

SECTION P

TARIFF BASKET INFORMATION

Edition 7

ANNUAL RETURN 2008-09**EDITION CHANGES – SECTION P**

<u>Edition</u>	<u>Description of Change</u>
<u>7.0</u>	Section P has been modified in light of competition in the market, to reflect the structure of the wholesale tariffs. Section P has been adopted from Section 8 of the Business Plan Guidance for the Strategic Review of Charges 2010-2014, adapted as necessary for Annual Return purposes.
<u>7.1</u>	<u>Table P10</u> Line Calculation updated: P10.46
<u>7.1</u>	<u>Table P12</u> Line Calculation updated: P12.46
<u>7.1</u>	<u>Table P13</u> Line Calculation updated: P13.46

P tables - Tariff basket information

Outline

The key purpose of this section is to provide Scottish Water with an opportunity to:

- Summarise information about its customer base and revenue as relates to the tariffs it offers
- Submit customers numbers that will be used to set tariffs in line with price limits.

It is vital that Scottish Water explains in detail any annual variations in its tariff multipliers. These should be explained in relation to:

- changes due to underlying trends;
- changes due to expenditure to relieve development constraints; and
- changes due to specific reviews of the customer base.

This section contains 31 tables that analyse Scottish Water's core revenue in granular constituent components. There are three parts within the section:

- revenue summaries (Tables 1 and 2)
- retail revenue (Tables 3 to 8, 20 and 21)
- wholesale revenue (Tables 9 to 19 and 22 to 31).

Revenue summaries (Tables 1 and 2)

This part contains two tables that summarise Scottish Water's total core revenue.

Table 1 summarises total revenue into a hierarchal structure as set out in Annex 1 of this guidance. The following definitions apply:

Retail: revenue to Scottish Water directly from the end customer. Eg household charges and standpipes.

Wholesale: revenue to Scottish Water from Licensed providers. Eg Trade effluent charges.

Primary: revenue to Scottish Water from Primary services (those that are continuously provided automatically) eg water supply.

Non-primary: revenue to Scottish Water from non-primary services (those that are provided on request) eg Septic Tank de-sludging. Scottish Water does not recognise some income from non-primary services as revenue in its Profit and Loss Account. These are identified separately in Block K.

Charges Scheme: revenue to Scottish Water for any services provided at charges under the charges scheme.

Schedule 3: revenue to Scottish Water for any services provided at charges levied under Schedule 3 of the Water Services etc. (Scotland) Act 2005.

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Table 2 also provides a summary of Scottish Water's revenue. It breaks revenue down in two ways:

- **Tariff baskets:** which are the level that price limits are set and are consistent with the Commission's methodology for the 2010-14 review; and
- **Revenue Groupings:** which are used to analyse cross-subsidy and are consistent with¹ "*Analysis of cost / revenue balance in water and sewerage charges*" (Frontier Economics, September 2007), which is available on the Commission's website.

Annex 2 of this guidance sets out which (if any) tariff basket and revenue grouping Tables 3 to 31 fall into.

Retail revenue (Tables 3 to 8; 20 and 21)

Introduction

In this part, Scottish Water should set out the retail revenue that it expects to receive directly from customers for the report year.

Where the table relates to primary revenue it is set out in the following order:

- **Tariff multipliers:** the unit (eg consumption) by which the tariff is multiplied to generate revenue.
- **Tariffs:** the annual tariff (unit rate charge) for the service (eg annual meter fixed charges); and
- **Revenue:** the product of the tariff multiplier and the tariff.

Where the table relates to non-primary revenue it asks only for a projection of revenue by service.

Tariff multipliers

Scottish Water should set out tariff multipliers for the report year.

Where a tariff multiplier can change throughout a year (eg volume) the annual value should be input. Where a tariff multiplier is static for the year (eg meter size) the mid-year value (end of period 6) should be input. The period 6 (median) value is assumed to be a close proxy for the average. Scottish Water should state in its commentary any instances where it feels that this is not the case.

In forecasting tariff multipliers, Scottish Water should ensure it includes:

- projections of the underlying growth of the customer base; and
- the effects (over and above the underlying growth) of alleviating development constraints as required by Scottish Ministers' Objectives for the 2010-14 period.

¹ Table 18 and 19 are included in revenue groups 3 and 7 respectively. During the 2006-10 period these services have been re-classified as primary services. However, these would not have been classified as primary revenue in Frontier's report. A minor adjustment will have to be made for this.

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Scottish Water should include an explanation of any material year-on-year variances in any of the input assumptions.

Tariffs

Scottish Water should enter tariffs for the report year, making appropriate assumptions where forecasts are required. Scottish Water should input all tariffs in projected outturn prices, stating any assumptions in the commentary.

Revenue

Where a table relates to primary revenue, the revenue is calculated automatically as the product of tariff multipliers and tariffs.

Where a table relates to non-primary revenue, the revenue should be input in outturn prices, consistent with the assumptions. In doing this, Scottish Water should explain in its commentary the impact of:

- any demand forecasts for the service;
- any relative change in price due to changes in the cost of providing a service (eg greater efficiency); and
- any relative change in price due to the unwinding of cross-subsidy.

Guidance to Reporter

The Reporter should:

- confirm or otherwise that the report year information is consistent with other published / audited information, and, where appropriate, billing records;
- scrutinise, and provide an assessment of any explanations provided by Scottish Water for discrepancies;
- comment on the material assumptions employed by Scottish Water;
- scrutinise, and provide an assessment of the basis presented by Scottish Water for assumptions of the number of properties, discount status and demand;
- comment on the basis for the assumptions employed in forecasting large user/industrial demands

Wholesale revenue (Tables 9 to 19 and 22 to 31)**Introduction**

In this part, Scottish Water should set out the wholesale revenue that it received from Licensed Providers for the report year.

Where the table relates to primary charges scheme revenue, it is set out in the following order:

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- **Tariff multipliers:** the unit (eg consumption) by which the tariff is multiplied to generate revenue.
- **Tariffs:** the annual tariff (unit rate charge) for the service (eg annual meter fixed charges); and
- **Revenue:** the product of the tariff multiplier and the tariff.

Where the table relates to primary Schedule 3 revenue, it is set out in the following order:

- **Tariff multipliers:** measures of the unit impact (eg consumption) at the supply point that are defined consistently with the wholesale charges scheme.
- **Revenue:** the revenue at the supply point for the service.

Where the table relates to non-primary revenue it asks only for of revenue by service, not tariff multipliers.

Tariff multipliers

Scottish Water should set out the tariff multipliers for the report year. In all cases, the 2007-08 actuals should be based on the structure of wholesale charges that commenced in April 2008. This is particularly important for trade effluent discharge point information – all information should be expressed using the Scottish Standard Strengths irrespective of the standard strengths stated in the consent.

Where a tariff multiplier can change throughout a year (eg volume) the annual value should be input. Where a tariff multiplier is static for the year (eg meter size) the mid-year value (end of period 6) should be input. The period 6 (median) value is assumed to be a close proxy for the average. Scottish Water should state in its commentary any instances where it feels that this is not the case.

In forecasting tariff multipliers, Scottish Water should ensure it includes:

- projections of the underlying growth of the customer base; and
- the effects (over and above the underlying growth) of alleviating development constraints as required by Scottish Ministers' Objectives for the 2010-14 period.

Scottish Water should include an explanation of any material year-on-year variances in any of the input assumptions.

Scottish Water should include all supply points in both the assessed and actual information, irrespective of the practicality of fitting meters. Scottish Water should set out in the commentary its views on the level of the extent of unmeasurable premises.

Where a definition refers to “formerly in receipt of a LUVA” it refers to supply points where the customer (prior to the retail separation of Scottish Water) had a Large-User Volume Agreement, as per the 2003-04 to 2005-06 Schemes of Charges (and continued in the 2006-07 Charges Scheme). We expect that there should be no increase in the number of supply points that attract these rates.

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Tariffs

Scottish Water should enter tariffs for the report year, making appropriate assumptions where forecasts are required. Scottish Water should input all tariffs in outturn prices.

Revenue

Where a table relates to primary revenue, the revenue is calculated automatically as the product of tariff multipliers and tariffs.

In tables 9 and 14, the revenue is calculated taking account of the phasing programme between assessed and actual consumption. It is based on the following weighting of each category of supply:

	2008-09	2009-10	2010-11	2011-12	2012 onwards
Assessed consumption	100%	67%	33%	0%	0%
Actual consumption	0%	33%	67%	100%	100%

Where a table relates to non-primary revenue, the revenue should be input in outturn prices, explaining any assumptions .

In tables relating to supply points (and discharge points) with Schedule 3 agreements, Scottish Water is requested to input the revenue (in projected nominal terms, consistent with the financial model assumptions) for each agreement. Scottish Water should identify in the commentary which agreement each numbered line refers to.

For Trade Effluent customers formerly in receipt of capped agreements, Scottish Water should input the total revenue for all such agreements. In doing so, Scottish Water should ensure that the revenue is consistent with the Commission's consultation response on unwinding these agreements (published December 2006).

For non-primary charges, Scottish Water should include any projections of abortive or survey charges within the revenue line for that service.

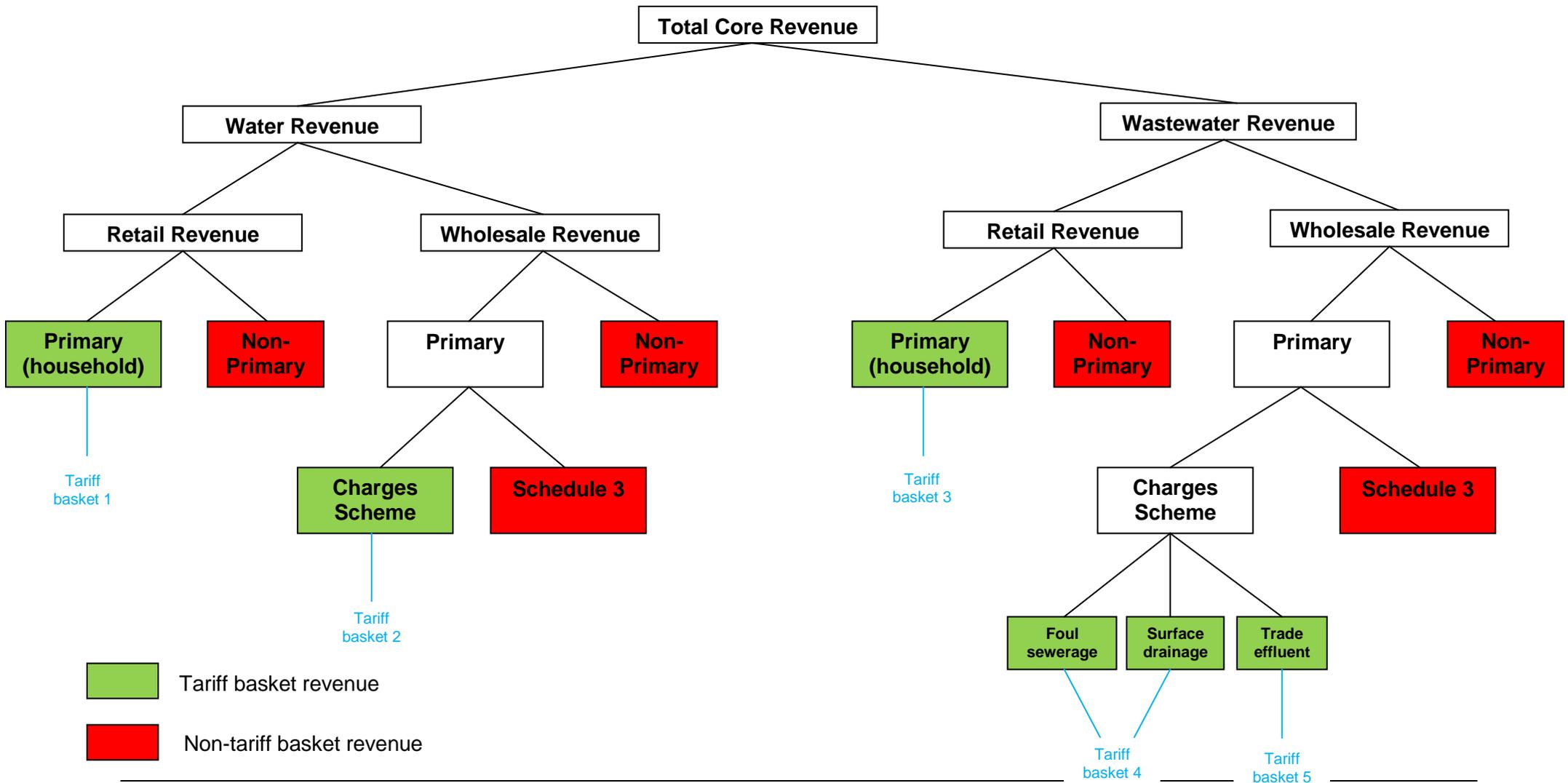
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scrutinise, and provide an assessment of the basis presented by Scottish Water for assumptions of the number of properties, discount status and demand;

Annex 1: revenue hierarchy



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Annex 2: Summary of revenue by grouping

Table no.	Service	Retail / wholesale	Primary/ non-primary	Charging method	Tariff basket	Revenue Group
Table 3	Water	Retail	Primary	Charges Scheme	1	1
Table 4	Water	Retail	Primary	Charges Scheme	1	1
Table 5	Wastewater	Retail	Primary	Charges Scheme	3	2
Table 6	Wastewater	Retail	Primary	Charges Scheme	3	2
Table 7	Wastewater	Retail	Primary	Charges Scheme	3	2
Table 8	Wastewater	Retail	Primary	Charges Scheme	3	2
Table 9	Water	Wholesale	Primary	Charges Scheme	2	3
Table 10	Water	Wholesale	Primary	Charges Scheme	2	3
Table 11	Water	Wholesale	Primary	Charges Scheme	2	4
Table 12	Water	Wholesale	Primary	Charges Scheme	2	5
Table 13	Water	Wholesale	Primary	Charges Scheme	2	6
Table 14	Wastewater	Wholesale	Primary	Charges Scheme	4	7
Table 15	Wastewater	Wholesale	Primary	Charges Scheme	4	7
Table 16	Wastewater	Wholesale	Primary	Charges Scheme	4	8
Table 17	Wastewater	Wholesale	Primary	Charges Scheme	5	9
Table 18	Water	Wholesale	Primary	Charges Scheme	2	3
Table 19	Wastewater	Wholesale	Primary	Charges Scheme	4	7
Table 20	Water	Retail	Non-primary	Charges Scheme	X	X
Table 21	Wastewater	Retail	Non-primary	Charges Scheme	X	X
Table 22	Water	Wholesale	Primary	Sch. 3	X	3
Table 23	Water	Wholesale	Primary	Sch. 3	X	4
Table 24	Water	Wholesale	Primary	Sch. 3	X	5
Table 25	Water	Wholesale	Primary	Sch. 3	X	6
Table 26	Wastewater	Wholesale	Primary	Sch. 3	X	7
Table 27	Wastewater	Wholesale	Primary	Sch. 3	X	8
Table 28	Wastewater	Wholesale	Primary	Sch. 3	X	9
Table 29	Wastewater	Wholesale	Primary	Sch. 3	X	9
Table 30	Water	Wholesale	Non-primary	Charges Scheme	X	X
Table 31	Wastewater	Wholesale	Non-primary	Charges Scheme	X	X

X = not included