

## Indicative wholesale prices – Severn Trent Water

The indicative wholesale prices in the table below have been produced in line with Ofwat’s revised “Guidance on Access Codes”, which was published on 25<sup>th</sup> September 2009. 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 and additional information has been provided 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.

Year		2009-10	2010-11	2011-12	2012-13	2013-14	
Company specific large user price increase assumption		%	1.8%	4.0%	-1.6%	-0.5%	-1.7%
For 50 MI per annum:							
Retail price	£	52315	54408	53537	53269	52364	
<i>Retail equivalent unit rate</i>	£/m <sup>3</sup>	1.0463	1.0882	1.0707	1.0654	1.0473	
Wholesale price - first customer	£	51468	53561	52690	52422	51517	
<i>Wholesale equivalent unit rate - first customer</i>	£/m <sup>3</sup>	1.0294	1.0712	1.0538	1.0484	1.0303	
Wholesale discount - first customer	£	847	847	847	847	847	
<i>Wholesale discount equivalent unit rate - first customer</i>	£/m <sup>3</sup>	0.0169	0.0169	0.0169	0.0169	0.0169	
Wholesale discount - second customer with same licensee	£	1155	1155	1155	1155	1155	
<i>Wholesale discount for second customer with same licensee - equivalent unit rate</i>	£/m <sup>3</sup>	0.0231	0.0231	0.0231	0.0231	0.0231	
For 500 MI per annum:							
Retail price	£	338622	352167	346532	344800	338938	
<i>Retail equivalent unit rate</i>	£/m <sup>3</sup>	0.6772	0.7043	0.6931	0.6896	0.6779	
Wholesale price - first customer	£	337678	351223	345589	343856	337994	
<i>Wholesale equivalent unit rate - first customer</i>	£/m <sup>3</sup>	0.6754	0.7024	0.6912	0.6877	0.6760	
Wholesale discount - first customer	£	944	944	944	944	944	
<i>Wholesale discount equivalent unit rate - first customer</i>	£/m <sup>3</sup>	0.0019	0.0019	0.0019	0.0019	0.0019	
Wholesale discount - second customer with same licensee	£	2933	2933	2933	2933	2933	
<i>Wholesale discount for second customer with same licensee - equivalent unit rate</i>	£/m <sup>3</sup>	0.0059	0.0059	0.0059	0.0059	0.0059	
Discounts for higher levels of market share							
Average wholesale discount per customer for a licensee serving 50% of eligible customers	£	1560	1560	1560	1560	1560	
<i>Average wholesale discount per customer for a licensee serving 50% of eligible customers - equivalent unit rate</i>	£/m <sup>3</sup>	0.01029	0.01029	0.01029	0.01029	0.01029	

Average wholesale discount per customer for a licensee serving 100% of eligible customers	£	1564	1564	1564	1564	1564
Average wholesale discount per customer for a licensee serving 100% of eligible customers - equivalent unit rate	£/m <sup>3</sup>	0.01031	0.01031	0.01031	0.01031	0.01031

## Notes

1. All retail prices are based on 2009/10 scheme of charges and the wholesale discounts have been calculated using the 2008/09 cost information.
2. The 2009-10 **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 1.962 meters spread between 15mm – 150mm meters
  - 500 MI customers have on average 6.443 meters spread between 15mm – 150mm meters.
  - Figures are taken from the Measured water supply tariffs 2009/10
  - Average eligible customers (151MI) have on average 3.231 meters spread between 15mm – 200mm meters.
  - The customer does not currently purchase any added value products or services from Severn Trent Water.
  - Retail price for 2010-11 has been estimated by applying the company specific large user price increase of 4.0% 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 2010-11 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 -1.6% for 2011/12 , -0.5% for 2012/13 and -1.7% for 2013/14 in line with the Draft Determination issued in August 2009
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 2009* which is available at [www.stwater.co.uk](http://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 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, two customers switching to the same licensee, the average wholesale discount per customer for a licensee serving 50% of eligible customers (based on an average sized customer of 151MI for Severn Trent) and 100% of eligible customers in the appointed area of Severn Trent Water.
  - Prices are based on the market situation in the financial year 2009/10
    - Billing and Payment handling will require the same service as if dealing with one customer (the Licensee), and therefore the total cost of these activities reduces as more customers switch as the activities can be consolidated. If just one customers switches however costs equal expenses.

- 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. If a Licensee was to take over this task a check read would be carried out by Severn Trent once a year, the cost of which would be allowed for in the expenses.
- The costs of maintaining account information and handling and resolving calls, correspondence and complaints will still incur some expense as some information will still be maintained and dealt with by Severn Trent Water. All costs relating to our Operational call centre will not be avoided as this service will still be provided.
- Debt collection and recovery costs - the current guidance from Ofwat allows no costs can be recovered for this activity although some cost may be incurred.
- Doubtful Debts - In the absence of information to the contrary, the licensee has been assumed to have the same credit risk as the customer. However there will be a slight saving in one respect as the debt provision is dependent on retail charge which will be slightly lower for a Licensee than for a customer. This applies if just one customer switches. If multiple customers switch this discount increases in line with the calculation used for Billing and Payment Handling in that only one customer would default at any one time and thus the risk should be spread across all. This methodology complies with the guidance.
- Account management – much operational type activities occurs in this area and thus 51% of the total cost of this activity has been allocated as an expense. This has been based upon activity analysis which is monitored.
- Cost of credit -Average payment periods for a licensee will be the same as the average payment period 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 less the net ARROW costs as less would be collected.
- For GSS payments we have agreed that all costs would be avoided as GSS payments would not need to be paid to a Licensee.
- General and Support activity costing is deemed not avoidable as it would be incurred at the same levels regardless of even all large users switching.
- Net avoidable, reducible or recoverable in other ways (ARROW) costs (i.e. ARROW costs – additional costs) have been identified in most areas of expenditure to some extent (although only if more than one customer switches for some).
- Specifically, it has been assumed that, for the average wholesale discount per customer for a licensee serving 50% and 100% of eligible customers in the appointed area of Severn Trent Water, in addition to the above:
  - Economies of scale are reflected in the account management avoidable costs.
- 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.
- 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*".