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10 January 2018

Dear Sir

**PRT Response to Bulk charges for NAVs.**

Thank you for the opportunity to respond to the above consultation, which was published in November 2017. We have provided a response to each of your questions as below.

Portsmouth Water provides a bulk supply to one NAV, SSE, at two different sites in Waterlooville and Chichester. These were established in 2008 and 2009 and contracts were agreed at that time. Our charge is now set relative to the relevant wholesale large user tariff.

Since that date we have no other interactions with any other NAVs. Further, we have no evidence that our behaviour in the market or tariff options are creating issues for developers or end users in particular.

Q1 Do you agree with our assessment on the need for this supplementary guidance?

*We agree there is value in this supplementary guidance, especially as the thinking around charges has developed significantly since Ofwat first published guidance on the issue. Further it is helpful to have all guidance in one document.*

Q2 Do you agree with the purpose, scope and objectives for our proposed guidance?

*Given your observations on the development of the market thus far we concur with the purpose, scope and objectives of the guidance.*

Q3 Do you agree with our assessment of the options and our provisional conclusion in favour of a wholesale-minus approach?

*We support the conclusion to apply a wholesale minus approach to establishing the bulk supply tariff is preferable to the cost plus approach, primarily due to simplicity of calculation.*

Q4 Do you agree with our considerations in terms of whose cost should be used in a wholesale-minus approach? Do you have a preference? If so, please specify the reasons for your preference.

*Given the objective is to ensure efficient entry (which would replace the incumbent) it would appear appropriate the incumbents costs are used in the calculation. Further we do not know how we could establish a “reasonably” efficient benchmark cost.*

Q5 Do you agree with our proposed overall approach for setting bulk charges?

*We agree with the proposed approach to setting the bulk charge, but would caution if the derivation of an overall weighted average tariff is practical. This will require the developer to inform us, ex ante, of the ultimate mix of households and non-households in the site. Our preference would be to use the principle occupancy type of the site as the basis of the tariff.*

Q6 Do you agree with our proposed relevant starting point?

*We agree that the starting point for new agreements should be the wholesale tariff which reflects the NAVs principle end user base, subject to comments in Q5, as this will ensure the bulk supply tariff adjusts as the Company publishes its wholesale charges each year.*

Q7 Do you agree with our definition and approach to estimate the ongoing on-site costs?

*We agree that, in principle, the tariff should deduct both the on-going costs of operating and maintaining the on-site network and the associated return on the asset, the WACC.*

*However, to establish either of these costs on a site by site basis, will require the Company to prepare a plan of how it will service the site and in particular and cost it accordingly. Whilst this is typically the case as we will have prepared a proposal, there is the potential that the NAV may establish a different technical solution and we would question if our solution is the appropriate one for such a case to determine the deduction.*

*We would prefer to base our tariff on our assumed costs.*

Q8 Do you agree with our discussion about the WACC? In particular do you think we should adjust the incumbent water company’s WACC as per the Priors Hall determination?

*As noted in response to Q7, we really only have knowledge of our costs, including financing costs and WACC. Our preference would be to apply our WACC to this element of the calculation.*

Q9 Do you have any practical suggestions on how to estimate the appropriate WACC?

*Given our position in Q8 we do not have any suggestions on how to adjust / estimate a more appropriate WACC.*

Q10 Are there other costs that we should take into account? If so, please specify what these costs are and why they should be considered.

*We do not consider there are any other costs to take account of.*

Q11 Do you consider that the proposed approach is sufficiently flexible to cover all current circumstances and could adapt to possible future changes?

*Yes – the methodology appears to be able to be amended to reflect expected changes in the developer market.*

Q12 Do you consider that it would be possible to standardise charges under many if not most circumstances? Can you specify the circumstances where this may not be possible?

*Yes - indeed this is our preference. We can use a long term historic average of the sites we have serviced to establish the relevant deductions.*

Q13 Do you agree with our proposal for the provision of tariff information?

*If required, we will publish such a tariff in our Wholesale Charges Scheme for 2019/20.*

If you wish to discuss further please do not hesitate to contact me.

Kind regards,

A handwritten signature in black ink that reads "Stephen Morley". The signature is written in a cursive, flowing style.

**Stephen Morley**  
**Regulation Manager**