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Charging
Ofwat
21 Bloomsbury Street
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Severn Trent Connect's response to Ofwat's consultation on Bulk Charges for NAVs published on 9th November 2017

We welcome the opportunity to engage with Ofwat on its Bulk Charges for NAVs consultation as we believe that the current bulk charges offered to NAVs fail to make a level playing field for NAVs in this market.

While we generally support the proposed changes by Ofwat, our main concerns are:

- increased reporting burden on NAVs and developers; and
- our perception that there has been little 'real world' modelling.

Regarding our second concern, we are willing to work with Ofwat to provide data on actual NAV opportunities to test Ofwat's charging model. Please do let me know if this would be of interest?

Yours sincerely

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#	Question	Response
Q1	Do you agree with our assessment on the need for this supplementary guidance?	Yes.
Q2	Do you agree with the purpose, scope and objectives for our proposed guidance?	Yes.
Q3	Do you agree with our assessment of the options and our provisional conclusion in favour of a wholesale-minus approach?	Yes, we support a wholesale minus approach.
Q4	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.	We prefer that the incumbent's costs are used as this should therefore incentivise inefficient operators to improve.
Q5	Do you agree with our proposed overall approach for setting bulk charges?	Yes.
Q6	Do you agree with our proposed relevant starting point?	We agree that the Wholesale LUT is a good starting point. We note that sometimes the volumetric threshold for the LUT is set very high so that even quite large NAVs are not eligible. This particularly applies to bulk discharge, for example, Thames Water's LUT for wastewater starts at 100Ml. We believe that Ofwat should start with the LUT then take away cost of operating 'last mile' of assets on site. While we agree that using an overall weighted average tariff might allow smaller NAVs to be viable for competition, this will require careful modelling to make sure it achieves Ofwat's intention; we would be willing to work with Ofwat to share real-life example for both a new development and a large user. We are also concerned that this could be quite onerous in terms of time required to set up – in our experience no building plan is adhered to so that each year the tariff might have to be renegotiated until such time as the site is fully occupied. In addition, we would appreciate a further example to explain exactly how Ofwat anticipate this working in practice.

Q7	Do you agree with our definition and approach to estimate the ongoing on-site costs?	We agree – while in general we will be operating new assets we will be responsible for whole life cost and this should be reflected. While new materials are being approved for pipe installation, there is no evidence at this time for lower cost long term operation. In addition, it would be unduly onerous to request the developer to provide evidence of what pipe materials are being used so that the incumbent can calculate a margin. We believe that incumbents should: 1. Discount annual depreciation, cost of capital, avoided operating costs and avoided investment costs from the starting position. 2. Use the principle that Bulk Supply pricing should reflect the characteristics of the NAV project, ie the avoided costs relating to each site. 3. Publish how it has calculated its costs. For example, this includes a calculation of avoided operation and investment costs based on a cost of mains investment per property (to account for varying mains length between developments which is a key on-site investment cost driver rather than property numbers). Discount % is therefore different between sites and regions.
Q8	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?	We do agree that incumbent water companies' WACC should be adjusted to reflect the higher risk market that NAVs operate in.
Q9	Do you have any practical suggestions on how to estimate the appropriate WACC?	Would recommend taking an average of a selection of published WACCs including Water Companies and higher risk companies from a regulated market such as Telecommunications.
Q10	Are there other costs that we should take into account? If so, please specify what these costs are and why they should be considered.	Not at this time.
Q11	Do you consider that the proposed approach is sufficiently flexible to cover all current circumstances and could adapt to possible future changes?	Unknown without further modelling on real world examples. Concern that if the discount not sufficient, there is little opportunity for future negotiation.
Q12	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?	Standardisation of bulk tariff per incumbent would be a good starting point, as it would make application much easier. This standard tariff should also include different types of NAVs e.g. if the customer is solely a Large User NAVs. As Ofwat discusses in its consultation, there may be times when a bespoke solution is required, but the published

		methodology/tariffs should be the starting point for negotiations.
Q13	Do you agree with our proposal for the provision of tariff information?	We do agree – Thames Water are the in process of producing a NAV specific tariff document which we support.