

4 January 2018

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*By email: [charging@ofwat.gsi.gov.uk](mailto:charging@ofwat.gsi.gov.uk)*

Dear colleagues

### **BULK CHARGES FOR NAVS**

This is South West Water's response to Ofwat's consultation 'Bulk charges for NAVs: a consultation'.

The proposals presented in the consultation complement the recent work conducted by Ofwat and other stakeholders to better understand the NAV market and aid its further development. The provision of clearly defined expectations surrounding the approach to setting bulk charges for NAVs is helpful for all stakeholders and as such South West Water welcomes Ofwat's proposals. They will increase transparency and support a level playing field for NAVs.

Furthermore, increased transparency is likely to be of particular benefit for situations where there has to date been limited experience of developing such charges. Clarity of expectations will assist the smooth development of the NAV market.

Appendix 1 contains our responses to the specific questions raised in the consultation. We hope you find our comments helpful. Please contact us if you would like further detail.

Yours sincerely,



**Iain Vosper**

**Regulatory Director**

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**Question 1**

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

The current guidance is wide in scope and creates opportunity for differing interpretations in the development of charges.

We agree that the production of this supplementary guidance will help remove such ambiguity, and so is helpful to all stakeholders. This will help to address the concerns raised in section 2 of the consultation.

**Question 2**

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

Yes.

**Question 3**

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

As a general basis we support an approach that is transparent, straightforward for all parties to understand and that keeps the regulatory burden down. Therefore we support the adoption of a wholesale-minus approach.

**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.*

We question the adoption of an efficient benchmark supported by the assumption that there may be a benefit to customers in the longer-term. This is on the basis that there may be company-specific factors affecting an incumbent's costs that cannot be wholly managed away over time. In addition we do not consider that using a benchmark cost promotes transparency for NAVs or ultimately, their customers.

Our preference is to use the incumbent's costs from the relevant wholesale tariffs on the basis that this will maintain transparency in the charges. Should Ofwat wish to make future efficiency assumptions these could be derived using the incumbent's own costs as a start point.

**Question 5**

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

Yes.

**Question 6**

*Do you agree with our proposed relevant starting point?*

Yes. The proposed approach will promote transparency for all.

**Question 7**

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

We do. We also agree with using the average maintenance cost of the incumbent rather than a reasonably efficient benchmark. As stated in our response to question 4, this will increase transparency and Ofwat could make a future efficiency assumption against the incumbent's costs if it so chooses.

**Question 8**

*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 favour a simple methodology to establish the appropriate WACC. Transparency will benefit all stakeholders while simplicity will support speedier determinations.

**Question 9**

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

We cannot offer a proposal at this point in time.

**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.*

We are not aware of any.

**Question 11**

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

We do.

**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?*

Standardised charges will be possible for straightforward sites such as housing developments.

However, due to the wide range of potential scenarios mixed developments could present we are unsure that standardisation of charges for sites requiring weighted tariffs will be as easy. An industry-wide standard template to provide indicative charges for NAVs could be agreed. We suggest an industry approach as we do not see that company-specific examples of mixed developments could provide NAVs with helpful information or comparators.

### **Question 13**

*Q12 [sic] Do you agree with our proposal for the provision of tariff information?*

While we are supportive of transparency and promoting a level playing field we are cautious that the regulatory burden to incumbents will be increased.

Our concern relates in particular to the proposal to update charges to reflect changes in wholesale charges as the regulatory timetable for the publication of charges is already burdensome. However we would not be averse to following an alternative timetable and suggest that alignment with the submission of bulk supply information at the end of February would be reasonable.

We view updates to charges to reflect the composition of a NAV's end-customer base over time as an activity that would be agreed between the incumbent and NAV as part of the bulk supply agreement. We do not disagree with the proposal but also do not wish to incur any further regulatory burden relating to standardised requirements that may not deliver value to either party.