

BULK CHARGES 2018/19

NAV_s

For more information about our services contact us at wholesale@nwl.co.uk



INTRODUCTION

Northumbrian Water Limited (NWL) operates in the North East of England where it trades as Northumbrian Water (NW), and in the South East of England, where it trades as Essex & Suffolk Water (ESW). Northumbrian Water provides both water and wastewater services whereas Essex & Suffolk Water provides water supply services only.

NEW APPOINTMENTS AND VARIATIONS (NAV)

- (1) New Appointments and Variations were introduced under the Water Industry Act 1991 to provide a mechanism to facilitate new entrants into the water and wastewater sector. A new appointment is made where a limited company is appointed by Ofwat to provide water and/or wastewater services for a specific geographic area. A variation is where an existing appointed company (an appointee) asks Ofwat to vary its appointment so it can extend the areas it provides services to. A new appointee has the same duties and responsibilities as the previous statutory water company. Currently the level of service that we provide to developers and Self-Lay Providers is measured against a number of quantitative metrics that are reported to Water UK. Whilst no metrics exist in respect of service to NAV customers, we operate to the same level of service as we would for the other customer groups.
- (2) In their consultation of November 2017, 'Bulk Charges for NAVs: a consultation', Ofwat stated that they 'consider that there are benefits from incumbent water companies publishing relevant charging information' for a NAV. In May 2018 Ofwat issued their Bulk Charges for NAVs: final guidance. We have therefore incorporated the final guidance in to this document which summarises our bulk charges for NAVs for 2018/19.

PURPOSE

- (3) Ofwat have clearly stated their aim to 'contribute to the creation of a level playing field in the provision of developer services and the provision of water services to the end-customers in new developments' and the delivery of 'our strategy of ensuring trust and confidence in the sector'. We are committed to supporting a level playing field for developer services and this document is intended for use by NAVs who wish to secure a bulk supply/discharge agreement which involves the trading of water and/or wastewater for any site designated as a NAV under the relevant legislation. Water companies can also contract for bulk services with another incumbent water company, it should be noted that the charges included in this document do not apply to this type of bulk supply.
- (4) We appreciate that the types of services a NAV may need from us can vary depending on the approach being adopted at a particular site along with the local circumstances. We will therefore look at each NAV on a case by case basis before finalising any bulk supply/discharge agreements. However, we believe the information contained within this document can be used by NAVs to

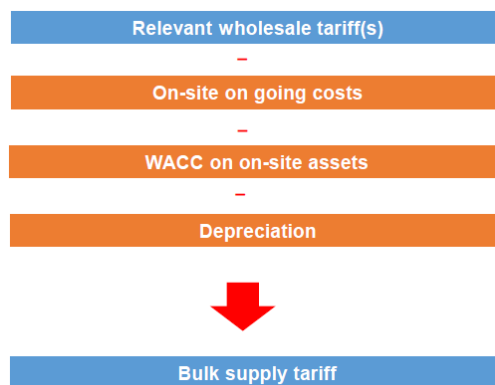
estimate their bulk charges. Surface water drainage and highway drainage costs will be calculated on a property type basis.

- (5) The aim of this document is to provide you with clear and transparent information about both our service and our charges relating to NAVs. We have therefore published our new NAV charge information in this document, these charges are applicable to any new NAV awarded from 1 April 2018 onwards. Existing NAVs will have the option to continue with their current charging arrangements or switch to the new NAV charges. This option is only available until 31 March 2020 at which point all bulk supply charges to NAVs will be based on the NAV tariff applicable at that time.
- (6) In this document “we” or “us” refers to NW in the North East of England and ESW in the South East. Words in the singular shall include the plural and vice-versa except where the context otherwise requires.
- (7) This document should be read in conjunction with our Charging Arrangements and Charges Schemes for 2018/19 which are available on our websites.

For more information on the NAV market visit the Ofwat website at <https://www.ofwat.gov.uk/regulated-companies/markets/nav-market/>.

GENERAL CHARGING PRINCIPLES

- (8) One of the key principles that we have used to build these charges is a ‘wholesale-minus’ approach. The figure below is the Ofwat illustration of the wholesale-minus approach which we have followed to build our charges for NAVs.



- (9) The relevant wholesale tariff will effectively be based on the appropriate weighted average combination of household and non-household standard tariffs, depending upon the specifics of the site.
- (10) For any Bulk Charges agreement entered in to from 1 April 2018, an income offset will apply (in accordance with our Charging Arrangements). Therefore, the deduction from our wholesale tariffs will be for on-site ongoing costs only, as the income offset will cover the asset value (and thus WACC and depreciation).

- (11) The avoided costs used in our calculations are based on the average costs of reported APR data. Components such as leakage and assumed household consumption volumes will be updated at least every 5 years.
- (12) For pre 1 April 2018 NAVs, the additional deductions for Weighted Average Cost of Capital (WACC) and Depreciation will apply.
- (13) Whilst, for 2018/19 we have used the 4.74% WACC as recommended by Ofwat in the guidance, this will be recalculated on 1 April 2020 in line with the wholesale WACC used by Ofwat for the PR19 Final Determination.
- (14) These charges have also been set within the DEFRA charging guidance of:
- Fairness and affordability;
 - Environmental protection;
 - Stability and predictability; and
 - Transparency and customer-focused service.

EXPLANATION OF CHARGE DERIVATION FOR NAVs

General

- (15) Our NAV charges are based on our standard household (HH) and non-household (NHH) wholesale charges from our Wholesale Charges scheme. This includes both the fixed and variable components. Large user based tariffs are not applicable. From this we then deduct the avoided costs. The calculations are either based on a per property basis for HH properties or per cubic meter basis for NHH properties. This paragraph is provided for explanatory purposes only.

Calculation of the avoided costs

The following paragraphs (16), (17) and (18) summarise our approach to the calculation of avoided costs for our water supply and wastewater services.

(16) Water supply

- We have used the published, assured APR table 4D totex data for treated water distribution to derive the relevant avoidable costs.
- To do this, we took the average of the three years 2015/16, 2016/17 and 2017/18, all indexed to 2018/19 prices.
- For the avoided operating costs, we used the total operating expenditure excluding third party services, less local authority and cumulo rates.
- We excluded cumulo rates as an avoidable cost as they relate to profitability, which in turn is based on an RCV value. Under the income offset payment approach, there is no effect on RCV, so no change in cumulo rates.

- For avoided capital replacement costs, we used the capital maintenance expenditure.
- Having assessed the total avoided costs, we then converted them into a cost per m³, using the total water delivered value from table number Wn2 of our business plan.
- Finally, we multiplied the avoided cost per m³ by the expected demand per household for new development, as adjusted by a 2.85% increase for the avoided costs of leakage.
- The demand per household was taken from our published Water Resources Management Plans and is 95 m³/property for the North and 99 m³/property for the South.

(17) **Wastewater service**

- We have used the published, assured APR table 4E totex data for network plus sewage collection to derive the relevant avoidable costs.
- For the avoided operating costs, we used the total operating expenditure excluding third party services.
- For avoided capital replacement costs, we used the capital maintenance expenditure.
- Having assessed the total avoided costs, we then converted them into a cost per m³, using the volumes collected in table 4E.
- Finally, we multiplied the avoided cost per m³ by the expected demand per household for new development, as adjusted by the 95% returns to sewer allowance.
- We have assumed that all on-site foul, surface water and highway drainage costs are avoided in this calculation.

(18) **Updating the NAV Tariffs**

- For the site charge, the starting wholesale tariffs will be updated annually in accordance with the wholesale charges scheme.
- From 1/4/2020 onwards, the avoided costs will be based on the average of the previous 5 years of reported APR data. These will be inflated by the CPIH index to bring them to the outturn values.
- Components such as leakage, household volumes and cost per property will be updated at least every 5 years and will be based on an average of previous years where possible.
- The WACC used for legacy NAVs will be recalculated on 1/4/2020 in line with the wholesale WACC used by Ofwat for the PR19 Final Determination.

Numeric example of the derivation of NAV tariffs and the associated deductions from standard tariffs

(19) This paragraph is again an explanatory paragraph provided for information purposes only the actual applicable NAVs tariffs for 2018/19 are detailed below in the Section entitled Bulk Charges for NAVs (22).

(20) The following deductions will apply against our standard tariffs.

For NAVs post 1 April 2018

Water Supply NAV tariff	North	South	North	South
	Household	Household	Non-household	Non-household
	£	£	£	£
Volumetric charge £/m ³	1.1810	1.4804	1.1721	1.4996
Fixed Charge £ per property/year	20.90	20.90	Sum of individual NHH Fixed Charges	Sum of individual NHH Fixed Charges
Deduction (£ per connection/year or per m³):	Per conn.	Per conn.	£/m³	£/m³
Avoided operating costs	19.21	20.00	0.1970	0.1970
Avoided capital replacement costs	12.20	12.50	0.1251	0.1231
Deduction for local leakage	£/m³	£/m³	£/m³	£/m³
Leakage allowance of 2.85%	0.0337	0.0422	0.0334	0.0427

Wastewater NAV tariff	North	North
	Household	Non-household
	£	£
Foul only fixed charge £/property/year	25.55	As per banding
Foul and Surface Water Drainage fixed charge £/property/year	83.95	As per banding
Volumetric charge £/m ³	1.0871	1.0767
Deduction (per connection/year or £/m³):	Per conn.	£/m³
Avoided operating costs	6.19	0.0653
Avoided capital replacement costs	4.12	0.0435
Deduction for local leakage per m³	£/m³	£/m³
Leakage allowance of 2.85%	0.0310	0.0307

For NAVs pre 1 April 2018

- (21) For legacy NAVs that did not receive an income offset payment (those agreements signed pre 1 April 2018), a further deduction for the WACC and depreciation of those assets is made. This results in the following additional deductions.

Water Supply NAV tariff	North	South	North	South
	Household	Household	Non-household	Non-household
Additional deduction (£ per connection/year or per m³):	Per conn.	Per conn.	£/m³	£/m³
Avoided WACC	19.10	22.09	0.1958	0.2176
Avoided depreciation	3.36	3.88	0.0344	0.0382
Avoided rates	4.66	4.86	0.0478	0.0478

Wastewater NAV tariff	North	North
	Household	Non-household
Additional deduction (£ per connection/year or per m³):	Per conn.	£/m³
Avoided WACC	2.57	0.0271
Avoided depreciation	0.45	0.0048

BULK CHARGES FOR NAVs 2018/19

(22) The following tables contain our Bulk Charges for NAVs for 2018/19.

Water NAV tariff	North	South	North	South
	Household	Household	Non-household	Non-household
Water supply	£	£	£	£
Post 1 April 18 NAVs				
Volumetric charge £ per m ³	1.1473	1.4382	0.8166	1.1368
Fixed charge £/property/year	-10.52	-11.60	Sum of individual Fixed charges for each NHH Property	Sum of individual Fixed charges for each NHH Property
Pre 1 April 18 NAVs				
Volumetric charge £ per m ³	1.1473	1.4382	0.5386	0.8332
Fixed charge £/property/per year	-38.45	-43.36	n/a	n/a

Wastewater NAV tariff	North	North	North	North
	Household	Household	Non-household	Non-household
	Foul Only	Foul & SW	Foul Only	Foul & SW
Wastewater service	£	£	£	£
Fixed Charge	15.24	73.64	Sum of individual charges for each NHH property	Sum of individual charges for each NHH property
Volumetric charge £ per m ³	1.0561	1.0561	0.9372	0.9372

Applicability

(23) The charges above are for what we consider is a standard or normal site. We would envisage that this approach will cover the majority of sites, however, due to the potential for significant variations to the services required at each site, our bulk NAV charges may need to be negotiated on a case by case basis where bespoke charges will be calculated to reflect the site's specific features. For example where any NHH premise within a NAV meets the requirement for a large user tariff in its own right. Any bulk charges agreed under such an approach would be integrated into the following year's Wholesale Charges scheme. It is considered that this would only occur in exceptional circumstances.

EXAMPLE

The example below is provided for guidance purposes.

- (24) The example NAV consists of a site with a Bulk Supply and Bulk Discharge Agreement in place in the Northumbrian Water region. The site is served by a single bulk supply meter of 50mm diameter. The site consists of 250 domestic properties and 3 NHH premises 2 with 15mm connections and one with a 25mm connection. All properties are connected and active for the full billing period. The bill period is the 1 May 2018 to 31 May 2018. The NAV agreement was entered into on the 5 April 2018. The three NHH premises have a Surface Water and Highway Drainage Charging Band of 1, 2 and 6 respectively. It is assumed that the Bulk Discharge Agreement is a Foul only service.

(all readings in m ³)	30/4/2018	31/5/2018	Consumption
Bulk Supply Meter Reading	1,000	4,547	3,547
NHH Meter 1	100	300	200
NHH Meter 2	100	350	250
NHH Meter 3	100	650	550
Total NHH Consumption			1,000
Total HH Consumption			3,547-1,000=2,547

Water Charges

HH Consumption	Calculation	Charge
HH Water Charges	2,547 x £1.1473 =	£2,922.17
Fixed Charges	250 x 31/365 x -£10.52 =	-£223.37
Total HH Water Charges		£2,698.80
NHH Consumption	200+250+550 =	1,000 m ³
NHH Water Charges	1,000 x £0.8166 =	£816.60
NHH Fixed Charges	1 x £34.80 + 2 x £20.90 x 31/365 =	£6.51
Total NHH Water Charges		£823.11
Total Water Charges	£832.53 + £2,737.00 =	£3,521.91

Wastewater Charges

HH Consumption	Calculation	Charge
HH Foul Wastewater Charges	$2,547 \times 1.0561 =$	£2,689.89
Fixed Foul Charges	$£15.24 \times 31/365 \times 250 =$	£323.59
Total HH Wastewater Charges		£3,013.48
NHH Consumption	$200+250+550 =$	1,000 m ³
NHH Wastewater Charges	$1,000 \times £0.9372 =$	£937.20
Foul only/Highway Drainage Charge NHH Property No 1	$1 \times £32.85 \times 31/365 =$	£2.79
Foul only/Highway Drainage Charge NHH Property No 2	$1 \times £102.20 \times 31/365 =$	£8.68
Foul only/Highway Drainage Charge NHH Property No 3	$1 \times £1,164.35 \times 31/365 =$	£98.89
Total NHH Wastewater Charges		£1,047.56
Total Wastewater Charges	£1,047.56 + £3,013.48 =	£4,061.04

FINANCIAL AND OTHER ASPECTS

- (25) The NAV will be required to provide meter readings for all NHH meters within the NAV area. In the absence of submitted actual meter reads NWL will use its own estimates for NHH consumption. Adjustments will then be made in the next regular invoice to reflect actual reads.
- (26) The NAV will also be required to provide details of actual connected property numbers within the NAV area as required. In the absence of actual connected property numbers NWL will use its own estimates.
- (27) A Bulk Supply and/or Bulk Discharge Agreement will be entered into at the start of each NAV. Bills will be raised retrospectively on a quarterly basis and payment will fall due 21 days from the date of the invoice. NWL reserves the right to impose a more frequent billing arrangement dependent upon the individual characteristics of the site. Also by agreement an average monthly position can be agreed with each NAV and an annual truing up or adjustment carried out at the end of the charging year. The exact arrangements will be agreed on a case by case basis and recorded in the Bulk Supply/Discharge Agreement.

VAT

- (28) All charges published in this scheme exclude VAT. VAT will be added to the published charge at the appropriate rate where required.

