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13 January 2017

## **Letter of Assurance from Portsmouth Water Board re Wholesale Charges**

This letter is addressed to Ofwat and other interested parties.

It confirms that the Board of Portsmouth Water believe that the wholesale tariffs and the Wholesale Charges Scheme which will be published by 13 January 2017 comply with its regulatory requirements.

The Board have been actively involved throughout the progress of this Charges Scheme. There was detailed discussion on the subject at the September and December Board meetings and a specific meeting of the Chairman of the Audit Committee, management and external advisers of the Company on 9 January 2017.

The Board therefore believes it is in a position to confirm the following:-

- a) the Company complies with its legal obligations relating to the Wholesale Charges it has published;

*Specifically the Board confirms that the charges are compliant with the wholesale revenue cap determined by Ofwat at PR14 and that the costs associated with Open Water are appropriately recovered from our non-household customer base only.*

*Further, the charges recognise any adjustments required from the Wholesale Revenue Forecasting Incentive Mechanism (WRFIM) and the Revenue Correction Mechanism (RCM) and comply with the Non-household retail price review, PR16.*

*We have engaged Frontier Economics to review this submission and they have provided external assurance that the proposal is compliant. The Board believe Frontier Economics are well placed to give this assurance given their knowledge and experience of the water industry.*

- b) the Board has assessed the effects of the new charges on water supply and sewerage licensees (as a whole or in groups) who are retailing wholesale services and on customers occupying Eligible Premises (as a whole or in groups) and approves the impact assessments and handling strategies developed in instances

where bill increases for licensees (as a whole or in groups) who are retailing wholesale services and on customers occupying Eligible Premises (as a whole or in groups) exceed 5%;

*The Board can confirm that no group of customers, household and non-household will experience a change in total bills greater than 2.4% as a result of the proposed price changes. Over 30 groups of customer have been reviewed, including the average in a class and an upper and lower customer in the class as required by Ofwat guidelines.*

*For non-household customers the total bill increases ranges from 1.86% to 2.31% depending on the method of charge and usage. Thus we do not need to establish either an impact assessment or a handling strategy for any class of customer.*

*The Board therefore considers that the analysis above gives Water and Sewerage Licensees comfort that the wholesale charges they face will not increase by more than 5%.*

- c) the Company has appropriate systems and processes in place (including up-to-date models and data) to make sure that the information published about its Wholesale Charges is accurate;

*The Board acknowledge the importance of the having appropriate systems and processes in place to determine the tariffs and denominators underpinning the proposed wholesale charges in particular.*

*We have developed an in-house tariff model and purchased a bespoke model from Frontier Economics to ensure our tariffs are compliant. Both are completed by management and audited by Frontier Economics on an annual basis; Frontier Economics confirm both models are fit for purpose.*

*Further we have an agreed process to determine the denominators which underpin the tariffs calculations. We engage our technical auditors, Atkins, to audit the denominators. They have confirmed that the historic data on which we have established our 2017/18 denominators is well founded. The Board believe Atkins are well placed to give this assurance given their knowledge of the Company systems as part of its annual audits.*

- d) the Company has consulted with relevant stakeholders in a timely and effective manner on its Wholesale Charges;

*The Company confirms that it has consulted with CCWater in particular in a timely and effective manner. We received a letter of support for our proposed charges from CCWater on 20 December 2016.*

- e) where Final Wholesale Charges are significantly different from the indicative Wholesale Charges published for the same period, the Board has considered the reasons why those changes occurred and has issued a statement explaining why those changes were not anticipated and/or mitigated.

*We have compared our final wholesale charges with those we published on 30 September 2016. There are minimal changes reflecting the difference between assumed and actual RPI.*

*There are modest increases to some of the fixed meter charges for non-household customers with minor reductions on all other tariffs. In addition to minor changes in assumptions on numbers and usage, the final tariffs have been adjusted slightly*

*to give a more equal distribution of the price increase amongst the different customer types.*

*The Board therefore conclude that the wholesale charges have not changed materially since the indicative charges were published on 30 September 2016.*

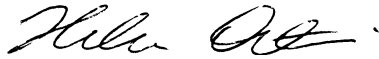
**Conclusion**

The Board of Portsmouth Water believe that the tariffs and associated wholesale Charges Scheme, to be published 13 January 2017, complies with the Company's legal and regulatory requirements.

This statement will be published on our website on 13 January 2017 and sent to Ofwat together with information on significant changes to tariffs and average household bill information.



**Heather Benjamin**  
**Non-Executive Director and chair of the Audit Committee**



**Helen Orton**  
**Finance and Regulation Director**