South West Water does, or money off their bill.

The policy towards NAVs and their customers, as set out below, directly aligns with South West Water's overall Watershare+ policy.

- For single-service NAV sites where South West Water has a direct relationship with the customer (household or non-household) the customer will receive Watershare+ payments.
- For dual-service sites supplied via bulk meters the NAV will receive get a single payment.

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 Retail Price Index (RPI) has been applied to derive outturn values for data up to 31 March 2020. From 1 April 2020 the Consumer Prices Including Housing (CPIH) index is used.
- The adjustment for on-site leakage will be reviewed in line with the Water Resources Management Plan.

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 apply it at the appropriate rate.

Wholesale Charges Schedules for 2023/24

South West Water

<https://www.southwestwater.co.uk/siteassets/document-repository/charges/sww-wholesale-charges-document-2023-24.pdf>

Bournemouth Water

<https://www.bournemouthwater.co.uk/siteassets/document-repository/charges/bw-wholesale-charges-document-2023-24.pdf>

Developer Services Charging Arrangements

South West Water

<https://www.southwestwater.co.uk/developer-services/developer-services-charges/>

Bournemouth Water

<https://www.bournemouthwater.co.uk/developers/charges/>

2023/24 charges

Where volumes are measured at the site boundary, a volumetric adjustment for on-site leakage of 2.33% 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.

Fixed charges will apply. Please see the relevant wholesale charges schedule for further information.

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 2023/24 volumetric charge per m ³	£1.9338	£1.9338
Leakage adjustment per m ³	2.33%	2.33%
Adjusted NAV volumetric tariff	£1.8777	£1.8777
Fixed NAV discount per property / year	£28.22	£42.32

Bournemouth Water region – water

	Household	Non-household
Standard 2023/24 volumetric charge per m ³	£1.0635	£1.0635
Leakage adjustment per m ³	2.33%	2.33%
Adjusted NAV volumetric tariff	£1.0387	£1.0387
Fixed NAV discount per property / year	£28.22	£42.32

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

	Household	Non-household
Standard 2023/24 volumetric charge per m ³	£3.2871	£3.2871
Leakage adjustment per m ³	2.33%	2.33%
Adjusted NAV volumetric tariff	£3.2105	£3.2105
Fixed NAV discount per property / year	£19.03	£19.03

The following table presents an example where 100% of both surface water and highway drainage has been deducted from the relevant start point and the charges raised are for foul-only. If the NAV requires a partial discharge to SWW's network the total percentage deduction will vary, dependent on the actual characteristics of the site.

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

	Household	Non-household
Standard 2023/24 volumetric charge per m ³	£2.3549	£2.3549
Leakage adjustment per m ³	2.33%	2.33%
Adjusted NAV volumetric tariff	£2.3000	£2.3000
Fixed NAV discount per property / year	£16.16	£16.16

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 calculations we will use to establish the bill value. In practice, where a site contains household and non-household properties we will calculate a weighted tariff which reflects the site characteristics. Once agreed with the NAV this estimate will be used as the basis for invoicing charges. Where it is agreed that we will bill for a site in twelve equal instalments, at the end of the charging year we will true-up the difference between the forecast and final multipliers. See the 'Applying the Charges' section above for further detail.

We have prepared the example 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-household use	750	9,000

Total household use	2,250	27,000
---------------------	-------	--------

Standard wholesale fixed charge – 2023/24	Household £	Non- Household £
South West Water – water	21.89	25mm: 48.52 50mm: 118.35
South West Water - waste	9.47	25mm: 31.41 50mm: 67.26
Bournemouth Water	0.00	2-4 MI pa: 5.73 5-10 MI pa: 5.73

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)	4249.58	1.8887 x 2250
Fixed charges	371.83	(21.89 x 31/365) x 200
Subtotal	4621.41	
Per property fixed reduction	-470.33	(-28.22 x 200) / 12
Total HH monthly charge	4151.07	
Non-household		
Water charges (including NAV leakage adjustment)	1416.53	1.8887 x 750
Fixed charges	14.17	(1 x 48.52 + 1 x 118.35) * 31/365
Subtotal	1430.70	
Per property fixed reduction	-7.05	(-42.32 x 2) / 12
Total NHH monthly charge	1423.65	
Total water charges	5574.72	4151.07 + 1423.65

WASTEWATER CHARGES		
	£	Calculation
Household		
Wastewater charges (including NAV leakage adjustment)	4916.25	$2.3000 \times (2250 \times 0.95)$
Fixed charges	160.86	$(9.47 \times 31/365) \times 200$
Subtotal	5077.11	
Per property fixed reduction	-269.33	$(-16.16 \times 200) / 12$
Total HH monthly charge	4807.78	
Non-household		
Wastewater charges (including NAV leakage adjustment)	1638.75	$2.3000 \times (750 \times 0.95)$
Fixed charges	8.38	$(1 \times 31.41 + 1 \times 67.26) \times 31/365$
Subtotal	1647.13	
Per property fixed reduction	-2.69	$(-16.16 \times 2) / 12$
Total NHH monthly charge	1644.44	
Total wastewater charges	6452.22	$4807.78 + 1644.44$

Bournemouth Water region

BW WATER CHARGES		
	£	Calculation
Household		
Water charges (including NAV leakage adjustment)	2337.08	1.0387×2250
Fixed charges	0.00	$(0.00 \times 31/365) \times 200$
Subtotal	2337.08	
Per property fixed reduction	-470.33	$(-28.22 \times 200) / 12$
Total HH monthly charge	1866.75	
Non-household		
Water charges (including NAV leakage adjustment)	779.03	1.0387×750
Fixed charges	0.97	$(1 \times 5.73 + 1 \times 5.73) \times 31/365$
Subtotal	780.00	
Per property fixed reduction	-7.05	$(-42.32 \times 2) / 12$
Total NHH monthly charge	772.95	
Total water charges	2639.70	$1866.75 + 772.95$

Appendix 3

Links to the relevant documents detailed on page 3 are provided below

ⁱ <https://www.ofwat.gov.uk/wp-content/uploads/2018/05/Bulk-charges-for-NAVs-final-guidance.pdf>

ⁱⁱ <https://www.ofwat.gov.uk/wp-content/uploads/2020/07/Consultation-on-bulk-charges-for-NAVs.pdf>

ⁱⁱⁱ <https://www.ofwat.gov.uk/wp-content/uploads/2020/07/200610-Ofwat-CEPA-NAVs-FinalReport-redacted.pdf>

^{iv} <https://www.ofwat.gov.uk/wp-content/uploads/2020/11/Bulk-charges-for-new-appointees-our-conclusions.pdf>

^v <https://www.ofwat.gov.uk/wp-content/uploads/2020/11/Bulk-charges-for-new-appointees-a-consultation-on-revising-our-guidance.pdf>