

Thames Water Utilities Limited (TWUL) Wholesale

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# NAV bulk charges

## On-site ongoing avoided costs

2024/2025

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## Seeking feedback

This document aims to give you the information you need to understand our on-site ongoing avoided costs adjustment for bulk charges that apply to New Appointments and Variations (“NAV’s”). The figures within this document are subject to change. We would appreciate your comments and feedback on the document. Please send your comments to [wholesalemarketservices@thameswater.co.uk](mailto:wholesalemarketservices@thameswater.co.uk).

## Changes to this document

Throughout the year we are working to improve our services and we may issue updates to this document as appropriate.

## Revision history

Date	Version	Changes
March 2024	1.0	Publication

## Introduction to the NAV bulk charges – avoided costs document

This document provides additional detail to that set out in the NAV Tariff Document 2024/25<sup>1</sup> relating to the on-site ongoing avoided costs adjustment within our NAV bulk charges, according to the wholesale-minus approach used for the setting of those charges.

The Bulk Charging Working Group (“BCWG”)<sup>2</sup>, chaired by Ofwat, is a group of industry representatives from incumbent wholesalers and NAVs. The aim of the BCWG is to assess the bulk charges that NAVs are subject to relative to the published Ofwat guidance, understand the differences in the charges applied and the approaches used by incumbent wholesalers and to conclude on future best practice on bulk charging.

As a part of this work, the BCWG has issued a template<sup>3</sup> for incumbent wholesalers to use when detailing the on-site ongoing costs that are considered to be avoided by the incumbent wholesaler when a NAV operates an inset site. This is one part of the ‘wholesale-minus’ approach to setting NAV bulk charges as set out in the Ofwat guidance<sup>4</sup>.

The template issued by the BCWG is primarily intended for use by incumbent wholesalers using the ‘bottom-up’ methodology for calculating on-site ongoing avoided costs. It sets out detailed cost categories that would be considered for inclusion individually when such wholesalers build up from first principles the adjustment to apply to their underlying wholesale charges.

An alternative methodology for the on-site ongoing avoided costs adjustment is the ‘top-down’ approach. This uses higher level cost data, such as that disclosed in relevant tables of the incumbent wholesaler’s Annual Performance Report (“APR”), to determine the adjustment to be applied to the incumbent wholesaler’s underlying wholesale charges. This approach is deemed to be less preferable in the Ofwat guidance due to it having a lower degree of cost reflectivity and as such is not considered to be best practice, but it does have the practical advantage of needing less granular cost data to be derived.

At present, Thames Water’s current approach to the application of the on-site ongoing avoided costs adjustment within the wholesale-minus charging framework is limited to the ‘top-down’ approach. As the ‘top-down’ approach does not lend itself to fully and meaningfully populating the BCWG template, we are not able to publish it as a part of this document. Instead, this document sets out in more detail our ‘top-down’ approach utilising (as far as possible) the categories within the BCWG template.

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<sup>1</sup> [NAV Tariff Document 2024-25](#), Thames Water, January 2024.

<sup>2</sup> Further details can be found on the [New appointee bulk charging working group](#) page on the Ofwat website.

<sup>3</sup> [Avoided costs template](#), Ofwat.

<sup>4</sup> [Bulk charges for new appointees – guidance on our approach and expectations](#), Ofwat, January 2021.

## Wholesale-minus approach to setting NAV bulk charges

As per the Ofwat guidance on setting NAV bulk charges, a 'wholesale-minus' approach is the preferred method of calculating the charges to be levied by incumbent wholesalers. This involves deducting the on-site costs that an incumbent wholesaler would incur if it, instead of a NAV, were to provide services to customers on a new development, from the relevant wholesale charges. The adjustments made to the relevant wholesale charges are per the list below and are also set out in our NAV Tariff Document 2024/25.

- On-site ongoing avoided costs
- Replacement cost of on-site assets
- Network losses (for water service)
- On-site Sewage Pumping Station ("SPS") costs (for wastewater service, where relevant)

Note that our relevant wholesale charges starting point is deemed to be the wholesale volumetric charge applied to our metered household customers.

The table below shows how the NAV bulk charges are derived from the relevant wholesale charges starting point.

**Table 1: Derivation of NAV bulk charges from relevant wholesale charges**

2024/25 charges	Water £ per m <sup>3</sup>	Wastewater £ per m <sup>3</sup>
Relevant wholesale charges starting point	1.9145	1.1537
On-site ongoing avoided costs	(0.3620)	(0.0965)
Replacement cost of on-site assets	(0.3521)	(0.1342)
Network losses	(0.0517)	n/a
<b>NAV tariff (excluding on-site SPS discount)</b>	<b>1.1487</b>	<b>0.9230</b>
On-site SPS costs	n/a	(0.2010)
<b>NAV tariff (including on-site SPS discount)</b>	<b>1.1487</b>	<b>0.7220</b>

The rest of this document focuses on detailing the derivation of the on-site ongoing avoided costs adjustment.

## On-site ongoing avoided costs calculations

Under the Ofwat guidance, the ongoing costs of operating and maintaining the on-site asset should be assessed with reference to the costs that the incumbent wholesaler avoids as a result of the fact that the NAV is serving the site rather than the incumbent wholesaler.

This section details our approach to the calculation of avoided costs for our water and wastewater services.

We have used data tables 4J and 4K (formerly 4D and 4E respectively) from our APR<sup>5</sup> to derive the relevant avoided costs. Note that the costs included in these tables are not currently adjusted to identify only the on-site costs (i.e. they are not amended to represent only the 'last mile').

For each relevant upstream service (namely Treated Water Distribution and Sewage Collection), the avoided costs are taken from the following categories of the relevant APR table:

- Power;
- Other operating expenditure;
- Service Charges;
- Costs associated with Traffic Management Act;
- Costs associated with lane rental schemes;
- Statutory water softening (for water services); and
- Costs associated with Industrial Emissions Directive (for wastewater services).

All other operating expenditure categories on tables 4J and 4K are deemed to be either costs that are not avoided by the incumbent wholesaler or, in the case of 'Renewals expensed in the year', costs that are included within the adjustment for the replacement cost of on-site assets.

For each upstream service, we then average the calculated avoided costs over the last three reported years and inflate to reflect the equivalent costs that would be incurred in the upcoming charging year.

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<sup>5</sup> [Annual Performance Report 2022/23](#), Thames Water, July 2023

## Water service calculations

The calculation of the on-site ongoing avoided costs included in the NAV bulk charges for water service is mostly based on information published in the APR for the past three years. The relevant data was reported as Treated Water Distribution within the Water Network Plus price control and is shown in Table 2.

**Table 2: Water Network Plus – Treated Water Distribution avoided costs**

	APR ref.	Units	2021	2022	2023	Average
Power	4J.1	£m	31.0	39.2	51.2	
Other operating expenditure	4J.6	£m	111.8	110.6	121.5	
Costs associated with Traffic Management Act	4J.11	£m	21.3	25.1	32.5	
Costs associated with lane rental schemes	4J.12	£m	0.9	1.1	2.7	
Total avoided costs (Outturn prices)	-	£m	164.9	176.0	207.8	
Total avoided costs (2024/25 prices)*	-	£m	200.4	206.3	224.0	210.2
Total length of potable mains	6C.1	km	31,750	31,831	31,927	31,836

\*Inflated with financial year averages of CPIH monthly indices, as published by the Office for National Statistics (“ONS”).

Using the three-year average figures from Table 2, the total avoided costs were divided by the total length of potable mains to obtain an avoided costs discount of £6.60 per metre.

Based on the PR19 business plan submission, we estimated that each new customer property is served by 6.0 metres of new water mains. These assumptions result in an avoided costs discount of £39.75 per property.

To convert into a discount per m<sup>3</sup>, we took our forecast annual consumption per household for water services (114.4 m<sup>3</sup> per property, as used in our 2024/25 tariff modelling) and reduced this figure by 4% to reflect the increased water efficiency of properties on new developments. This results in an annual water consumption figure per property of 109.8 m<sup>3</sup>, which leads to a calculated discount for on-site ongoing avoided costs of £0.3620 per m<sup>3</sup> of clean water.

## Wastewater service calculations

Similar to water service above, the calculation of the on-site ongoing avoided costs included in the NAV bulk charges for wastewater service is mostly based on information published in the APR for the past three years. The relevant data was reported as Foul, Surface Water Drainage (“SWD”) and Highway Drainage (“HD”), within the Wastewater Network Plus price control. Table 3 displays the data relating to the Foul component.

**Table 3: Wastewater Network Plus - Foul avoided costs**

	APR ref.	Units	2021	2022	2023	Average
Power	4K.1	£m	12.0	13.9	20.1	
Other operating expenditure	4K.6	£m	62.7	53.1	89.4	
Canal & River Trust abstraction charges/ discharge consents	4K.8	£m	0.8	0.8	0.8	
EA / NRW abstraction charges/ discharge consents	4K.9	£m	0.6	0.6	1.2	
Other abstraction charges/ discharge consents	4K.10	£m	0.3	0.4	0.4	
Costs associated with Traffic Management Act	4K.11	£m	1.2	1.9	0.5	
Costs associated with lane rental schemes	4K.12	£m	0.2	0.5	0.3	
Costs associated with Industrial Emissions Directive	4K.13	£m	0.0	0.0	0.0	
Total (Outturn prices)	-	£m	77.8	71.2	112.8	
Total (2024/25 prices)*	-	£m	94.5	83.4	121.6	99.8
Total length of foul sewers	7C**	km	148,682	148,776	149,647	149,035

\*Inflated with financial year averages of CPIH monthly indices, as published by the ONS.

\*\* Lines 16, 19, 21 and 22.

Using the three-year average figures from Table 3, the total avoided costs were divided by the total length of foul sewers to obtain an avoided costs discount of £0.67 per metre.

Based on the PR19 business plan submission, we estimated that each new customer property is served by 9.5 metres of new foul sewers. These assumptions result in an avoided costs discount of £6.38 per property, for the Foul component.

In addition to Foul avoided costs, the NAV bulk wastewater charges also take into account avoided costs that relate to SWD and HD. These were calculated from the data in Table 4.

**Table 4: Wastewater Network Plus – SWD and HD avoided costs**

	APR ref.	Units	2021	2022	2023	Average
Power	4K.1	£m	2.6	2.9	4.1	
Other operating expenditure	4K.6	£m	13.5	13.1	17.3	
Canal & River Trust abstraction charges/ discharge consents	4K.8	£m	0.2	0.2	0.2	
EA / NRW abstraction charges/ discharge consents	4K.9	£m	0.1	0.1	0.2	
Other abstraction charges/ discharge consents	4K.10	£m	0.1	0.1	0.1	
Costs associated with Traffic Management Act	4K.11	£m	0.2	0.4	0.1	
Costs associated with lane rental schemes	4K.12	£m	0.0	0.1	0.1	
Costs associated with Industrial Emissions Directive	4K.13	£m	0.0	0.0	0.0	
Total (Outturn prices)	-	£m	16.7	16.8	22.0	
Total (2024/25 prices)*	-	£m	20.3	19.7	23.7	21.2
Total length of surface water sewers	7C**	km	29,727	29,744	28,994	29,488

\*Inflated with financial year averages of CPIH monthly indices, as published by the ONS.

\*\* Lines 17, 18 and 20.

Using the three-year average figures from Table 4, the total avoided costs were divided by the total length of surface water sewers to obtain an avoided costs discount of £0.72 per metre.

Based on the PR19 business plan submission, we estimated that each new customer property is served by 6.0 metres of new surface water sewers. These assumptions result in an avoided costs discount of £4.34 per property, for the SWD and HD components.

The sum of all components of the wastewater avoided costs discount amounts to £10.72 per property.

To convert into a discount per m<sup>3</sup>, we took our forecast annual usage per household for wastewater services (115.7 m<sup>3</sup> per property, as used in our 2024/25 tariff modelling) and reduced this figure by 4% to reflect the increased water efficiency of properties on new developments. This results in an annual usage figure per property of 111.1 m<sup>3</sup>, which leads to a calculated discount for on-site ongoing costs of £0.0965 per m<sup>3</sup> of wastewater.



## Contacting us



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