

New Appointments and Variations
Pricing 2023/24

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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 2023 and ending on 31 March 2024.

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
- 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 2023. 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 in our charging arrangements for new connection services 2023/24.

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 had specific regard to the "bulk charges for new appointees - guidance on our approach and expectations" issued by Ofwat in January 2021. Changes to our NAV charges methodology have been made for 2023/24 in line with the changes to Ofwat's guidance in 2021.

This document also sets out the period of validity of our quotations and information on which charges will apply where a quotation includes charges set out in the charging arrangements for the current charging year (i.e. 1 April to 31 March) but works are actually carried out on or after 1 April in the following charging year or subsequent charging year(s).

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

2. Bulk Supply Connection Charges

The connection charges reflect the contestable and non-contestable off-site works required to provide a supply of water from our existing main to the edge of a NAV site. This includes the connection cost, installation of a branch tee, any link main required and pressure management (if required). You can opt to carry out any or all of the contestable elements listed in the quotation.

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 2023/24.

We will also install a meter, a meter bypass and ancillary equipment such as non-return valves and wash outs at the boundary connection to the site. However these costs are not included in the quoted connection charges and will not be charged to the NAV.

3. Infrastructure charges and the application of the income offset

3.1 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.

We have introduced a reduced eco-connection infrastructure charge in respect of smaller connections to drive water efficiency in new build properties. This eco-connection infrastructure charge for connection with a diameter of 20mm (external) is a reduced infrastructure charge recognising the lower impact of these smaller connections on our network.

Our charging arrangements for new connection services 2023/24 which are available on our website, set out the methodology used and our infrastructure charges for 2023/24.

3.2 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.

Temporary measures to mitigate the impact of this change on certain types of developments had been in place since 1st April 2020 but following an internal review and feedback from developers, SLPs and NAV's, we ended the mitigation measures on the 31st of March 2022.

Our charging arrangements for new connection services 2023/24 which are available on our website, set out the methodology used and our income offset rates for 2023/24.

The infrastructure charge less the income offset can be paid by 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.

3.3 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 bulk supply agreement and accepted quotation for additional information on the calculation of the asset payment/income offset from 1 April 2018 to 31 March 2020).

4. Making an Application for a new NAV Site

Applications

Applications for a New NAV site within our water supply area can either be submitted by email or by using the online application form.

<https://www.developers.southeastwater.co.uk/navs>

To help support your application process the following documents are available on our web site:

- Our NAV policy and process documents
- Our NAV bulk supply charges document
- Our template bulk supply agreement

<https://www.developers.southeastwater.co.uk/navs>

Enquiries can also be emailed to navenquiries@southeastwater.co.uk

The application fee covers the initial review of the application, an assessment by our assets team regarding the point of connection, confirming any offsite reinforcement requirements/time scales and point of connection max/min pressures.

A quotation letter is produced outlining the above and specifying the connection costs and infrastructure and income offset values for the proposed NAV site.

Costs

Application fee

Application fee (Fixed charge) Inclusive of VAT @ 20%	
Site - Application fee Point of connection enquiry	£308

Administration fee

Administration fee (Fixed charge) Inclusive of VAT @ 20%	
Administration Fee	£91

Validity of quotations

You are able to accept our quotations within a period of 3 months commencing on the date of the quotation. If you do not accept the quotation within that time, it will expire and you will be required to make a new application and to pay any relevant fee in relation to the new application. A quotation will only be validly accepted if any payment required upon acceptance has been received by us.

Requested changes within the period of acceptance

If within the 3 months' period of validity of the quotation, the NAV submits revised maximum flow rates or revised property numbers or a new preferred POC location, we will first need to confirm if a new assessment by our assets team is required and or connection costs need to be reassessed. If a new assessment is required then another application fee will be due for the reassessment and production of a new quotation.

How charges apply across charging years

New infrastructure

The estimated charges for new connection services relating to NAVs are recorded in the relevant bulk supply agreement and are fixed for the first twelve (12) months of the bulk supply agreement (subject to any changes requested by the NAV after signature of the contract in which case the updated charges reflecting these changes will apply instead and will also be fixed until the end of the period referred to above) and thereafter are subject to change depending on when the works are actually carried out.

Charges relating to any works carried out after the expiry of the period mentioned above will be based on the charging arrangements that apply when the works are carried out.

Infrastructure charge and income offset

All infrastructure charges in respect of new service connections made on a NAV site in a given charging year are normally charged on the basis of the charging arrangements for that charging year and the offset amount is also as set out in the charging arrangements for that charging year unless otherwise agreed.

5. NAV Bulk Supply Charges

5.1 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 and any fixed element 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 standard measured tariff.
- 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:
 - Avoided operational cost primarily relating to the “last mile” infrastructure and activity. This includes both direct and indirect costs.
 - Leakage after the bulk supply meter but before the customer meters.
 - Wholesale allowed return on on-site assets and depreciation on on-site assets.

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

5.2 The discount calculation: Our methodology

In this section we will describe our approach to each of the key elements that make up the bulk supply discount

Relevant wholesale charge(s)

The base prices we use as the starting point are the wholesale household standard measured rate in £ per cubic metre for the relevant charging year and charging region and the wholesale household standing charge for a 12/15mm meter in £ per connected property within the NAV site, for the relevant charging year and charging region.

Menu-based approach

We offer four menu options for services that NAVs can choose to have provided by us. Where selected, these would no longer be avoided costs for us and therefore not deducted from the base price.

Menu option	Activities included
Network Support	Reactive communication pipe repairs, network bursts repairs, leak detection, technician investigation and emergency support
Compliance	Regulatory support, WQ compliance and water regulation
Wholesale service desk	HH and NHH activity
Wholesale customer support	Vulnerable and water efficiency support

Avoided ongoing costs

A company average avoided ongoing costs is calculated, using a top down approach. The top down approach was chosen as it is a balance of simplicity and cost-reflectiveness.

Activities included

All common activities from the CEPA review are included. The last mile costs are assumed to be for pipes of diameter 9" and less.

The avoided cost activities are: reactive communication pipe activity; reactive burst mains <9", leakage detection; water quality customer tap sampling; regulatory compliance (regulation & strategy, water quality compliance, water regulations); emergency support; distribution; water efficiency; household wholesale service desk, non-household wholesale service desk for last mile activity; vulnerable

customer activity, overheads; capex for communication pipe replacement and meter replacement.

Maintenance costs over time

Our calculation uses the average annual costs, which take into account differences over time.

Indirect costs

We have used 2021/22 APR accounting separation and included all support cost allocated to the treated water distribution function. This is applied as a £ per property avoided overhead

Fixed vs volumetric charging

Overheads and capex are fixed per property. We have introduced a standing charge to reflect the wholesale standing charge. All other activities are volumetric deductions.

Wholesale allowed return on on-site assets

Communication pipe, highway charge and meters have been included as on-site capital

Depreciation on on-site assets

Straight-line depreciation of the assets, using the WACC to annualise the figures. These are calculated as per property figures.

On site leakage

A leakage adjustment factor is applied to account for the difference in the recorded volume of water at the bulk meter and the aggregate volume recorded at customers' meters. We apply the leakage adjustment on the volumetric charge as a percentage discount to the wholesale tariff. This percentage is applied to the wholesale household measured tariff for the relevant year and charging region after the avoided costs have first been deducted. This ensures that we do not double count avoided costs. Wholesale leak allowances are discretionary and excluded from our regulated price so they are not included as an avoided cost.

Applying the discount

Avoided ongoing direct costs will be applied as £ per cubic metre discount to the volumetric charge. Avoided overhead and capex costs will be treated as a fixed £ per connected property (within the NAV boundary) discount and applied against

the standing charge value. This approach may result in a negative standing charge which will be payable to the NAV.

5.3 Bulk supply prices for 2023/24

5.3.1 Bulk supply discount calculation for 2023/24

For 2023/24 the bulk supply charges will be calculated as follows:

$$\text{Volumetric discount} = (VR - D1) - ((VR - (D1+O3)) \times L1)$$

$$\text{Fixed per property discount} = SC - (O1+O2)$$

Where:

- VR is the published wholesale household volumetric rate for relevant region and charging year.
- SC is the published wholesale household volumetric rate for relevant region and charging year.
- D1 is the avoided direct operational costs per cubic metre.
- O1 is the avoided overhead cost per connected property
- O2 is the avoided capex costs per connected property
- O3 is the sum of avoided overhead and capex costs less SC. Then converted to £ per cubic metre using distribution input.
- L1 is the average leakage percentage for last mile infrastructure

5.3.2 Component values for 2023/24

The Relevant Wholesale Charges (base price)

	Eastern Charging Region	Western Charging Region
Volumetric charge per cubic metre measured at the bulk supply meter	£2.122	£1.6078
Standing charge* 12/15mm	£7.02	£7.02

*The standing is applicable to the sum of all connected properties within the NAV site boundary

Avoided ongoing direct costs applied to the volumetric charge

£0.1255 per cubic metre

Avoided overhead and capex costs applied against the standing charge value

£10.5156 per connected property

On-site leakage

The average leakage percentage for last mile infrastructure of 7.28%, is applied to the volumetric rate after the avoided costs have been deducted.

	Eastern Charging Region	Western Charging Region
Discount per cubic metre applied to the volumetric charge	£0.1417	£0.1042

5.3.3 Bulk supply discount and prices for 2023/24

The bulk supply discount for NAV sites for 2023/24

	Eastern Charging Region	Western Charging Region
Volumetric discount per cubic metre measured at the bulk supply meter	£0.2672	£0.2298
Fixed charge discount per connected property within the NAV site boundary	£10.5156	£10.5156

The bulk supply prices for NAV sites for 2023/24

	Eastern Charging Region	Western Charging Region
Volumetric charge per cubic metre measured at the bulk supply meter	£1.8550	£1.3780
Fixed charge per connected property within the NAV site boundary	-£3.4956	-£3.4956

Menu options

The bulk supply prices in the table above show the full discount for all the avoided cost elements. The NAV can however choose not to carry out specific activity groups listed in the menu options below. Once an agreement is in place for South East Water to carry out the activities associated with a chosen menu option, the bulk supply discount will be reduced by the values indicated below. The NAV can choose one or menu option but can't sub select for activities within a menu option.

Menu options	Activities included	£/m3
Network Support	Reactive communication pipe repairs, network bursts repairs, leak detection, technician investigation and emergency support	£0.124
Compliance	Regulatory support, WQ compliance, customer sampling and water regulation	£0.009
Wholesale service desk	HH and NHH activity	£0.006
Wholesale customer support	Vulnerable and water efficiency support	£0.002

5.3.4 Worked examples - bulk supply charges for 2023/24

An offline NAV bulk supply charges calculator is available on request. Please email us on navenquiries@southeastwater.co.uk

Worked example 1

Assumptions

Region	Eastern
Property numbers	500
Per property consumption annually	114m ³
Annual consumption	57,000m ³
Bulk supply volumetric rate	£1.8550
Fixed charge per connected property	-£3.4956
Menu options selected	0

Calculation of annual bulk supply charges for the site

Component	Multiplier	Rate	Total
Annual volumetric bulk supply charge	57,000m ³	£1.855	£105,735.00
Menu option costs added	57,000m ³	£0.00	£0.00
Fixed charge	500 properties	-£3.4956	-£1,747.80
Total annual bulk supply cost			£103,987.20

Cost comparison at standard wholesale charges

Component	Multiplier	Rate	Total
Annual volumetric bulk supply charge	57,000m ³	£2.122	£120,954.00
Standing charges	500	£7.02	£3,105.00
Total annual cost at standard rates			£124,464.00

Worked example 2

Assumptions

Region	Western
Property numbers	200
Per property consumption annually	114m ³
Annual consumption	22,800m ³
Bulk supply volumetric rate	£1.3780
Fixed charge per connected property	-£3.4956
Menu options selected	0

Calculation of the annual bulk supply charges for the site

Component	Multiplier	Rate	Total
Annual volumetric bulk supply charge	22,800m ³	£1.3780	£31,418.40
Menu option costs added	22,800m ³	£0.00	£0.00
Fixed charge	200	-£3.4956	-£699.12
Total annual bulk supply cost			£30,719.28

Cost comparison at standard wholesale charges

Component	Multiplier	Rate	Total
Annual volumetric bulk supply charge	22,800m ³	£1.6078	£36,657.84
Standing charges	200	£7.02	£1,404.00
Total annual cost at standard rates			£38,061.84

Worked example 3

Assumptions

Region	Western
Property numbers	1000
Per property consumption annually	114m ³
Annual consumption	114,000m ³
Bulk supply volumetric rate	£1.3780
Fixed charge per connected property	-£3.4956
Menu options selected	2*

*Network support (£0.124) and wholesale service desk (£0.006) menu options selected

Calculation of the annual bulk supply charges for the site

Component	Multiplier	Rate	Total
Annual volumetric bulk supply charge	114,000m ³	£1.378	£157,092.00
Menu option costs added	114,000m ³	£0.13	£14,820.00
Fixed charge	1000	-£3.4956	-£3,495.60
Total annual bulk supply cost			£168,416.40

Cost comparison at standard wholesale charges

Component	Multiplier	Rate	Total
Annual volumetric bulk supply charge	114,000m ³	£1.6078	£183,289.00
Standing charges	1000	£7.02	£7,026.00
Total annual cost at standard rates			£190,309.20

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