

New Appointments and Variations (NAVs)

Bulk Charging Arrangements for 2021-22

March 2021

Contents

1. New Appointee bulk supply pricing	3
2. Our NAV bulk supply charging tool.....	5
3. Our charging arrangements	6
4. Worked example.....	14
5. Other charges	17
6. Using the bulk supply charging tool	20
7. Future changes to our charges	21

Version Control

Date	Version	Changes	Withdrawn
12/03/21	1.0	Published version	n/a

1. New Appointee bulk supply pricing

In this section we explain how we set our charges for the provision of bulk supplies and bulk discharges for New Appointees and Variations (NAVs) against the charging guidelines and the principles of applying a wholesale minus approach published by Ofwat.

This document is an update from our 2020-21 NAV charging arrangements publication.

The New Appointments and Variations (NAVs) regime in England and Wales supports new entrants into the wholesale water and sewerage sector and also allows incumbent water and/or sewerage companies to expand into other geographic areas.

To operate within the incumbent's region a NAV company may require a bulk supply of water and/or sewerage services from the incumbent water and/or sewerage company.

- A bulk supply is the supply of clean water services from an incumbent appointed company to a NAV company.
- A bulk discharge is the supply of sewerage services from an incumbent appointed company to a NAV company.

The incumbent will levy bulk charges for such services, and these charges will form part of the bulk supply and/or discharge agreements in place between the parties.

Critically, the bulk charges have a significant bearing on the future margin the NAV is able to achieve in relation to financing and maintaining the network on a site or across multiple sites. It is the expectation for NAVs to operate their local networks within the incumbents' network area for a long period.

In January 2021, Ofwat published its updated guidance on bulk charges for NAVs¹. We have produced this document and the associated [Yorkshire Water NAV bulk supply charging tool for 2021-22](#) in line with the guidance in order to provide NAVs with the charges information they need.

¹ Bulk charges for new appointees - guidance on our approach and expectations, Jan 2021

Central to Ofwat's guidance is the application of a wholesale-minus approach. This approach starts with the relevant incumbent wholesale tariff(s) for the NAVs site and then deducts the avoided costs that the incumbent no longer incurs where the NAV supplies the new development site instead (the local network).

We continue to use the general wholesale-minus construct to set bulk supply prices and determine the avoided costs discount based on the present value of the average costs we would incur building and maintaining such a local network over the lifetime of the assets.

2. Our NAV bulk supply charging tool

In this section we set out details of our NAV bulk supply charging tool, including the key changes made for the 2021-22 charging year. The bulk supply charging tool enables NAVs to effectively self-serve charging information without the need for a prior request for bulk pricing information from Yorkshire Water.

Through the provision of our bulk supply charging tool for NAVs for 2021-22, we are providing a method that caters for the key variables of each NAV development site. For example, by recognising the avoided cost differentials against the length of water main per property for the site, the NAV can use the tool to determine the bulk supply price appropriate to the property density of the network of the site.

This variability is also used to determine expected long-term site leakage levels which influence the applicable tariff where a boundary meter is used for billing bulk supplies.

The key determining drivers in our pricing tool remain as:

- The mix of property types in the development and their relative water demands and wastewater discharges, as this determines the weighted average wholesale tariff starting point;
- The length of water mains and communication pipes for the development site; and,
- The length of sewer network for the development site.

For 2021-22 we have updated our bulk charges approach and the bulk supply charging tool with refreshed avoided costs and the leakage allowance used where chargeable water volumes are recorded at a meter at the boundary. We present the charging tool on our website:

<https://www.yorkshirewater.com/developers/new-appointments-and-variations/>

3. Our charging arrangements

Over the following sections we present our charging arrangements based on the wholesale-minus approach including the treatment of avoided on site costs and other allowances updated for 2021-22.

In our charging approach we calculate the present value of the wholesale charges that we would apply if serving the customers on the site (i.e. our wholesale volumetric tariffs and any fixed charges), and then deduct the value of the costs that we have avoided by the NAV serving the site instead of Yorkshire Water.

We exclude the initial costs to build the onsite network (mains, sewers, meters, and other assets) as we recover these costs directly from the developer up front and assume the NAV would do likewise. Similarly, any costs to reinforce our network to manage growth from new developments are excluded from the setting of bulk supply charges (we explain these additional charges later in this document). Such costs do not get recovered through our wholesale tariffs to end customers.

We also exclude the revenues and costs we would collect and incur for the provision of retail services to the end customers as these are already allowed for in the tariffs NAVs can charge its customers. This includes costs for management of bad debt that are within the retail allowance.

To set the present value of our future operating costs we discount these cashflows based on an assumed NAV return on capital.

3.1. The Relevant Wholesale Tariff – the starting point

Our approach to calculate the wholesale tariff starting point remains consistent with Ofwat's latest guidance and our approach in previous years.

We have updated our charging tool with the Yorkshire Water wholesale charges (fixed and volumetric) for the financial year 2021-22. Our wholesale measured water tariffs for 2021-22 are 2.6% higher than for 2020-21. For wastewater the increase is around 1.9%.

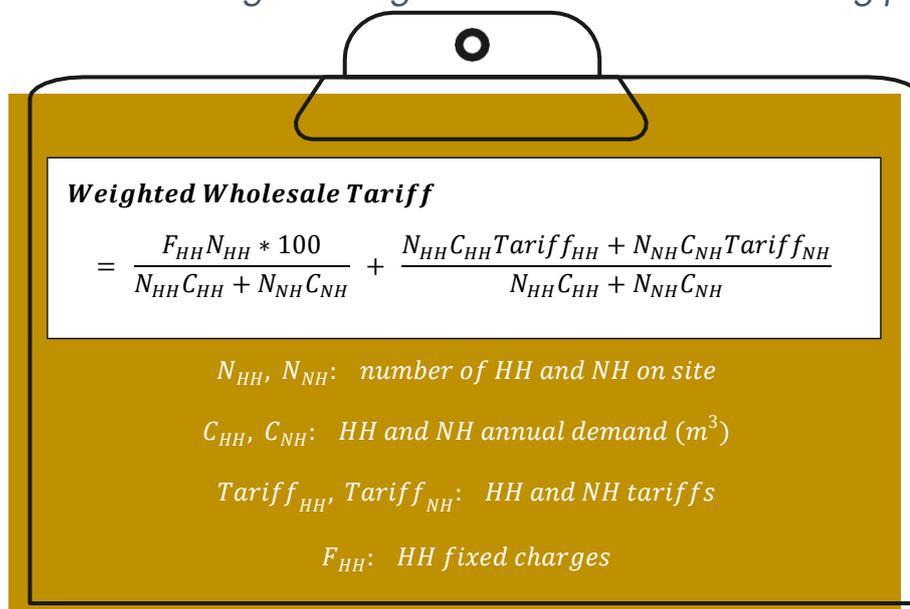
The tool continues to require some basic information from the NAV in respect of the number of household and non-household premises planned for the site, the total

length of the site networks and the expected annual household and non-household water demand. The formula for the “overall weighted wholesale tariff” remains as shown in Figure 3.1.

It should be noted that the weighted average starting point tariff may for a site appear higher than the Yorkshire Water household wholesale volumetric tariff for 2020-21. This is due to the incorporation of the fixed charge component into the volumetric charge. We also assume all household and non-household properties at the site will be metered and therefore we use wholesale tariffs for metered properties in our charging tool. In the unusual event that premises will not be metered, we request the NAV contacts Yorkshire Water to seek further advice.

Where the new development site to be adopted by the NAV sits within the defined geographical area for **York Waterworks**, then the starting point will be derived from the York Waterworks wholesale tariffs (water services only). Our charging tool allows the NAV to select its’ site as being within the York Waterworks area. Within the tool we provide details of the local parishes which make up the York Waterworks territory. Should you be unsure whether the site is within this territory, please contact Yorkshire Water with full details of the site address and plot locations and we can advise accordingly.

Figure 3.1. Calculating the weighted wholesale tariff starting point.



Weighted Wholesale Tariff

$$= \frac{F_{HH}N_{HH} * 100}{N_{HH}C_{HH} + N_{NH}C_{NH}} + \frac{N_{HH}C_{HH}Tariff_{HH} + N_{NH}C_{NH}Tariff_{NH}}{N_{HH}C_{HH} + N_{NH}C_{NH}}$$

N_{HH}, N_{NH}: number of HH and NH on site

C_{HH}, C_{NH}: HH and NH annual demand (m³)

Tariff_{HH}, Tariff_{NH}: HH and NH tariffs

F_{HH}: HH fixed charges

The formula calculates the overall weighted tariff separately, for both water and wastewater services. For wastewater, we apply a standard 95% ‘return to sewers’ rate to the household and non-household annual water demand as a default. The NAV user can amend this field in the tool to assess how any design features that

materially reduce the water demand returned to sewers could impact the bulk discharge tariff. We would expect a NAV to explain such features and justify a deviation from our standard % value and we would be happy to talk with you about the particular circumstances in advance of finalising a bulk discharge agreement.

3.2. On-site costs avoided – ongoing opex and capex

The on-site costs avoided in our bulk supply charging tool are made up of:

- Ongoing operating expenditures to service and maintain the on-site networks.
- Capital expenditures for future replacement and renewal of assets over time, based on expected asset lives. This includes replacement of meters and chambers, mains and associated fixtures, sewers, etc. The capital costs include a return on the expenditures for the replacement of on-site assets as these are assumed to be accrued to the NAVs asset base.

In our approach, the determination of avoided costs depends on the site-specific factors, property numbers and the length of the local network mains and/or sewers. To capture these site cost differences we use two rates. First, a cost per metre (£/m) is estimated based on our average costs and other source data and second, a metre (of mains or sewers) per property (m/prop) is estimated for the NAVs specific site. These two rates are combined to provide the final cost per property rate (£/property) which we use in our wholesale-minus calculation.

$$\text{Cost per property per year} \left(\frac{\pounds}{\text{prop}} \right) = \frac{YW(\pounds)}{YW(\text{metre})} * \frac{NAV(\text{metre})}{NAV(\text{property})}$$

3.2.1. Scientific services – sampling and testing costs

The costs incurred by Yorkshire Water for the collection of water samples, analysis, monitoring and reporting each year is avoided in case of a NAV appointed to a site. Based on our latest source cost information and the total number of connected properties in our region reported in our APR for 2019–20, we have estimated the discount for scientific services on a £/property/year basis.

Although our water quality sampling costs do not in practice change linearly in line with the number of new properties connected to our network, we understand the Drinking Water Inspectorate (DWI) places sampling requirements on new NAV

sites in a way that may place such costs on the NAV operations. Therefore, we continue to include an avoided cost for sampling into our charging tool as a prudent thing to do.

3.2.2. Water and sewerage operational costs

For our water network, we apply flushing as the predominant pipe cleaning method. The cleaning technique is employed on the distribution network rather than trunk main network. For our sewer network, operational costs cover activities such as jetting and CCTV surveys. Based on updated cost data and the total length of our networks reported in our APR for 2019–20, we have estimated the discount for water and sewerage operations on a £/property/year basis.

3.2.3. Leakage management costs

Active and reactive leakage management expenditure is the average cost for detecting and repairing leakage across our network. We have used updated source data for 2019–20 and have estimated the average leakage management costs to set a discount on a £/property/year basis.

3.3. Long-run avoidable costs

Ofwat's latest bulk charges for NAVs guidance ask companies to:

"... consider the level, timing and profile of all costs incurred over the lifetime of the asset, including through the estimation of an equivalent average annuity. The incumbent's historical costs could be a reasonable and practical proxy for estimating ongoing maintenance costs."

For the calculation of the long-run avoidable costs for future asset replacement and renewals we use the equivalent (annual) annuity (EAA). It presents the net present value of a series of future potentially uneven costs as a series of equal costs over the lifetime of the investment.

Our approach to estimate the EAA has remained the same as last year, but we have updated costs where possible with 2019–20 data. This approach is used to estimate meter and meter chamber replacement costs, water and sewerage street furniture replacement costs, mains/sewers replacement costs, communication pipes and stop taps replacement costs.

The calculation considers the relative lives of the assets mentioned above and a NAV specific cost of capital (NAV WACC).

We have maintained the same value for NAV WACC for 2021-22 as we did for 2020-21. This reflects the updated allowed WACC for incumbents set by Ofwat in its PR19 Final Determination published on 16 December 2019 and Ofwat’s earlier guidance to incumbents on setting of bulk charges for NAVs (from May 2018). Although Yorkshire Water appealed Ofwat’s Final Determination, we do not currently have an alternative method to assess a NAV equivalent rate of return.

We have made the following adjustments to Ofwat’s PR19 incumbent WACC, to determine the NAV rate of return, which are consistent with the adjustments made by Ofwat to the PR14 incumbent WACC in its 2018 bulk charges for NAVs guidance:

- Notional gearing of 50%
- An uplift to the asset beta of 15bp
- A tax rate of 10%

The updated WACC value we will use in our bulk supply charging tool to estimate the long-run avoidable costs as an annuity for the current year is 3.89%.

Table 3.1: Assessment of an updated NAV WACC

WACC Analysis (CPIH)	PR19 Final Determination Wholesale	AMP7 Derived NAV
Total equity market return	6.50%	6.50%
Real risk-free rate	-1.40%	-1.40%
Equity market risk premium	7.90%	7.90%
Notional gearing	60.00%	50.00%
Asset beta	0.36	0.51
Debt beta	0.125	0.125
Equity beta	0.71	0.89
Cost of equity	4.19%	5.64%
Ratio embedded : new debt	80.00%	80.00%
Cost of new debt	0.53%	0.53%
Cost of embedded debt	2.42%	2.42%
Allowance for fees	0.10%	0.10%
Cost of debt	2.14%	2.14%
WACC	2.96%	3.89%

3.4. Leakage allowance (bulk metered site)

Where water supplied to the NAV site is measured at the boundary by a bulk meter, we need to account for the difference in the billed volume at the bulk meter compared to the billable volume at the premises meters in aggregate (the volume applicable to wholesale tariffs) due to losses, such as leakage.

The difference is evaluated as a percentage discount and applied to the bulk supply tariff in the tool to reflect the volumetric that the NAV will use for billing its customers.

For 2021-22 bulk charging, we have allowed for a typical leakage value as a variable based on the length of the on-site water network. We apply this automatically within the bulk supply charging tool to both water and wastewater tariffs as a percentage reduction to the bulk tariff after the deduction of avoided costs.

The leakage loss percentage we apply will be capped at 8% (this is a reduction from the 12% cap we used in the tool for last year). We have assessed leakage losses on more modern DMAs in our region and believe we were providing too much allowance for this characteristic in 2020-21. The update we have made is an interim step and we will be developing our leakage modelling further in advance of the 2022-23 charging year so that we can more reliably reflect a fair level of leakage attributable to modern metered networks and new-build features..

The leakage allowance is applied to both water and sewerage bulk tariffs, where relevant. Where we do not use meter read data from a bulk meter at the NAV site boundary, but instead use the reads from meters at end customer premises, no leakage allowance % discount is applicable.

3.5. Business overhead

We make a discount allowance for the business overhead we avoid. We continue to apply this as a % discount based on our associated household retail business costs as a suitable proxy for a NAV operating business. We apply this discount to both water and sewerage avoidable costs. We will review the level of overhead applied as a discount in the near future in accordance with Ofwat's latest bulk charging for NAVs guidance.

3.6. Additional costs

We consider NAVs have bidding costs that are somewhat different to the costs that we incur as an incumbent through new connections activities working with third parties. In previous years the discount was uncapped, and we found this could create some unforeseen effects when setting tariffs for very small sites. For 2021–22 we apply a cap of £1.50 per property for this discount. We expect to review this discount adjustment again ahead of our 2022–23 charge year.

3.7. Local Authority Rates

We make no explicit avoidable cost adjustment from our bulk supply charges in relation to local authority rates, as we do not envisage the initial on-site network assets to be accrued to the NAVs asset base. However, should a NAV within our region face rates payable related to a specific development we would be willing to work with them to consider a mechanism to recognise this cost where necessary.

3.8. Sewer pumping stations

Our bulk supply charges tool does not currently give a specific discount for sites where a NAV may have a sewer pumping station. This is a cost type we are looking at and expect to provide an updated tool or a complementary approach to augment the tool in the coming months. Ahead of this, a NAV can provide us with the specifics of the pumping station it needs to install and maintain, the expected outputs and number of properties it will serve, and we will advise of any additional discount on a case by case basis.

3.9. Competition Act

Given our Competition Act duties, we have considered how we can comply with the regulatory guidance and the associated updates. Namely that the minus from the wholesale starting point should vary according to local avoided costs on the site, but that incumbents should make bulk supply tariff information readily available to NAVs.

In atypical cases we would look to adapt our bulk supply charging arrangements to the specific circumstances. We recognise that where a NAVs solution will deliver capabilities further upstream than we see in a typical development, we may

consider incorporating bespoke elements into any final bulk supply pricing arrangement.

We have tested our bulk supply charging approach and tool against a range of reference points, including our Wholesale large user tariffs and a long run financial appraisal.

3.10. VAT chargeable

All charges are subject to the addition of any Value Added Tax chargeable.

4. Worked example

To illustrate our approach to setting bulk charges, we provide a **worked example**.

We consider a NAV site with 800 household properties and 2 non-household properties. Both bulk water and wastewater services are required by the NAV. The annual water demand has been estimated by the NAV at 130m³/yr. for each household property and 4,000m³/yr. for each non-household property. A rate of return to sewers of 95% of water demand is used to estimate the wastewater demand.

The total length of water mains on the example site is 6.0km and the total length of sewers is 5.5km. We expect all such site data to be provided by the NAV ahead of Yorkshire Water entering into a bulk supply and/or discharge agreement.

In table 4.3. below we have shown as a comparison the equivalent Wholesale large user tariff (based on the assumed total annual demand of the site) as a comparable benchmark.

Table 4.1: List of key NAV customer and site characteristics

NAV characteristics	Values
Total length of mains (km)	6.0
Total length of sewers (km)	5.5
Nr of HH properties	800
Nr of NHH properties	2
Annual HH water demand (m ³ /yr./prop)	130
Annual NHH water demand (m ³ /yr./prop)	4,000
Annual HH wastewater demand (m ³ /yr./prop) (95% return-to-sewer)	123.50
Annual NHH wastewater demand (m ³ /yr./prop) (95% return-to-sewer)	3,800

Table 4.2: Wholesale charges for water and wastewater based on the NAV characteristics

2021-22 Wholesale charges	Values
Water:	
Fixed HH charge	£10.15 pa
Volumetric HH charge	142.44 p/m ³
Volumetric NHH charge (0-50MI)	139.72 p/m ³
Volumetric NHH charge (>50-250MI)	89.22 p/m ³
Wastewater:	
Fixed HH charge	£0.00 pa
Volumetric HH charge	182.72 p/m ³
Volumetric NHH charge (0-50MI)	174.86 p/m ³
Volumetric NHH charge (>50-250MI)	141.34 p/m ³

Table 4.3. Starting weighted tariff, total avoidable costs, leakage allowance and final tariffs

Name	NAV site
Starting weighted water rate (p/m³)	149.50 (incl. incorporation of household fixed charges)
Starting weighted sewerage rate (p/m³)	182.16
Total water avoidable costs (£/prop)	£30.78
Total sewerage avoidable costs (£/prop)	£11.87
Leakage allowance (%)	5.1%
Final water bulk supply tariff (p/m³)	120.96
Final sewerage bulk supply tariff (p/m³)	156.16
Equiv. Wholesale NHH LUT water	For 112.0MI – 111.77 (p/m ³)
Equiv. Wholesale NHH LUT sewerage	For 106.4MI – 157.09 (p/m ³)

In table 4.4 we present how for a range of typical NAV sites our water and wastewater bulk supply and discharge tariffs have changed between 2020-21 and 2021-22.

For these example scenarios, we have assumed household water demand is 130 m³/yr./property and commercial demand is 5000 m³/yr./property, with a 95% return to sewer factor. Wholesale tariffs have increased (2.6% for water and 1.9% for wastewater).

Table 4.4. Example sites showing change in bulk supply and discharge tariffs from 2020-21 to 2021-22

	Site description	Service	Domestic properties	Commercial properties	Water or wastewater Network length (km)	2020-21 BSP (p/m ³)	2020-21 Leakage allowance	2021-22 BSP (p/m ³)	2021-22 Leakage allowance	% Change in BSP tariff
1	Small standard site	Water	200	-	3	101.19	12.0%	103.31	8.0%	+2.1%
2	Medium standard site	Water	500	-	5	111.65	11.0%	113.02	7.2%	+1.2%
3	Mixed site	Water	500	5	5	117.89	8.2%	119.99	5.3%	+1.8%
4	Dual service mixed site	Water	500	5	5	117.89	8.2%	119.99	5.3%	+1.8%
		Wastewater	500	5	5	145.58	8.2%	154.10	5.3%	+5.9%
5	Medium standard site	Wastewater	500	-	5	156.87	Not applicable	161.42	Not applicable	+2.9%
6	Small standard site	Wastewater	200	-	3	146.97	Not applicable	153.80	Not applicable	+4.6%
7	Large high-density site	Water	2000	-	12	124.07	6.9%	123.57	4.5%	-0.4%
8	Very small low-density site	Water	100	-	2	90.93	12.0%	94.57	8.0%	+4.0%

5. Other charges

5.1. Surface water and highways drainage fixed charges

Where a NAV connects the development site to our sewerage network for drainage of surface water and highways drainage, we will levy our standard wholesale surface water drainage fixed charges on a per property per annum basis (household and relevant non-household business banded charges within our annual charges scheme).

Highways drainage costs are recovered within our wholesale wastewater volumetric charges. However, as we do not avoid any unique costs related to highways drainage where a NAV adopts a local wastewater network, we have made no additional discount to our charges to NAVs for the provision of bulk wastewater services.

This approach is consistent with our bulk supply charges for 2020–21.

5.2. Bulk meter and meter reading and maintenance costs

We do not build the costs to install, operate and read bulk meters at the boundary of the NAV site into our bulk charges tool at present. These costs are recovered through our Infrastructure Charges where classified as associated with network reinforcement.

5.3. Site specific expenditure and cost recovery

Site specific costs associated with any contestable work the NAV instructs Yorkshire Water to carry out, plus any non-contestable works, will be charged in accordance with our New Connection Charges, as published annually. We do not provide for Income Offsets in our New Connection Charges (and have not done so since 2018–19).

Where the NAV faces other specific costs on an individual site that are not covered by our charging tool (before example, pumping station or surface water attenuation costs), we will work with the NAV to understand the asset and its maintenance requirements and consider what further costs, if any, we avoid on an ongoing basis and how this could lead to additional bulk tariff adjustments.

5.4. Infrastructure Charges

As with our relevant Charges Scheme and New Connections charges, the NAV will be required to pay Infrastructure Charges in accordance with our latest Charges Scheme. Infrastructure Charges are levied on a per property connected basis and are set at a level to recover over time our expenditure to reinforce our networks due growth in our region. The charges are split into three charge components – charges for water connected, foul connected, and surface water connected.

Where the NAV does not connect the properties on its site for surface water ultimately to our sewerage network (but deals with surface water itself in the locality), Yorkshire Water will not levy the surface water infrastructure charge component to the NAV. All other discounts to our Infrastructure Charges (water and foul) as detailed within our Charges Scheme, will be available to NAVs as well as other market participants on an equal basis. We encourage NAVs to avail themselves of our Charges Scheme and New Connections Charges.

5.5. Meter accuracy testing

If you have doubts about the accuracy of a bulk supply meter, you can request that the meter is tested. Yorkshire Water will charge a fee which covers the cost of exchanging the meter and testing its accuracy. The fee is bespoke, and we will provide a quotation upon request.

If the results show the meter is outside its accuracy range the meter test fee and meter exchange fee will not be payable.

5.6. Provision of wholesale logger data

Where Yorkshire Water have logging equipment attached to a bulk supply meter we can provide you with the data relating to the bulk supply. We will provide you with access to a platform where the data can be viewed or downloaded.

Access will be provided for one year, after this period you will be required to re-apply should you wish to continue access to the data. There is an annual charge for this service, currently set at £45 for 2021-22.

5.7. Provision of other information

Yorkshire Water may be able to provide, upon request and payment of the relevant fee, other data or information that the NAV may require to comply with its' reporting obligations. This includes, but is not limited to:

- Population Equivalent reports.
- Dangerous Substances reports.
- Pollution Inventory reports.

We will charge for such additional information. If you would like to discuss this service, please contact your Yorkshire Water Client Relationship Manager.

5.8. Trade effluent advice in relation to an Application or Direction

Yorkshire Water are required to assess a trade effluent discharge in relation to any applications made to the NAV regarding a Trade Effluent Consent or Direction as prescribed in the Water Industry Act 1991. The charge made for this is based on the volume and nature of the effluent. This can only be provided for effluents being discharged to the Yorkshire Water sewer network as part of the Bulk Discharge Agreement.

If you believe you will be discharging trade effluent into our sewer network, you should contact Yorkshire Water as soon as you become aware of this, so that we can assess the impacts and work with you on consents and the associated trade effluent charges.

Where the NAV is taking enforcement action for a breach of section 111 or trade effluent provisions of the Water Industry Act 1991, Yorkshire Water will provide the NAV with all reasonable support as requested by the NAV to support the enforcement action. The costs associated with this support are charged on incident by incident basis and include the recovery of direct and indirect costs.

If you would like to discuss trade effluent requirements, please contact your Yorkshire Water Client Relationship Manager.

6. Using the bulk supply charging tool

In this section we set out how a NAV user can seek assistance with questions they may have when using the bulk supply charging tool.

We have published this charges document alongside our bulk supply charges tool, which is available online for NAVs to use in developing bulk supply charge tariff information when bidding for development sites.

The tool applies our wholesale-minus approach using key physical attributes of the proposed network on the development site. We consider this approach gives greater cost reflectivity to bulk supply charges than would be achieved using a single averaged avoided cost discount and seeks to widen the range of development opportunities open to NAVs in practice.

The tool requires the input of a limited number of site related data items for water and sewerage services. These are typical attributes that we would expect a NAV to be able to provide as part of a point of connection or point of discharge enquiry.

Should a NAV have any questions about using the tool or anything in this charge's publication, please can they get in contact with Yorkshire Water in the first instance via our email:

Network.access@yorkshirewater.co.uk

We aim to continue to make our charges for bulk services for NAVs transparent and straightforward. We would welcome feedback on the usability of the charging tool so that we can continue to keep the provision of bulk supply charge information as easy as possible for users to self-serve.

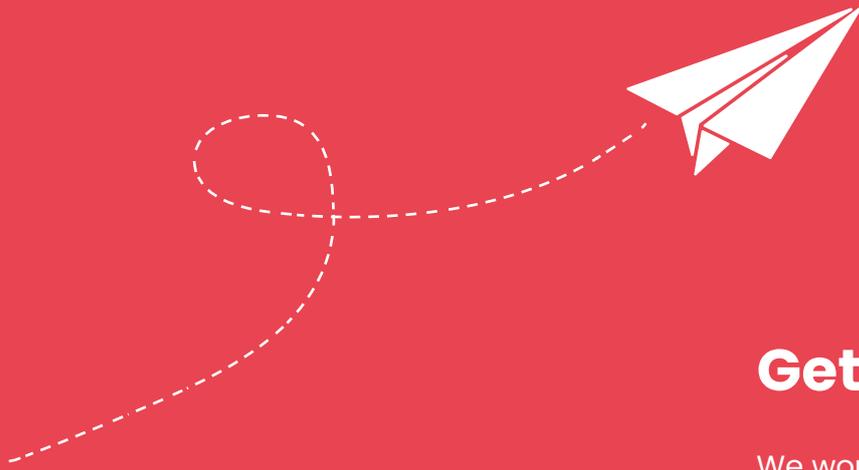
7. Future changes to our charges

We typically update the bulk supply charges tool with our latest Wholesale charges each year. We expect to undertake a further review of our bulk charges approach during 2021-22 with a focus on a number of areas.

We want to ensure we fairly reflect Ofwat's latest charging guidance and also consider adoption of any best practice identified from the new industry group being set up by Ofwat on how incumbents charge for the provision of bulk services, which is expected to mobilise from April 2021.

Areas we expect to review include (but are not limited to), leakage management costs and losses attributable to leakage on the NAVs site, overhead costs we avoid due to NAV market entry, a fair rate of return on investments made by NAVs, and how costs are determined where material and sustainable water efficiency measures are incorporated into a NAVs network or the properties being developed and connected. We also plan to provide clarity on avoided costs relating to sewer pumping stations on NAV sites.

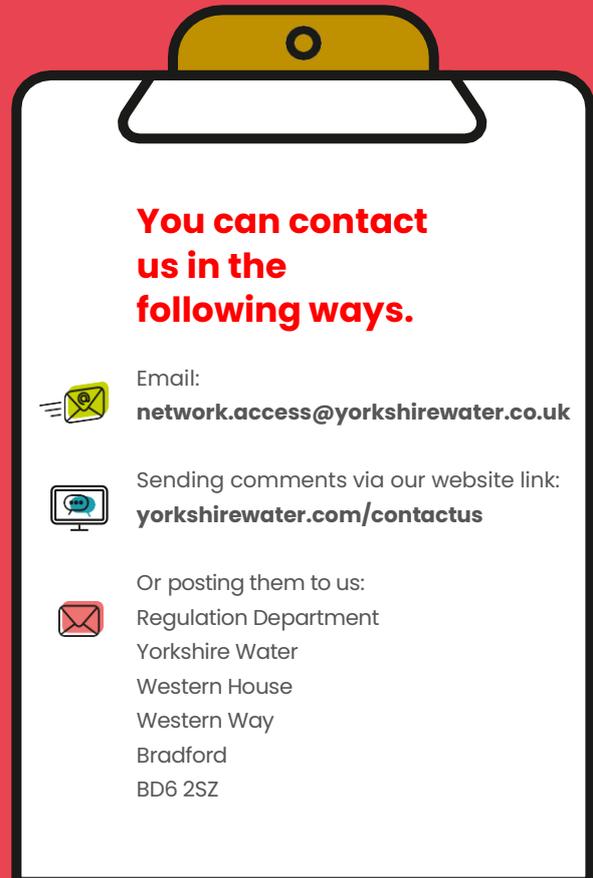
In general, we envisage reviewing avoided costs and other deductions and adjustments from time to time, or as necessary due to material changes in Ofwat's guidance or relevant charging rules.



Get in touch with us

We would welcome your comments or questions on this document and the NAV bulk supply charging tool.

Please send us your comments using the



YORKSHIREWATER.COM

Yorkshire Water Services Limited, Western House, Halifax Road,
Bradford, BD6 2SZ. Registered in England and Wales No.2366682

