



Charging
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31 January 2017

Letter of Assurance from Portsmouth Water Board re Household Charges

This letter is addressed to Ofwat and other interested parties.

It confirms that the Board of Portsmouth Water believe that the tariffs and associated Charges Scheme which will be published on 1 February 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 charges set out in its charges schemes.

Specifically the Board confirms that the charges are compliant with the revenue caps 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).

Further we are able to confirm that:-

- *The differential between household measured and average unmeasured projected bills is circa £30 to reflect the additional cost incurred in metering*
- *Assessed charges are consistent with volumes of similar measured properties.*
- *The Watersure tariff is set in relation to the average household bill*

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

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 the new charges have on customers' bills for a range of different customer types and approves the impact assessments and handling strategies developed in instances where bill increases for particular customers 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. Thus we do not need to establish either an impact assessment or a handling strategy for any class of customer.

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. Specifically the price increase is between 1.9% and 2.3%.

- 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 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; they 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 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.

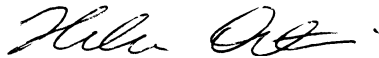
Conclusion

The Board of Portsmouth Water believe that the tariffs and associated Charges Scheme, to be published 1 February 2017, complies with the Company's legal and regulatory requirements.

This statement will be published on our website on 1 February 2017 and sent to Ofwat accordingly.



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



Helen Orton
Finance and Regulation Director

31 January 2017