

Portsmouth Water's response to the Consultation on updating Ofwat's charging rules

Q1: Do you agree with our proposed rule changes? Please offer alternatives if you think they would better achieve our intentions.

Changing publication dates

We support the proposal for publishing Charges Schemes and Charging Arrangements by 01 February, and Wholesale Charges by 13 January, each year. Clarity will be required if these dates fell on a non-working day. Our assumption is that these will be required on the Friday before, but this will make the audit and assurance timetable very short at the start of the calendar year.

Publishing Statements of Significant Change

We agree with the proposal to allow simultaneous publication of Statements of Significant Change and Charging Publications.

Cost reflectivity

We support the proposal for an explicit principle in the New Connection Rules requiring cost reflectivity, and this principle should be consistent with existing principles in Wholesale Charging Rules and Charges Scheme Rules.

We request clarification on the term 'long run'. Costs are upfront charges for provision of new connection activities, and not influenced by 'long run' factors.

Consistent terminology

We support the introduction of common terminology. We have made comments on the draft set of terms throughout the Working Group's process, and have no further comments make.

We have discussed the draft terms with stakeholders. Our stakeholders intend to provide comments through their own response to the consultation. Stakeholders have highlighted some concerns in the way the draft terms currently stand. These concerns include, but are not limited to:

- the need for introduction of new rule to make companies draw up their charges to ensure alignment with the common terminology that the companies have defined;
- companies should only deviate from, or add to, the common terminology if they can demonstrate customer support and approval from Ofwat;
- more extensive terminology is required to cover all aspects of connection charging. Competitive concepts such as 'upsizing' is not covered adequately in the draft term;

Using worked examples

We support the proposal to formalise the requirement for companies to use worked examples. There will be a need to reduce any ambiguity in the examples to ensure consistency.

Where to issue rules on infrastructure charges

We agree, and support the proposal, that rules relating to infrastructure charges would better sit in the New Connection Rules, rather than the Charges Scheme Rules.

It will need to be made clear under which powers of the Act, the rules are issued.

Income offset and connecting to existing mains

We currently provide an income offset to premises connected to both new and existing mains. We have no comments, and support this proposal.

Network reinforcement and NAVs

To clarify this anomaly, we support the proposal to amend the definition of 'network reinforcement' to include costs incurred by the incumbent when caused by a NAV bulk supply.

Quotes spanning different charging years

We currently state, in our Charging Arrangements, the validity period and basis on which we provide quotes for new connection activities. We have no comments, and support this proposal.

Q2: Do you agree with our proposed changes in Appendices 1, 2 and 3?

Our response is covered in Q1, which includes the need for clarification:

- if charging publication dates fall on a non-working day;
- of the term 'long run' in relation to cost reflectivity.

Q3: We seek your views on our clarification of the five-year rule. In particular, we would like to know of any potential implications for charges and customers' bills from companies following our interpretation.

We note the discussion in the consultation as to the methodology for calculating infrastructure charges, in particular the rolling five year calculation. We will need to reconsider our methodology in light of that discussion.

We also note reference to the Developer Services Revenue Adjustment Mechanism, which will be applied at PR24. We have not reviewed this mechanism in detail but will do so as part of setting our charges for 2022/23.

Whilst we understand the "single till approach" developed by Ofwat at PR14, where revenue from developer services and customers are treated as one, we continue to question if this approach is correct, given the potential for changes in developer services activities (and associated revenue) to impact wholesale and retail charges. Our preference is that these two revenue (and cost) streams are dealt with separately at PR24.

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