

SOUTH STAFFS WATER ACCESS PRICING (Issued 1 November 2011)

Indicative access prices

This section of the Access Code sets out indicative access prices based on the “costs principle”, Ofwat’s guidance on Access Codes (September 2011) and subsequent amendments to this guidance in September 2009. The costs principle uses the revenue that the Company (SST) already receives from the customer under the current charges scheme as its starting point. This amount is then adjusted for the additional costs arising from the WSL regime (expenses), and for costs not incurred as a consequence of the Licensee either providing retail services and/or providing water to that customer. The framework for the calculation is:

$$\begin{aligned} \text{Access prices} &= \text{retail charges (current revenue)} \\ &+ \text{expenses incurred through the WSL regime} \\ &- \text{ARROW costs} \end{aligned}$$

Where ARROW costs are those costs that can be avoided or reduced, or are recoverable in some other way (other than from the Company’s other non-eligible customers).

In accordance with the Ofwat guidance, the following indicative access prices have been calculated based on the following principles:

- The Company has one water resource zone.
- Indicative prices are shown for the following volumes of water used by the customer; *5MI, *25MI, 50MI and 500MI/year.
** Please note that these prices are only applicable once the relevant legislation has been passed by parliament.*
- Both wholesale (retail) and combined supply prices are shown.
- Prices are shown for each of the five years from 2011-12 to 2015-16. The price increase for 2015-16 is indicative only as the current five year price period agreed with Ofwat is until 2014-15..

The access prices shown below have been updated using Ofwat’s guidance on Access Codes, first published July 2007 and most recently updated in September 2011.

Indicative Wholesale Prices

The Company's indicative wholesale prices for the years 2011-12 to 2015-16 are as follows:

	Year	2011-12	2012-13	2013-14	2014-15	2015-16
Company specific K	%	0.0	1.9	0.0	-0.6	0.0

For 5 MI per annum						
Retail price	£/m ^{3*}	0.9498	0.9678	0.9678	0.9620	0.9620
Wholesale price - first customer	£/m ^{3*}	0.9127	0.9300	0.9300	0.9245	0.9245
Wholesale discount - first customer	£/m ^{3*}	0.0371	0.0378	0.0378	0.0376	0.0376
Wholesale discount - second customer with same licensee	£/m ^{3*}	0.0661	0.0674	0.0674	0.0669	0.0669

For 25 MI per annum						
Retail price	£/m ^{3*}	0.9290	0.9467	0.9467	0.9410	0.9410
Wholesale price - first customer	£/m ^{3*}	0.9199	0.9374	0.9374	0.9318	0.9318
Wholesale discount - first customer	£/m ^{3*}	0.0091	0.0093	0.0093	0.0092	0.0092
Wholesale discount - second customer with same licensee	£/m ^{3*}	0.0149	0.0149	0.0149	0.0149	0.0149

For 50 MI per annum						
Retail price	£/m ^{3*}	0.9379	0.9557	0.9557	0.9500	0.9500
Wholesale price - first customer	£/m ^{3*}	0.9346	0.9524	0.9524	0.9466	0.9466
Wholesale discount - first customer	£/m ^{3*}	0.0033	0.0034	0.0034	0.0033	0.0033
Wholesale discount - second customer with same licensee	£/m ^{3*}	0.0062	0.0063	0.0063	0.0063	0.0063

For 500 MI per annum						
Retail price	£/m ^{3*}	0.6691	0.6818	0.6818	0.6777	0.6777
Wholesale price - first customer	£/m ^{3*}	0.6685	0.6812	0.6812	0.6771	0.6771
Wholesale discount - first customer	£/m ^{3*}	0.0005	0.0006	0.0006	0.0006	0.0006
Wholesale discount - second customer with same licensee	£/m ^{3*}	0.0008	0.0008	0.0008	0.0008	0.0008

* 2011-12 prices

Note: Discounts for higher market share based on actual consumption from large users for 2010-11.

Indicative wholesale prices have been calculated by adopting the following assumptions:

1. Current meter reading and billing frequency is 12 times a year (monthly) for all customers at or over 50 MI/year.
2. Two reads are taken per year for each customer of the Licensee.
3. Twelve bills are issued per year to a new Licensee, irrespective of the number of customers a Licensee has.
4. Water Regulation Byelaws do not constitute water efficiency advice, and it is assumed the Company continues this enforcement.
5. It is assumed that some customer contact will continue. It is assumed that 50% of contact continues, based on operational incidents rather than customer service provision.
6. No allowance is made for any capital maintenance charges that may emerge, e.g. costs arising should the Company's GIS or billing system (RAPID) need system development.
7. No doubtful debts apply since most customers pay by Direct Debit and are subject to the threat of disconnection.

General Information on the Supply Demand Balance

The Company's combined supply calculations focus on the position with critical period (peak week). This is typically the focus of any Supply Demand Balance (SDB) investment. In the Company's Water Resources Management Plan 2009, headroom is managed throughout the period and therefore no intervention is required.

Indicative Supply Prices

The following table illustrates the supply access prices for each year to 2015-16.

The retail ARROW costs for both wholesale and combined supply customers are £449 for a 5 MI/year customer, £528 for a 25MI/year customer, £514 for a 50MI/year customer and £1,200 for a 500 MI/year customer. The retail expenses are £272, £309, £358 and £941 respectively. In addition to this, for combined supply customers, there are ARROW costs of £261, £1,305, £2,610 and £26,099 respectively. These reflect the lower variable production and treatment costs that would be applicable should a Licensee supply water to us at these volumes.

Indicative Combined Supply Prices

The Company's indicative combined supply prices for the years 2011-12 to 2015-16 are as follows:

Access start date (2011-12) *	Year	2011-12	2012-13	2013-14	2014-15	2015-16
Forecast supply surplus without licensee's water or water undertaker's investment (-ve if deficit)	MI/d	20.02	20.66	20.34	19.94	18.67

5MI per year						
Retail price	£/m ³	0.9498	0.9679	0.9679	0.9620	0.9620
Combined supply discount	£/m ³	0.0920	0.0920	0.0920	0.0920	0.0920
Supply surplus with licensee's water and water undertaker's revised investment plan	MI/d	20.03	20.67	20.35	19.95	18.68

25MI per year						
Retail price	£/m ³	0.9290	0.9467	0.9467	0.9410	0.9410
Combined supply discount	£/m ³	0.0639	0.0639	0.0639	0.0639	0.0639
Supply surplus with licensee's water and water undertaker's revised investment plan	MI/d	20.09	20.73	20.41	20.01	18.74

50MI per year						
Retail price	£/m ³	0.9379	0.9557	0.9557	0.9500	0.9500
Combined supply discount	£/m ³	0.0581	0.0581	0.0581	0.0581	0.0581
Supply surplus with licensee's water and water undertaker's revised investment plan	MI/d	20.16	20.80	20.48	20.08	18.81

500MI per year						
Retail price	£/m ³	0.6691	0.6818	0.6818	0.6777	0.6777
Combined supply discount	£/m ³	0.0553	0.0553	0.0553	0.0553	0.0553
Supply surplus with licensee's water and water undertaker's revised investment plan	MI/d	21.39	22.03	21.71	21.31	20.04

* 2011-12 prices

Difference in combined supply charge where licensee pays charges in arrears compared to in arrears

The difference in the combined supply charge where a licensee pays charges 14 days in advance compared to 14 days in arrears is as follows:

Access start date *		2011-12	2012-13	2013-14	2014-15	2015-16
5 MI per year	£/m3	0.0039	0.0039	0.0039	0.0039	0.0039
25 MI per year	£/m3	0.0039	0.0039	0.0039	0.0039	0.0039
50MI per year	£/m3	0.0040	0.0040	0.0040	0.0040	0.0040
500MI per year	£/m3	0.0028	0.0028	0.0028	0.0028	0.0028

*2011-12 price base

Case specific access prices

Case-specific access prices can only be calculated in response to a full application for access. In calculating case-specific access prices the Company will follow the WIA91 and the Costs Principle from the WIA03, which is the basis of Ofwat's Access Code Guidance.

The assumptions outlined in the indicative price calculations above may need to be amended for case-specific enquires. Hence there is likely to be differences between case –specific enquires and the indicative access prices that are presented in this Access Code.

Water Resource Zone Information

No water resource zone intervention is required based on the information contained within the Company's Water Resources Management Plan 2009.

For more information please contact:

Matthew Lewis
Finance and Regulation Director
South Staffs Water PLC
Green Lane
Walsall
WS2 7PD