



**CCWater's response to Water
Services Regulation Authority (Ofwat)
consultation:
Bulk charges for NAVs**

Consumer Council for Water Response

January 2018

Introduction

1. The Consumer Council for Water (CCWater) is the statutory consumer organisation representing water and sewerage consumers in England and Wales.
2. We welcome the opportunity to respond to Ofwat's consultation on Bulk Charges for New Appointments and Variations (NAV's). We are responding from the perspective of customers of both incumbent water companies and NAV appointees.
3. Broadly speaking, we agree with the basic approach proposed in the consultation.

Specific questions

Questions 1 and 2

Do you agree with our assessment on the need for this supplementary guidance?

Do you agree with the purpose, scope and objectives for our proposed guidance?

4. We agree with the need for this guidance, its purpose, scope and objectives. However, we question whether it will be possible to ensure that more benefits are passed on to end-customers, as suggested. There is nothing, in the proposals, the wider NAV appointment framework, or regulation, that guarantees a NAV appointee, as a monopoly business, will pass any benefits on to its customers or improve its efficiency.

Question 3

Do you agree with our assessment of the options and our provisional conclusion in favour of a wholesale-minus approach?

5. We agree that a wholesale-minus approach is a more appropriate mechanism for setting the bulk supply prices for NAV appointments.

Question 4

Do you agree with our considerations in terms of whose cost should be used in a wholesale-minus approach? Do you have a preference? If so, please specify the reasons for your preference.

6. We agree with the considerations about whose cost should be used. We consider that using a reasonably efficient benchmark could ensure that NAV appointees operating at an appropriate level of efficiency can enter the market.
7. We are puzzled by the suggestion that an 'optimal outcome' may be to allow a NAV that is relatively inefficient in the short run to enter the market because it may have 'the potential to become more efficient in the long run'. We would have

concerns about any methodology that allowed NAV appointees that are less efficient than the incumbent to enter the market when there is no way to guarantee or ensure that a NAV appointee's efficiency will improve, given that the regulation of the NAVs, once an appointment is agreed, does not drive further efficiency.

Questions 5 and 6

Do you agree with our proposed overall approach for setting bulk charges?

Do you agree with our proposed relevant starting point?

8. We agree with the proposed overall approach of deducting from the relevant wholesale tariff the on-site ongoing costs and a weighted average cost of capital (WACC) for onsite assets. We also agree that the relevant starting point should be based on the incumbent water company's wholesale tariff.

Question 7

Do you agree with our definition and approach to estimate the ongoing on-site costs?

9. We agree that ongoing on-site costs should relate to the costs of operating and maintaining the on-site assets and we agree with these should be calculated by referent to a reasonably efficient benchmark.

Questions 8 and 9

Do you agree with our discussion about the WACC? In particular do you think we should adjust the incumbent water company's WACC as per the Priors Hall determination?

Do you have any practical suggestions on how to estimate the appropriate WACC?

10. We accept the evidence that a NAV would not be able to raise finance at the same cost as the incumbent. We note that this is driving Ofwat's proposed methodology for establishing an appropriate WACC for a NAV appointee.
11. As this implies that the NAV appointee's WACC needs to be higher than the incumbent water company, we would be concerned if this led to higher bills for the NAV's customers. As NAV customers should be no worse off, the possibility of a higher WACC assumption should be offset by ensuring that the benefits of lower cost efficiencies the NAV may deliver are regulated in such a way that they are passed on to customers.

Question 10

Are there other costs that we should take into account? If so, please specify what these costs are and why they should be considered.

14. We have no view on this issue.

Questions 11

Do you consider that the proposed approach is sufficiently flexible to cover all current circumstances and could adapt to possible future changes?

15. We consider that the approach will be sufficiently flexible if there is the capacity to set bespoke charges. As the consultation outlines, a potentially limited number of sites, bulk supply charges may need to reflect site specific features and, hence, some charges may need to be bespoke. For example, at Liverpool International Business Park, a NAV appointee was proposing to offer a retail service only, as it had no responsibility for infrastructure and, hence, no 'last mile' costs.

Question 12

Do you consider that it would be possible to standardise charges under many if not most circumstances? Can you specify the circumstances where this may not be possible?

16. We have no view on this.

Question 13

Do you agree with our proposal for the provision of tariff information?

17. Yes.

Enquiries

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