



SRN PR19 Developer Services Data Request Commentary

Date 29 August 2019
Version 1.0 Final

General

The financial data for 2018-19 has been updated to reflect the actual results for the year.

The inflation assumption included in the 2019-20 figures is 2%

Diversions expenditure is reported in lines 12 (Maintaining the long-term capability of assets – infra) and 13 (Maintaining the long-term capability of assets – non-infra) of tables WS1 and WWS1 in our PR19 submission. In the most recent PR19 table submission diversion income was included within line 21 (Grants and contributions – capital expenditure), this was previously a single row for grants and contributions and so will be line 20 for data prior to 2017-18.

Please note, as referenced below we have amended the diversion costs and income forecast for 2019-20 as these were inadvertently netted off in our table submission and therefore do not appear in the rows mentioned above.

Water

A1 Diversions expenditure - water		Commentary
1	s185	Our assessment was that all significant diversion spend reviewed between 2016 and 2019 was related to s185 generated activity.
2	NRSWA	Although all of our forecast spend is allocated to the s185 line very recent interactions with Statutory Authorities indicate that there may be an imminent rise in NRSWA related activity. Infrastructure works to support growth and development and critical infrastructure such as the Lower Thames Crossing will likely require significant investment within the AMP7 period that was not foreseen at the time of developing the Business Plan. As a result, we are strongly supportive of removing NRSWA related activities from the modelled base cost allowance as the cost associated with these activities are unavoidable, difficult to predict within the AMP7 planning horizon and difficult to financially quantify.
3	Other non-s185	No activity identified.
A2 Diversions income - water		Commentary
5	s185	Income has been profiled assuming 100% recovery with the profiled expenditure.
6	NRSWA	No income profiled
7	Other non-s185	No income profiled
B Connections volume data - water		Commentary
9	New connections (residential)	

10	New connections (business - excluding NAV connection)	For annual reporting and forecasting purposes, we do not make any distinction between a new connection and a new property and assume each new connection to be a new property. This is because for billing purposes, every household on a housing development and every non-household unit in a retail park is assigned a unique premise number in our billing system. So in terms of provision of water and/or wastewater service, every individual household/non-household property is treated as an individual connection. We therefore consider our assumption to be valid.
12	New bulk supply connections into NAV sites	The number of the predicted NAV sites is based on the current run rate.
14	New connections where self-lay providers/developers will undertake a significant proportion of contestable activity (more than 75% of contestable activity)	We assessed a 12-month period in detail (2018-19) to review the number of connections that were delivered by SLP's. This information was then utilised to cast forward the proportion of connections over the 2019-20 and AMP7 period. We developed a historic taper based upon the number of s51 application received over the earlier part of AMP6.
15	New connections where self-lay providers/developers will undertake some contestable activity (25% to 75% of contestable activity)	We identified 2 development sites that had a lower proportion of self-lay activity in relation to total contestable activity. These covered 2% of our assessed development sites and therefore this is the proportion of overall connections that are not delivered by SLP's or associated with NAV sites.
16	New connections where self-lay providers/developers will undertake little to no contestable activity (less than 25% of contestable activity)	The remainder of connections are connections delivered (or forecast to be delivered) by Southern Water.
C	Properties volume data - water	Commentary
18	New properties (residential)	For annual reporting and forecasting purposes, we do not make any distinction between a new connection and a new property and assume each new connection to be a new property. This is because for billing purposes, every household on a housing development and every non-household unit in a retail park is assigned a unique premise number in our billing system. So in terms of provision of water and/or wastewater service, every individual household/non-household property is treated as an individual connection. We therefore consider our assumption to be valid.
19	New properties (business)	
21	New properties on NAV sites (residential)	The property numbers assume an average water development of 800 properties. The historic property numbers are those supplied by the NAV and may not represent the actual build profile. For the predicted NAV sites a build rate of 50 properties per year is assumed.
22	New properties on NAV sites (business)	Assumption is 1% of properties are non-household.
25	New properties where self-lay providers/developers will undertake a significant proportion of contestable activity (more than 75% of contestable activity)	We assessed a 12-month period in detail (2018-19) to review the number of connections that were delivered by SLP's. This information was then utilised to cast forward the proportion of

		connections over the 2019-20 and AMP7 period. We developed a historic taper based upon the number of s51 application received over the earlier part of AMP6.
26	New properties where self-lay providers/developers will undertake some contestable activity (25% to 75% of contestable activity)	We identified 2 development sites that had a lower proportion of self-lay activity in relation to total contestable activity. These covered 2% of our assessed development sites and therefore this is the proportion of overall connections that are not delivered by SLP's or associated with NAV sites.
27	New properties where self-lay providers/developers will undertake little to no contestable activity (less than 25% of contestable activity)	The remainder of connections are connections delivered (or forecast to be delivered) by Southern Water.
D	Total cost of contestable activities (£m)	Commentary
29	Total direct costs of contestable activities for new connections where self-lay providers/developers will undertake a significant proportion of contestable activity (more than 75% of contestable activity)	
30	Total direct costs of contestable activities for new connections where self-lay providers/developers will undertake some contestable activity (25% to 75% of contestable activity)	A small proportion of directly incurred contestable costs have been assessed to be within this category
31	Total direct costs of contestable activities for new connections where self-lay providers/developers will undertake little to no contestable activity (less than 25% of contestable activity)	From our sample we assessed that the majority of contestable costs directly incurred by ourselves are within this category (when separating Asset Payments as below in line 32).
32	Asset value payments for new connections where self-lay providers/developers will undertake a significant proportion of contestable activity (more than 75% of contestable activity)	The total value of asset value payments is slightly higher than that previously reported as we have identified some additional schemes that started as s41 before becoming s51.
33	Asset value payments for new connections where self-lay providers/developers will undertake some contestable activity (25% to 75% of contestable activity)	
34	Asset value payments for new connections where self-lay providers/developers will undertake little to no contestable activity (less than 25% of contestable activity)	

E	App8 data (£m)	Commentary
36	Infrastructure charge receipts (s146)	<p>This is the net position. Please note that this number differs from our supplied App28 data. App28 was based upon the previous methodology applied to the fast-track draft determinations where the Infrastructure Charge could not go below zero. Following the release of the decision document on New Connection Charging, it has been agreed that the Infrastructure Charge would go to below zero if that is what was required to maintain the balance of charges against the 2018 baseline. We did not have the opportunity to update the main App28 table due to the tight timeline associated with data gathering, lockdown, modelling and assurance. The values in line 36 and line 38 reflect this and are designed to recover approximately 75% of expenditure, which is our initial assessment of the overall balance of contributions pre-new connection charging. It is important that these figures are utilised for any revenue correction considerations in light of the recent release of the decision document and the key changes within.</p>
37	Requisitioned mains (s43, s55 & s56)	100% recovery forecast
38	Total value of income offset allowances	<p>We do not separately record the value of income offset for AMP6 requisitions. The values for income offset reported for the period to March 2020 have therefore been derived as being the difference between requisition revenue received and costs. There will be a timing difference between the reporting of costs and the receipt of income and as a result the income offset appears as negative in some years.</p> <p>For AMP 7 the figures have been updated from those presented in App 28 in line with the commentary in line 36. This is the total income offset that is applied to the infrastructure charge receipts.</p>

Wastewater

A1 Diversions expenditure - wastewater		Commentary
1	s185	<p>We have amended the 2019-20 diversion costs and income from that submitted in our PR19 Business Plan and IAP response, in which they had inadvertently been netted off. This has increased our forecast expenditure in 2019-20 by £2.9m</p> <p>Our assessment was that most significant diversion spend reviewed between 2016 and 2019 was related to s185 generated activity.</p>
2	NRSWA	<p>Although most of our forecast spend is allocated to the s185 line we did have one project that was initiated via NRSWA. Very recent interactions with Statutory Authorities indicate that there may be an imminent rise in NRSWA related activity. Infrastructure works to support growth and development and critical infrastructure such as the Lower Thames Crossing will likely require significant investment within the AMP7 period that was not foreseen at the time of developing the Business Plan. As a result, we are strongly supportive of removing NRSWA related activities from the modelled base cost allowance as the cost associated with these activities are unavoidable, difficult to predict within the AMP7 planning horizon and difficult to financially quantify.</p>
3	Other non-s185	
A2 Diversions income - wastewater		Commentary
5	s185	<p>We have amended the 2019-20 diversion costs and income from that submitted in our PR19 Business Plan and IAP response, in which they had inadvertently been netted off. This has increased our forecast income in 2019-20 by £2.9m.</p> <p>Income has been profiled assuming 100% recovery in this area.</p>
6	NRSWA	
7	Other non-s185	
B Connections volume data - wastewater		Commentary
9	New connections (residential)	<p>For annual reporting and forecasting purposes, we do not make any distinction between a new connection and a new property and assume each new connection to be a new property. This is because for billing purposes, every household on a housing development and every non-household unit in a retail park is assigned a unique premise number in our billing system. So in terms of provision of water and/or wastewater service, every individual household/non-</p>
10	New connections (business - excluding NAV connection)	

		household property is treated as an individual connection. We therefore consider our assumption to be valid.
12	New bulk supply connections into NAV sites	The number of the predicted NAV sites is based on the current run rate.
14	New connections where self-lay providers/developers a significant proportion of contestable activity (more than 75% of contestable activity)	We have allocated all connections to this line. The only contestable activity that we undertake in wastewater is requisitions. The scope for requisitions post 2018 is likely to be much lower than pre 2018 as many of our prior projects were predominantly network reinforcement related. As such we do not have a representative historic sample to assess. Where requisitions are required it would only apply to a very low proportion of our overall connections and the requisition is likely to be relatively small in value. Furthermore, most sites have significant levels of site specific activity, either in sewers, connecting laterals or connections that is generally delivered directly by the developer and their contractors, which is generally much more significant in terms of scope and cost. As such we have applied all of our connection numbers to this line.
15	New connections where self-lay providers/developers will undertake some contestable activity (25% to 75% of contestable activity)	
16	New connections where self-lay providers/developers will undertake little to no contestable activity (less than 25% of contestable activity)	
C	Properties volume data - wastewater	Commentary
18	New properties (residential)	For annual reporting and forecasting purposes, we do not make any distinction between a new connection and a new property and assume each new connection to be a new property. This is because for billing purposes, every household on a housing development and every non-household unit in a retail park is assigned a unique premise number in our billing system. So in terms of provision of water and/or wastewater service, every individual household/non-household property is treated as an individual connection. We therefore consider our assumption to be valid.
19	New properties (business)	
20	Total new properties served by incumbent	
21	New properties on NAV sites (residential)	The property numbers assume an average wastewater development of 400 properties. The historic property numbers are those supplied by the NAV and may not represent the actual build profile. For the predicted NAV sites a build rate of 50 properties per year is assumed.
22	New properties on NAV sites (business)	Assumption is 1% of properties are non-household.

25	New properties where self-lay providers/developers will undertake a significant proportion of contestable activity (more than 75% of contestable activity)	See line 14
26	New properties where self-lay providers/developers will undertake some contestable activity (25% to 75% of contestable activity)	
27	New properties where self-lay providers/developers will undertake little to no contestable activity (less than 25% of contestable activity)	
D	Total cost of contestable activities (£m)	Commentary
29	Total direct costs of contestable activities for new connections where self-lay providers/developers will undertake a significant proportion of contestable activity (more than 75% of contestable activity)	This aligns with our plan value for Wastewater Requisitions
30	Total direct costs of contestable activities for new connections where self-lay providers/developers will undertake some contestable activity (25% to 75% of contestable activity)	
31	Total direct costs of contestable activities for new connections where self-lay providers/developers will undertake little to no contestable activity (less than 25% of contestable activity)	
32	Asset value payments for new connections where self-lay providers/developers a significant proportion of contestable activity (more than 75% of contestable activity)	
33	Asset value payments for new connections where self-lay providers/developers will undertake some contestable activity (25% to 75% of contestable activity)	
34	Asset value payments for new connections where self-lay providers/developers will undertake little to no contestable activity (less than 25% of contestable activity)	

E	App28 data (£m)	Commentary
36	Infrastructure charge receipts (s146)	These figures are taken from App28
37	Requisitioned sewers (s100)	We assume 100% recovery for AMP7 requisitions
38	Total value of income offset allowances	<p>We do not separately record the value of income offset for requisitions. The values for income offset reported for the period to March 2020 have therefore been derived as being the difference between requisition revenue received and costs. There will be a timing difference between the reporting of costs and the receipt of income and as a result the income offset appears as negative in some years.</p> <p>For AMP7 the figures have been taken from App28.</p>