



NAV Policy
Ofwat
21 Bloomsbury Street
London WC1B 3HF

8th December 2020

Via e-mail: NAVpolicy@ofwat.gov.uk

Dear Ofwat,

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

I am writing to you on behalf of independent Water Networks Limited (“IWNL”), part of the BUUK Infrastructure Group of companies, in response to Ofwat’s November 2020 consultation regarding the revised guidance bulk charges for New Appointments and Variations. I can confirm that this response is not confidential.

We welcome Ofwat’s continued review of the transparency and inconsistencies in the calculation of bulk charges and the recognition that NAVs are currently exposed to large unpredictable variations in margins. Ofwat’s consulting objective on applying best practice in the cost-reflective calculation of bulk charges is a critical step forward in resolving these charging inconsistencies. We agree with Ofwat that it is important that Incumbent companies, when finalising their bulk charges for the 2021-22 charging year in early 2021, consider the draft version of this guidance when developing these charges. We do not accept that incumbents have insufficient time to use the new guidance when setting charges for the 2021-22 charging year given the amount of discussion already taken place in the CEPA cost review and the resulting Ofwat consultation during most of 2020. If they are unable to incorporate the new guidance in their 2021 charges, incumbents should be required to provide a clear explanation for the delay and a clear commitment to a short-term date when they will amend charges, rather than assume a further 12-month delay to April 2022.

We request that Ofwat also update their proposed revised guidance to require incumbents to publish a summary of the methodology used in setting the NAV bulk charges. One of the significant findings within the CEPA¹ report was the lack of transparency in the methodology used by incumbents to set NAV charges. It remains an issue that an informed customer, a NAV, is unable to

¹ CEPA, ‘Bulk Charges for New Appointments and Variations (NAV) Regime in the Water Industry in England and Wales’

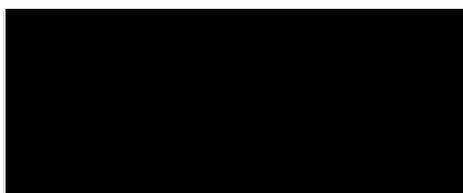
assess the validity of the charges set due to a lack of information provided by incumbents. We believe incumbents should provide a summary of the methodology used in setting the charges against the requirements of the new Ofwat guidance. A few incumbents already provide this type of reconciliation against the 2017 guidance which we welcome.

We agree with Ofwat that the revised guidance will not address all of the issues that we and CEPA have identified in incumbents current charges, but are disappointed that, although this issue has been under review for more than 3 years, a further review is required. We do welcome Ofwats commitment to initiate an industry working group in 2021 to promote more consistent approaches across incumbents and better sharing of best practice, and to consider further changes and improvements for the 2022 charging year. IWNL believe that this will be an important step in removing the significant variation in margins across incumbents. The publication of each incumbent's methodology used in setting the 2021-22 charges will be an important input into this working group. We will actively participate in this working group but expect significant further progress to be concluded by the time charges are set for 2022-23.

We are disappointed that Ofwat has chosen not to take direct enforcement action against companies that continue to set their NAV bulk charges at a level that is worse than the large user non-household tariff. For potable water bulk supply charges, the three incumbents water companies are Affinity, Anglian Water and South West Water. For Wastewater NAV bulk supply charges, the three incumbent water companies are Anglian Water, Severn Trent and South West Water. We note for 2021-22 NAV bulk tariffs the large user charges will no longer be available to NAVs. Without a further and clear explanation of why an incumbent is incurring more costs when supplying a NAV when compared to a large user we will have no alternative but to raise a formal determination when the revised charges are published.

We have no further comments about the detailed changes to the revised guidance. Please do not hesitate to contact me if you have any further questions.

Kind regards



Keith Hutton
Regulation Director (Heat, Fibre and Water)
BUUK Infrastructure