



Bulk Charges for NAVs Operating in the Anglian Region

Conclusions on Consultation Responses

17th December 2018

1. Introduction

On 8th May 2018 Ofwat issued guidance to companies on how bulk charges for water and wastewater services to new suppliers (“NAV’s”) should be set going forwards – “*Bulk Charges for NAVs: Final Guidance*” (the “**Guidance**”)¹. On 22nd October 2018 we published a consultation paper on how we proposed to give effect to the Guidance in setting “NAV tariffs” for our region – “*Bulk Charges for NAVs Operating in the Anglian Water Region*”². The purpose of this document is to summarise the responses to that consultation, and to set out the changes that we plan to make to our proposals as a result.

We received responses from four companies:

- Albion Water Limited;
- Affinity Water;
- Independent Water Networks Limited; and
- Thames Water.

The responses will be placed on the NAV section of our website:

<https://www.anglianwater.co.uk/developers/new-appointments-and-variations-navs.aspx>.

Section 2 below sets out the two significant changes that we propose to make to the operation of our NAV tariffs as a result of the consultation process, namely:

- the replacement of the automatic retrospective “true-up” of NAV tariffs with a more flexible and discretionary set of arrangements; and
- a change in the assumptions used for the length of on-site network per connection.

In section 3, for each of the 26 questions that we posed in the consultation paper, we describe the responses that we received and we set out our position on the views expressed in tabular form.

Section 4 sets out the next steps in the process towards finalising our NAV tariffs.

¹ See <https://www.ofwat.gov.uk/wp-content/uploads/2018/05/Bulk-charges-for-NAVs-final-guidance.pdf>.

² See https://www.anglianwater.co.uk/_assets/media/consultation-paper-on-bulk-charges-for-navs.pdf.

2. Change to Proposals for NAV Tariffs

As set out in section 3 below, respondents generally agreed with our consultation proposals. Where they disagreed or proposed an alternative approach we considered their representations carefully. Their comments could be characterised as pertaining to either the available evidence for the “minus calculation”; the process for administering the tariff; or the interpretation of the guidance issued by Ofwat.

We are satisfied that we have interpreted the guidance correctly, and in the absence of alternative evidence to support the “minus” calculation, we consider our approach reasonable and fair. We are therefore not persuaded to make material changes to our position, with two exceptions, namely:

- the mechanisms set out in section 2 and particularly section 8 regarding the way in which NAV tariffs would operate, and in particular the need for a “retrospective true-up” to finalise a NAV’s bill for bulk charges after the end of the Charging Year to which they relate; and
- the length per connection of on-site network allowed for in the “minus” calculations.

2.1 A retrospective true-up

The need for a retrospective true-up arises because of the structure of the tariffs and the information that is required to calculate a NAV’s bill, which includes the proportion of volumes supplied to each site that relate to either household or non-household end-users, and the number of connections on-site during the year, split between households and non-households. Both these items can be forecast in advance, but some error is inevitable.

In the consultation paper we had proposed that there would be a retrospective true-up of the application of NAV tariffs at each site involving the calculation of the “correct” charges once the split of volumes, and the number and split of connections was known. Respondents argued quite strongly against this proposal: they pointed out that provided forecasts were properly robust, they should prove reasonably accurate, and as a consequence any errors should be small. They objected to the additional administration costs that the true-up would entail, as well as the fact that the scope for *ex post* adjustments would create uncertainty for NAVs as to exactly what their costs were going to be each year.

We have carefully considered the arguments against the automatic true-up, and have decided to modify our approach. We believe there is a consensus amongst respondents to calculate in good faith the NAV tariffs each year on an *ex ante* basis using the forecasts prepared from the latest information, and for there to be no automatic true-up at the end of the charging year. This means

acknowledging that there will inevitably be deviations (up or down) between NAVs' actual bills and the bills they would pay if there were an automatic *ex post* true-up, and that these differences will be accepted by both parties. However, we retain the view, supported by some respondents, that a retrospective true-up would be reasonable where variances are large.

Our revised proposals can therefore be summarised as follows:

- in advance of the Charging Year, NAVs would provide us with information on the expected mix of volumes between households and non-households, together with the forecast average number of connections across the Charging Year split between households and non-households. Information would be supported by relevant evidence, where appropriate;
- bills generated during the Charging Year would be calculated on the basis of those figures;
- either party could require a retrospective true-up after the end of the Charging Year if the variance between actual and "correct" charges were greater than a materiality threshold. We would propose to set this at plus or minus 2.5%, but would be open to proposals to negotiate an alternative figure with individual NAVs if they so wished; and
- as a matter of course, NAVs would be expected to provide us with copies of their regulatory "Small Company Returns" as early as possible and in any event at the same time that they are submitted to Ofwat. This information would assist in determining the question of whether a true-up was required after the end of a Charging Year, and also would help with verification of the forecasts that NAVs will prepare in advance of a Charging Year.

2.2 Length of on-site network per connection

One respondent queried whether the figures we had used for pipe lengths per connection were reflective of all scenarios and suggested the use of "banding" to reflect differences in average pipe length for smaller versus larger developments.

We have re-visited evidence on the new developments that we serve across our region. There is no empirical support for a banded approach to on-site costs, and in any event we consider that such a change would significantly increase the complexity of the NAV tariffs. We have reviewed the data on pipe-length for site developments. This shows that a substantial majority are clustered in the range of 5-10m of water main per connection, with the average at 7.7m. Any sites above or below this range are the exception. In order to retain the simplicity of the proposed calculation, we intend to retain a standard length of pipe, but in response to the comments received we consider it reasonable to increase this to 10m per connected property for water supply, and from 5.4m to 7.0m for each of foul sewers and surface water sewers for wastewater.

3. Responses to the Consultation

A summary of the responses to the consultation is set out below. It should be noted that not all respondents offered substantive observations on all 26 questions, so where only two responses are referred to, for example, this should not be taken to indicate either agreement or disagreement on the part of the others.

| No | Question | Responses | AW decision |
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| 1 | Do you agree with our proposed objectives and principles for the development of NAV tariffs? If not, please explain what alternatives you think we should consider. | <p>Three respondents agreed with the proposed objectives set out in the consultation paper. One explicitly endorsed the “<i>need to reduce complexity</i>”, but noted that any generic assumptions should not be biased.</p> <p>Another respondent said it did not agree with the proposed objectives, because it would expect them to include recognition of our obligations under competition law and how they have been considered.</p> | <p>We have sought to explain in detail how we arrived at our assumptions so that stakeholders can see for themselves that they are free of bias.</p> <p>The consultation paper did state “<i>We are also responsible for ensuring that we do not infringe the Competition Act 1998....</i>”. In the course of preparing our proposals we gave careful consideration to what this means in practice and our general obligations under competition law. The outcome of this deliberation is therefore inherent within our proposals. Since the purpose of the consultation exercise was to engage the views of NAVs and other stakeholders on the development of our proposed NAV tariffs it would not have been appropriate to extend the document further by including a discussion of our broader responsibilities under competition law.</p> |
| 2 | Do you agree that we should publish the elements necessary | None of the three respondents that addressed this question agreed | We propose to retain the site-specific calculation for the weighted average |

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| | to enable each NAV to calculate the weighted average wholesale tariff for each site, rather than a single generic price? If not, please explain what alternative you would prefer and why. | unequivocally with the proposal. One stated that the process should be as simple as possible and the number of tariffs kept to a minimum. Another acknowledged that a single tariff would create advantages and disadvantages at different sites, but did not think that this would be material. | wholesale charge. Since other components of the tariff are going to differ from site to site anyway, a uniform "starting point" adds no simplicity in overall terms. However, we have decided that we can dispense with the need to re-visit the weighting calculation after the end of the Charging Year as a matter of course. Instead we are proposing that the ex-post true-up is only carried out where the resulting adjustment would exceed a materiality threshold. See section 2 above for details. |
| 3 | Is it reasonable to ask NAVs to provide certain information to support both the implementation of the tariff during the applicable charging year and the retrospective "true-up"? If not, please give reasons, and provide any alternative proposals if applicable. | Two respondents acknowledged that the provision of information was reasonable, but one explicitly questioned the need for information for the purposes of a retrospective true-up. Another respondent argued that there was no need for site-specific weighted average wholesale charges in any event, and added that since forecast and out-turn volumes should not vary too much, the proposed retrospective true-up added unnecessary complexity and could be dispensed with. | We will modify our proposals so that the retrospective true-up only takes place in certain circumstances. See section 2 above for details. |
| 4 | Do you agree that a downward adjustment to recorded volumes should be made for charging purposes in respect of network | Two respondents were supportive of the proposal, though they noted that the adjustment could be made either to volumes or to the tariff itself. | No change to our proposals. It would not be appropriate to make corresponding adjustments for network |

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| | losses between the bulk meter at the boundary of the NAV site and the end-user customers? | A third respondent queried the validity of making any adjustment for leakage unless equivalent adjustments are made for large customers with bulk meters. | losses to large users with bulk meters. We make the adjustments as part of the NAV tariff because in the counter-factual we would have served the on-site customers at the boundaries of their individual premises, and would therefore have received no revenue for those losses. No corresponding counter-factual exists in the case of large users. |
| 5 | Do you agree with our proposed approach to making adjustments to billed volumes to reflect potential hypothetical leakage on the NAV site? If not, please set out the alternative(s) you think should be considered. | Two respondents were supportive of the proposal. As noted above, a third respondent queried the validity of making any adjustment for leakage unless equivalent adjustments are made for large customers with bulk meters. | No change to our proposals. |
| 6 | Do you support our proposal to make a flat percentage reduction to meter readings in respect of the network losses that would have occurred had we served NAV sites? If not, please set out what alternative approach you would prefer. | Three respondents were supportive of the proposal, one noting that the assumption should be based on " <i>known and verifiable data</i> ". As noted above, a third respondent queried the validity of making any adjustment for leakage unless equivalent adjustments are made for large customers with bulk meters. | No change to our proposals. Since the question we have to address is a hypothetical one, namely what network losses would have been had we served the site, direct measurement and verification are not possible. We have sought to answer the question using a combination of published data and reasonable assumptions. |
| 7 | If you support the flat percentage adjustment approach to address network losses, do you agree that 2.16% is a reasonable allowance? If not, what | One respondent stated that AWS had provided no evidence to support the figure. Another stated that it was unhappy with the arbitrary use of 25% to reflect the | We have chosen to retain the assumption that network losses would have accounted for 2.16% of the water passing through the bulk meter. The evidence, assumptions, and reasoning |

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| | <p>alternative figure do you propose and why?</p> | <p>difference between general and on-site networks, and indicated that it uses a notional allowance of 4% for on-site leakage in all the calculations it provides to Ofwat.</p> <p>A third questioned whether the figure of 2.16% adequately reflected the impact of new technology on leakage for new developments, implying that the figure might be too high.</p> | <p>behind this figure are set out in section 4.3 of the consultation paper. 4% is too high a figure, because it implies that approaching one half of total company losses occur on comparatively new "last mile" networks, which is not plausible. 2.16% may also be too high, but we are reluctant to adjust it downwards until firm evidence to that effect is available (though we acknowledge that, in the meantime, it may offer an additional benefit to NAVs.)</p> <p>We have considered whether an upward revision to the 2.16% figure might be warranted in the light of the increase in the assumed length of water main per connection from 7.7m to 10m (see section 2.2 above and question 10 below). On balance, however, we have chosen to leave the figure unchanged. If anything our judgement is that the figure might be on the high side, so we do not feel that the case for an increase is strong.</p> |
| 8 | <p>Have we successfully captured all of the categories of on-site cost that need to be included in the "minus" calculation, or do you consider that we have missed anything?</p> | <p>One respondent did not think we had missed anything.</p> <p>Another thought we might have included costs that are not relevant to the "last mile network" and which therefore should have been excluded.</p> <p>A third gave a list of thirteen items it</p> | <p>No change to our proposals.</p> <p>In adopting a simplified, transparent approach, we have used published figures for operating costs that include costs relating to pumping stations, service reservoirs, and the larger diameter "upstream" sections of the network. These would not generally be associated</p> |

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| | | <p>said should be covered in the “minus” calculation, including “<i>bad debt allowances for network costs</i>”, “<i>normal profit</i>”, “<i>corporate overheads</i>” and “<i>customer support</i>”.</p> | <p>with the “last mile network”. We explained that this would tend to overstate the costs we would have incurred, which would operate to the benefit of NAVs. The alternative would have involved using internal management cost information to strip out those elements, which would have meant losing a significant amount of transparency.</p> <p><i>Bad debt</i> costs are entirely borne by the retail businesses, including the element that relates to the network, and are not allowed for in wholesale charges. They are therefore not included in our assessment of the “minus”.</p> <p>Our proposals included an element of <i>normal profit</i> in all cases in relation to the return on capital replacement investment, and additionally for legacy NAVs in relation to the return on that part of the original investment that would not have been paid for by developers. In line with the Guidance, a higher rate of return is allowed to the NAVs than would have been allowed to AWS.</p> <p>Under Ofwat’s regulatory accounting guidelines, “<i>corporate overheads</i>” are included within operating expenditure. Therefore, the figures for “Treated Water Distribution” set out in 5.3.1 of the</p> |
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| | | | <p>consultation paper already contain an allocation of corporate overheads.</p> <p><i>Customer support</i> is generally a retail function, and is therefore neither included in the wholesale charge “start point” nor in the assessment of the “minus”.</p> <p>However, to the extent that any customer support activities relate specifically to wholesale operational activities, e.g. the provision of bottled water in the event of prolonged interruptions to supply, these are automatically reflected in the “minus” calculation by virtue of the fact that they are included within “Treated Water Distribution” operating expenditure.</p> |
| 9 | Do you agree that we should estimate hypothetical on-site ongoing costs with reference to the actual costs that we typically incur across our networks? | <p>One respondent supported the proposals. Another was supportive, but noted that costs should be realistic and technological progress was unlikely to be relevant to on-site costs.</p> | No change to our proposals. |
| 10 | Do you support our proposal to use published data to derive the ongoing on-site cost element of NAV tariffs? If not, please explain why, and what alternative you would prefer. | <p>One respondent disagreed, stating that we should use all information available, including that which is provided to our regulators.</p> <p>A second respondent also said that we should use all information available because that would be more appropriate.</p> <p>A third respondent supported our</p> | <p>There is no change to our proposal to use published data to derive the ongoing on-site cost element of NAV tariffs. However, we are making a change to an important element of the calculations. See below and also section 2.2 above.</p> <p>As noted in relation to question 8 above, we have chosen not to use internal management cost information, because</p> |

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| | | <p>proposal to use published data, but queried whether the figures we had used for pipe lengths were realistic, and suggested the use of “banding” to reflect differences in average pipe length for smaller versus larger developments.</p> | <p>this would mean a significant loss of transparency in the derivation of the minus element in the calculation of the tariff, and would mean that the NAVs would face higher charges.</p> <p>It should be noted that information that we provide to our regulators is, invariably, published in one form or another.</p> <p>We have re-visited evidence on the new developments that we serve across our region. There is no empirical support for a banded approach to on-site costs, and in any event we consider that such a change would significantly increase the complexity of the NAV tariffs. However, a review of the data on pipe-length for site developments shows that a substantial majority are clustered in the range of 5-10m per connection, with the average at 7.7m. Any sites above or below this range are the exception. In order to retain the simplicity of the proposed calculation, we intend to retain a standard length of pipe, but in response to the comments received we consider it reasonable to increase this to 10m per connected property for water supply and 7m per wastewater connection for each of foul and surface water sewers.</p> |
| 11 | Do you agree that the ongoing on-site cost element of the tariff | Three respondents agreed, and one wanted this approach “ <i>extended to all</i> ” | No change to our proposals. |

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| | should be expressed on a common per-connection basis for all NAV sites? If not, what alternative would you prefer? | <i>costs contained within the calculation of the NAV tariff</i> ". | All of the "generic" components of the minus calculation are expressed on a per connection basis. The other components: the WACC, depreciation, and rates items for legacy sites only, are expressed as annual "lump sums". Since these are site-specific there seems little point in expressing them on a per connection basis. |
| 12 | Do you have any comments on the indicative calculations for on-site ongoing costs for 2018/19? | One respondent said that the indicative calculations were appropriate. Another referred to its concerns regarding pipe lengths and banding discussed under question 10 above. | See the answer to question 10 above. In response to representations we have raised the assumed length of water main and sewer per connection. |
| 13 | Do you consider that a generic approach for capital replacement is preferable to carrying out site-by-site assessments of hypothetical future capital investment needs? | Three respondents supported the generic approach to capital replacement costs, though one again raised the question of whether " <i>...differing development sizes have materially differing dynamics...</i> " | No change to our proposals. |
| 14 | Do you support our proposal to apply a common set of assumptions for the duration of capital replacement "holidays" so that this element of NAV tariffs can be the same for all sites? | Two respondents supported our proposal, though one said the capital replacement holiday should only apply to the initial assets, not subsequent ones. | No change to our proposals. We can confirm that our calculations only allow for a capital replacement holiday in relation to the initial assets. |
| 15 | Do you agree that it is reasonable to set the replacement holiday for each type of asset at one third of the expected asset life? | Two respondents supported the proposal in principle, though one acknowledged that the figure of one-third was somewhat arbitrary and the other said that it did not see the logic for the choice | No change to our proposals. We accept that the figure of one-third is an assumption. As set out in section 5.3.2 of the consultation paper it would |

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| | | of the figure. | not have been reasonable to assume no replacement holiday, nor would it have been reasonable to assume that there is no capital expenditure until the full life of each type of asset has expired. In practice, the reality would have been somewhere between these two extremes. We chose the figure of one-third because we thought it was a reasonable assumption. If anything it may favour the NAVs by assuming expenditure occurs earlier than would have been the case, but no respondent specifically argued for a longer or shorter holiday. |
| 16 | <p>Please provide comments on our proposed methodology to give effect to the generic approach to calculating the avoided capital replacement costs, providing alternative suggestions where applicable. In particular:</p> <p>a) do you agree with our identification of asset categories. Is anything missing?</p> <p>b) do you support our assumptions on asset lives?</p> <p>c) do you have any comments on our proposed</p> | <p>Two respondents provided comments on our methodology. Both were broadly supportive, but one expressed a number of concerns:</p> <ul style="list-style-type: none"> • was the maintenance of manhole covers included? • it was unrealistic to build assumptions on future efficiency improvements into the calculations; • the use of the differential cost of capital is divisive; and • it would be helpful to see the calculations that we carried out over the 240 year timeframe. | <p>No changes to our proposals.</p> <p>On the specific points raised:</p> <ul style="list-style-type: none"> • manhole covers are included within the general category of “sewers”, and the costs of their maintenance are captured within “Sewage Collection Operating Expenditure”; • as regulated companies we are expected to achieve improvements in efficiency on an ongoing basis, and this is reflected in the way that the regulator sets our price controls; • the differential cost of capital is one of the features of the Guidance. We have therefore followed Ofwat’s requirement, |

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| | <p>approach to unit costing and efficiency projections?</p> <p>d) do you agree with our use of the NAV-specific WACC proposed by Ofwat in the Guidance for the projected return on RCV, and the wholesale WACC used by Ofwat at PR14 to convert future values into an ongoing annuity?</p> | | <p>which in any event operates to the benefit of the NAVs;</p> <ul style="list-style-type: none"> we will prepare a spreadsheet that illustrates the calculations of the capital replacement elements of the NAV tariffs set out in the consultation paper. This will be shared with the respondent that raised the query and available on the website. |
| 17 | <p>Are we right to conclude that the return on RCV and depreciation components of the "minus" calculation in the methodology set out in the Guidance are only relevant for the bulk charges for NAVs appointed before 1st April 2018 so far as up-front investment is concerned (as distinct from future capital replacement)? If you have a different view, please provide details of other NAVs to which you think these elements are applicable.</p> | <p>Three respondents agreed with our position.</p> <p>A fourth respondent neither agreed nor disagreed, but stated that <i>"it is important that any adjustment to the methodology across time also meets Anglian Water's competition law obligations with specific reference to margin squeeze and other anti-competitive practices."</i></p> | <p>No change to our proposals.</p> <p>We agree that any changes to methodology should be in line with our competition law obligations.</p> |
| 18 | <p>Do you agree with our proposed approach to:</p> <p>a) the definition of the incremental RCV on which a return would have been earned;</p> <p>b) the calculation of the income offset?</p> | <p>One respondent agreed with our proposed approach.</p> <p>A second respondent queried our definition of the incremental RCV on which a return would have been earned, asking whether the net capex figure</p> | <p>No change to our proposals.</p> <p>We addressed the question of the "slow money ratio" in footnote 37 of the consultation paper. Although Ofwat replaced the opex, infrastructure renewals charges, and current cost depreciation</p> |

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| | In each case, please indicate where you disagree and what alternative approach(es) you would propose. | should <i>"since 2015....also be multiplied by the slow money ratio, since the addition to RCV is the addition to totex times the slow money ratio."</i> | "building blocks" with "pay as you go expenditure" and "RCV run-off rates" at the 2014 price review, we do not believe this affects the calculations. For each item of water company expenditure there is a "natural" pay as you go ratio. For capital expenditure that creates assets that will deliver services over a period in the future, that rate is zero. At a company level it may be possible to identify a "slow money ratio", but it does not follow that that same ratio is appropriate for each individual item of expenditure. |
| 19 | Do you agree with our analysis of the derivation of "avoided rates costs"? If not, please explain what alternative approach you think is appropriate. | Two respondents agreed with our approach. A third said that it was difficult to see how there could be no profitability associated with supplies to new developments, so some element of rates would have been payable. | No change to our proposals. Where net capex would have been zero, no incremental profit would have been earned by AWS had a NAV not been appointed, because all of the capital would have been invested by the developer, and undertakers are only allowed a return (in the wholesale business) on regulatory capital value. However, as and when on-site assets were replaced by AWS, future increments to RCV would have occurred and a return earned. We have reflected this profitability, and the rates payable as a consequence, in the capital replacement elements of the NAV tariff. |
| 20 | What are your views on our proposed approach to the depreciation policy to be applied | One respondent agreed with our approach. | No change to our proposals. |

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| | to the net capex that would have been added to our RCV at the time a site was developed, including the asset life assumption? | | |
| 21 | Do you have any comments on the "rolling RCV" calculations that we have set out, and the way that we propose to derive the return on capital, depreciation, and rates elements of the "minus"? | One respondent stated that our calculations seemed reasonable. | No change to our proposals. |
| 22 | What are your views on the proposal to apply a retrospective "true-up" as part of the application of NAV tariffs so that the effective price paid by the NAVs at each site is correct? If not, please explain your reasons. | One respondent said that a true-up could be applied, but indicated that it might be possible to put in place arrangements to avoid the need for a true-up. A second respondent said that a true-up should be unnecessary. | We will modify our proposals so that the retrospective true-up only takes place in certain circumstances. See section 2 above for details. |
| 23 | Do you agree that we should aim to set provisional tariffs that are based on the best available forecasts for the relevant Charging Year? | One respondent stated that it was willing to work on the basis that assumptions are " <i>reasonable, realistic, open and supported with evidence</i> ". A second respondent said that it expected us to " <i>use a consistent process and common underpinning methodology when setting all (including NAV) tariffs.</i> " | As section 2 sets out, we have modified our proposals so that a retrospective true-up of the application of the NAV tariff only takes place if there is a material difference between what the NAV pays for a charging year and what it "should" have paid. Consequently, we will aim to set charges based on the best forecasts for the Charging Year, including the NAV's latest figures for expected volumes and number of connections, especially for sites that are still being developed. |
| 24 | Do you have any comments on | One respondent objected to a | As set out above, we are modifying our |

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| | the proposed process for calculating provisional NAV tariffs in advance of the relevant Charging Year, and carrying out the “true-up” after the end of the Charging Year? | retrospective true-up because it <i>“undermines the purpose to provide certainty of costs in advance of a point of connection application.”</i> A second respondent also argued against a retrospective true-up, <i>“...other than in the event of manifest error or deliberate manipulation of any assumptions”</i> . | approach to the retrospective true-up. See section 2. |
| 25 | Do you have any comments on our proposed approach to dealing with future regulatory and other changes? Please indicate if there are any additional points you think we should consider. | One respondent said it accepted the need to accommodate regulatory changes, but was concerned at the possibility of <i>“...any regulatory gaming...resulting in any form of margin squeeze”</i> . A second respondent said that our approach was reasonable. | No change to our proposals. |
| 26 | Do you agree that new NAV tariffs should be backdated to 8th May 2018 for existing NAVs? If not, please explain what alternative approach you propose. | One respondent said that back-dating should only take place when requested by a NAV. A second respondent said that the Guidance is clear, and the tariff should take effect from 8 th May 2018 for all new and existing NAV sites. | No change to our proposals. As set out in section 10 of the consultation paper, Ofwat has indicated that it would be “good practice” to make the new NAV tariffs effective 8 th May 2018. No NAV objected to this position, so we have left it unchanged. |

4. Next Steps

Now that the consultation process is complete we will work to incorporate the changes that we are going to make into the processes for developing NAV tariffs for 2019/20 and finalising the NAV tariffs for the period 8th May 2018 to 31st March 2019. Other important inputs into these work programmes include the following:

- finalising AWS wholesale charges for 2019/20, which we will publish by 14th January 2019;
- continuing to engage with those NAVs with “legacy” sites in our area in relation to the calculation of the site-specific WACC and depreciation components of the NAV tariffs;
- engaging with all NAVs to obtain verifiable forecasts for 2019/20 in relation to the expected number and mix of connections and volumes; and
- preparing and refining as appropriate our calculations for the cost elements of the tariff for 2019/20.

We are aiming to complete this work programme quickly so that the NAV tariffs can be made available as soon as possible after our 2019/20 wholesale charges have been published.

Looking to the medium term, the PR19 price review that Ofwat is currently carrying out will lead to new price controls coming into effect on 1st April 2020. Expected changes include a reduction in the allowed rate of return for all companies. As these changes are likely to have implications for NAV tariffs in 2020/21 and beyond, we will aim to engage with our NAVs and other stakeholders in good time in order that the effects of PR19 are properly anticipated and fully understood.