

[REDACTED]

29 August 2018

Dear [REDACTED]

Re. NAV Market Not Ready for Competition

Thank you for your letter of 22 August.

Let me start by assuring you that we take seriously our obligations to provide relevant information to all NAVs in order for them to compete in the inset market. We are also mindful of our Competition Act responsibilities (in particular under Section 18) not to apply dissimilar conditions to equivalent transactions with other trading parties, thereby placing them at a competitive disadvantage.

In the light of this obligation, we must ensure that any bulk supply prices offered to [REDACTED] are calculated on a basis that is consistent with the offering currently being made to other NAVs who are active in the market.

Our Competition Act responsibilities have also informed our decision to consult on our new approach to bulk supply pricing, as we are keen to ensure that our bulk supply prices are cost reflective whilst enabling NAVs to generate an adequate margin.

In his email of 4 June, [REDACTED] set out the following questions:

1. When do you expect to publish your new NAV tariff?
2. Can you confirm whether you will be using a weighted average of customers to produce a single price or a menu of costs that a NAV can apply on a site by site basis?
3. We expect the NAV tariff to be reduced for the services that we are providing on site (for example) maintenance and operating costs, billing, meter reading, leakage and emergency response. Can you confirm this?

We responded to each question in our letter to [REDACTED] of 13 June, setting out details of our intention to consult on our NAV tariff proposals.

We have committed significant resources over the course of the summer to the preparation of the consultation document to take this forward. The document will include a comprehensive examination of the issues that arise from the methodology options set out in the Ofwat guidance. We will also consult on detailed proposals and provide worked examples that will allow NAVs to work out the impact on existing bulk supply agreements and on future sites.

One of the issues on which we will seek views is whether the new tariffs should be back-dated to 8th May for (i) existing bulk supply agreements and (ii) those sites that are subject to existing offers. In the event that this is the decision reached (having taken into account the views of all respondents), then there is no ultimate consequence of taking the time necessary to formulate the NAV tariffs on a workable basis; emphasising simplicity, transparency and fairness.

We are on track to publish the consultation in line with the indicative timetable we set out in our letter of 13 June. We expect to be in a position to publish our NAV tariff information at the turn of the year, and in any event well in advance of 1st April 2019.

We are due to issue an offer letter to you for the [REDACTED] inset, including details on applicable tariffs. This will refer to the relevant large user wholesale tariffs, as set out in our Charges Scheme, with scope to change subsequently to the new NAV tariff depending on the outcome of the consultation.

To ensure transparency, I have published this letter on our website, on the page titled "NAV tariff consultation". This is where all information will be made available in relation to the consultation process.

I hope this is helpful and I look forward to your contribution to the consultation.

Yours sincerely



Alex Plant
Regulation Director