



Changing Ofwat's charging rules to support the new developer services framework consultation: Portsmouth Water's response

Introduction

We are pleased to provide our response to Ofwat's consultation on changes to support the developer services market in AMP8. We provide responses to each of the consultation questions below. We would be happy to discuss any aspect of our response in more detail.

Response to consultation questions

Q1. What are your views on our proposal to link charges for different types of development through the use of tether ratios? What are your thoughts on the use of ratios based on industry maximum figures, not average or median figures?

We support the option of using tether ratios to protect developer customers who may not directly benefit from competition, such as those developer customers who are connecting to existing mains rather than a new main on a development site.

The use of tether ratios would still provide companies the opportunity to innovate in the calculation and presentation of our charges. We support a single set of ratios applying for all companies, rather than each company having individual ratios.

The use of tether ratios will allow us to continue to follow the overarching principles of stable and predictable charges, transparent and customer focused charging, fairness and affordability and the costs of the relevant service.

An industry maximum figure will allow us to retain ownership and flexibility of our charges whilst still reflecting our costs.

Q2. What are your views on option 5 that companies should individually charge for separate activities involved in making service connections? Do you agree with our proposal to implement via changes to the wording of the CTWE?

We publish unbundled charges as far as reasonably practicable and support the requirement to individually charge for separate activities that make up the cost of a new service connection. The unbundling of charges allows us to achieve the overarching principles of transparency and the costs of the relevant service.

We agree with the proposal to implement via changes to the CTWE.

Q3. Do you have views on our proposals to add two new worked examples with the aim of providing additional protection for developments with limited choice? What are your views on suitable new scenarios?

Whilst we support proposals to add two new worked examples (as it does not significantly increase the burden on us), we would question whether developer customers use this as a tool to gauge confidence.

Our discussions with developer customers, including developers, builders, individuals wishing to connect, or re-connect existing or developed properties, SLP's and NAV's have indicated the worked examples are very rarely looked at by developer customers.

Q4. Do you agree with our proposed general guidance for RAG2 regarding a fair allocation of all relevant overheads across ALL expenditure areas, including developer services?

We agree with the proposed RAG2 general guidance to make clear that a fair proportion of corporate overheads should be recovered from developers, in line with the approach to allocating such overheads to other capital programme activities.

Q5. Should RAG2 specify methods of overhead recovery for developer services? Are there any disadvantages to doing so? Are there any methods that you think would be appropriate to use across the industry that would drive consistency?

We do not think that Ofwat should specify the precise methods of overhead recovery for developer services. If the principle is that the approach should be consistent across all capital activity, prescribing detailed rules for developer activity would effectively determine the approach that would be used across all projects. It is likely that the different structures of companies and their different contracting models would lead to differences in the 'consumption' of central functions, that should be reflected in overhead recovery rates. It would be difficult to reflect all potential company-specific circumstances in detailed rules, meaning that cost reflectivity would be reduced.

Q6. Do you agree that RAG2 could be extended to cover the recovery and allocation of overhead costs between developments with and without a mains requirement? Do you have any suggestions as to how this should be done?

It would be helpful to include explicit references to the allocation of overhead costs, between developments with and without a mains requirement within RAG2. Consistent with our views above, we think this should be at the level of general principles rather than specification of detailed methods, to ensure that the allocations can be as cost reflective as possible.

Q7. What are your views on our proposal to carry out a market review prior to PR29?

We support the proposal to carry out a market review ahead of PR29. That review should be in time to inform the regulatory approach that is adopted in AMP9 and beyond. We would encourage Ofwat to take a staged approach to that review to minimise the information gathering burden on companies, with the approach being focused on those areas of highest perceived risk, or where initial data analysis suggests there may be concerns.

Q8. What are your views on our proposal that companies include historical variances between expenditure and revenues in setting infrastructure charges?

We support this proposal which we see as important in ensuring fairness as between developer and water supply customers.

With the current charging rules, variation between revenue we collect from developer customers (through the infrastructure charge) and costs incurred in network reinforcement is inevitable. The changes will ensure that charges are reflective of cost over time and the variances are balanced.

We support the proposal to implement this through changes to rule 52 and include reference to historical imbalances.

Q9. Do you agree with our proposal to enable companies to take account of upsized infrastructure when setting infrastructure charges?

We agree with this proposal and believe it will ensure that cost of future capacity is recoverable from developers who benefit from the upsizing, as well as ensuring that companies are incentivised to deliver new capacity in an efficient way.

Q10. What are your views on our proposals relating to how we accommodate changes to the provision of income offset?

We support Ofwat's views on changes to the provision of income offset.

**Portsmouth Water
October 2023**