

south east water

New Appointments and Variations
Pricing 2021/22

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1. Background

This document sets out the charges applied by South East Water Ltd in respect of new appointments and variations (NAVs) in the period commencing on 1 April 2021 and ending on 31 March 2022.

This document explains how our NAV charges are applied and calculated. It relates to:

- Charges for new connection services and infrastructure charges relating to sites supplied by new appointees; and
- To charges for bulk supplies of water under bulk supply agreements entered into between us and new appointees.

Bulk supply charges set out in this document will apply in respect of bulk supply agreements entered into on or after 1 April 2021. They will also apply to bulk supply agreements entered into before that date subject to any relevant terms of these agreements relating to the calculation of bulk supply charges. Provisions on invoicing and payment of NAV charges are set out in bulk supply agreements.

Further details on charges for new connection services and infrastructure charges are set out respectively in our:

- [Charging arrangements for new connection services 2021/22](#)
- [Infrastructure charge and miscellaneous services charges scheme 2021/22](#)

This document supersedes any prior NAV charges document made by us but previous years' documents continue to apply in respect of the charging year they relate to.

In setting our charges we have ensured that no undue preference is shown to, and that there is no undue discrimination against, any new appointee, other infrastructure provider or their customers or potential customers. We also had regard to the "bulk charges for NAVs final guidance" issued by Ofwat in May 2018.

In this document the words "we", "us" and "our" refer to South East Water Ltd.

Revised guidance

Ofwat published revised guidance “[Bulk charges for new appointees - guidance on our approach and expectations](#)”, on the 26th of January 2021.

We fully support Ofwat’s changes and are carrying out a comprehensive review and change program to ensure we align our processes and bulk supply charging methodology to the new guidance. We will publish our revised Bulk Supply Charges in July 2021 following consultation with new appointees and external review.

We will ensure new appointees with sites in our area will benefit from any changes to our charges arising from the January guidance for the whole of the 2021-22 charging year by carrying any necessary retrospective adjustment.

2. Infrastructure charges and the application of the income offset

2.1 Infrastructure charges

Since April 2018 we have been setting our own infrastructure charges to cover the cost of the developer related growth using a new methodology. Our [Infrastructure charge and miscellaneous services charges scheme 2021-22](#), available on our website, sets out the methodology used and our infrastructure charges for 2021/22.

2.2 Income offset

Since 1 April 2020 the way we apply the income offset has changed.

Previously we applied the income offset to requisition charges and an equivalent payment was made to self-lay providers and new appointees.

Since April 2020 the income offset has been applied against the Infrastructure charge. Consequently, in respect of bulk supply agreements signed on or after 1 April 2020, a payment equivalent to the income offset is no longer paid to new appointees. Instead, the income offset is applied to the amount of infrastructure charges that the new appointee is required to remit to us under the bulk supply agreement in respect of the service connections made on the NAV site.

Since 1 April 2020 we have also put in place measures to mitigate the impact of this change on certain types of developments. We will keep the mitigation measures, in place for 2021-22. Details on these measures are set out on page 9 of our [Infrastructure charge and miscellaneous services charges scheme 2021-22](#).

If the infrastructure charge less the income offset results in a negative value, we will pay the amount of income offset that is greater than the amount of the infrastructure charge for each connection, either after each connection (reported quarterly) or upfront. The upfront payment will only be made upon request and once the final bulk supply connection is made to the site and water is flowing.

Changes to the income offset do not alter the way bulk supply charges are calculated.

2.3 Bulk supply agreements concluded before 1 April 2020

If the bulk supply agreement was signed before 1 April 2020, a payment equivalent to the asset payment was made to the new appointee. It was calculated using the method that applied before 1 April 2020. (Please refer to your quotation or for additional information on the calculation of the asset payment/income offset from 1 April 2018 to 31 March 2020 and to our infrastructure charges and miscellaneous services charges scheme 2020-21.)

3. Bulk Supply Connection costs

Connection charges

We calculate the connection costs for a NAV site using our published costs for a Self-lay site. This is done to ensure a level playing field is maintained.

Details on charges for new connection services are set out in our [charging arrangements for new connection services 2021/22](#).

In addition to the standard connection works a NAV site requires a bypass meter arrangement at the bulk supply connection point. The table below sets out the cost for this element.

New Appointee Meter Bypass Arrangement Cost

(fixed costs – contestable)

Size	Cost
90mm	£11,970.92
125mm	£15,498.44
180mm	£20,356.80
250mm	£24,447.16
315mm	£28,607.52

The cost of the meter is not included in this cost calculation and will not be charged to the NAV. The unit cost of branch T's within the 180mm, 250mm and 315mm bulk meter bypass arrangements is the same. We use a flat rate of £1,997.68 per unit. The bulk meter bypass arrangement design uses 5 metres of the relevant pipe size. We can provide a copy of the design on request.

4. NAV Bulk Supply Charges

4.1 Principles for the calculation of bulk supply charges

The underlying principles for calculating the bulk supply price for a NAV site are as follows:

- The bulk supply price is the cost per cubic metre that the new appointee will pay for the water it receives at the bulk supply connection point(s) from us.
- Bulk supply charges to new appointees are based on the wholesale household standard measured tariff which is consistent with Ofwat's guidance.
- A discount is applied to the wholesale household standard measured tariff to reflect the costs that we will avoid and the new appointee will incur because we will not operate and maintain the relevant part of the network.
- The discount is calculated having regard to:
 - a. Avoided operational cost primarily relating to the "last mile" infrastructure and activity.
 - b. Leakage after the bulk supply meter but before the customer meters.
 - c. Weighted Average Cost of Capital and depreciation.

As key cost drivers change over time the bulk supply price discount is reviewed at the start of each five yearly price review period and where applicable annually.

4.2 Avoided operational costs – last mile activity

The avoided costs are primarily operational and maintenance costs including customer contact and incident management costs relating to the "last mile" infrastructure and activity.

We calculated the avoided costs by using actual costs from across the company for each activity deemed to have been avoided. The 2019/20 accounting period data has been used in this years avoided cost calculation.

As key cost drivers change over time the bulk supply price discount is reviewed each year.

For 2021/22, avoided operational costs have been calculated as £0.0482 per cubic metre and this is deducted from the wholesale household measured tariff for the relevant charging region and year.

4.3 Weighted Average Cost of Capital and depreciation

Weighted average cost of capital and depreciation have been identified by Ofwat as components to consider when calculating the discount.

With the changes to income offset payments as set out in above, we have reviewed this pre and post 1 April 2020.

For the period 1 April 2018 up to 31 March 2020 there are no avoided costs as Ofwat in November 2017 required Incumbents to pay NAV's an amount equivalent to the income offset (asset payment).

From 1 April 2020 there are no avoided costs as the income offset value is still paid to the NAV upfront via the deduction from the infrastructure charge.

For NAV contracts agreed period prior to 1 April 2018 the capital cost of the site infrastructure less contribution was paid by the NAV to us. Cost of capital and depreciation were therefore cost avoided for these sites. The company's WACC was therefore included in the avoided cost calculation for these sites and a WACC premium of 0.3% was added following Ofwat Guidance in 2018.

4.4 Leakage

Our average household distribution leakage percentage, excluding customer side leakage, over the assumed 100 year life of our pipework is 14.56%.

Applying the 100 year average from day one to a NAV site would not reflect the actual leakage that could reasonably be expected on pipework on a NAV site.

Therefore an estimated leakage over successive 10 years period based on the average assumed leakage referred to above has been determined assuming a linear relationship between pipe age and the percentage of leakage.

The average leakage percentage use to calculate the discount in the first ten years of a NAV site is 7.28%.

This percentage is applied to the wholesale household measured tariff for the relevant year and charging region after the £0.0484 avoided operational costs have first been deducted. This ensures that we do not double count avoided costs.

This leakage percentage for the first 10 years will be applied from day one of the site up to year ten at which point the average leakage percentage for a 20 year old site will be applied for the next 10 years. This process will repeat at every ten year point.

Wholesale leak allowances are discretionary and excluded from our regulated price so they are not included as an avoided cost.

4.5 Calculation and bulk supply prices for 2021/22

For 2021/22 the bulk supply volumetric rate will be calculated as follows:

$$(VR - D1) - ((VR - D1) \times L1)$$

Where:

- VR is the published wholesale household volumetric rate for relevant region and charging year.
- D1 is the avoided operational costs per cubic metre.
- L1 is the average leakage percentage for pipework between 0 and 10 years old (having regard to the fact that all infrastructure on current NAV sites in our area is less than 10 years old)

For 2021/22:

- VR will be:
 - £1.3633 per cubic metre in our western region; and
 - £1.7994 per cubic metre in our eastern region.
- D1 will be £0.0482 and

- L1 will be 7.28%.

On this basis the bulk supply price per cubic metre for a NAV site in 2021/22 will be:

- £1.2194 in our western region; and
- £1.6237 in our eastern region.

An annual standing charge will also be added to the bulk supply cost based on the bulk supply meter size. No discount is applied to the annual standing charge.

The annual standing charge for each meter size can be found in our [Wholesale Charges Schedule 2021/22](#).

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