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Date: 23 August 2022

Dear Stakeholders,

We are writing to you to:

- Discuss our proposed changes for setting bulk charges for NAVs,
- Inform you of forthcoming increases in our charges due to inflation, and
- Invite you to one on one or group sessions to discuss charging.

### **Proposed changes for bulk charges for NAVs**

Your views on our charges are important to us, we would welcome your feedback on our proposed changes for 2023-24.

We are fully engaged with the 'Bulk charges for NAVs' working group, run by Ofwat and attended by representatives of both incumbent companies and NAVs. This group is in the process of agreeing best practice for the setting of bulk charges. We will be evolving how we set our bulk supply charges to adhere to this approach.

We will take into account the feedback received as we finalise our charging methodology for 2023-24 and will publish indicative charges in December 2022 using the finalised approach.

Specifically, we will:

- retain a wholesale minus approach to setting the tariff;
- move to a more bottom-up calculation of avoided costs;
- reflect the up-coming discussions on returns; and
- include provision for adjustments to the bulk supply tariff due to innovative solutions and other services offered.

With regards to administering a bottom-up avoided cost methodology we can see two potential options:

1. Using site specific information to build up the costs
2. Using data from past developments to create a "notional" site

To this end, we would like to know what technical data you will have available at the typical contact points to help inform our approach.

We intend to base our tariff on the site when complete to give long-term certainty of the charging approach, despite the potential that it may take a number of years for the site to be build complete.

While we transition to adopting a bottom-up view of avoided costs we will continue to cross-check and validate our approach with our current fully allocated top-down method.

We are also looking for ways to foster innovation through our charges. To this end, where there are clear avoided costs due to interventions the NAV is making; these savings should be passed through to the NAV. To ensure any such intervention is captured we are not proposing an exhaustive list, but rather committing to a principle to discuss this on a case-by-case basis.

Similarly, we are proposing a principles-based approach to considering the impact of any additional services offered, either by us to a NAV or by a NAV to us.

The indicative timeline for developing and publishing our 2023-24 charges is set out below:

August 2022	Write to stakeholders (this letter)
October 2022	Publish indicative wholesale charges
	Finalise charging methodology, accounting for stakeholder feedback
	Third-party peer review of our method
December 2022	Publish indicative bulk charges for NAVs
January 2022	Publish final wholesale charges
February 2022	Publish final bulk charges and statement of third-party peer review

### **Increases in our charges due to inflation**

We have a duty, if we expect charges to go up by more than 5% to publish a statement of significant changes which sets out how we have communicated with our customers and what, if any, mitigations we are undertaking.

The amount of revenue we recover from our wholesale customers each year is indexed by the November CPIH inflation. This year we expect this to be more than 9%.

As wholesale charges form the starting point in the charging calculation both for the final bulk supply tariff, and the bill to the final customers, the expected high inflation will have a significant impact for 2023-24.

We want to take this opportunity to highlight the upcoming likely large increase. As set out above, we will publish indicative wholesale charges in October 2022 and indicative bulk charges for NAVs in December 2022 (note these could still be subject to change). We hope this will be useful to NAVs in setting and communicating their own charges, reflecting both the impact of inflation and our updated methodology.

### **Further communication**

In light of all these changes we would like to extend an invitation for further discussions around charges, either as one-on-one sessions, or as a group session. Please do not hesitate to get in touch with us.

Yours faithfully,

**Sean Larkin**  
Head of Wholesale Services

**David Peacock**  
Head of Economic Regulation