

Wholesale



Scheme of Charges

2015-2016



Delivering excellence

for our customers, our people and our environment

Portsmouth Water's powers to charge for water supplies are contained in the Water Industry Acts. Charges are set in accordance with revenue control limits determined by Ofwat. To comply with Condition E of our licence to operate, charges must not show undue preference to, or discriminate against, any class of person.

Under the terms laid down by Section 143 of the Water Industry Act 1991 and Ofwat's 2014 Price Review, incumbent regional monopoly water supply wholesalers are required to publish separate charges for the wholesale and retail activities of their business.

This publication describes our wholesale charging policy and the charges, and is only applicable to retailers of water. It is focused on non-household given the competitive market for non-household water and sewerage retail services will open in April 2017. For completeness our household charges are included.

Our retail charging policy and charges for end-users (customers of Portsmouth Water's incumbent retailer) are described in our two publications for household and non-household respectively. These are also available on our website or on request.

Wholesale charges will be published on our website annually, normally early in February each year. Prices will take effect on 1st of July each year. The template issued by Ofwat relating specifically to non-household wholesale charges is a separate document.

OPEN WATER PROGRAMME

Open Water is charged by Government to coordinate the development of the market rules, framework and systems required for an effective non-household retail market, these activities are known as *The Open Water Programme*. The competitive market for non-household water and sewerage retail services will open in April 2017. This will be for the retail element only of the water supply service.

Under the arrangements being put in place the retail element of the service is open to competition. The physical supply and distribution of water to end users will, for the time being, remain a regional monopoly service where the standard of service and prices remain regulated by Ofwat.

As such the provision of business terms and codes of practice for the separate wholesale and retail services within the water supply industry is still under development and we reserve the right to amend the policies within this publication with reference to Open Water's most current publications as market opening develops and the creation of market policy documents progresses.

DEFINITIONS

Billing period: the period, consisting of one or more settlement periods, that is charged for in one bill. These settlement periods only commence in April 2017, with the new market.

Escrow account: A deposit or fund held as a security, kept in the custody of a third party and taking effect only when a specified condition has been fulfilled.

Incumbent retailer: retailer of one of the vertically integrated water and/or sewerage companies who can only operate within their own geographic area.

Normal working hours: means 8.30am to 4.30 pm Monday to Friday

Ofwat: see WRSA below

Payment period: The length of time after the billing period in which the retailer must pay the wholesaler for services provided within the billing period.

Price Review: The process of setting appointed water companies' revenue limits. Maximum revenues are normally set every five years. The 2014 price review set wholesale prices and revenues for the period 1 April 2015 – 31 March 2020.

Rateable value: means the 'value' assigned a property by the local government Valuation Office which was effective on 31 March 1990.

Retail licensee: new entrant with a retail licence, including licensed retailers who are associates of regional monopoly wholesalers and who are able to operate outside their geographical area

Retailer: provider of the retail service to the end customer, dealing with all customer services as outlined within the Ofwat pricing methodology statement such as billing, payment handling, customer calls, meter reading and administering new connections. A retailer could be an Incumbent Retailer or a Retail Licensee.

Settlement period: one calendar day. This is the minimum period for which services can be purchased by a retailer. This applies when the market operator has been established in April 2017.

WSL (Water Supply Licence): a water supply licence will allow entry into the competitive water supply market for the purpose of providing retail and/or upstream services.

Water supply wholesaler: incumbent regional monopoly water company providing physical water services. This includes the supply of water services, meter ownership, installation, maintenance and replacement, and monitoring, physical disconnections and reconnections.

Wholesale: the abstraction of raw water, transmission of raw water, water treatment,

storage and distribution to end users plus ancillary services.

The Wholesaler: the wholesale division of Portsmouth Water; the organisation levying the charges described in this document.

Wholesale charges: charges paid to a water supply wholesaler by a retail licensee for the supply of treated, potable water.

Wholesale contract: a contract between the retailer and the company on terms and conditions laid out in our Access Code which sets out the services the wholesaler will provide to the retailer and the commercial terms on which they will be provided

Wholesale tariff: the tariff offered by wholesalers to retailers

Wholesale tariff structure: the structure and thresholds of wholesale tariffs offered by a wholesaler to retailers. Wholesale tariff structures are different for each wholesaler in England.

WRSA: Water Services Regulation Authority (Ofwat). The economic regulator of the water and sewerage industry in England and Wales.

1. BASIS FOR CALCULATING WHOLESALE CHARGES

The underlying principle used for deriving this wholesale tariff structure is that the wholesale tariff for each customer segment should be reflective of the average cost of providing wholesale water.

For the purposes of tariff setting wholesale activities are defined to cover the activities and overheads associated with: water resources and abstraction of water, raw water distribution, water treatment, treated water distribution and scientific services.

Development of the tariffs followed two key steps:

- Identification of the wholesale cost base, separated by functional activity;
- Allocation of those wholesale costs to distinct customer classes / segments.

To identify the unit cost to serve for each customer segment, cost allocation rules were developed applying variants of the relative output method, which is considered best practice within Fully Distributed Cost (FDC) methodologies.

2. REQUIREMENT FOR A WHOLESALE CONTRACT

Any retail licensee applying to the company for a wholesale water supply will be required to enter in to a wholesale contract. At the time of writing this will be the standard Common Contract for a Wholesale Supply, as laid out in our current Access Code which can be found at the following link:

<http://www.portsmouthwater.co.uk/news/default2.aspx?id=1176>

The Terms and Conditions of the Access Code are in accordance with Ofwat's Access Code guidance. However the current Access Code guidance may in some respects be considered inconsistent with the payment terms for retailers laid out by Ofwat in its Information Note IN 13/21.

Ofwat acknowledges this inconsistency and over time the two will be aligned. For the purposes of this wholesale Charges Scheme Ofwat's IN 13/21 payment terms, as laid out in this document, will apply, and override those in the current Access Code.

3. CREDIT REQUIREMENT

Standard credit requirements

As part of the developing regime it has been determined by the Ofwat, together with Open Water that a retailer is required to set up an escrow account in order to manage the exposure to debt risk borne by the Wholesaler and ultimately by other customers. This is in line with the baseline version of Open Water's Wholesale-Retail Code, published December 2014.

The greater of the following shall be maintained in the escrow account:

- a minimum balance of £25,000 as a credit balance or,
- where 75 days' wholesale charges are forecast to exceed the £25,000, the account should be topped-up to the expected level of wholesale charges over 75 days.

Annual wholesale charges of over £120,000 in the Wholesaler’s area of supply will require a top-up to the escrow account to an amount agreed by the Wholesaler and the retailer.

Non-standard credit terms

Non-standard terms may be agreed if Portsmouth Water and the retailer agree otherwise. In such cases, the Wholesaler will offer proportionate credit and collateral arrangements and explain clearly the rationale for doing so clearly.

4. PAYMENT TERMS

The standard payment terms described below are available to any licensed retailer.

Standard payment terms

Billing period	One calendar month
Payment period	30 days from the last day of the billing period, or 15 days after the invoice is deemed to have been received by the retailer, whichever is the later.
Scope of products and services	Standard payment terms apply to all products and services provided by the company to retailers. Services provided directly by the Wholesaler to end customers are not covered by these payment terms.

Non-standard payment terms

Non-standard terms may be agreed if the Wholesaler and the retailer. If non-standard terms are agreed with any retailers the Wholesaler will publish these terms and make them available to any other retailer with whom it has a wholesale contract on request.

5. METHODS OF PAYMENT

For each monthly billing period the Wholesaler will invoice the retailer. Invoices will be issued electronically unless otherwise agreed with the retailer.

The retailer should settle the monthly invoice from the escrow account, ensuring that the account is then topped-up to the agreed level (see part 3, ‘Credit requirement’, above). Alternatively, and only by agreement between the Wholesaler and retailer, the retailer may settle the account by a Clearing House Automatic Payments System transfer of funds.

6. INTEREST

If any sum payable under the wholesale contract is not paid at the expiry of the period for payment specified in Section 1.4 (payment terms) the Wholesaler will claim interest on the amount outstanding (both before and after judgment or decree) at the rate of three (3) per cent per annum above the current official Bank Rate.

Such interest will be calculated from (but excluding) the date of expiry of such period until payment thereof, calculated on a daily basis and compounded annually.

7. VALUE ADDED TAX

All charges contained in this Charges Scheme are exclusive of Value Added Tax (VAT). VAT is payable on industrial water supplied for customers falling within Standard Industrial Classifications (SIC) 1-5. The codes are published in the Standard Industrial Classification by the Central Statistical Office and are available from HM Stationery Office.

As the Wholesaler will not know which of the retailer's customers will fall in to SIC codes 1-5 it will therefore expect the retailer to ensure that its customers are billed the appropriate VAT for the water consumed.

All charges for ancillary services the Wholesaler provides will be subject to VAT at the appropriate rate.

HOUSEHOLD

Unmetered water supplies

Standing charge	£10.35
Rateable value charge (£/£rv)	36.7 pence per £ of rateable value
Licence charge	£91.21
Minimum charge	£59.73

Metered water supplies

Standing charge

Size of meter			Size of meter		
mm	inches	£	mm	inches	£
15mm	0.5	10.27	40mm	1.50	139.62
20mm	0.75	14.21	50mm	2.00	178.02
25mm	1.00	63.22	80mm	3.00	264.02
Consumption charge per cubic metre					
66.9p					

Assessed meter charges

Single occupier with one bedroom	£50.56
Other	£76.87
WaterSure	£78.82

NON-HOUSEHOLD

Unmetered water supplies

Standing charge	£7.15
Rateable value charge (£/£rv)	37.2 pence per £ of rateable value
Licence charge	£85.69
Minimum charge	£53.36

Metered water supplies

	< 10,000 m ³ pa	10,000 – 50,000m ³ pa	> 50,000 m ³ pa
	£	£	£
Volume Charge (£/m ³)	0.6760	0.6530	0.5555
Site Fee (£)	n/a	201.00	5079.00

Standing charge (£/annum)

Size of meter			Size of meter		
mm	inches	£	mm	inches	£
15mm	0.5	6.22	80mm	3.00	264.98
20mm	0.75	10.19	100mm	4.00	674.15
25mm	1.00	64.17	150mm	6.00	1,502.42
40mm	1.50	140.59	200mm	8.00	1,646.03
50mm	2.00	178.97	300mm	12.00	6,366.03

General charges

Disconnection for non-payment (applies to non-households only)

Charge for disconnecting a non-household supply for non-payment of water charges – at the request of the retailer	£50.00
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Turn on supply

At the request of the retailer, or for a return visit following disconnection for non-payment	£50.00
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Standpipes

Deposit returnable 25mm	£200.00
Hire charge per week 25mm	£45.00

All standpipes will be unmetered unless the Wholesaler determines otherwise. Standpipes above 25mm will be provided for use only under the Wholesaler's supervision and will be subject to cost by quotation.

Meter testing

Household meters	£70.00
Non-household meters	By quotation

