

## **PART 6:**

### **ACCESS PRICING**

#### **6.1 Indicative access prices**

All water undertakers are required to publish indicative access prices in accordance with Ofwat's published access code guidance. This section provides details of Southern Water's indicative access prices for 2011-12.

These indicative prices are published for information purposes only. Applicants should note that access prices for any given agreement will depend on the precise details of the access arrangements and may differ substantially from the prices shown here.

In accordance with the 'costs principle' indicative access prices are shown as a reduction to the standard retail charge, as detailed in Southern Water's Ofwat-approved Charges Scheme. Retail charges shown for future years are forecasts only and exclude the effects of inflation. Actual retail charges are approved annually by Ofwat and may differ from those shown here.

In developing these indicative prices a wide range of assumptions have been made; details of the main assumptions are given below. These assumptions are made solely to enable indicative prices to be produced and should not be seen as indicating a preferred form of agreement.

All prices are shown using a 2010-11 price base.

##### **6.1.1 Indicative wholesale access prices**

Table 6.1 below shows indicative prices for wholesale access.

The level of wholesale access prices will depend heavily on the precise nature of the account management activities required by the licensee and the billing arrangements. These indicative prices assume that the account management facilities currently offered to eligible customers will no longer be required. No allowance has been made for the costs of alternative arrangements which might be established between Southern Water and the licensee in respect of account management.

The indicative prices assume a typical customer using 5 MI/a and 20MI/a has each meter read and charges billed quarterly, whilst 50 MI/a and above customers have each meter read monthly and the charges billed monthly. These indicative prices assume that under the access agreement the Licensee will obtain a monthly reading on each meter and provide this to Southern Water. It is further assumed that Southern Water will obtain one meter read per meter per annum, and provide the Licensee with a single consolidated bill annually.

A single price applies to the whole of the Southern Water region.

**Table 6.1**

Price base: 2010/11	Year	2011-12	2012-13	2013-14	2014-15	2015-16
Company specific water K	%	1.4%	2.4%	1.3%	-1.0%	0.0%
For 5 MI per annum						
Retail price	£/m3	1.0729	1.0987	1.1130	1.1018	1.1018
Wholesale price	£/m3	1.0549	1.0807	1.0950	1.0838	1.0838
Wholesale discount - first customer	£/m3	0.0180	0.0180	0.0180	0.0180	0.0180
Wholesale discount - second customer with same licensee	£/m3	0.0180	0.0180	0.0180	0.0180	0.0180
Wholesale price for advanced payment	£/m3	1.0534	1.0792	1.0935	1.0823	1.0823
Wholesale discount for advanced payment	£/m3	0.0195	0.0195	0.0195	0.0195	0.0195
For 20 MI per annum						
Retail price	£/m3	0.9785	1.0020	1.0150	1.0048	1.0048
Wholesale price	£/m3	0.9669	0.9904	1.0034	0.9932	0.9932
Wholesale discount - first customer	£/m3	0.0116	0.0116	0.0116	0.0116	0.0116
Wholesale discount - second customer with same licensee	£/m3	0.0116	0.0116	0.0116	0.0116	0.0116
Wholesale price for advanced payment	£/m3	0.9655	0.9890	1.0020	0.9918	0.9918
Wholesale discount for advanced payment	£/m3	0.0130	0.0130	0.0130	0.0130	0.0130
For 50 MI per annum						
Retail price	£/m3	0.9256	0.9478	0.9601	0.9505	0.9505
Wholesale price	£/m3	0.9139	0.9361	0.9484	0.9388	0.9388
Wholesale discount - first customer	£/m3	0.0117	0.0117	0.0117	0.0117	0.0117
Wholesale discount - second customer with same licensee	£/m3	0.0117	0.0117	0.0117	0.0117	0.0117
Wholesale price for advanced payment	£/m3	0.9126	0.9348	0.9471	0.9375	0.9375
Wholesale discount for advanced payment	£/m3	0.0130	0.0130	0.0130	0.0130	0.0130
For 100 MI per annum						
Retail price	£/m3	0.9107	0.9326	0.9447	0.9353	0.9353
Wholesale price	£/m3	0.8967	0.9186	0.9307	0.9213	0.9213
Wholesale discount - first customer	£/m3	0.0140	0.0140	0.0140	0.0140	0.0140

Wholesale discount - second customer with same licensee		0.0140	0.0140	0.0140	0.0140	0.0140
Wholesale price for advanced payment	£/m3	0.8963	0.9182	0.9303	0.9209	0.9209
Wholesale discount for advanced payment	£/m3	0.0144	0.0144	0.0144	0.0144	0.0144
For <b>500 MI</b> per annum						
Retail price	£/m3	0.8062	0.8256	0.8363	0.8279	0.8279
Wholesale price	£/m3	0.7973	0.8167	0.8274	0.8190	0.8190
Wholesale discount - first customer	£/m3	0.0089	0.0089	0.0089	0.0089	0.0089
Wholesale discount - second customer with same licensee	£/m3	0.0089	0.0089	0.0089	0.0089	0.0089
Wholesale price for advanced payment	£/m3	0.7969	0.8163	0.8270	0.8186	0.8186
Wholesale discount for advanced payment	£/m3	0.0093	0.0093	0.0093	0.0093	0.0093

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## 6.1.2 Indicative combined supply access prices

Tables 6.1.2(1)-(10) below provide indicative prices for combined supply for each of Southern Water's water resource zones. Prices are shown for access beginning in each of the next five years and continuing until 2034-35.

The indicative prices include a discount in respect of retail costs, based on the assumptions outlined above.

Table 6.1.3(1)-(10) below shows the size of input required to defer by one year, the next water resources scheme planned within the next ten years and the unit savings that would result from such a deferment.

In both cases these indicative prices are based on Southern Water's Water Resources Management Plan, dated April 2009. Any application for a case-specific access price will use the latest available data.

To simplify the calculation of these indicative prices a number of assumptions have been made. In particular it is assumed that:

- (i) all inputs of water by the Licensee are spread evenly over the course of the year;
- (ii) as a result of the access agreement Southern Water will be able to reduce the output from its own water sources in the resource zone. The assumed reduction in operating costs resulting from this reduction is based on the most expensive source in the water resource zone;
- (iii) where capital expenditure is deferred as a result of access, depreciable capital expenditure has an average asset life of 30 years and the cost of capital is equal to that used by Ofwat at the 2009 periodic review;
- (iv) the licensee's supply is introduced at a point in the network just after a water treatment works. Thus no allowance is made within these prices for changes in costs associated with the distribution network.
- (v) where a supply-demand deficit is reduced as a result of the Licensee's input, an additional nominal allowance to proxy the value to Southern Water customers of a reduced supply-demand deficit has been allowed. For the purposes of these indicative prices, a value of 10p/m<sup>3</sup> has been used. In a case-specific example, detailed analysis will be needed to properly identify the benefits of the reduction in the deficit.
- (vi) analysis is based on the critical period supply demand balance which is the key investment driver in the region.

In some cases the level of discount shown would lead to negative access prices (i.e. the deferred costs exceed the retail costs). Where capital expenditure is deferred until later years, although there may be a large discount in the first year(s), subsequent years discounts may be negative (i.e. the charge to a licensee would exceed the retail costs) as a result of changes to the profile of depreciation. Whilst we show these within our indicative prices, we understand that neither of these are allowed for case-specific access. They would consequently be smoothed over the course of the contract to ensure that access prices were between zero and the full retail charge.

The access prices charged in any particular case will depend very heavily on the precise details of the supply arrangements including, amongst other things, the point of entry and exit, the volume of water introduced and the length of the access agreement.

Combined supply access prices are only published for 50 MI/a and 500 MI/a customers as consumption below this level does not allow deferral of any schemes. A discount on supply would be provided based upon the wholesale discount and the assumed reduction in operating costs based on the most expensive source in the water resource zone

Table 6.1.2(1) Indicative Access Prices: Hampshire South WRZ

<b>Access start date: 2011-12</b>		2011-12	2012-13	2013-14	2014-15	2015-16
<b>2010-11 prices</b>						
Forecast supply surplus without licensee's water or water undertaker's investment* (-ve is deficit)	MI/d	9.20	16.00	25.05	33.03	22.41
<b>50 MI per year</b>						
Retail price	£/m3	0.9256	0.9478	0.9601	0.9505	0.9505
Combined supply discount	£/m3	0.0549	0.0549	0.0549	0.0549	0.0549
Supply surplus with licensee's water and water undertaker's revised investment plan.	MI/d	9.34	16.13	25.19	33.17	22.54
<b>500 MI per year</b>						
Retail price	£/m3	0.8062	0.8256	0.8363	0.8279	0.8279
Combined supply discount	£/m3	0.0521	0.0521	0.0521	0.0521	0.0521
Supply surplus with licensee's water and water undertaker's revised investment plan.	MI/d	10.57	17.37	26.42	34.40	23.78

Table 6.1.2(2) Indicative Access Prices: Hampshire Kingsclere WRZ

<b>Access start date: 2011-12 2010-11 prices</b>		2011- 12	2012- 13	2013- 14	2014- 15	2015- 16
Forecast supply surplus without licensee's water or water undertaker's investment* (-ve is deficit)	MI/d	0.77	0.78	0.79	1.99	2.00
<b>50 MI per year</b>						
Retail price	£/m3	0.9256	0.9478	0.9601	0.9505	0.9505
Combined supply discount	£/m3	0.0635	0.0635	0.0635	0.0635	0.0635
Supply surplus with licensee's water and water undertaker's revised investment plan.	MI/d	0.91	0.92	0.93	2.13	2.14
<b>500 MI per year</b>						
Retail price	£/m3	0.8062	0.8256	0.8363	0.8279	0.8279
Combined supply discount	£/m3	0.0607	0.0607	0.0607	0.0607	0.0607
Supply surplus with licensee's water and water undertaker's revised investment plan.	MI/d	2.14	2.15	2.16	3.36	3.37

Table 6.1.2(3) Indicative Access Prices: Hampshire Andover WRZ

<b>Access start date: 2011-12 2010-11 prices</b>		2011- 12	2012- 13	2013- 14	2014- 15	2015- 16
Forecast supply surplus without licensee's water or water undertaker's investment* (-ve is deficit)	MI/d	4.06	4.24	4.27	4.25	4.23
<b>50 MI per year</b>						
Retail price	£/m3	0.9256	0.9478	0.9601	0.9505	0.9505
Combined supply discount	£/m3	0.0677	0.0677	0.0677	0.0677	0.0677
Supply surplus with licensee's water and water undertaker's revised investment plan.	MI/d	4.20	4.38	4.41	4.39	4.37
<b>500 MI per year</b>						
Retail price	£/m3	0.8062	0.8256	0.8363	0.8279	0.8279
Combined supply discount	£/m3	0.0649	0.0649	0.0649	0.0649	0.0649
Supply surplus with licensee's water and water undertaker's revised investment plan.	MI/d	5.43	5.61	5.64	5.62	5.60

Table 6.1.2(4) Indicative Access Prices: Isle of Wight WRZ

<b>Access start date: 2011-12</b>		2011-12	2012-13	2013-14	2014-15	2015-16
<b>2010-11 prices</b>						
Forecast supply surplus without licensee's water or water undertaker's investment* (-ve is deficit)	MI/d	1.62	2.69	3.19	3.87	0.00
<b>50 MI per year</b>						
Retail price	£/m3	0.9256	0.9478	0.9601	0.9505	0.9505
Combined supply discount	£/m3	0.0853	0.0853	0.0853	0.0853	0.0853
Supply surplus with licensee's water and water undertaker's revised investment plan.	MI/d	1.76	2.82	3.32	4.00	0.14
<b>500 MI per year</b>						
Retail price	£/m3	0.8062	0.8256	0.8363	0.8279	0.8279
Combined supply discount	£/m3	0.0825	0.0825	0.0825	0.0825	0.0825
Supply surplus with licensee's water and water undertaker's revised investment plan.	MI/d	2.99	4.06	4.56	5.24	1.37

Table 6.1.2(5) Indicative Access Prices: Sussex North WRZ

<b>Access start date: 2011-12</b>		2011-12	2012-13	2013-14	2014-15	2015-16
<b>2010-11 prices</b>						
Forecast supply surplus without licensee's water or water undertaker's investment* (-ve is deficit)	MI/d	-3.90	0.52	0.68	0.90	0.89
<b>50 MI per year</b>						
Retail price	£/m3	0.9256	0.9478	0.9601	0.9505	0.9505
Combined supply discount	£/m3	0.1166	0.1166	0.1166	0.1166	0.1166
Supply surplus with licensee's water and water undertaker's revised investment plan.	MI/d	-3.76	0.66	0.81	1.04	1.03
<b>500 MI per year</b>						
Retail price	£/m3	0.8062	0.8256	0.8363	0.8279	0.8279
Combined supply discount	£/m3	0.1138	0.1138	0.1138	0.1138	0.1138
Supply surplus with licensee's water and water undertaker's revised investment plan.	MI/d	-2.53	1.89	2.05	2.27	2.26

Table 6.1.2(6) Indicative Access Prices: Sussex Brighton WRZ

<b>Access start date: 2011-12 2010-11 prices</b>		2011- 12	2012- 13	2013- 14	2014- 15	2015- 16
Forecast supply surplus without licensee's water or water undertaker's investment* (-ve is deficit)	MI/d	3.89	7.92	10.68	14.33	14.44
<b>50 MI per year</b>						
Retail price	£/m3	0.9256	0.9478	0.9601	0.9505	0.9505
Combined supply discount	£/m3	0.0622	0.0622	0.0622	0.0622	0.0622
Supply surplus with licensee's water and water undertaker's revised investment plan.	MI/d	4.03	8.06	10.82	14.47	14.57
<b>500 MI per year</b>						
Retail price	£/m3	0.8062	0.8256	0.8363	0.8279	0.8279
Combined supply discount	£/m3	0.0594	0.0594	0.0594	0.0594	0.0594
Supply surplus with licensee's water and water undertaker's revised investment plan.	MI/d	5.26	9.29	12.05	15.70	15.81

Table 6.1.2(7) Indicative Access Prices: Sussex Worthing WRZ

<b>Access start date: 2011-12</b>		2011-12	2012-13	2013-14	2014-15	2015-16
<b>2010-11 prices</b>						
Forecast supply surplus without licensee's water or water undertaker's investment* (-ve is deficit)	MI/d	0.00	11.93	12.07	15.51	16.31
<b>50 MI per year</b>						
Retail price	£/m3	0.9256	0.9478	0.9601	0.9505	0.9505
Combined supply discount	£/m3	0.0646	0.0646	0.0646	0.0646	0.0646
Supply surplus with licensee's water and water undertaker's revised investment plan.	MI/d	0.14	12.07	12.21	15.65	16.45
<b>500 MI per year</b>						
Retail price	£/m3	0.8062	0.8256	0.8363	0.8279	0.8279
Combined supply discount	£/m3	0.0618	0.0618	0.0618	0.0618	0.0618
Supply surplus with licensee's water and water undertaker's revised investment plan.	MI/d	1.37	13.30	13.44	16.88	17.68

Table 6.1.2(8) Indicative Access Prices: Sussex Hastings WRZ

<b>Access start date: 2011-12 2010-11 prices</b>		2011- 12	2012- 13	2013- 14	2014- 15	2015- 16
Forecast supply surplus without licensee's water or water undertaker's investment* (-ve is deficit)	MI/d	0.00	0.00	0.00	0.00	0.00
<b>50 MI per year</b>						
Retail price	£/m3	0.9256	0.9478	0.9601	0.9505	0.9505
Combined supply discount	£/m3	0.1012	0.1012	0.1012	0.1012	0.1012
Supply surplus with licensee's water and water undertaker's revised investment plan.	MI/d	0.13	0.13	0.13	0.13	0.13
<b>500 MI per year</b>						
Retail price	£/m3	0.8062	0.8256	0.8363	0.8279	0.8279
Combined supply discount	£/m3	0.0984	0.0984	0.0984	0.0984	0.0984
Supply surplus with licensee's water and water undertaker's revised investment plan.	MI/d	1.37	1.37	1.37	1.37	1.37

Table 6.1.2(9) Indicative Access Prices: Kent Medway WRZ

<b>Access start date: 2011-12 2010-11 prices</b>		2011- 12	2012- 13	2013- 14	2014- 15	2015- 16
Forecast supply surplus without licensee's water or water undertaker's investment* (-ve is deficit)	MI/d	0.00	7.11	17.90	25.50	24.34
<b>50 MI per year</b>						
Retail price	£/m3	0.9256	0.9478	0.9601	0.9505	0.9505
Combined supply discount	£/m3	0.0761	0.0761	0.0761	0.0761	0.0761
Supply surplus with licensee's water and water undertaker's revised investment plan.	MI/d	0.14	7.25	18.03	25.64	24.48
<b>500 MI per year</b>						
Retail price	£/m3	0.8062	0.8256	0.8363	0.8279	0.8279
Combined supply discount	£/m3	0.0733	0.0733	0.0733	0.0733	0.0733
Supply surplus with licensee's water and water undertaker's revised investment plan.	MI/d	1.37	8.48	19.27	26.87	25.71

Table 6.1.2(10) Indicative Access Prices: Kent Thanet WRZ

<b>Access start date: 2011-12 2010-11 prices</b>		2011- 12	2012- 13	2013- 14	2014- 15	2015- 16
Forecast supply surplus without licensee's water or water undertaker's investment* (-ve is deficit)	MI/d	-2.91	0.00	0.00	0.00	0.00
<b>50 MI per year</b>						
Retail price	£/m3	0.9256	0.9478	0.9601	0.9505	0.9505
Combined supply discount	£/m3	0.0944	0.0944	0.0944	0.0944	0.0944
Supply surplus with licensee's water and water undertaker's revised investment plan.	MI/d	-2.77	0.14	0.14	0.14	0.14
<b>500 MI per year</b>						
Retail price	£/m3	0.8062	0.8256	0.8363	0.8279	0.8279
Combined supply discount	£/m3	0.0916	0.0916	0.0916	0.0916	0.0916
Supply surplus with licensee's water and water undertaker's revised investment plan.	MI/d	-1.54	1.37	1.37	1.37	1.37

Southern Water have adopted a twin-track water resource strategy that combines measures to reduce demand as well as increase supplies. This includes the Universal Metering Programme which will reduce demand in the region and improve the supply-demand balance to all zones. To assist water licensees, we set out below the minimum input required to defer the next capital scheme in each of the water resource zones.

**Table 6.1.3(1) – Water Resource Zone Information to 2019-20: Hampshire South WRZ**

There are no deferrable capital schemes within our water resources plan within the planning period. A scheme to increase Testwood supply and enable transfer to Otterbourne is planned to alleviate the River Itchen sustainability reductions of 40Ml/d. This scheme cannot be deferred, as the sustainability reductions are subject to satisfactory completion of the improvements.

<b>Hampshire South WRZ</b>	Scheme 1
Minimum input (Ml/day) to defer each Scheme by 1 year	n/a
Latest date of input to enable deferral (month and year)	n/a
Deferral discount (p/m3) available by year for minimum input at latest date.	n/a

**Table 6.1.3(2) – Water Resource Zone Information to 2019-20: Hampshire Kingsclere WRZ**

There are no capital schemes within our water resources plan within the planning period. A small step improvement in the supply demand balance is the by-product of asset maintenance schemes.

<b>Hampshire Kingsclere WRZ</b>	Scheme 1
Minimum input (Ml/day) to defer each Scheme by 1 year	n/a
Latest date of input to enable deferral (month and year)	n/a
Deferral discount (p/m3) available by year for minimum input at latest date.	n/a

**Table 6.1.3(3) – Water Resource Zone Information to 2019-20: Hampshire Andover WRZ**

There are no capital schemes within our water resources plan within the planning period. A small step improvement in the supply demand balance is the by-product of asset maintenance schemes.

<b>Hampshire Andover WRZ</b>	Scheme 1
Minimum input (Ml/day) to defer each Scheme by 1 year	n/a
Latest date of input to enable deferral (month and year)	n/a
Deferral discount (p/m3) available by year for minimum input at latest date.	n/a

**Table 6.1.3(4) – Water Resource Zone Information to 2019-20: Isle of Wight WRZ**

There are no capital schemes within our water resources plan within the planning period. Optimisation of the inter-zonal cross Solent transfer is required to maintain the supply-demand balance.

<b>Isle of Wight WRZ</b>	Scheme 1
Minimum input (Ml/day) to defer each Scheme by 1 year	n/a
Latest date of input to enable deferral (month and year)	n/a
Deferral discount (p/m3) available by year for minimum input at latest date.	n/a

**Table 6.1.3(5) – Water Resource Zone Information to 2019-20: Sussex North WRZ**

There are no deferrable capital schemes within our water resources plan within the planning period. A scheme to abstract water from the River Arun which was included in the Water Resources Management Plan for 2012/13 was delivered early and is now commissioned.

<b>Sussex North WRZ</b>	Scheme 1
Minimum input (Ml/day) to defer each Scheme by 1 year	n/a
Latest date of input to enable deferral (month and year)	n/a
Deferral discount (p/m3) available by year for minimum input at latest date.	n/a

**Table 6.1.3(6) – Water Resource Zone Information to 2019-20: Sussex Brighton WRZ**

There are no capital schemes within our water resources plan within the planning period. The supply demand balance is maintained by zonal transfers from Sussex Worthing and asset maintenance schemes.

<b>Sussex Brighton WRZ</b>	Scheme 1
Minimum input (Ml/day) to defer each Scheme by 1 year	n/a
Latest date of input to enable deferral (month and year)	n/a
Deferral discount (p/m3) available by year for minimum input at latest date.	n/a

**Table 6.1.3(7) – Water Resource Zone Information to 2019-20: Sussex Worthing WRZ**

There are no capital schemes within our water resources plan within the planning period. The supply demand balance is maintained by a reduction of inter-zonal transfers to Sussex North following completion of the River Arun scheme.

<b>Sussex Worthing WRZ</b>	Scheme 1
Minimum input (Ml/day) to defer each Scheme by 1 year	n/a
Latest date of input to enable deferral (month and year)	n/a
Deferral discount (p/m3) available by year for minimum input at latest date.	n/a

**Table 6.1.3(8) – Water Resource Zone Information to 2019-20: Sussex Hastings WRZ**

There are no capital schemes within our water resources plan within the planning period.

<b>Sussex Hastings WRZ</b>	Scheme 1
Minimum input (Ml/day) to defer each Scheme by 1 year	n/a
Latest date of input to enable deferral (month and year)	n/a
Deferral discount (p/m3) available by year for minimum input at latest date.	n/a

**Table 6.1.3(9) – Water Resource Zone Information to 2019-20: Kent Medway WRZ**

There are no capital schemes within our water resources plan within the planning period. Improvements in the supply demand balance are delivered through asset maintenance schemes for ground water sources.

<b>Kent Medway WRZ</b>	Scheme 1
Minimum input (Ml/day) to defer each Scheme by 1 year	n/a
Latest date of input to enable deferral (month and year)	n/a
Deferral discount (p/m3) available by year for minimum input at latest date.	n/a

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**Table 6.1.3(10) – Water Resource Zone Information to 2019-20: Kent Thanet WRZ**

There are no capital schemes within our water resources plan within the planning period. The supply demand deficit is closed through the delivery of the Universal Metering Programme and optimisation of the inter-zonal transfer from Kent Medway.

<b>Kent Thanet WRZ</b>	Scheme 1
Minimum input (Ml/day) to defer each Scheme by 1 year	n/a
Latest date of input to enable deferral (month and year)	n/a
Deferral discount (p/m3) available by year for minimum input at latest date.	n/a

## 6.2 Case-specific access prices

Prices in any particular case will depend on the precise terms of the access required by the licensee. Southern Water will calculate case-specific access prices in accordance with the costs principle as set out in the Water Industry Act 1991 and with the statutory guidance issued by Ofwat for that purpose.