NAV BULK SUPPLY CHARGES for 2026-27

1. Introduction

This document sets out the basis on which we will charge New Appointees and Variations (NAV) customers for a bulk supply of potable water for the year 2026-27. These charges are applicable to all bulk supplies to NAVs from 1 April 2026.

Under the Water Industry Act 1991 Ofwat can appoint a company in place of the incumbent where one of the following criteria is met:

(i) Unserved - the site is not connected to the water and/or sewerage infrastructure of the existing water company.
(ii) Consent - the existing water company consents to the application.
(iii) Large user - the premises comprising the site use at least 50Ml in any year (or 250Ml for end-customers of Welsh water companies) and the customer consents.

Most NAV appointments are made under the unserved site criteria, in relation to new developments. In these circumstances, as well as under the consent criteria, the NAV will usually require a supply of water in bulk from the incumbent water company to the site. The terms of such supplies are set out in a “bulk supply agreement” between the NAV and the incumbent water company. The terms of the bulk supply agreement are set out in our standard bulk supply contract. The charges under such agreements will be based on those set out in this document, which reflect Ofwat’s Charging Rules for Bulk Supply and Discharge Services, which was published in November 2025.

This document sets out how we have developed our charges in line with Ofwat’s November 2025 charging rules. As a result of the introduction of the charging rules, Portsmouth Water has undertaken a full review of its approach to NAV charging, which has resulted in changes to both the structure of our charges, and the level of discounts provided from our published Wholesale Charges.

2. Charging principles

During 2025 Ofwat consulted on updating its charging guidance for the setting of NAV charges and introducing statutory charging rules, with which incumbent companies must comply. Ofwat published its 'Rules for Bulk Charges for New Appointments and Variations (English Undertakers)' in November 2025. The charges set out in this document reflect these charging rules.

Central to Ofwat's charging rules is the application of a 'wholesale minus' pricing methodology for the setting of NAV bulk supply charges. Incumbents start with the wholesale charges that they would levy if they were supplying the end customers of the site (wholesale tariffs) and deduct 'avoided costs'. The 'avoided costs' reflect the costs that the incumbent avoids because it is not operating the site in question.

Ofwat's draft Common Terms and Worked Examples document provides a common format for presenting avoided costs in the form shown in Table 1 below. We have adopted this format for analysing and presenting our avoided costs for 2026-27.

Table 1. Avoided costs table

	Water	Total water	Foul Water	Highway Drainage	Surface Water Drainage	Total waste-water
Mains/ Sewers: Repair, Replacement and Maintenance						
Emergency/ Risk Management and Monitoring						
Meters and Meter Box Repair: Replacement and Maintenance						
Regulatory Compliance and Quality						
General and Support						
Other						
On-site costs to be deducted (per property)						
Foul Water and Highway Drainage						

Source: Ofwat

Our 2026-27 charges are expressed as a fixed charge discount per property, in line with Ofwat's draft Common Terms and Worked Examples document.

3. Derivation of our charges

3.1 The Relevant Wholesale Tariff

Our wholesale tariffs for 2026-27 will be set out in our published Schedule of Wholesale Charges, our indicative wholesale charges for 2026-27 were published in October and our final tariffs be updated in January 2026. We have specific household and non-household wholesale standing charges and volumetric charges.

Table 2. Indicative Wholesale charges

Water Supply NAV Tariff – Portsmouth Water	Household	Non-household
Wholesale Fixed Charge per property	£15.00	£15.00
Wholesale Volumetric Charge per m3	£1.1786	£1.1786

Data Source: Portsmouth Water Indicative Wholesale Charges 2026-27

3.1 Avoided on-site ongoing costs

All data used for the calculation of avoided costs is sources from our published Annual Performance Reports (APR), or the underlying data that supports the production of our APR. To provide an appropriately representative view of costs we have used data from a three-year period (2022-23, 2023-24 and 2024-25), inflated to current prices and averaged. This mitigates the risk of distortions arising from the use of a single years' data and provides a long-term view of costs. The identification of relevant costs reflects Ofwat's mapping of avoided cost categories to the Regulatory Accounting Guidelines.

The exception to the above approach is in respect of meter replacement where the costs in our APR for the period analysed are not considered representative of the long-term required expenditure in this area. In this case the avoided cost has been calculated on a bottom-up basis using data from our PR24 business plan.

3.1.1 Mains: repair, replacement and maintenance

Relevant costs for repair, replacement and maintenance of our distribution mains have been identified from our APR data. Relevant total costs from our APR are £5.329m, as shown in Table 3 below. These include mains repairs and renewals, leakage costs, materials and labour costs.

Of this total, we have assessed the proportion of costs that are associated with our local distribution network, which are potentially avoidable for a NAV site. This is £3.517m based on the length of mains of diameter 125mm and below (representing approximately 66% of our network). We assume that costs are proportional to network length.

To calculate the avoided costs per property, we first calculate the avoided costs per metre of main using the total length of potable mains below 125mm (2,016km). This is £1.744 per metre. To convert this to an avoided cost per property, we assume an average length of 6.15m per property, based on the total length of mains per total connected properties (327,884).

Table 3. Emergency/Risk Management & Monitoring

	APR costs (£m)	Avoidable costs (£m)	Avoided costs per property (£)
Mains: repair, replacement and maintenance	£5.329	£3.517	£10.73

Data Source: APR Table 4J, Lines 4,15,16

3.1.2 Emergency/Risk Management & Monitoring

Relevant costs for emergency / risk management and monitoring have been identified from our APR data. Relevant total costs from our APR are £0.050m, as shown in Table 4 below.

We have assumed that the most appropriate cost driver is length of mains. Using mains length as the cost driver, the proportion of costs that are associated with our local distribution network is £0.033m, based on the length of mains of diameter 125mm and below.

To calculate the avoided costs per property, we first calculate the avoided costs per metre of main using the total length of potable mains below 125mm (2,016km). This is £0.082 per metre. To convert this to an avoided cost per property, we assume an average length of 6.15m per property, based on the total length of mains per total connected properties (327,884).

Table 4. Emergency/Risk Management & Monitoring

	APR costs (£m)	Avoidable costs (£m)	Avoided costs per property (£)
Emergency/Risk Management & Monitoring	£0.050	£0.033	£0.51

Data Source: APR Table 4J, Lines 4,15,16

3.1.3 Meter & Meter Box: Repair, Replacement & Maintenance

Within the period analysed for these charges, we have incurred very minimal costs associated with meter repair, replacement and maintenance. This is because most activity was paused due to the introduction of our universal metering programme in AMP8. As a result, we are unable to use our APR costs for deriving this element of avoided cost as they would be artificially low and not representative of long-term expenditure requirements.

We have therefore taken a bottom-up approach based on the average costs of meter replacement and the average asset life of our meters.

Based on our PR24 business plan submission, our average meter replacement costs are £143.36 per meter. The average accounting asset life of our meters is 7-12 years. To calculate the avoided cost we have used an asset life of 10 years. This produces an annual avoided cost of £14.34 per property, as shown in Table 5 below.

Table 5. Meter & Meter Box: Repair, Replacement & Maintenance

	Unit cost (£m)	Average asset life	Avoided costs per property (£)
Meter & Meter Box: Repair, Replacement & Maintenance	£143.36	10 years	£14.34

Data Source: PR24-FD-CA32-Water-Metering-enhancement-expenditure-model-v3-1

3.2 Avoided central costs

3.2.1 Regulatory Compliance & Quality

Relevant costs for regulatory compliance and quality are taken from our APR (Other Business Activities category).

Total costs associated with these activities are £0.471m. We have used total connected properties (327,884) as the most relevant cost driver. This results in an avoided cost per property of £1.44.

Table 6. Regulatory Compliance & Quality

	APR costs (£m)	Total connected properties	Avoided costs per property (£)
Regulatory Compliance & Quality	£0.471	327,884	£1.44

Data Source: Accounting Separation Methodology Statement 2023, 2024 & 2025–Appendix1

3.2.2 General and support

General & Support costs consist of Finance, People, Legal & Property, IT teams, Stores costs, Vehicles & Plant, Directors and General Admin.

Total avoidable costs associated with these activities are £2.586m. We have used total connected properties (327,884) as the most relevant cost driver. This results in an avoided cost per property of £7.89.

Table 7. General and support

	Avoidable costs (£m)	Total connected properties	Avoided costs per property (£)
General and support	£2.586	327,884	£7.89

Data Source: Accounting Separation Methodology Statement 2023, 2024 & 2025–Appendix1

3.2.3 Other

Within our ‘Other’ category we have included local authority and cumulo rates, costs associated with traffic management and lane rental schemes, and scientific services. Total avoidable costs associated with these activities are £1.384m.

For traffic management and lane rental schemes we have used mains length as the most relevant cost driver. We assume that costs are proportional to network length. To calculate the avoided costs per property, we first calculate the avoided costs per metre of main using the total length of potable mains below 125mm (2,016km). This is £0.118 per metre. To convert this to an avoided cost per property, we assume an average length of 6.15m per property, based on the total length of mains per total connected properties (327,884).

For local authority and cumulo rates, and scientific services we have used total connected properties (327,884) as the most relevant cost driver. This results in an avoided cost per property of £1.06 for business rates and £2.44 for scientific services.

Table 8. Other avoided costs

	APR costs (£m)	Avoidable costs (£m)	Avoided costs per property (£)
Traffic management and lane rental	£0.357	£0.235	£0.72
	APR costs (£m)	Total connected properties	Avoided costs per property (£)
Local authority and cumulo rates	£0.348	327,884	£1.06
Scientific services	£0.799	327,884	£2.44
Total 'Other'	**-**	**-**	**£4.22**

Data Source: APR Table 4J, Lines 7,11,12 &Accounting Separation Methodology Appendix 1

3.3 Total avoided on-site costs

Based on the above analysis the total avoided costs per property are £39.11 as set out in Table 9 below.

Table 9. Avoided on-site costs per property

	Water
Mains: Repair, Replacement & Maintenance	£10.73
Emergency/Risk Management & Monitoring	£0.51
Meter & Meter Box: Repair, Replacement & Maintenance	£14.34
Regulatory Compliance & Quality	£1.44
General & Support	£7.89
Other	£4.22
On-site costs to be deducted per property (OC)	£39.11

3.3 Leakage allowance

To reflect the fact that not all consumption recorded on the bulk meter used for charging will be delivered to customers, due to onsite leakage, we make an adjustment to our volumetric charge.

This adjustment is 5% of the total volume recorded on the meter and is intended to reflect the long-run average leakage rate from an equivalent network, the costs of which are avoided by the incumbent.

The value of 5% is considered a reasonable estimate of the relevant level of leakage, based on analysis of NAVs Water Resource Management Plans[1].

[1] IWNL and LEEP Water Resource Management Plans

4. 2026-27 NAV charges

4.1 NAV charges

Portsmouth Water's charges for NAVs, based on the methodology set out above, are shown in Table 10.

Table 10. Charges Summary Table

Water Supply NAV Tariff – Portsmouth Water	Household	Non-household
Wholesale Fixed Charge per property (a)	£15.00	£15.00
Ongoing on-site costs per property (b)	-£39.11	-£39.11
NAV Fixed Charge per property (b-a)	-£24.11	-£24.11
Wholesale Volumetric Charge per m3	£1.1786	£1.1786
Leakage Allowance	5.0%	
NAV Volumetric Charge per m3	£1.1197	£1.1197

Note: The NAV charges shown above assume that all non-household properties are served through a similar meter size (0.5" & 0.75" meters) and therefore attract the same fixed charge. In practice, larger meters incur higher fixed charges under our wholesale tariff structure. This will be reflected in the NAV charge levied.

4.2 Menu of options

Ofwat's charging rules prohibit the application of bespoke charges, which might reflect the specific characteristics of a development site, or additional services provided to the NAV. Instead, incumbents must provide a menu of options which cover a set of cost drivers (different circumstances) and make clear when these cost drivers would apply.

The set of cost drivers set out in Ofwat's guidance are:

a. The number and mix of customers, including any non-standard customers, such as an industrial customer requiring trade effluent services.

Our standard charges set out above provide separate charges for household and non-households, which reflect our wholesale charges. We do not anticipate any circumstances in which these charges would not be appropriate. We do not provide wastewater services, so the reference to trade effluent is not relevant to Portsmouth Water.

b. Other factors that determine wholesale charges including the volume of water supplied.

Our volumetric charges reflect the volume of water supplied to the site, including an adjustment in respect of on-site leakage. We currently provide discounted charges for large user customers but are proposing to phase these out so that all customers pay the same volumetric charges for their water. The volume of water supplied does not therefore impact on our charges.

c. Non-standard layout or topology, for example a high-density site.

A high-density site may, in principle, result in lower avoided costs due to a shorter length of main per property served. It would be challenging to identify when a site should be classed as 'high-density' and therefore should be subject to differential charges (with a lower discount) and there would be a potential cliff-edge for high and normal-density sites. We believe the charges set out above would be representative for most sites and therefore have not at this stage developed additional charges for high-density sites or other specific characteristics.

d. Assets constructed / services provided by the new appointee: for example, the sites may include storage tanks, on-site pumping stations, and/ or sustainable drainage.

Our experience to date is that no development sites in our area have required additional assets such as pumping stations.

e. Other cost drivers bespoke to the Incumbent that are distinct from the list above.

None identified.

While we have not identified any additional cost drivers that we believe would be relevant in our area at this stage, we are open to engagement with NAV customers where they believe that there is a need to develop additional standard NAV charges to cover specific circumstances. We note that Ofwat proposes to carry out additional work in this area to ensure consistency between companies in respect of cost drivers and menu options. We will update our future charges to reflect any new guidance or rules.

4.3 Transition Tariff

The move to the revised approach results in a lower avoided cost per property compared with the previous year.

Therefore, to ensure a smooth and equitable transition to our updated avoided cost methodology, we have applied a transitional NAV tariff for the 2026-27 charging year. This is based on a balance between the revised avoided cost figure derived from the updated method above (£39.11) and a typical prior year value (£67.49), with the latter uplifted by inflation.

The transitional allowance (on-site costs) for 2026-27 will be **£50 per property.**

This creates a balanced transition that maintains cost-reflectivity while providing stability and predictability for NAVs. The transitional allowance will be in place for 2026-27 only, before moving to the fully revised avoided costs for the 2027-28 charging year.

Table 11. Transitional Allowance

	Avoided costs per property (£)
Ongoing on-site costs per property - Prior Year (2025-26)	£67.49
Ongoing on-site costs per property – Revised Year (2026-27)	£39.11
Transitional Allowance	-£50.00

5. Worked examples

Paragraph A1.6 of Ofwat's Draft Common Terms and Worked Examples requires incumbents to provide worked examples of the application of NAV charges, to two specified scenarios, to enable new appointees to estimate with a high degree of confidence, the Bulk Charges payable.

Scenario3: Water Service Billing Example (no relevant upfront on-site investment)

Bulk Meter Billing - Portsmouth Water	**Household**	**Non-household**	**Total**
Number of properties	50	0	50
Wholesale Fixed Charge per connection	£15.00	£15.00	
Avoided On-site Costs	-£50.00	-£50.00	
NAV Fixed Charge	**-£1,750**	**-£0**	
Bulk Meter Volume	5,053m^3		5,053m^3
Leakage adjustment (less 5%)	-253m^3		
Household demand	4800m^3		
Wholesale Volumetric Charge per m^3 (including allowances)	£1.1786	£1.1786	
NAV Volumetric Charge	**£5,657**	**£0.00**	
TOTAL CHARGE	**£3,907**		**£3,907**

Information Received	**Household**	**Non-household**	**Total**
Number of properties	50	0	50
Bulk Meter Volume			5,053m^3
Customer demand	96m^3	2500m^3	
Leakage Allowance (m^3 * 5%)	253 m^3	0m^3	
Bulk Meter Volume	**5,053m^3**	**0m^3**	**5,053m^3**

Note: Avoided On-site Costs referenced above illustrate the 2026-27 transitional allowance.

Scenario 5: Water Service Billing Example (no relevant upfront on-site investment)

Bulk Meter Billing – Portsmouth Water	Household	Non-household	Total
Number of properties	200	5	255
Wholesale Fixed Charge per connection	£15.00	£93.46 & £229.92	
Avoided On-site Costs	-£50.00	-£50.00	
NAV Fixed Charge	**-£7,000**	**£354**	
Bulk Meter Volume	20,211m^3	2,632m^3	33,369m^3
Leakage adjustment (less 5%)	-1,011	-132m^3	
Household demand	19,200m^3	2,500 m^3	
Wholesale Volumetric Charge per m^3 (including allowances)	£1.1786	£1.1786	
NAV Volumetric Charge	**£22,629**	**£2,946**	
TOTAL CHARGE	**£15,629**	**£3,300**	**£18,929**

Code	Information Received	Household	Non-household	Total
NP	Number of properties	200	5	255
BD	Bulk Meter Volume	20,211m^3	2632m^3	22,842m^3
ND	Customer demand	96m^3	2500m^3	
	Leakage Allowance (m^3 * 5%)	1,011 m^3	132 m^3	
BD	Bulk Meter Volume	**19,200m^3**	**2,500m^3**	**21,700m^3**

Note: Avoided On-site Costs referenced above illustrate the 2026-27 transitional allowance