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29 January 2021

Dear Ms Fletcher

Letter of Assurance from Portsmouth Water Board with respect to Developer Charges 2021/22

This letter is addressed to our Economic Regulator, Ofwat, the customers of Portsmouth Water and other interested parties, including Developers, Self-Lay Providers (SLPs) and New Appointed Variations (NAVs).

This letter, together with the resultant examples as shown on Appendix D of our Charging Arrangement scheme, provides Board assurance in relation to the 2021/22 developer tariffs. The letter of Board assurance follows the regulatory guidance over the publication of charges schemes as explained below and set out in more detail later in this letter.

The Board of Portsmouth Water considers that the Developer Charges, published on 29 January 2021 for the next charging year (2021/22), comply with the Company's relevant regulatory requirements as set out in the "Charges scheme rules issued by the Water Services Regulation Authority under sections 143(6A) and 143B of the Water Industry Act 1991" dated December 2018 (the Charges Scheme Rules).

The charges also adhere to charging guidance provided by Ofwat specifically for new connections in recent years. Finally, as required by Information Note 20/07 we provided stylised examples explaining how the proposed changes in charges will impact customers.

The Board have been involved throughout the progress of this Charges Scheme. Final approval was signed off by the Chair of the Audit Committee and the Regulation and Finance Director following a board sub-committee on 25 January 2021.

The Board therefore considers 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.

We confirm that our Charging Arrangement 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 also confirm 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.

During 2020-21 we have undertaken normal business as usual engagement with our developer customers and specific stakeholders such as Fair Water Connections who represent the SLP community.

We postponed our Developer Forum, which is usually held in December until February 2021 due to the limited uptake. We consider the low response to our invite reflected in part the impact of restrictions due to Covid. We have now published a date of 12 February 2021, with greater uptake.

Our annual Developer Forum is an opportunity for representatives from all stakeholder groups to attend and engage with us regarding all aspects of our services, our proposed charges and any changes to processes we are proposing. At the meeting in February 2021 we will discuss our proposals for 2021/22.

In preparing our Charging Arrangements for 2021/22 we have relied on engagement and previous feedback including Ofwat, CCW and Fair Water Connections. Their views helped formulate our charges for 2020/21, the principles of which are applied again in setting these charges for 2021/22.

As required by IN 20/07 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 only results in one example with an increase in charge of more than 10%.

The one example which exceeds the 10% price increase guideline is a self-lay development of 50 properties with a £306 increase on last year. This is a 45% increase on 2020/21 total charge. This results principally from an increase in the cost of our application fees, for additional self-lay connections. Specifically this application fee is increased from £15 in 2020/21 to £19 in 2021/22. This charge reflects the time that we need to spend processing self-lay developments. There are also other cost changes implicit in this example. Our experience over the last five years is that we have seen 159 connections which would be covered by this example out of a total of 2,940 self-lay connections, equal to 5% of the base.

We will highlight this issue when we write to our Developers to inform them that we have published our 2021/22 Charges. We will also discuss it at our Developer Forum in February.

- 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

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 2021/22 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.

Further, we have compared the expected revenue we will recover from developers in 2021/22 to that in 2017/18, the last year before the new charging rules came in to operation. Charges in 2021/22 have been set to ensure the percentage recovery in the forthcoming charging year is the same as before the new charging methodology applied, thereby confirming the balance of charges (between developers and other customers) is unchanged as a result of any change to charging methodology.

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

Conclusion

The Board of Portsmouth Water considers that the Charging Arrangements for Developers, to be published 29 January 2021, complies with the Company's regulatory requirements.

This statement will be published on our website on 29 January 2021, along with the Charging Arrangements and sent to Ofwat on that date.

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

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