

PORTSMOUTH WATER NETWORK ACCESS CODE INDICATIVE ACCESS PRICES

The indicative prices tabulated below have been produced in line with Ofwat's latest guidance (see letter from Andrew Beaver dated 18 August 2014 – 'The Costs Principal and Access Pricing'). The prices given are indicative only and based on assumptions, which may not all apply to a site-specific case. The Wholesale prices used are those submitted to Ofwat on 3 October 2014, and based on the Draft Determination published on 29 August 2014.

Indicative Access Price Assumptions

Retail Price

- Retail charges have been calculated using 2015-16 prices. All costs have therefore been uplifted to this price base in order to maintain consistency.
- The Retail price for 2014/15 is calculated using the current charging year prices, uplifted to 2015/16 prices by RPI. However, the Wholesale price for 2014/15 is the same as for 2015/16.
- Standing charges have been calculated assuming a 5MI customer would use a 1 inch meter, a 25MI customer would use a 2 inch meter, a 50MI customer would use a 3 inch meter and a 500MI customer would use a 12 inch meter.
- Retail charges consist of Wholesale and Retail elements, consistent with the Draft Determination for AMP6. The Retail element includes a margin of 2.5% on total revenues, for all non-household customers.

Wholesale Price

- These consist of a standing charge which is dependent of the meter size, a volumetric charge which is dependent on the volume band of the customer and a site fee for all customers using > 10MI per annum.
- Charges are in 2015/16 prices and are the draft customer charges that apply to the charging year 2015/16, starting from 1 April 2015.

Retail Expenses

Where Portsmouth Water provides Retail services, the following expenses will apply. These are included in the Wholesale prices in Table 3 and are in addition to the Draft Determination Wholesale prices in Table 2. These will however be subject to the individual Wholesale agreement.

TABLE 1

Retail expenses 2013/14 prices		Expenses (£) for serving licensee with 1 customer using:				Expenses (£) for serving Two customers of a single licensee each using:			
		5MI/yr	25MI/yr	50MI/yr	500MI/yr	5MI/yr	25MI/yr	50MI/yr	500MI/yr
R1	Billing	8	8	8	8	8	8	8	8
R3	Payment handling	1	1	1	1	1	1	1	1
R4	Handling and resolving licensee's calls, correspondence and complaints	0	0	0	0	0	0	0	0
R5	Debt Management	1	1	1	1	1	1	1	1
R6	Doubtful debts	2	2	2	2	2	2	2	2
R10	Cost of licensee credit	3	15	29	257	6	29	58	514
	Total costs allocated	15	26	41	269	18	41	70	525
	Total Costs in 2015/16 prices	16	28	43	285	19	44	74	557
	Total Costs £/m³	0.003	0.001	0.001	0.001	0.004	0.002	0.001	0.001
	Number of customers served by single licensee	1	1	1	1	2	2	2	2

- Licensees will undertake customer billing, meter reading, maintenance of customer account information, payment handling, debt collection, advice on water efficiency and account management activities.
- Licensee billing; only monthly billing to the Licensee has been included.
- Payment Handling; costs per payment will be reduced overall as the number of payments received will fall. Each will be for a higher value.
- Handling and resolving customers' calls, correspondence and complaints; these costs will be half. Although the licensee will be responsible for handling customers' complaints directly, the Company may still have to provide information to the licensee.

- Debt collection; costs relate to outstanding licensee payments
- Licensee costs of credit are based on the debtor's day calculation of 14.12 days.

Combined Supply

- No water supply deficits are anticipated during the next 5 years.
- As average demands are only being considered there are no capital schemes scheduled to take place that can be deferred during the next five years as a result of a licensee supplying water.

Forecast supply surplus without Licensee's water or Portsmouth Water investment (MI/d)

2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
	23.70	23.81	13.86	14.23	14.19	15.26	15.50

2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
15.68	15.65	10.49	11.39	11.04	10.86	10.74	10.38

2030-31	2031-32	2032-33	2033-34	2034-35
10.71	10.64	10.60	10.36	9.99

Source: Table WRP1, Line 18BL – Baseline Dry Year Average August 2014

Indicative wholesale price information

TABLE 2

	<u>5 MI p.a.</u>	<u>25 MI p.a.</u>	<u>50 MI p.a.</u>	<u>500 MI p.a.</u>
Fixed charge (site fee)	£0	£344	£5,081	£5,081
Standing charge	£35.5 <i>1" meter</i>	£105.7 <i>2" meter</i>	£181.3 <i>3" meter</i>	£6,504.6 <i>12" meter</i>
Volumetric charge	<u>£0.683</u>	<u>£0.649</u>	<u>£0.556</u>	<u>£0.556</u>
Total Revenue	£3,450	£16,675	£33,062	£289,586
Average Wholesale charge/m³	£0.690	£0.667	£0.661	£0.579

TABLE 3

	Year	2014-15	2015-16	2016-17	2017-18	2018-19
Company specific K	%					
For 5 MI per annum						
Retail price	£/m ³ *	0.7069	0.7111	0.7111	0.7111	0.7111
Wholesale price - 1st customer	£/m ³ *	0.6932	0.6932	0.6932	0.6932	0.6932
Wholesale discount - 1st customer	£/m ³ *	0.0137	0.0178	0.0178	0.0178	0.0178
Wholesale discount - 2nd customer with same licensee	£/m ³ *	0.0144	0.0185	0.0185	0.0185	0.0185
For 25 MI per annum						
Retail price	£/m ³ *	0.6978	0.6866	0.6866	0.6866	0.6866
Wholesale price - 1st customer	£/m ³ *	0.6681	0.6681	0.6681	0.6681	0.6681
Wholesale discount - 1st customer	£/m ³ *	0.0296	0.0185	0.0185	0.0185	0.0185
Wholesale discount - 2nd customer with same licensee	£/m ³ *	0.0303	0.0191	0.0191	0.0191	0.0191
For 50 MI per annum						
Retail price	£/m ³ *	0.6929	0.6810	0.6810	0.6810	0.6810
Wholesale price - 1st customer	£/m ³ *	0.6621	0.6621	0.6621	0.6621	0.6621
Wholesale discount - 1st customer	£/m ³ *	0.0308	0.0189	0.0189	0.0189	0.0189
Wholesale discount - 2nd customer with same licensee	£/m ³ *	0.0314	0.0195	0.0195	0.0195	0.0195
For 500 MI per annum						
Retail price	£/m ³ *	0.5873	0.5982	0.5982	0.5982	0.5982
Wholesale price - 1st customer	£/m ³ *	0.5797	0.5797	0.5797	0.5797	0.5797
Wholesale discount - 1st customer	£/m ³ *	0.0075	0.0185	0.0185	0.0185	0.0185
Wholesale discount - 2nd customer with same licensee	£/m ³ *	0.0081	0.0191	0.0191	0.0191	0.0191
Discounts for higher levels of market share						
Average wholesale discount per customer for a licensee serving 50% of eligible customers by volume	£/m ³ *	0.0022	0.0022	0.0022	0.0022	0.0022
Average wholesale discount per customer for a licensee serving 100% of eligible customers by volume	£/m ³ *	0.0022	0.0022	0.0022	0.0022	0.0022
* 2015/16 prices						

The Indicative prices calculated above assume no payments shall be made in advance.

Indicative combined supply prices

TABLE 4

Access start date (2014-15), price based (2015-16)		2014-15	2015-16	2016-17	2017-18	2018-19
Forecast supply surplus without licensee's water or water undertaker's investment (-ve is deficit)	MI/d		23.70	23.81	13.86	14.23
<u>5 MI per year</u>						
Retail price	£/m3	0.7069	0.7111	0.7111	0.7111	0.7111
Combined supply discount	£/m3	0.0328	0.0328	0.0328	0.0328	0.0328
Supply surplus with licensee's water and water undertaker's revised investment plan	MI/d		23.71	23.82	13.87	14.24
<u>25 MI per year</u>						
Retail price	£/m3	0.6978	0.6866	0.6866	0.6866	0.6866
Combined supply discount	£/m3	0.0487	0.0487	0.0487	0.0487	0.0487
Supply surplus with licensee's water and water undertaker's revised investment plan	MI/d		23.77	23.88	13.93	14.30
<u>50 MI per year</u>						
Retail price	£/m3	0.6929	0.6810	0.6810	0.6810	0.6810
Combined supply discount	£/m3	0.0499	0.0499	0.0499	0.0499	0.0499
Supply surplus with licensee's water and water undertaker's revised investment plan	MI/d		23.84	23.95	14.00	14.37
<u>500 MI per year</u>						
Retail price	£/m3	0.5873	0.5982	0.5982	0.5982	0.5982
Combined supply discount	£/m3	0.0266	0.0266	0.0266	0.0266	0.0266
Supply surplus with licensee's water and water undertaker's revised investment plan	MI/d		25.07	25.18	15.23	15.60