

Thames Water Utilities Limited (TWUL) Wholesale

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NAV tariff document

Setting out tariffs for 2019/2020 in relation to services provided
by TWUL Wholesale.



Revision history

Date	Version	Changes
February 2019	1.0	Publication
March 2019	1.1	"Wholesale" removed from the title.

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Introduction

In May 2018, Ofwat (the economic regulator of the water industry in England and Wales), published guidance requiring companies to review their tariffs for New Appointments and Variations ('NAV') bulk charges.

Thames Water offers bulk supplies of water, receives bulk discharges of wastewater or both. Charges are then made to NAVs to pay Thames Water for the supply of bulk services.

Thames Water and NAVs have agreed a contract between them that sets out the terms and conditions of supply of bulk services known as a bulk agreement, including the price referred to as 'bulk charges'.

Bulk services can be categorised as being between an incumbent water company and:

- another incumbent water company; or,
- a water company created through the 'New Appointments and Variations' process (NAV)

Our new NAV tariff(s) will come into effect on 1 April 2019. They will apply to:

- new NAV sites (by agreement) for which contracts came into effect from 1 April 2018.

The aim of this document is to provide clear and transparent information about our bulk charges relating to the supply of water and wastewater services to NAVs.

Our tariffs adhere to Defra's four objectives for charging:

- fairness and affordability
- environmental protection
- stability and predictability
- transparency and customer focused service.

We have structured this document as follows:

- Part A** provides the background
- Part B** outlines our 2019/20 new NAV tariffs
- Part C** details our NAV tariff framework and charges
- Part D** provides examples of how our NAV tariff framework will operate
- Part E** explains our transitional arrangements
- Appendix 1** includes fixed and supplementary charges for water and wastewater services 2019/2020
- Appendix 2** includes fixed and supplementary charges for water and wastewater services 2018/2019

Part A: Developing our NAV tariff

Following consultation in November 2017, Ofwat published its final guidance on bulk charges for NAVs in May 2018. This sets out specific guidance on the calculation of NAV tariffs. There is some scope for companies to make their own decisions on the precise methodology they will apply.

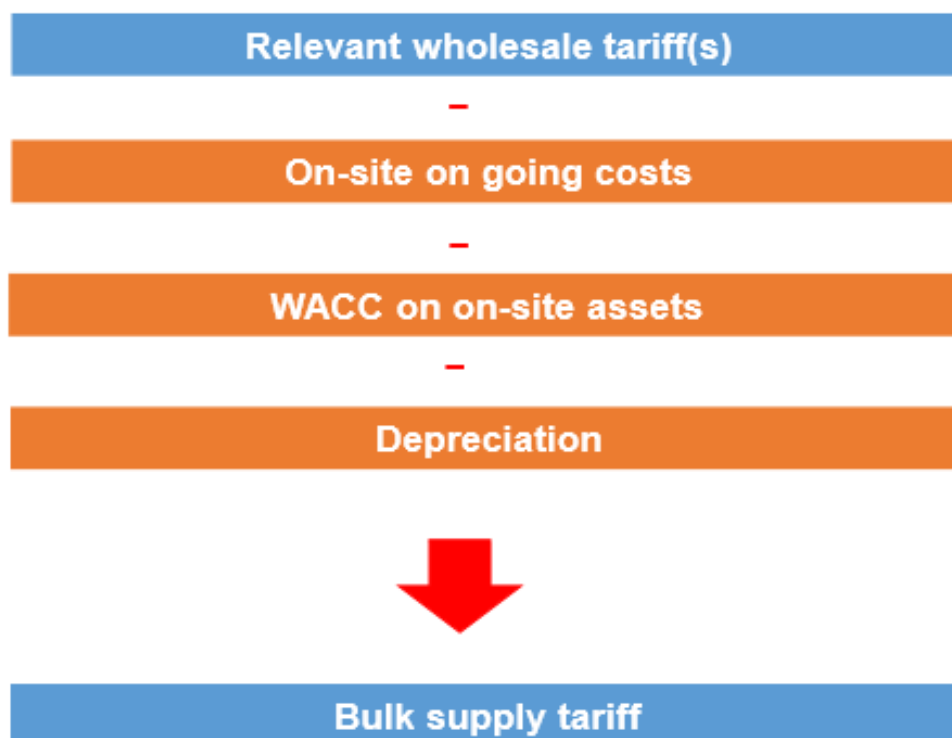
We have taken a considered approach to developing our NAV charges, following Ofwat's guidance and with the ambition of encouraging the development and sustainable economic growth of the NAV market.

Part B: Our 2019/20 NAV tariff

Ofwat's Guidance on bulk charges for NAVs

Ofwat's guidance states that in the event of a tariff dispute being referred to them, they will use a wholesale minus approach to determine charges. This is therefore the approach we have adopted to calculate the NAV tariff. This involves deducting the on-site costs that an incumbent would incur if it, instead of a NAV, were to provide services to customers on a new development, from relevant wholesale charges.

Figure 1: Ofwat guidance on wholesale-minus approach



In the section below we describe in greater detail how we have applied the 'wholesale-minus' approach in developing our bulk charges for NAVs.

We recognise the importance of stable, predictable charges for our NAV customers and believe that our NAV tariff methodology best supports this objective.

B.1 Defining the ‘relevant wholesale tariff(s)’

The first step in applying the ‘wholesale-minus’ approach is to identify the relevant wholesale tariffs.

The relevant wholesale tariff will be the standard household wholesale volumetric tariff set out in our Wholesale Charges Scheme. The reason we have adopted this is as follows:

- 99% of water customers and 99% of wastewater customers in our non-household market consume less than the 20,000 m³ annual volume that would be needed to be eligible for the Intermediate and more discounted ‘Large User’ tariff;
- the difference between the standard volumetric non-household customer charge (<20,000 m³ annual consumption) and the standard volumetric household customer charge is less than 1 pence for both water and wastewater.

This ‘generic’ starting point has the added benefit of eliminating the need for additional calculations to be undertaken and corrected or ‘trued-up’ annually and reduces the burden on NAVs to forecast property mix ahead of the charging year in question.

In summary, the relevant starting point will be the household wholesale volumetric tariff for water and for wastewater. This will be the starting point from which the relevant deductions are applied. We discuss in the next sections what we deduct from this charge under the ‘wholesale-minus’ approach.

B.2 Calculation of avoided costs

On-site ongoing costs

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 avoids as a result of the fact that the NAV is serving the site rather than the incumbent.

The following paragraphs summarise our approach to the calculation of avoided costs for our water and wastewater services.

We have used data tables 4D and 4E from our Annual Performance Report to derive the relevant avoidable costs. These tables include treated water distribution costs which are not adjusted to identify only the on-site costs (the ‘last mile’). We divide the costs by the total water delivered to obtain the volumetric discount per m³. For 2019/20 it produces figures of £0.2447 per m³ for water and £0.1230 per m³ for wastewater.

Replacement cost of on-site assets

The Ofwat guidance is clear that charges for NAVs should take account of the ‘last mile’ asset costs with specific reference to the expenditure that we would incur in replacing assets over the long term had we served a NAV site.

We have calculated the future capital replacement costs for NAV sites by identifying the relevant on-site assets which we have costed using our published ‘Charging Arrangements Document’ to determine a replacement value.

The useful asset lives have been determined by reference to our own fixed asset register. We have used asset lives and replacement costs to calculate a present value annuity. The rate of return applied is set at 4.74%, in line with the guidance requirements to allow NAVs a higher return on regulatory capital value (RCV).

The result of our replacement cost calculation is a volumetric discount of £0.1677 per m³ for water and £0.0199 per m³ for wastewater.

Network losses

We have also factored in network losses to take account of water lost between the bulk meter and the NAV's end customer, which increases our NAV water discount by a further £0.0292 per m³.

B.3 Updating NAV tariffs

The NAV tariffs will be updated annually to reflect any changes in the standard household wholesale tariffs as well as operating expenditure from assured and published data tables 4D and 4E in the Annual Performance Report.

B.4 Taking account of legacy NAV sites

The final two components, the WACC return and depreciation on the RCV that would have been created when the site was originally developed had we served it instead of the NAV, are only specifically applicable for sites where the appointment was made before April 2018 – “legacy sites”.

This is because, from that date, Ofwat has brought in changes to the way developments are financed, and we can provide the benefit of the “income offset” element of requisition charge calculations to NAVs in other ways.

As the Ofwat guidance does not apply retrospectively before May 2018, there is no need to include WACC and depreciation on the original assets in the NAV tariffs. Notwithstanding this, we will allow NAVs to elect to receive the benefit of the NAV tariff on legacy sites, from April 2019, (as calculated above,) on condition that it is applied to all sites operated by the NAV. Any requests for retrospective application of the NAV tariffs are explained in Part E.

Part C: NAV tariffs and charges

Table 1 Summary of volumetric NAV tariff and relevant charges

Charges in £ per m ³	Water	Wastewater	
Standard wholesale tariff	1.3525	0.8672	
NAV Tariff	0.9109	0.7243	
Standing charge - water	None	None	
Surface water drainage*	NA	Apply	Appendix 1; Table 4
Supplementary charges (based on consumption)	Apply	Apply	Appendix 1; Table 3

*Full or abated charges as applicable

(i) Where we provide bulk services to a NAV, the operator will pay the NAV tariff, unless otherwise agreed.

(ii) Where we provide bulk supply services to the NAV we will charge the operator of the qualifying NAV: a) the water volume charges under the NAV tariff set out in Table 1; and b) the supplementary large user charges related to the annual volumetric consumption in m³ as set out in Table 3 of Appendix 1.

(iii) Where we provide bulk discharge services to the NAV we will charge the operator of the qualifying NAV: c) the wastewater volume charges under the NAV tariff set out in Table 1; d) the supplementary large user charges shown in Table 3 of Appendix 1; and e) for surface water drainage based on the size of the bulk meter as set out in Table 4 of Appendix 1.

The above surface water drainage charges will be capped at the sum of the wholesale charges for surface water that would be paid by the properties on the NAV site if these were billed directly by us. To apply for a capped charge, the NAV operator must supply us with details of the types of household premises, chargeable area of non-household premises, and the charges that it would be able to make to those premises.

Part D: New tariff framework - examples

The following worked example illustrates how the bill would be calculated for a hypothetical NAV site with 663 household properties using an average 120m³ per annum and 50 non-household properties using an average 325 m³ per annum.

Table 2 Application of 2019/20 NAV tariff on hypothetical sites

Water service example	Provided by		Information
Volumes recorded at bulk meter (m ³)	TW		99,000
Number of connected household properties	NAV		663
Number of connected non-household properties	NAV		50
Calculation of standard wholesale charge	Tariff	Unit	Amount
Household & non-household charge per m ³	0.9109	99,000	£90,179
Supplementary charges (based on consumption of 50,000m ³ to 250,000m ³)	13,455	1	£13,455
Total NAV charge			£103,634

Wastewater service example	Provided by		Information
Volumes recorded at bulk meter (m ³)	TW		99,000
Number of connected household properties	NAV		663
Number of connected non-household properties	NAV		50
Calculation of standard wholesale charge	Tariff	Unit	Amount
Household & non-household volumetric charge per m ³	0.7243	99,000	£71,708
Supplementary charges (based on consumption below the 100,000m ³ threshold)	0	1	£0
Non-household surface water drainage (x2 150mm pipes)	7,683	2	£15,366
Total NAV charge			£87,074

Part E: Transitional arrangements

The NAV tariff will be applied retrospectively with effect from 1 April 2018 to all sites where the relevant NAV requests retrospective application, provided that the request is made before 1 June 2019.

Table 3 Summary of volumetric NAV tariff and relevant charges for 2018/19

Charges in £ per m ³	Water	Wastewater	
Standard wholesale tariff	1.2954	0.8261	
NAV tariff	0.8660	0.6838	
Standing charge - water	None	None	
Surface water drainage*	NA	Apply	Appendix 2; Table 6
Supplementary charges (based on consumption)	Apply	Apply	Appendix 2; Table 5

*Full or abated charges as applicable

Contacting us

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Appendix 1: Summary of fixed charges 2019/20

Table 3 Supplementary large user annual charge 2019/20

Tariff		Consumption m ³	Annual charge	
Water	Intermediate volume user	20,000 - 50,000	Tariff (Pre-rebate)*	£2,380.00
			Charge (Post-rebate)*	£2,300.00
	Large volume user	50,000 - 250,000	Tariff (Pre-rebate)*	£13,930.00
			Charge (Post-rebate)*	£13,455.00
	Super large volume user	Over 250,000	Tariff (Pre-rebate)*	£66,430.00
			Charge (Post-rebate)*	£64,180.00
Wastewater	Large volume user	Over 100,000		£17,344.00

* Following Ofwat's leakage investigation which concluded in August 2018, we have committed under section 19 of the Water Industry Act 1991 to provide a rebate to our water service customers in 2019-20. This equates to a reduction of around 3% applied to the wholesale water charges used to calculate 2019-20 bills.

Table 4 Surface water drainage - fixed charges per year 2019/20

Pipe size		Wastewater	
millimetre	Inches	Full	Abated*
12/15	0.5	£41.80	£11.55
20/22	0.75	£119.79	£52.03
25/28	1.00	£214.18	£93.17
30/32/35	1.25	£333.99	£145.21
40/42	1.50	£480.40	£208.12
50/54	2.00	£853.09	£370.28
65	2.50	£1,334.70	£579.62
75/80	3.00	£1,920.39	£833.75
100	4.00	£3,414.82	£1,482.33
125	5.00	£5,335.22	£2,316.09
150	6.00	£7,682.74	£3,334.95
200	8.00	£13,658.09	£5,929.36
250	10.00	£21,339.63	£9,264.32
300	12.00	£30,729.77	£13,341.04

* Where a premises does not discharge surface water to our sewers, an abatement can be claimed based on pipe size.

Appendix 2: Summary of fixed charges 2018/19

Table 5 Supplementary large user annual charge 2018/19

Tariff		Consumption m ³	Annual charge
Water	Intermediate volume user	20,000 - 50,000	£2,202.00
	Large volume user	50,000 - 250,000	£12,887.00
	Super large volume user	Over 250,000	£61,487.00
Wastewater	Large volume user	Over 100,000	£16,522.00

Table 6 Surface water drainage - fixed charges per year 2018/19

Pipe size		Wastewater	
Millimetre	Inches	Full	Abated*
12/15	0.5	£39.82	£11.00
20/22	0.75	£114.12	£49.57
25/28	1.00	£204.04	£88.76
30/32/35	1.25	£318.17	£138.33
40/42	1.50	£457.66	£198.27
50/54	2.00	£812.70	£352.75
65	2.50	£1,271.51	£552.18
75/80	3.00	£1,829.46	£794.27
100	4.00	£3,253.14	£1,412.15
125	5.00	£5,082.61	£2,206.43
150	6.00	£7,318.99	£3,177.05
200	8.00	£13,011.42	£5,648.62
250	10.00	£20,329.26	£8,825.68
300	12.00	£29,274.81	£12,709.38

* Where a premises does not discharge surface water to our sewers, an abatement can be claimed based on pipe size.



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