



To whom it may concern

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31 January 2020

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 2020, comply with the regulatory requirements.

The Board have been actively involved throughout the progress of this Charges Scheme. Final approval was signed off by the Chair of the Audit Committee, management and external advisor in the board sub-committee on 24 January 2020.

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 April 2019.

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 in the course of the year we have discussed our proposals with other stakeholders including Ofwat, CCWater and Fair Water Connections. Their views have helped formulate these arrangements.

We believe that this document explains how our charges have been calculated, is written in clear and accessible manner reflecting the Ofwat 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.

As required by IN 19/05 we have provided worked examples quantifying the impact of the new charges on developer customers. The Board can confirm that the effect of the changes does not result in an increase in charges of more than 10% for any of the customer classes identified.

We have engaged Frontier Economics to review this document and they have provided external assurance that the proposal is compliant. The Board believe Frontier Economics are well placed to give this assurance given their knowledge and experience of the water industry.

- 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 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 appropriate overheads.

- 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 2020/21 to that implicit in the Final Determination of Prices, December 2019.

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.

We also looked at the year 2017/18, the year before adjustments to developer charging mechanisms started, and established the proportion of total revenue expected from developers compared to total revenue for the Company. This proportion has been kept the same for 2020/21.

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 for Developers, to be published 31 January 2020, complies with the Company's regulatory requirements.

This statement will be published on our website on 31 January 2020, along with the Charging Arrangements and sent to Ofwat on that date.

The charges will apply as of 1 April 2020 subject to the transitional arrangements as set out in the Charging Arrangements document.

A handwritten signature in black ink, consisting of a large, stylized loop followed by a horizontal line extending to the right.

Michael Coffin
Non-Executive Director
and chair of the Audit Committee

A handwritten signature in black ink, appearing to read 'Helen Orton' in a cursive style.

Helen Orton
Finance and Regulation Director