



South Staffs Water



Cambridge Water

# Bulk NAV charges

2024-25

January 2024

## 1 Introduction

New Appointments and Variations (NAV) represent a form of competition where the incumbent operator is replaced by another company for a particular development site. When a NAV is appointed as a water company for a site, it may have its own water supply, which it could use to supply its customers. Alternatively, it may wish to purchase a supply of water from us. This is known as a 'bulk supply'.

## 2 Relevant guidance

Ofwat published updated guidance in 2021 in how to calculate bulk NAV charges. The most significant area was how companies should calculate the costs that are avoided by us when a site is served by a NAV. In previous year's we had used a 'top down' approach using high level data published in our Annual Performance Report (APR). The updated guidance requires companies to use a 'bottom up' approach as this is more likely to result in cost reflective tariffs. We moved to this approach for the first time when we set our NAV charges for 2023-24.

## 3 Summary of Bulk NAV charges methodology

Our approach to calculating the bulk NAV discount is set out below. We have also published the Bulk Charging Working Group cost template which breaks down all of our avoided costs.

### 3.1 Relevant starting point

- The starting point is our wholesale volumetric charge
- We exclude the standing charge as this relates to the cost of the meter and associated maintenance which is provided by the NAV
- Our standard wholesale charge is the same for both residential and business customers and so we do not need to use a menu based approach

### 3.2 Avoided costs

We have taken an average of the previous two years when calculating the level of avoided cost. This ensures that any one-off cost changes (increases or reductions) are smoothed out.

#### 3.2.1 Network maintenance (planned and unplanned)

- This is based on our actual costs for these activities
- It covers all local network activities including repairs and flushing.
- This is normalised by property numbers

#### 3.2.2 Mains replacement

- This is based on our unit costs set out in our developer charges
- It includes the local main plus communication pipes to customer boundary
- Unit rates are multiplied by the typical length of mains per property
- Supply pipe costs are excluded as these are the customer responsibility

- We assume full replacement after 100 years, converted to an annuity
- The discount factor is based on the NAV WACC published by Ofwat in 2018, updated for PR19

### 3.2.3 Metering costs

- As set out in the relevant starting point above, our standing charge represents the cost of the meter and associated maintenance. We therefore exclude this when calculating the NAV charge so that there is only a volumetric element

### 3.2.4 Water quality operational compliance

- This is based on our actual costs for these activities
- It includes all operational costs associated with meeting compliance/licence obligations such as testing, processing, reporting and dealing with WQ incidents.
- It is normalised by the number of properties

### 3.2.5 Indirect overhead

- We include a deduction for corporate overhead and fixed costs including:
  - Finance
  - HR & Training
  - Strategy and regulation
  - Communications
  - IT
  - Corporate costs
  - Fleet
  - Property
  - Insurance
- The cost driver is the number of properties

### 3.2.6 Business Rates

- We have used the receipts and payments from our 2023 ratings valuation to estimate an appropriate margin.

## 3.3 Operating margin

- We recognise the need for an appropriate operating margin. We include an operating margin to avoided costs equivalent to the NAV WACC

## 3.4 Working capital

- We bill NAVs monthly in arrears compared to some customers who we bill quarterly and pay on demand. This means that we have a cashflow benefit

- We calculate the financing benefit from receiving cash earlier and apply an appropriate interest rate.

### 3.5 Leakage allowance

- Our wholesale tariff is charged on the volume of water delivered to properties. However, the bulk tariff is charged on water delivered to the on-site network, meaning an adjustment is necessary, as we will avoid costs associated with leakage on the NAV site.
- We have assumed that the amount of leakage for a new development is 3% of the total water supplied.

### 4 Bulk Supply charge discount summary

Below we set out the discount from our standard wholesale charge and the bulk NAV charge for 2024-25. The charge for 2023-24 is also included for reference.

<i>Volumetric discount</i>	2024-25		2023-24	
	South Staffs Region (£/m3)	Cambridge Region (£/m3)	South Staffs Region (£/m3)	Cambridge Region (£/m3)
<b>Standard wholesale volumetric tariff</b>	<b>£1.2883</b>	<b>£1.0380</b>	<b>£1.2326</b>	<b>£0.9932</b>
LESS network maintenance	(£0.0747)	(£0.0747)	(£0.0670)	(£0.0670)
LESS scientific services	(£0.0169)	(£0.0169)	(£0.0157)	(£0.0157)
LESS Rates	(£0.0319)	(£0.0319)	(£0.0305)	(£0.0305)
LESS indirect overhead	(£0.0853)	(£0.0853)	(£0.0749)	(£0.0749)
LESS mains renewal costs	(£0.0619)	(£0.0619)	(£0.0604)	(£0.0604)
LESS on-site leakage	(£0.0386)	(£0.0311)	(£0.0370)	(£0.0298)
LESS margin on costs	(£0.0074)	(£0.0074)	(£0.0066)	(£0.0066)
LESS working capital	(£0.0024)	(£0.0018)	(£0.0024)	(£0.0018)
<b>NAV bulk charge</b>	<b>£0.9691</b>	<b>£0.7270</b>	<b>£0.9382</b>	<b>£0.7065</b>
<b>Volumetric Discount (£)</b>	<b>£0.3192</b>	<b>£0.3111</b>	<b>£0.2945</b>	<b>£0.2867</b>
<b>Volumetric Discount (%)</b>	<b>24.8%</b>	<b>30.0%</b>	<b>23.9%</b>	<b>28.9%</b>
<b>NAV bulk charge increase from 2023-24</b>	<b>3.3%</b>	<b>2.9%</b>		