

Portsmouth Water's response to Ofwat's consultation on the scope and balance of developer charges and incentives

Q1: Do you have any comments on key conclusions from the Frontier Economics report?

In general we agree with the key conclusions from the Frontier report, and the principle of cost causation.

We agree that from an economics perspective there should be no distinction between local or strategic assets, and believe that by developers paying for the costs that they cause, whether that be for a local or strategic asset, the principle of cost reflectivity is better achieved.

With regard to the time horizon for local and strategic assets, a cost recovery over a longer period, than the current 5-years (for local assets), would better reflect the longer lifetime of these assets.

Zonal infrastructure charges may benefit developer customers in other incumbent areas, but due to our relatively small area of supply, and the interconnectivity we have between reservoir zones, we believe a flat infrastructure charge per new connection is the most fair and appropriate approach for our customers.

Q2: We seek views on our reasoning and proposals with respect to charges for strategic assets, income offset and the balance of charges rule.

Strategic Assets

We agree with the conclusions of the Frontier report that developers should pay for their share of costs for strategic assets.

The reasoning for developers not paying for their share of strategic assets seems weak. We believe the predominant driver for strategic assets would be as a result of new developments, and not just a growing population without new developments. Even with all new developments built to high water efficiency standards, there would become a tipping point when new water resources or treatment is required, and the developer should pay a share of the costs.

By taking a long term view of strategic assets, we believe the principles of predictability and stability can still be met.

Income Offset

We agree with the Frontier report that there is no clear economic rationale for the income offset, and support Ofwat's reasoning that it should be removed.

Whilst it is expected that this will increase developer costs for incumbent companies, developers do have a choice of who lays the onsite infrastructure.

Balance of Charges

We agree with the reasoning that Defra's guidance is better met by removing the balance of charges. Developers would not contribute to costs associated with enhancing the existing networks, and other customers would not be contributing to the cost of new developments.

By removing the balance of charges the principle of cost reflective and fairness would be better achieved.

**Q3: What environmental incentives should water companies be offering developers and NAVs?
We are interested in examples of good practice. How can we better support this?**

We recognise the need for new homes to be water efficient to meet the long-term challenges of society, and are supportive that developers who construct water efficient homes should pay less than those who do not.

It is evident the current individual approach's that companies have, is not having the desired effect of incentivising developers to construct water efficient homes.

Whilst we currently offer a 50% discount on the infrastructure charge, if a developer can provide evidence of intention to build to a level of 100 litres per head per day, we have had little take up from developers on this approach.

We believe a consistent common approach for how water efficiency homes should be incentivised should be considered between companies and sector stakeholders. Whether an incentive is applied to the infrastructure charge requires further consideration.