

**SOUTH WEST WATER
BULK CHARGES FOR NAVs
2021/22**



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 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 2021/22 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 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 2021.

South West Water consultation on proposals for 2021/22 charges

We have carefully considered CEPA's paper and Ofwat's views.

Taking in to account our own work to update underpinning assumptions, and Ofwat's consultation process we engaged with NAVs to request their views on our proposals for 2021/22 charges. The consultation closed on 22 December 2020. The consultation document, an anonymised summary of responses and our reply can be found on our website.

Where feasible we have incorporated Ofwat's conclusions and the feedback we have received from NAVs in our 2021/22 charges, however further work and engagement will be needed to fully implement the changes to the guidance. We will do this during 2021, to apply in 2022/23 charges.

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.

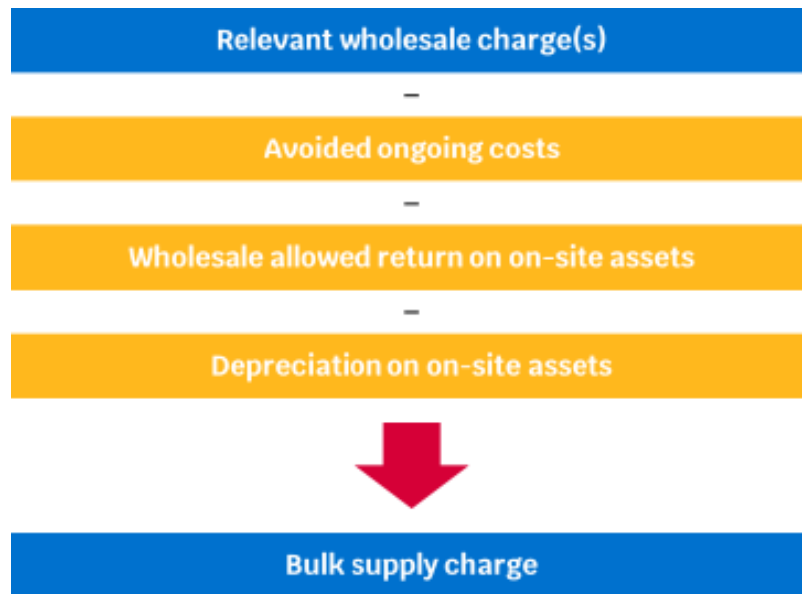
General principles

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 also commenced implementation of Ofwat's draft, and now finalised, 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 are needed before it is brought in to effect. We will conduct this work during 2021, to take effect no later than for 2022/23 charges.

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 tariff.

Further information is provided below.

Relevant start point

South West Water's and Bournemouth Water's 2021/22 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 2021/22 charges

Company area	South West Water		Bournemouth Water	
	Household	Non-household	Household	Non-household
Water				
Standard tariff per m ³	1.9336	1.9336	1.0614	1.0614
Fixed charge per property*	20.61	32.55	0.00	9.62
Wastewater (full service)				
Standard tariff per m ³	3.2938	3.2938	N/A	N/A
Fixed charge per property*	29.67	52.93	N/A	N/A

** For South West Water where charges are not based on a bulk meter 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.*

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 charges we will agree these on a site-specific basis using the policies and charges laid out in our Non-household Charges Schedules 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:

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

To date we have assumed standard lengths of 10.00m for water and 7.70m for wastewater and applied this assumption to all properties on NAV sites i.e. household and non-household properties. For 2021/22 charges we reviewed these assumptions and have applied the revised values all years of the rolling average.

The following standard infrastructure length assumptions are used for 2021/22 fixed allowances per property:

		2021/22 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.

For 2021/22 this adjustment is 4.07% representing South West Water's WACC plus the 0.77% PR14 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 of waste water services is based on volumes recorded by the bulk meter rather than customers' meters.

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

For NAV sites in the South West Water supply area where there is separate provision for surface water drainage 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.

The appropriate proportion of 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.

Environmental incentives

We do not offer any further environmental incentives in addition to a reduction in surface water and highway drainage charges detailed above.

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

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.

We will use this data, and any other relevant billing data held, to calculate the estimated annual charge. Once agreed with the NAV this estimate will be used as the basis for invoicing charges, 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.

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

Government contribution

For 2021/22, South West Water household customers 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 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.

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 2021/22

South West Water

<https://www.southwestwater.co.uk/about-us/governance/2020-21-wholesale-charges/>

Bournemouth Water

<https://www.bournemouthwater.co.uk/about-us/governance/charges-assurance/>

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/>

2021/22 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 2021/22 volumetric charge per m ³	£1.9336	£1.9336
Leakage adjustment per m ³	2.33%	2.33%
Adjusted NAV volumetric tariff	£1.8885	£1.8885
Fixed NAV discount per property / year	£23.02	£34.53

Bournemouth Water region – water

	Household	Non-household
Standard 2021/22 volumetric charge per m ³	£1.0614	£1.0614
Leakage adjustment per m ³	2.33%	2.33%
Adjusted NAV volumetric tariff	£1.0367	£1.0367
Fixed NAV discount per property / year	£23.02	£34.53

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

	Household	Non-household
Standard 2021/22 volumetric charge per m ³	£3.2938	£3.2938
Leakage adjustment per m ³	2.33%	2.33%
Adjusted NAV volumetric tariff	£3.2170	£3.2170
Fixed NAV discount per property / year	£23.56	£23.56

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 2021/22 volumetric charge per m ³	£2.3691	£2.3691
Leakage adjustment per m ³	2.33%	2.33%
Adjusted NAV volumetric tariff	£2.3139	£2.3139
Fixed NAV discount per property / year	£21.28	£21.28

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-household use	750	9,000
Total household use	2,250	27,000

Standard wholesale fixed charge – 2021/22	Household £	Non-Household £
South West Water – water	20.61	25mm: 48.64 50mm: 112.88
South West Water - waste	8.23	25mm: 38.68 50mm: 67.27
Bournemouth Water	0.00	2-4 MI pa: 9.62 5-10 MI pa: 9.62

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)	4249.13	1.8885 x 2250
Fixed charges	350.09	(20.61 x 31/365) x 200
Subtotal	4599.22	
Per property fixed reduction	-383.67	(-23.02 x 200) / 12
Total HH monthly charge	4215.55	
Non-household		
Water charges (including NAV leakage adjustment)	1416.38	1.8885 x 750
Fixed charges	13.72	(1x48.64 + 1x112.88) * 31/365
Subtotal	1430.10	
Per property fixed reduction	-5.76	(-34.53 x 2) / 12
Total NHH monthly charge	1424.34	
Total water charges	5639.89	4215.55 + 1424.34

WASTEWATER CHARGES		
	£	Calculation
Household		
Wastewater charges (including NAV leakage adjustment)	4945.96	$2.3139 \times (2250 \times 0.95)$
Fixed charges	139.79	$(8.23 \times 31/365) \times 200$
Subtotal	5085.75	
Per property fixed reduction	-354.67	$(-21.28 \times 200) / 12$
Total HH monthly charge	4731.08	
Non-household		
Wastewater charges (including NAV leakage adjustment)	1648.65	$2.3139 \times (750 \times 0.95)$
Fixed charges	9.00	$(1 \times 67.27 + 1 \times 38.68) \times \frac{31}{365}$
Subtotal	1657.65	
Per property fixed reduction	-3.55	$(-21.28 \times 2) / 12$
Total NHH monthly charge	1654.10	
Total wastewater charges	6385.18	$4731.08 + 1654.12$

Bournemouth Water region

BW WATER CHARGES		
	£	Calculation
Household		
Water charges (including NAV leakage adjustment)	2332.58	1.0367×2250
Fixed charges	0.00	$(0.00 \times 31/365) \times 200$
Subtotal	2332.58	
Per property fixed reduction	-383.67	$(-23.02 \times 200) / 12$
Total HH monthly charge	1948.91	
Non-household		
Water charges (including NAV leakage adjustment)	777.53	1.0367×750
Fixed charges	1.63	$(1 \times 9.62 + 1 \times 9.62) \times \frac{31}{365}$
Subtotal	779.16	
Per property fixed reduction	-5.76	$(-34.53 \times 2) / 12$
Total NHH monthly charge	773.40	
Total water charges	2722.31	$1948.91 + 773.40$

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>