

Consultation on bulk charges for new appointments and variations (NAVs)

Severn Trent response

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Summary response

We welcome the opportunity to respond to Ofwat's revised guidance on bulk charges for new appointees. Overall, we consider the proposals are proportionate and practical to implement. We currently publish indicative rates for a typical development, but the discount will vary depending on the actual costs for a site so we also publish the model that we would use to derive a site-specific charge.

The use of a bottom-up approach which takes account of the actual costs and mix of properties on site is most likely to ensure that NAV operators are able to earn an appropriate margin. As set out in our previous response, regional averages would inevitably over or under-represent the costs on particular sites, and it is important to consider the impact of either of these outcomes; NAVs compete within a wider market for new developments alongside Self-Lay Providers. In general, we consider that the position on costs is reasonable and the itemised list in the CEPA report is a fair representation of the NAV activities that need to be funded through the wholesale discount.

A revised approach to the rate of return element was required given the changes to the "income offset", which mean that NAVs would have little or no initial investment upon which to earn a return under a traditional regulatory "building blocks" method. We welcome the new, flexible guidance which will be more appropriate for an asset-light business.

In our response to the first consultation, we noted that there could be potential problems with a requirement to ensure that NAVs were not disadvantaged by adopting water efficiency measures. We think that the guidance in this area is now reasonable and proportionate: for example, our charges to NAVs are based wholly on the volume supplied and there are substantial savings available to NAVs which reduce or eliminate drainage from their sites to the public sewer.

Kind regards

Shane Anderson
Director of Strategy and Regulation