

NAV BULK SUPPLY CHARGES for 2024-25

1. INTRODUCTION

This document sets out the basis on which we will charge NAV customers for a bulk supply of potable water for the year 2024-25. These charges are applicable to all bulk supplies to NAVs from 1 July 2024.

Charges for new connection activities related to the connection of bulk services, including infrastructure charges, are provided for in the New Connections Services Charging Arrangements.

Ofwat may appoint a new water company to supply a site (for water supply) if it is currently unserved by the incumbent water company, the incumbent gives its consent, or the premise is a large user of water of at least 50 Megalitres per annum.

Most Newly Appointed Variation (NAV) sites have to date been unserved sites and relate to a mixture of residential and mixed-use developments. A developer of any new site has one of three options to provide water infrastructure on its site:

- To work with the incumbent water company.
- To work with a Self-Lay Provider.
- Invite a NAV to build and continue to provide services to end user customers.

This document provides an illustration of the detail underpinning any ongoing tariff we would apply to the NAV situation.

Any party wishing to discuss this tariff further or discuss a specific site should contact the Company using the details below:

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Portsmouth Water
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2. BASIS FOR CALCULATION OF NAV CHARGES

Our bulk supply charges are produced in accordance with the 'Bulk charges for new appointees – guidance on our approach and expectations' published by Ofwat in January 2021.

Ofwat use a 'wholesale-minus' approach to determine a tariff if there is any dispute between the incumbent and the NAV on the appropriate tariff for bulk water. We apply this 'wholesale minus' approach to any NAV who requests a bulk supply of water from Portsmouth Water.

In calculating the avoided on-site ongoing costs including capital replacement we made use of the cost categories identified by the industry working group established by Ofwat.

The following explains the steps in determining a bulk supply tariff for the NAV.

Step	Component	Explanation
1	Relevant Wholesale Tariff	This is determined by the number and usage of the expected customers on the site.
2	Avoided on-site ongoing operating and maintenance costs	These costs are included in the current wholesale tariff and will not be incurred by Portsmouth Water as the NAV will operate and maintain the local distribution system.
3	Avoided company central overhead costs	These costs are included in the current wholesale tariff. They are considered avoidable by Portsmouth Water as the NAV will incur the overheads of its own business.
4	Avoided WACC on on-site assets	We make an allowance in respect of above ground assets that will be owned by the NAV. We apply the cost of capital determined by Ofwat at PR19 to these assets to represent financing costs incurred by the NAV.
5	Bulk Supply Tariff	The relevant NAV tariff is determined therefore by subtracting steps 2, 3 and 4 from step 1. We make a further adjustment of 3.5% to the calculated tariff in respect of leakage.

To determine the NAV bulk supply tariffs for each site we will need to understand the number of properties connected and the volumes used. The charge is calculated by deducting a number of elements of avoided cost from our standard wholesale tariff. The NAV charge will be expressed as a volumetric rate, with no fixed charge element.

A spreadsheet is provided to support this document. The spreadsheet allows NAVs to enter their site-specific details to allow them to calculate the charge that will apply.

In developing these charges, we make a number of assumptions, which are described below. Where a NAV can demonstrate that these assumptions are not applicable to the circumstances of a particular site, and this has a material impact on the calculation of the charges, the NAV should contact the Company to discuss the provision of a bespoke tariff, which reflects the specific circumstances.

Step 1 – The Relevant Wholesale Tariff

Our wholesale tariffs for 2024-25 are set out in our published Schedule of Wholesale Charges.

We have specific household and non-household wholesale standing charges and volumetric charges. For the purposes of calculating these charges we convert fixed and variable wholesale charges to an equivalent volumetric charge to align with the basis of the NAV charge. This unit rate will reflect the number and mix of properties on each NAV site.

Step 2 – Avoided on-site ongoing operating and maintenance costs

As part of our 2021-22 annual Accounting Separation exercise, we quantified the total operating and maintenance costs for our local network. These are inflated to 2024-25 prices using the CPIH rate for November 2023, in line with the inflation index applied to our wholesale charges. This gives a total cost for the ongoing operating and maintenance costs of our local distribution network of £4.456m (representing a combination of volumetric and fixed costs).

The length of the local distribution network as reported in our latest Annual Performance Report, is 3,027km. Dividing the local distribution network costs by the length of local distribution mains gives an operating and maintenance cost per metre of distribution network of £1.472.

We assume that, on average, each household property requires 7.5m of distribution main and each non-household requires 12m of distribution mains.

We calculate the avoided on-site operating and maintenance costs by multiplying these mains length assumptions by the unit rate of £1.472 per metre and the number and type of connected properties on the NAV site.

Step 3 – Avoided company central overhead costs

As part of our 2021-22 annual Accounting Separation exercise, we quantified the company central overhead costs. These were allocated between measured and unmeasured customers using the share of revenues and inflated to 2024-25 prices using the CPIH rate for November 2023, in line with the inflation index applied to our wholesale charges. This gives a total cost for the company central overhead costs for measured customers of £4.064m (representing a combination of volumetric and fixed costs).

The total number of measured properties (household and non-household) is 118,644, giving an average overhead cost per property of £34.25.

We calculate the avoided company central overhead costs by multiplying the overhead cost per property by the number of connected properties on the NAV site.

Step 4 – Return

We apply a Weighted Average Cost of Capital (WACC) of 3.11% to the above ground assets which will be owned by the NAV. The WACC is consistent with that determined by Ofwat as part of its PR19 final determination of our price controls.

We assume the relevant assets comprise the meter and chamber. We have assumed a unit cost of £298 per meter, implying a return per meter of £9.26.

We calculate the avoided return by multiplying the return per meter by the number of connected properties on the NAV site.

Step 5 – Bulk supply tariff

We calculate the total avoided costs from the calculated wholesale charge to determine the NAV tariff. This is divided by the average volumes for the connected properties on the NAV site to derive an initial NAV volumetric charge.

In line with Ofwat's guidance we apply a further adjustment of 3.5% to account for leakage from the distribution mains on the NAV site.

3. PROVISION OF INFORMATION

In order to calculate the charges payable, we require details of the number and type of properties on each site as well as the volume consumed.

The volumes will normally be based on monthly readings taken from the bulk meter installed at the boundary of the site. Portsmouth Water will be responsible for taking these meter readings.

Details of the number and type of properties on each site should be provided by the NAV on a monthly basis.

APPENDIX 1: WORKED EXAMPLES

The table below shows the calculated charges for four different scenarios using the calculation method described above. These are the same scenarios we have used in previous years to illustrate our NAV charges. For each scenario the volumetric charge that will be applied to the measured consumption at each site is shown in the row 'NAV tariff'.

The discounts shown for Scenario D are lower than for the other scenarios. The lower discount arises because a large portion of the avoided costs are calculated on a per property basis; this means that they are proportionally smaller when expressed as a unit rate. In prior years this scenario also assumed a mains length of 50 metres per property. While this scenario is shown for illustrative purposes to be consistent with previous years, we note that we are not aware of any NAV sites, either existing or prospective, which comprise solely non-household customers.

		Scenario			
		A	B	C	D
Household	nr	300	300	600	-
Non-households	nr	20	-	-	50
Wholesale charge	£	40,975	32,109	64,218	22,164
	£/m ³	0.997	1.029	1.029	0.897
Costs "foregone"	£	17,590	16,367	32,733	3,059
NAV Charge	£	23,385	15,743	31,485	19,105
Less leakage discount 3.5%	£	22,566	15,192	30,383	18,436
NAV tariff	£/m ³	0.549	0.487	0.487	0.746
"Discount"	%	-45%	-53%	-53%	-17%