South Staffs Water
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NAV Policy,
Ofwat,
Centre City Tower,
7 Hill Street,
Birmingham,
B5 4UA

By email to: NAVpolicy@ofwat.gov.uk

7 September 2020

Dear Sir,

South Staffs Water response to consultation on bulk charges for NAVs

Thank you for the opportunity to respond to the above consultation. Our responses to the specific questions are attached. Please let me know if you have any questions.

Yours faithfully,

[redacted]

Philip Saynor,
Director of Regulation
South Staffordshire Water PLC

Q1 Do you agree with our proposed approach to weighted average tariffs?

We agree with the proposed approach although it is worth highlighting that for South Staffs, we have the same standard wholesale charges for both business and residential customers, ensuring everyone pays the same price for the same service.

Q2: Do you agree that large user tariffs should not be offered for new NAV sites?

Yes, we agree.

Q3: Do you agree that incumbents should use bottom-up approaches to estimate costs, or would more granular accounting segmentation be more appropriate?

We support the use of more granular cost segmentation from Annual Performance Reports. This will ensure consistency across the sector in how avoided costs are determined. Although a bottom up approach may be more cost reflective, it could become overly complex to understand and reduce the level of transparency for stakeholders.

Q4: Do you agree with CEPA's list of common avoided costs or should additional items be included? Should we incorporate this list in our guidance?

We have not identified any other additional items.

In order to ensure that companies apply the same approach, we think these should be incorporated in any future guidance. Ofwat should also consider whether these costs should be reported as part of the cost assessment information in future APRs. This would ensure a consistent format used for the data and that it has been appropriately assured.

Q5: Do you agree with our proposed treatment of indirect costs?

We agree that a proportion of indirect costs should be included.

Without specific guidance, this will be open to interpretation and lead to varying approaches across companies. One possible way to ensure consistency would be to use a top down percentage of treated water distribution costs presented in the Annual Performance Report to be used by the industry. This would require further analysis and consultation with the industry to determine an appropriate rate.

Q6: Do you agree with our proposed approach to capital maintenance and replacement expenditure?

We think that a bottom up approach using a discounted cash flow approach is the best way to calculate avoided capital maintenance and replacement expenditure.

Q7: Do you agree with our proposed approach to the income offset for Welsh incumbents?

We agree that the rate of return adjustment should remain in place for Welsh companies until such time that there is a change to the charging rules so that the income offset aligns to that for English companies.

Q8: Do you have other comments on the rate of return with respect to English incumbents?

We agree that there should no longer be a deduction for a rate of return element as a result of the changes to income offset for English companies. We have no further comments.

Q9: Should our guidance explicitly state that bulk charges should not financially penalise NAVs for promoting greater water efficiency?

Yes, we agree.

Q10: Do you agree with the principle that NAVs should have discounted charges if they deliver sustained lower per capita consumption (and similarly improved outcomes with respect to rainwater volumes and sustainable drainage) based on avoided costs or environmental impact mitigated?

We agree but we think there could be a risk of double counting of the benefits as companies already offer discounts to developers on the infrastructure charge for building water efficient homes. This should be taken into account as part of any incentive for NAVs to reduce PCC.

Q11: Do you have other comments you wish to make regarding the methodological issues set out in CEPA's report?

We have no further comments.

Q12: What are your views on how changes to bulk charges for NAVs might best be implemented?

We think that updating current guidance is the most practical approach, especially with the short timescale in which to incorporate changes before charges are published by the end of January 2021.

Moving forward, an industry approach will ensure that companies are setting NAV charges in a consistent manner and we would support this approach for future charging years.