



Wessex Water Services Limited
2021-22 Indicative Bulk Supply Charges for NAVs

Introduction

This document sets out our indicative bulk supply charges for NAVs for the charging year 2021-22.

We are committed to being transparent in the process of setting our charges. We want to ensure that we are providing full and early visibility of what we are expecting to charge in 2021-22. However, these are indicative charges only and should not be relied on for any other purposes. Our final charges will be published no later than 31 January 2021 and will likely vary from these indicative charges as a result of final inflation figures and any other new information that becomes available before publication.

We consulted on our proposals for 2021-22 in September, before the outcome of Ofwat's consultation. In response to Ofwat's findings and recommendations, which are available here, <https://www.ofwat.gov.uk/publication/bulk-charges-for-new-appointees-our-conclusions/>, we are:

- 1) Retaining a wholesale minus, menu-based approach accounting for the split of property types planned.
- 2) Retaining a top down view of avoided costs for 2021-22, with plans to review our approach again for 2022-23 if appropriate.
- 3) Retaining our approach to accounting for leakage.
- 4) Removing the additional allowance. Ofwat was clear in its findings to the consultation that any additional allowance should be based on the operational risk that is transferred to the NAV from the incumbent. To assess this, we have considered:
 - a) Avoided financing risk – as developers pay up front, there is no risk taken here.
 - b) Avoided totex risk – our top down avoided costs consider the average costs incurred. By definition, this will include an “average” level of replacements and emergency expenditure. Setting these at the average means that there is no systematic risk that being transferred here.
 - c) Avoided operational risk – NAVs do not have performance commitments or outcome delivery incentives and, therefore, there they are adopting no associated operational risk.

Over all these areas, we have concluded that there is no operational risk transferred to a NAV from an incumbent. Therefore, in response to the revised guidance, we believe it would be inappropriate to include any additional allowance.

Our indicative charges are set out below.

We welcome any feedback on these indicative charges by email to wholesale@wessexwater.co.uk

NAV Charges

Please see our indicative wholesale charges for the relevant starting point, published here: <https://www.wessexwater.co.uk/corporate/strategy-and-reports/regulatory-information/our-charges-scheme>.

Our indicative adjustments for the 'minus' elements are set out in Table 1.

Table 1: Indicative 'minus' elements

Charge element	Water (£ per m ³)	Wastewater (£ per m ³)
Avoided operational expenditure	0.1355	0.0251
Avoided renewals	0.0979	0.0326
Avoided depreciation	-	-
Avoided return	-	-
Total NAV discount	0.2334	0.0577