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28 September 2017

Dear Cathryn

**Letter of Assurance re 2018/19 draft Wholesale Tariffs**

This letter is addressed to Ofwat and other interested parties.

It confirms that the Board of Portsmouth Water believe that the draft Wholesale tariffs published on 29 September 2017 complies with the Company's regulatory requirements.

These are shown in Appendix A.

In making the statements below we have also prepared draft Retail tariffs for 2018/19, recognising these are not published.

The Board discussed this publication at its meeting on 28 September 2017.

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

- a) The Company complies with its legal obligations (including competition law) relating to the charges set out in its charges schemes.

*Specifically we confirm that the charges result in compliance with the revenue cap for wholesale and that the costs associated with Open Water are appropriately recovered from our non-household customer base only.*

*Further in determining our wholesale tariffs we are able to confirm that as a consequence of these wholesale tariffs*

- *The total bill differential for customers using the same volume of water but charged on different basis, namely measured and unmeasured, is circa £30 to which reflects the additional cost incurred in metering*
- *Assessed charges are consistent with volumes of similarly measured properties.*
- *The total Watersure tariff is set equal to the average measured household bill*

*As such we do not believe the tariffs exhibit any undue discrimination between different classes of customer.*

*Whilst the Company has rigorous processes in place to accurately develop its tariffs and associated charges schemes, it is of such importance to our customers that the Board believes external assurance should also be obtained. Frontier Economics has undertaken a short review of these tariffs and has confirmed that the proposal is compliant.*

*The Board believe Frontier Economics are well placed to give this assurance given their knowledge of the water industry and experience in advising clients in Scotland on tariff issues in particular, given the similarities of approach with England & Wales.*

*The Board therefore confirms that charges included in its draft Wholesale Charges comply with its legal obligations.*

- b) The Board has also assessed the effects the new charges have on customers' bills for a range of different customer types.

*The Board can confirm that no group of customers will experience a change in bills greater than 5% as a result of the proposed wholesale 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.*

- c) The Company has appropriate systems and processes in place to make sure that the data and information contained in the charges scheme, and additional information is appropriate.

*The Company has an internal system of processes and audits which cover financial and non-financial data. These are considered by the Board and Audit Committee as part of the Company's Corporate Governance requirements and reported in the Annual Report & Accounts.*

*The Board therefore confirms that has appropriate systems and processes in place to make sure that the data underlying the tariffs in this publication is accurate. ,*

- d) The Company will consult with the Consumer Council for Water (CCWater) and other stakeholders, including retailers in a timely and effective manner as we progress to our Final Charges Schemes in January 2018

To conclude therefore we re-iterate that the Board of Portsmouth Water believe that the draft wholesale tariffs and associated Charges Scheme published on 29 September 2017 comply with its regulatory requirements.

Finally we note the requirement that the Company should publish its assurance statement. This statement will be published on our website on 29 September 2017 and sent to Ofwat at the same time.



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



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

**28 September 2017**