



To whom it may concern

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31 January 2018

Dear Sir

### **Letter of Assurance from Portsmouth Water Board re Developer Charges**

This letter is addressed to the customers of Portsmouth Water and other interested parties, including Developers and Self Lay Organisations.

It confirms that the Board of Portsmouth Water believe that the Developer Charges and the associated Charging Arrangements which will be published by 31 January 2018, comply with the regulatory requirements.

The Directors have been involved in the preparation of this document and there was Board discussion on the subject at the January meeting and the final approvals were signed off by Board sub-committee.

The Board therefore believes it is in a position to confirm the following:-

- a) That the Company complies with its obligations as documented in the Ofwat publication Charging Rules for New Connection Services published in August 2017.

*In preparing our Charging Arrangements the Company has consulted with Developers who currently connect to the Portsmouth Water network. This took the form of a consultation document supported by a workshop. Further we have discussed our proposals with other stakeholders including Fair Water Connections and CCWater. Their views have helped formulate these arrangements.*

*Further, we have actively engaged with WaterUK who have taken the lead in co-ordinating the approach the industry has taken to comply with the regulatory requirements. We have followed the industry guidance published by WaterUK.*

*We believe that this document explains how our charges have been calculated, is written in clear and accessible manner reflecting the Ofwat and WaterUK guidance, will allow*

*developers to confidently work out a reasonable estimate of the likely charge for a water supply and provides worked examples to aid understanding.*

*We believe that the charges reflect the four principles of a) fairness and affordability, b) environmental protection, c) stability and predictability and d) transparency and customer focused service.*

*Finally, our document is clear on how the charges to requisition a water main or to connect to the water main are to be raised and provides details on how the developer may pay for the connection.*

- b) That the Company has appropriate systems and processes in place to make sure that the information contained in the charges scheme and the associated additional information is accurate.

*The Board acknowledge the importance of the having appropriate systems and processes in place to determine the charges and denominators underpinning the Developer Charging Arrangement in particular.*

*We have developed an in-house model to establish the final charges for these activities. The charges are cost reflective and are based on the costs of our outsourced partner, Cappagh, who generally undertake this activity on behalf of Portsmouth Water, plus a sum to recover reasonable associated overheads.*

*Finally we have an agreed process to determine the denominators which underpin the tariffs calculations. This is monitored on a regular basis throughout the year to understand the accuracy of the assumptions.*

- c) How the present balance of charges between Developers and other customers is broadly maintained.

*The Company has determined its general charging policies and value of individual charges to recover a similar wholesale revenue for 2018/19 to that implicit in the Final Determination of Prices, December 2014.*

*The Final Determination quantified the revenue we should expect to receive from infrastructure charges, developer contributions and end user customers. The balance of charges between developers and other customers is maintained by setting charges such that the expected value of revenue from developers and end users complies with the Final Determination.*

*Specifically the assumed revenue from developers is netted of the total allowed wholesale revenue for 2018/19 to establish the revenue we should recover from our general charges from end user customers. Wholesale tariffs were published on 13 January 2018 with Final End User tariffs published on 31 January 2018.*

*Our processes monitor activity and revenue throughout the year. The Wholesale Revenue Forecasting Incentive Mechanism ensures that any over or under-recovery of revenue in any year impacts on subsequent years allowed revenue.*

## **Conclusion**

The Board of Portsmouth Water believe that the Charging Arrangements, to be published 31 January 2018, complies with the Company's regulatory requirements.

This statement will be published on our website on 31 January 2018, along with the Charging Arrangements and sent to Ofwat on that date.

The charges will apply as of 1 April 2018 subject to the transitional arrangements as set out in the Charging Arrangements document.



**Heather Benjamin**  
**Non-Executive Director**  
**and chair of the Audit Committee**



**Helen Orton**  
**Finance and Regulation Director**

