

Indicative combined supply prices – Severn Trent Water

The indicative combined prices in the table below have been produced in line with Ofwat's revised "Guidance on Access Codes", which was published on 31 July 2007. The methodology set out in this guidance, assessing ARROW costs and additional costs, has been followed in producing these prices. The presentational format is as specified in this guidance; additional information has been provided as notes to the table for ease of understanding.

These are **indicative** access prices. We will provide case-specific prices to a licensee on application for access. This may require some adjustment to the assumptions underlying the indicative access prices, which may lead to differences between indicative and case-specific prices provided to a licensee.

The guidance specifies that indicative prices should be produced for each water resource zone, for access starting in each of the five years from 2007-08 to 2011-12, and for two volumes (50 Ml/yr and 500 Ml/yr). This assessment has been undertaken for each of these scenarios using the same methodology as used for the company's Water Resource Plan. The indicative prices are different for each of company's water resource zones (Birmingham, East Midlands, Severn, Forest and Stroud, Oswestry and Ellesmere and Stafford and Telford).

Modelled inputs of water do not lead to the avoidance or deferral of any capital schemes. Avoidable costs have been assessed as:

- the avoidable cost from power and chemicals
- the avoidable cost for leakage detection
- the avoidable cost for security of supplies

The indicative prices provided below allow for avoidable costs for chemical, power and reduced leakage detection.

Table I shows the indicative combined supply prices for each of the six water resource zones.

Access start date: 2007-08		2007-08	2008-09	2009-10	2010-11	2011-12
Water resource zone: East Midlands						
Forecast supply surplus without licensee's water or water undertaker's investment (-ve is deficit)	MI/d	-10.1	-6.4	-5.6	-5.2	-4.8
Company specific large user price increase assumption	%		1.1%	1.8%	0.0%	0.0%
For 50 MI per annum:						
Retail price	£	46,381	46,891	47,735	47,735	47,735
<i>Retail equivalent unit rate</i>	£/m ³	0.9276	0.9378	0.9547	0.9547	0.9547
Wholesale discount	£	350	350	350	350	350
<i>Wholesale discount equivalent unit rate</i>	£/m ³	0.0070	0.0070	0.0070	0.0070	0.0070
Common carriage discount	£	2,985	2,985	2,985	2,985	2,985
<i>Common carriage discount unit rate</i>	£/m ³	0.0597	0.0597	0.0597	0.0597	0.0597
Combined price	£	43,045	43,556	44,400	44,400	44,400
<i>Combined discount equivalent unit rate</i>	£/m ³	0.0667	0.0667	0.0667	0.0667	0.0667
<i>Combined equivalent unit rate</i>	£/m ³	0.8609	0.8711	0.8880	0.8880	0.8880
Forecast supply surplus with licensee's water and water undertaker's revised investment plan	MI/d	-10.0	-6.2	7.1	7.5	7.8
For 500 MI per annum:						
Retail price	£	299,322	302,615	308,062	308,062	308,062
<i>Retail equivalent unit rate</i>	£/m ³	0.5986	0.6052	0.6161	0.6161	0.6161
Wholesale discount	£	422	422	422	422	422
<i>Wholesale discount equivalent unit rate</i>	£/m ³	0.0008	0.0008	0.0008	0.0008	0.0008
Common carriage discount	£	147,500	147,500	147,500	147,500	147,500
<i>Common carriage discount unit rate</i>	£/m ³	0.2950	0.2950	0.2950	0.2950	0.2950
Combined price	£	151,400	154,693	160,140	160,140	160,140
<i>Combined discount equivalent unit rate</i>	£/m ³	0.2958	0.2958	0.2958	0.2958	0.2958
<i>Combined equivalent unit rate</i>	£/m ³	0.3028	0.3094	0.3203	0.3203	0.3203
Forecast supply surplus with licensee's water and water undertaker's revised investment plan	MI/d	-10.1	-6.4	6.9	7.3	7.7

Access start date: 2007-08		2007-08	2008-09	2009-10	2010-11	2011-12
Water resource zone: Severn						
Forecast supply surplus without licensee's water or water undertaker's investment (-ve is deficit)	MI/d	-43.3	-41.4	-39.7	-38.0	-40.2
Company specific large user price increase assumption	%		1.1%	1.8%	0.0%	0.0%
For 50 MI per annum:						
Retail price	£	46,381	46,891	47,735	47,735	47,735
Retail equivalent unit rate	£/m ³	0.9276	0.9378	0.9547	0.9547	0.9547
Wholesale discount	£	350	350	350	350	350
Wholesale discount equivalent unit rate	£/m ³	0.0070	0.0070	0.0070	0.0070	0.0070
Common carriage discount	£	3,640	3,640	3,640	3,640	3,640
Common carriage discount unit rate	£/m ³	0.0728	0.0728	0.0728	0.0728	0.0728
Combined price	£	42,390	42,901	43,745	43,745	43,745
Combined discount equivalent unit rate	£/m ³	0.0798	0.0798	0.0798	0.0798	0.0798
Combined equivalent unit rate	£/m ³	0.8478	0.8580	0.8749	0.8749	0.8749
Forecast supply surplus with licensee's water and water undertaker's revised investment plan	MI/d	-43.2	-41.2	-16.6	-14.8	-17.1
For 500 MI per annum:						
Retail price	£	299,322	302,615	308,062	308,062	308,062
Retail equivalent unit rate	£/m ³	0.5986	0.6052	0.6161	0.6161	0.6161
Wholesale discount	£	422	422	422	422	422
Wholesale discount equivalent unit rate	£/m ³	0.0008	0.0008	0.0008	0.0008	0.0008
Common carriage discount	£	170,500	170,500	170,500	170,500	170,500
Common carriage discount unit rate	£/m ³	0.3410	0.3410	0.3410	0.3410	0.3410
Combined price	£	128,400	131,693	137,140	137,140	137,140
Combined discount equivalent unit rate	£/m ³	0.3418	0.3418	0.3418	0.3418	0.3418
Combined equivalent unit rate	£/m ³	0.2568	0.2634	0.2743	0.2743	0.2743
Forecast supply surplus with licensee's water and water undertaker's revised investment plan	MI/d	-43.3	-41.4	-16.7	-15.0	-17.2

Access start date: 2007-08		2007-08	2008-09	2009-10	2010-11	2011-12
Water resource zone: Birmingham						
Forecast supply surplus without licensee's water or water undertaker's investment (-ve is deficit)	MI/d	12.7	13.2	13.4	14.0	12.7
Company specific large user price increase assumption	%		1.1%	1.8%	0.0%	0.0%
For 50 MI per annum:						
Retail price	£	46,381	46,891	47,735	47,735	47,735
<i>Retail equivalent unit rate</i>	£/m ³	0.9276	0.9378	0.9547	0.9547	0.9547
Wholesale discount	£	350	350	350	350	350
<i>Wholesale discount equivalent unit rate</i>	£/m ³	0.0070	0.0070	0.0070	0.0070	0.0070
Common carriage discount	£	1,115	1,115	1,115	1,115	1,115
<i>Common carriage discount unit rate</i>	£/m ³	0.0223	0.0223	0.0223	0.0223	0.0223
Combined price	£	44,915	45,426	46,270	46,270	46,270
<i>Combined discount equivalent unit rate</i>	£/m ³	0.0293	0.0293	0.0293	0.0293	0.0293
<i>Combined equivalent unit rate</i>	£/m ³	0.8983	0.9085	0.9254	0.9254	0.9254
Forecast supply surplus with licensee's water and water undertaker's revised investment plan	MI/d	12.8	13.3	30.6	31.1	29.8
For 500 MI per annum:						
Retail price	£	299,322	302,615	308,062	308,062	308,062
<i>Retail equivalent unit rate</i>	£/m ³	0.5986	0.6052	0.6161	0.6161	0.6161
Wholesale discount	£	422	422	422	422	422
<i>Wholesale discount equivalent unit rate</i>	£/m ³	0.0008	0.0008	0.0008	0.0008	0.0008
Common carriage discount	£	291,000	291,000	291,000	291,000	291,000
<i>Common carriage discount unit rate</i>	£/m ³	0.5820	0.5820	0.5820	0.5820	0.5820
Combined price	£	7,900	11,193	16,640	16,640	16,640
<i>Combined discount equivalent unit rate</i>	£/m ³	0.5828	0.5828	0.5828	0.5828	0.5828
<i>Combined equivalent unit rate</i>	£/m ³	0.0158	0.0224	0.0333	0.0333	0.0333
Forecast supply surplus with licensee's water and water undertaker's revised investment plan	MI/d	12.7	13.2	30.4	31.0	29.7

Access start date: 2007-08		2007-08	2008-09	2009-10	2010-11	2011-12
Water resource zone: Forest & Stroud						
Forecast supply surplus without licensee's water or water undertaker's investment (-ve is deficit)	MI/d	3.4	3.5	3.5	3.6	3.7
Company specific large user price increase assumption	%		1.1%	1.8%	0.0%	0.0%
For 50 MI per annum:						
Retail price	£	46,381	46,891	47,735	47,735	47,735
<i>Retail equivalent unit rate</i>	£/m ³	0.9276	0.9378	0.9547	0.9547	0.9547
Wholesale discount	£	350	350	350	350	350
<i>Wholesale discount equivalent unit rate</i>	£/m ³	0.0070	0.0070	0.0070	0.0070	0.0070
Common carriage discount	£	5,190	5,190	5,190	5,190	5,190
<i>Common carriage discount unit rate</i>	£/m ³	0.1038	0.1038	0.1038	0.1038	0.1038
Combined price	£	40,840	41,351	42,195	42,195	42,195
<i>Combined discount equivalent unit rate</i>	£/m ³	0.1108	0.1108	0.1108	0.1108	0.1108
<i>Combined equivalent unit rate</i>	£/m ³	0.8168	0.8270	0.8439	0.8439	0.8439
Forecast supply surplus with licensee's water and water undertaker's revised investment plan	MI/d	3.6	3.7	3.7	3.7	3.8
For 500 MI per annum:						
Retail price	£	299,322	302,615	308,062	308,062	308,062
<i>Retail equivalent unit rate</i>	£/m ³	0.5986	0.6052	0.6161	0.6161	0.6161
Wholesale discount	£	422	422	422	422	422
<i>Wholesale discount equivalent unit rate</i>	£/m ³	0.0008	0.0008	0.0008	0.0008	0.0008
Common carriage discount	£	178,000	178,000	178,000	178,000	178,000
<i>Common carriage discount unit rate</i>	£/m ³	0.3560	0.3560	0.3560	0.3560	0.3560
Combined price	£	120,900	124,193	129,640	129,640	129,640
<i>Combined discount equivalent unit rate</i>	£/m ³	0.3568	0.3568	0.3568	0.3568	0.3568
<i>Combined equivalent unit rate</i>	£/m ³	0.2418	0.2484	0.2593	0.2593	0.2593
Forecast supply surplus with licensee's water and water undertaker's revised investment plan	MI/d	3.4	3.5	3.5	3.6	3.7

Access start date: 2007-08		2007-08	2008-09	2009-10	2010-11	2011-12
Water resource zone: Oswestry & Ellesmere						
Forecast supply surplus without licensee's water or water undertaker's investment (-ve is deficit)	MI/d	-0.1	-6.3	-6.2	-6.3	-6.3
Company specific large user price increase assumption	%		1.1%	1.8%	0.0%	0.0%
For 50 MI per annum:						
Retail price	£	46,381	46,891	47,735	47,735	47,735
<i>Retail equivalent unit rate</i>	£/m ³	0.9276	0.9378	0.9547	0.9547	0.9547
Wholesale discount	£	350	350	350	350	350
<i>Wholesale discount equivalent unit rate</i>	£/m ³	0.0070	0.0070	0.0070	0.0070	0.0070
Common carriage discount	£	3,030	3,030	3,030	3,030	3,030
<i>Common carriage discount unit rate</i>	£/m ³	0.0606	0.0606	0.0606	0.0606	0.0606
Combined price	£	43,000	43,511	44,355	44,355	44,355
<i>Combined discount equivalent unit rate</i>	£/m ³	0.0676	0.0676	0.0676	0.0676	0.0676
<i>Combined equivalent unit rate</i>	£/m ³	0.8600	0.8702	0.8871	0.8871	0.8871
Forecast supply surplus with licensee's water and water undertaker's revised investment plan	MI/d	0.0	-1.2	-1.1	-1.2	-1.2
For 500 MI per annum:						
Retail price	£	299,322	302,615	308,062	308,062	308,062
<i>Retail equivalent unit rate</i>	£/m ³	0.5986	0.6052	0.6161	0.6161	0.6161
Wholesale discount	£	422	422	422	422	422
<i>Wholesale discount equivalent unit rate</i>	£/m ³	0.0008	0.0008	0.0008	0.0008	0.0008
Common carriage discount	£	171,000	171,000	171,000	171,000	171,000
<i>Common carriage discount unit rate</i>	£/m ³	0.3420	0.3420	0.3420	0.3420	0.3420
Combined price	£	127,900	131,193	136,640	136,640	136,640
<i>Combined discount equivalent unit rate</i>	£/m ³	0.3428	0.3428	0.3428	0.3428	0.3428
<i>Combined equivalent unit rate</i>	£/m ³	0.2558	0.2624	0.2733	0.2733	0.2733
Forecast supply surplus with licensee's water and water undertaker's revised investment plan	MI/d	-0.1	-1.3	-1.2	-1.3	-1.3

Access start date: 2007-08		2007-08	2008-09	2009-10	2010-11	2011-12
Water resource zone: Staffs & Telford						
Forecast supply surplus without licensee's water or water undertaker's investment (-ve is deficit)	MI/d	28.0	28.7	28.4	28.9	28.9
Company specific large user price increase assumption	%		1.1%	1.8%	0.0%	0.0%
For 50 MI per annum:						
Retail price	£	46,381	46,891	47,735	47,735	47,735
Retail equivalent unit rate	£/m ³	0.9276	0.9378	0.9547	0.9547	0.9547
Wholesale discount	£	350	350	350	350	350
Wholesale discount equivalent unit rate	£/m ³	0.0070	0.0070	0.0070	0.0070	0.0070
Common carriage discount	£	2,940	2,940	2,940	2,940	2,940
Common carriage discount unit rate	£/m ³	0.0588	0.0588	0.0588	0.0588	0.0588
Combined price	£	43,090	43,601	44,445	44,445	44,445
Combined discount equivalent unit rate	£/m ³	0.0658	0.0658	0.0658	0.0658	0.0658
Combined equivalent unit rate	£/m ³	0.8618	0.8720	0.8889	0.8889	0.8889
Forecast supply surplus with licensee's water and water undertaker's revised investment plan	MI/d	28.1	28.9	28.6	29.1	29.0
For 500 MI per annum:						
Retail price	£	299,322	302,615	308,062	308,062	308,062
Retail equivalent unit rate	£/m ³	0.5986	0.6052	0.6161	0.6161	0.6161
Wholesale discount	£	422	422	422	422	422
Wholesale discount equivalent unit rate	£/m ³	0.0008	0.0008	0.0008	0.0008	0.0008
Common carriage discount	£	180,000	180,000	180,000	180,000	180,000
Common carriage discount unit rate	£/m ³	0.3600	0.3600	0.3600	0.3600	0.3600
Combined price	£	118,900	122,193	127,640	127,640	127,640
Combined discount equivalent unit rate	£/m ³	0.3608	0.3608	0.3608	0.3608	0.3608
Combined equivalent unit rate	£/m ³	0.2378	0.2444	0.2553	0.2553	0.2553
Forecast supply surplus with licensee's water and water undertaker's revised investment plan	MI/d	28.0	28.7	28.4	28.9	28.9

Table 2 presents supply surplus (or deficit) information for each water resource zone for the remainder of the twenty-five year water resource planning period, as requested in Ofwat’s guidance.

Forecast supply surplus (deficit) in each water resource zone without licensee’s water or Severn Trent Water investment (Ml/d)						
Year	East Midlands	Birmingham	Severn	Forest & Stroud	Oswestry & Ellesmere	Stafford & Telford
2007-08	-10.1	12.7	-43.3	3.4	-0.1	28.0
2008-09	-6.4	13.2	-41.4	3.5	-6.3	28.7
2009-10	-5.6	13.4	-39.7	3.5	-6.2	28.4
2010-11	-5.2	14.0	-38.0	3.6	-6.3	28.9
2011-12	-4.8	12.7	-40.2	3.7	-6.3	28.9
2012-13	-5.0	12.6	-39.9	3.8	-6.3	29.8
2013-14	-6.3	13.2	-40.0	3.8	-6.3	29.1
2014-15	-12.0	3.7	-50.4	3.8	-6.4	26.7
2015-16	-17.3	0.5	-56.1	3.8	-6.5	24.6
2016-17	-30.1	-5.3	-59.6	3.9	-6.6	24.1
2017-18	-32.0	-9.1	-64.2	3.9	-6.6	22.8
2018-19	-41.0	-10.7	-67.8	3.9	-6.8	21.0
2019-20	-43.1	-16.0	-76.3	3.9	-6.7	20.4
2020-21	-61.3	-22.7	-76.5	3.9	-6.7	20.5
2021-22	-62.9	-23.6	-82.2	3.9	-6.9	19.1
2022-23	-74.2	-31.7	-86.1	3.9	-6.7	17.3
2023-24	-76.8	-40.5	-92.0	3.9	-6.8	16.9
2024-25	-88.1	-44.5	-96.8	3.9	-6.8	16.4
2025-26	-99.1	-44.7	-99.4	4.0	-7.0	15.0
2026-27	-101.4	-53.7	-105.9	4.0	-7.0	13.7
2027-28	-111.4	-68.3	-107.2	4.0	-7.0	12.4
2028-29	-116.3	-57.2	-111.1	4.0	-7.0	11.3
2029-30	-127.2	-59.4	-118.0	4.0	-7.2	12.2
2030-31	-135.0	-62.4	-122.2	4.0	-7.3	11.3
2031-32	-142.0	-65.9	-126.8	4.0	-7.3	10.6

Notes

1. All prices are in 2007-08 prices.
2. The 2007-08 **retail prices** used to determine wholesale prices under the specified “retail-minus” methodology have been calculated using the following assumptions:
 - 50 MI and 500 MI customers are charged on the large user tariff.
 - Consumption is evenly spread throughout the year (42% in the peak season from May to September, 58% in the off peak season October to April).
 - 50 MI customers have on average 2.424 meters of size 80 mm diameter.
 - 500 MI customers have on average 4.939 meters of size 80 mm diameter.
 - The customer does not currently purchase any added value products or services from Severn Trent Water.
 - Retail prices for 2008-09 and 2009-10 have been estimated by applying the company specific large user price increase assumption made by Ofwat in the 2004 Final Determination to the prior year's figure. As retail prices are subject to approval by Ofwat annually, and are influenced by the mechanics of the tariff basket, actual retail prices for 2008-09 and 2009-10 and actual wholesale prices for these years are, therefore, likely to vary from those set out above. We have assumed a large user price increase of zero for 2010/11 and 2011/12 because the price will not be determined by Ofwat until PR09.
3. The relevant retail tariff for eligible customers could potentially be one of Severn Trent Water's other tariffs, for example the standby tariff. Full details of these tariffs can be found in the company's *Scheme of Charges 2007* which is available at www.stwater.co.uk. The indicative level of the saving on the retail tariff would be the same regardless of which retail tariff the customer is currently being charged on.
4. The **wholesale** element of the combined supply tariff has been calculated using the following assumptions:
 - Indicative prices relate to the situation of one customer switching (for water supply only) to a licensee who currently supplies no other customers in the appointed area of Severn Trent Water.
 - Prices are based on the market situation in the financial year 2007-08, when few if any customers have already switched to licensees (and hence there is limited potential to redesign operational practices as a result of entry).
 - Many retail activities will be broadly unchanged, with costs avoided at the interface between Severn Trent Water and the customer, but equivalent additional costs at the new interface between Severn Trent Water and the licensee.
 - Specifically, it has been assumed that:
 - The number of bills produced by Severn Trent Water, and therefore the total cost of billing, remains unchanged. For example, this assumption would hold if the customer switching to a licensee is a water and trade effluent customer, currently receiving two bills from Severn Trent (one for each service). After switching, Severn Trent Water would still produce two bills, one for water supply to the licensee and one for trade effluent for the customer.
 - Meter readings are provided by the licensee to Severn Trent Water in line with Severn Trent Water's metering standards for large customers on a monthly basis.

- The costs of maintaining account information is unchanged, as instead of maintaining a customer's water account, a licensee's water account would need to be maintained.
 - The cost of payment handling, debt collection and recovery procedures and provision for doubtful debts is unchanged. Instead of collecting payments (and potentially carrying out debt collection and recovery procedures and / or providing for doubtful debts) from customers for water supply, equivalent processes will be taking place to collect payments from licensees. In the absence of information to the contrary, the licensee has been assumed to have the same credit risk as the customer.
 - The level of contact (calls, correspondence and complaints) from the licensee is equivalent to the level of contact from the customer.
 - Average payment periods for a licensee will be the same as the average payment periods for large customers. As the magnitude of the payments will be broadly similar, the cost of licensee credit has been assumed to be equivalent to the cost of customer credit.
 - The licensee does not purchase any value added services or products from Severn Trent Water.
 - In any case-specific situation, these assumptions may need to be adjusted, which may lead to differences between indicative and case-specific prices. In particular:
 - There may be situations where Severn Trent Water may need to produce additional bills and maintain additional accounts (for the licensee *and* the customer) following the switch of a customer to a licensee, leading to additional costs being incurred.
 - Payment collection methods, timings and costs may be different between the customer and the licensee. These will be agreed with the licensee in the Wholesale Master Agreement.
 - Contacts with Severn Trent Water may increase due to the increased complexity of having a licensee responsible for some, but not all, aspects of water supply, leading to additional costs being incurred.
 - Net avoidable, reducible or recoverable in other ways (ARROW) costs (i.e. ARROW costs – additional costs) have been identified in the areas of meter reading and account management activities.
 - These costs will be kept under review; if indicative net ARROW costs change materially from those above, revised indicative prices will be published.
 - In any event, updated indicative prices will be published annually in accordance with Ofwat's "Guidance on Access Codes".
5. The **common carriage** element of the combined supply tariff has been calculated using the following assumptions:
- Inputs of water meet all relevant quality, compatibility and security of supply criteria, consistent with the criteria applied to Severn Trent Water's own sources.
 - Any input of water that could allow future capital investment to be avoided or deferred is designated as a strategic supply.
 - Inputs of water are monitored (for flow and quality) at the licensee's expense.
 - Any costs due to connecting the licensee's source of water to the network are recovered separately on a case-specific basis.
6. No account has been taken of any potential impact of the licensee's input on the distribution network, including any potential impact on leakage levels, due to the localised nature of such impacts. Any such impact would be considered on a case-specific basis.

7. Combined supply tariffs will follow the structure of the Severn Trent Water's *Scheme of Charges 2007*, with the additional feature of having (case-specific) savings (or additional charges as appropriate) on the retail tariff due to the wholesale and common carriage elements of combined supply.
8. A reconciliation will be made each season (peak and off peak) between the volume input into the network by the licensee and the volume taken from the network by the licensee's customer. While this reconciliation may be affected by case-specific factors, for the purposes of indicative prices, the following would apply:
 - If the volume taken exceeds the volume input (i.e. the licensee had under-supplied relative to their customer's usage), the excess volume will be charged at the relevant wholesale tariff rate, as a "top up" supply will have been provided to the licensee. Any saving on the retail tariff due to common carriage for the excess volume that had been provided to the licensee would be reclaimed.
 - If the volume taken was less than the volume input (i.e. the licensee had over-supplied relative to their customer's usage), then for the first 10% over-supply a credit equivalent to the saving on the retail tariff due to common carriage would be applied to the licensee's account. For over-supply greater than 10%, no further credit would be applied, recognising the limited extent to which costs could be avoided due to over-supply.