

## Affinity Water Response to AWS NAV Tariff Consultation

1. In general, the approach seems to us to be a fair and open approach to giving effect to Ofwat's guidance and is similar to our approach, that we consulted on with NAVs operating in our area earlier this year and which we hope to implement for existing NAVs for 1<sup>st</sup> April 2019. There are a few areas where we have concerns however and these are set out below
2. We are not sure about your proposal to make a 2.16% adjustment to billed volumes for leakage unless you are also making equivalent adjustments for other large water customers with bulk meters, so that non-discrimination rules continue to be met. Further, if bills are to be adjusted because consumption is measured at different points in the network with different losses for NAV customers, doesn't this imply that you should apply this approach to all customers? For example shouldn't you also adjust the billed volumes of customers that are internally metered versus those that are externally metered? In our view, the leakage adjustment may be an over complication, when tariffs by their nature recover average costs across all customers, with some inherent cross subsidies, including those arising from differential water losses for different customers/classes of customer. We note that Anglian thinks it may already be over estimating on-site ongoing costs (p29) so to the extent that there are differences in leakage costs, these could already be being compensated for.
3. In Part 6 the return on capital, you say the addition to RCV is the gross capex less developer contributions, (or equivalently the income offset amount). Since 2015, shouldn't this amount also be multiplied by the slow money ratio, since the addition to RCV is the addition to totex times the slow money ratio?
4. In our work so far, we haven't included an adjustment for rates, but from your paper we can see that we should be doing so because of the relationship between RCV, profitability and rates. We support and would use the same approach as Anglian to value it.
5. We agree that post 2020 there will be no WACC adjustment, because developers will pay 100% of on-site charges. It follows that there will be no depreciation as there will be no addition to RCV to draw down.
6. We have little experience of wastewater NAVs/new connections so we haven't commented on these aspects of the paper.