

8 December 2020

NAV Policy
Ofwat
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7 Hill Street
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By email: NAVpolicy@ofwat.gov.uk

Dear Sir or Madam

CONSULTATION ON BULK CHARGES FOR NAVS

We are committed to supporting the ongoing development of effective markets and welcome the opportunity to continue to contribute to the evolution of the guidance on bulk charges for NAVs.

In our view, the work conducted by Ofwat and CEPA has contributed to a helpful industry debate on the matter. Consequently, the proposed revised guidance is pragmatic, introducing essential clarity of expectation while remaining sufficiently high-level to allow companies flexibility to develop their charges, and to innovate. When read together, the guidance and underpinning detail within the conclusions document promote a positive step change in the provision of bulk charges for NAVs.

Our response to the July 2020 consultation highlighted our three primary concerns arising from the proposals:

- the proportionality and trade-off between costs reflectivity and transparency in relation to top-down and bottom-up approaches to avoided cost calculation;
- the proposed discounting of bulk charges to reflect environmental activities; and
- the proposed timetable for changes to guidance, and the potential impact if material changes to some companies' approaches were required.

While our views relating to bottom-up approaches remain unchanged, we acknowledge and accept this as Ofwat's preferred methodology. However, in this respect, we particularly welcome the recognition that implementation of such approaches could take time and require further engagement, and so not be realised until future years. This addresses our significant concern regarding the timetable for implementation of material changes to some companies', including our own, current methodologies.

We also note that no requirement for a specified publication date has been introduced, thereby providing some flexibility around the wholesale tariff governance and publication timetable. Best practice should be for companies to publish NAV charges as near as possible to wholesale charges, but the additional flexibility is welcome, should it be required.

Finally, we note that the proposal regarding environmental activities triggered a substantial debate, and we view the resulting conclusions and decision as a pragmatic recognition of the concerns raised.

To conclude our comments, we would draw your attention to what we believe are minor typographical errors in the draft guidance. Firstly, in footnote 3 we believe 'both parties' should actually read 'one party', similar to footnote 4. Secondly, the first paragraph of section 2.4 refers to 'new' incumbents and we question whether 'new' should be deleted.

Conclusions document

We view the content of the conclusions document as a valuable springboard to the next stage of debate. However, given the level of consultation to date and the forthcoming creation of a working group to progress matters further, we do not make any further comment on it here.

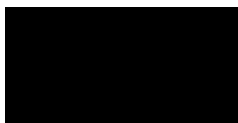
Next steps

Having previously recognised the need for industry practice in relation to bulk charges for NAVs to evolve and for good practice to develop, we welcome the initiation of a working group, which we will be pleased to participate in. We retain a level of concern regarding competition law but look forward to working positively with Ofwat to address these concerns, and to the forthcoming debate.

In the meantime, we have looked to commence aligning our 2021/22 charges to the draft guidance where feasible. The transition to the bottom-up calculation of avoided cost will require further work therefore we will aim to introduce this from 2022/23, once we have engaged with stakeholders and understand further the potential incidence impact on NAVs and the handling strategies that will be required.

If you have any questions please do not hesitate to contact me.

Yours faithfully



Sally Mills
Regulatory Director

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