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Dear Sir

PRT Response to New Connections Charging

Thank you for the opportunity to respond to the above consultation, published on 27 July 2016. This document builds on the discussion document you published on 24 March 2016 and the Defra guidance, published on 10 June 2016.

We recognise a significant amount of time and thought has been applied in reaching your current position, and that in establishing your proposals you have already considered the views of different stakeholders, in particular those of the developers and the water companies.

We agree with your assessment that to implement the guidance for April 2017 will be challenging, especially given detailed consultation with developers must be undertaken. We do not believe it would be satisfactory to undertake such consultation after we publish our charges in January 2017 and it is likely that many key individuals who may have views on any revisions will be "swamped" in the final quarter of this calendar year. We suggest that a longer period for consultation would be sensible, moving the implementation date to April 2018 to ensure we all fully understand the consequences of any revisions.

Whilst we concur and support all of the objectives stated in section 2.1 – Our Strategy – we would question if allowing companies greater discretion on for example the way of establishing the payment for a new main will achieve better customer understanding and acceptability. The fact that many developers work throughout the country and are likely to experience different methodologies being applied, as we would suggest, likely to increase dissatisfaction not reduce it.

That said, our experience as a water supplier is not one where our customers, the developer, challenge either our charges or the methodology by which these are derived. We now undertake an annual survey of developers which gives them the opportunity to raise issues about levels of service and prices.

We are aware that the consultation raises 8 specific questions. We have not replied to each in turn but have the following comments on the proposal in general.

The key change is that infrastructure charges should no longer be a flat charge per property across the country but should vary by, and possibly within, company boundaries to reflect the need for off-site infrastructure to be funded. This would return us to the pre 1995 position where infrastructure charges varied significantly across the country by water supplier.

Specifically the Company will need to establish an infrastructure charge, ex ante, which reflects its expectation of the value of off-site expenditure required to support new development in the forthcoming year. We are not aware of many sites significantly in advance of construction and thus our ability to establish what network development is required and the associated security of supply required by the developer, will be a challenge.

That said, our current expectation is that this charge will reduce and given the requirement that there are no incidence effects on the generality of our customers, it appears to us that the sum recovered from requisition charges must therefore increase.

This can only be achieved by adjusting the balance between developers and customers when we determine the requisition charge, recognising that off-site mains are no longer included in the calculation. This can be achieved by changing the 12 year assessment of future income, but it is unlikely that such a change will be supported by developers.

In summary it appears to us, given the requirement that the current balance of charges between customers and developers is broadly maintained, that we are moving charges from the requisition calculation to the infrastructure charge, with no financial benefit to the developer, other than the cash-flow of any payments.

Further, it is likely that companies will probably apply different methodologies to determine the requisition charge. This does not appear satisfactory.

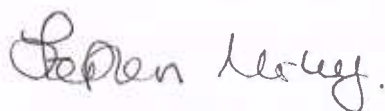
We would not propose, at this stage, to offer different infrastructure charges within the overall Company area, but do see the merits in providing information to indicate where development can take place without the need for significant off-site investment. We shall publish a map of the Company area which will categorise of the costs associated with known significant developments sites, high, medium, low cost per property.

Further we note with interest the Southern Water pilot and that the charge could reflect actions the developer may take to mitigate the impact of any issues on the system.

In conclusion we very much support the principles in the consultation and will work to comply with the proposed timetable, but seriously question if the consequences of the changes will be appropriately considered and discussed with developers in particular in advance of the ambitious date of April 2017.

I look forward to the seminar on 12 September which will take this issue forwards. If you wish to discuss this further in advance, please contact me.

Regards



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