



Via email: NAVPolicy@ofwat.gov.uk

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8th December 2020

Dear Jeevan,

Bulk charges for new appointees – a consultation on revising our guidance

Thank you for your consultation on Ofwat's approach to determining disputes, expectations for companies regarding bulk charges to NAVs and the update on Ofwat's decisions on the consultation from July.

Decisions from July Consultation

We welcome Ofwat's decision to revise its guidance rather than develop new charging rules. We also support creation of the industry working group to generate improvements and greater consistency in bulk supply charging.

The July consultation asked if a top-down or bottom-up approach should be used to estimate avoided costs. From this consultation, we can see Ofwat has concluded in favour of the bottom-up approach. As the CEPA report showed, most companies currently use a top-down approach so these companies, of which we are one, will need to re-work their avoided costs calculations to change them from top-down to bottom-up. As the consultation acknowledges, this may not be fully realised until future charging years. The industry working group can also be expected to develop best practice, leading to greater consistency in cost estimation techniques and the need for further refinements to charging methodologies, but that this will also take time to realise.

Resolution of disputes

The section on Ofwat's approach to dispute resolution is as we would have expected. It is useful to remind the circumstances in which Ofwat may intervene to make a determination. It is also correct that if it needed to determine bulk supply charges, that it use the same wholesale minus methodology as required from companies.

Environmental Impacts

We support the principle of using bulk supply charges to NAVs to incentivise efficient water use. Our bulk charges are already solely volume based and we offer a discount on infrastructure charges for developments constructed to high standards of water efficiency. We are also currently working on a pilot project with a NAV to reflect in bulk charges the benefits of a new development that includes a grey water system. We anticipate that if successful, this pilot could provide a model that we can



offer to all NAVs. We are not complacent however and realise that we need to keep under consideration how our approaches to bulk supply pricing can be developed to improve environmental performance in future.

Industry working group

We would like to participate in the industry working group (we were participants in the NAV Behavioural Improvements project) and have indicated our interest in a separate communication with Ofwat's NAV Policy team.

Yours sincerely,

Martin Hall
Senior Regulatory Economist