



Ms. Rachel Fletcher
CEO OFWAT
Centre City Tower
7 Hill Street
Birmingham
B5 4UA

Registered Office:
Portsmouth Water Ltd
PO Box 8
Havant
Hampshire PO9 1LG

Tel: 023 9249 9888

Fax: 023 9245 3632

Web:

www.portsmouthwater.co.uk

12 October 2020

Dear Ms. Fletcher,

Letter of Board Assurance relating to the 2021/22 draft Wholesale Tariffs

This letter, together with the draft wholesale tariffs (included in Appendix 1), provides Board assurance in relation to the 2021/22 draft wholesale tariffs. The letter of Board assurance follows the regulatory guidance over the publication of charges schemes as explained below and set out in more detail later in this letter.

The Board of Portsmouth Water considers that the draft Wholesale Tariffs, published on 12 October 2020 for the next charging year (2021/22), comply with the Company's relevant regulatory requirements as set out in the "Charges scheme rules issued by the Water Services Regulation Authority under sections 143(6A) and 143B of the Water Industry Act 1991" dated December 2018 (the Charges Scheme Rules). In making the statements below we have also prepared draft retail tariffs for 2021/22, although these are not published at this stage.

In determining our charges for 2021/22 we have considered the impact of the on-going Covid pandemic and the impact it may have on the services we provide to different customer groups for our next charging year, which starts 1 July 2021. Our assumption in relation to volumetric consumption is based upon long run experienced averages. However, given the current uncertainties, in relation to the impact of the Covid pandemic, we will re-visit these key assumptions prior to finalising the tariffs in January 2021.

At this stage of setting our tariffs we have assumed that customer demand, in particular household and non-household demand, returns to normal. If, when we determine our final tariffs, in January 2021, we consider that we need to revise this assumption, we will update stakeholders accordingly.

The Board discussed the 2021/22 tariffs at its meeting on 24 September 2020 and asked three directors to progress this issue further on its behalf. A meeting was held on 7 October to review and approve both this statement and the draft Wholesale tariffs for 2020/21 on behalf of the Board.

In reaching its conclusion the Board had regard to external assurance work provided by Frontier Economics. Frontier Economics has undertaken a review of the calculation of the draft wholesale tariffs and has confirmed that the approach taken is appropriate and consistent with the regulatory guidance in the charging Scheme Rules and general industry practice. The Board consider Frontier Economics are well placed to provide this assurance given their knowledge of the water industry.

In making this statement we have reviewed the Charges Scheme Rules, first published by Ofwat on 17 November 2015 and updated on 20 December 2018. The rules require the Company to determine its tariffs in accordance with 4 key principles, as set out in the Charges Scheme Rules annex "Information Requirements" as follows;

Each undertaker should provide to the Water Services Regulation Authority an assurance statement from its Board of Directors and publish its statement no later than the time of publication of the charges schemes confirming that:

(a) the company complies with its legal obligations relating to the charges set out in its charges schemes;

(b) the Board has assessed the effects of the new charges 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 customer types exceed 5%;

(c) the company has appropriate systems and processes in place to make sure that the information contained in the charges scheme, and the additional information covered by this annex is accurate; and

(d) the company has consulted the Consumer Council for Water (CCW) in a timely and effective manner on its charges schemes.

We therefore provide our assurance that the draft Wholesale Charges have been determined in accordance with the 4 principles of the Charges Scheme Rules for the following reasons:-

a) *The Company complies with its legal obligations relating to the charges set out in its charges schemes.*

Specifically we confirm that the charges result in compliance with the revenue cap for water resources and network plus price controls.

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 £35 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 consider that 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, in reaching this conclusion the Board also considers the results of the external assurance that has been commissioned.

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

- b) The Board has assessed the effects of the new charges 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 customer types exceed 5%.

The Board has assessed the effects of the new charges on customers' bills, for a range of 33 customer types and 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 accurate.

For the purpose of publishing the draft wholesale charges, we do not publish either a "charges scheme" or any "additional information".

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. In doing so the Board has also considered the extent of any relevant control deficiencies raised as a result of this external assurance and the extent that these have been mitigated.

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 has consulted the Consumer Council for Water (CCW) in a timely and effective manner on its charges schemes.

We will consult with the Consumer Council for Water (CCW) and other stakeholders, including retailers in a timely and effective manner as we progress to our Final Charges Schemes in January 2021.

To conclude, therefore, the Board of Portsmouth Water consider that the draft wholesale tariffs, published on 12 October 2020, comply with the regulatory requirements set out in the Charges Scheme Rules.

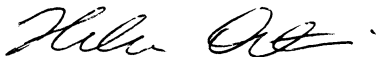
Finally we note the requirement that the Company should publish its assurance statement.

This statement will be published on our website on 12 October 2020 and sent to Ofwat at the same time.

On behalf of the Board.

A handwritten signature in black ink, consisting of a large, stylized loop followed by a horizontal line extending to the right.

Michael Coffin
Non-Executive Director and chair of the Audit Committee

A handwritten signature in black ink, appearing to read 'Helen Orton' in a cursive style.

Helen Orton
Finance and Regulation Director

APPENDIX 1

Portsmouth Water - Draft Wholesale tariffs 2021/22

Based on OFWAT Final Determination (published December 2019) and adjusted for Blind Year Adjustment (published September 2020).

Table 1 - Household unmeasured

		2020/21 £	2021/22 £	Change %
1W	Standing Charge	10.20	10.63	4.2
2W	Rateable Value Charge (£/£rv)	0.3680	0.3800	3.3
3W	Licence Charge	90.90	94.33	3.8
4W	Minimum Charge	59.88	61.93	3.4
52W	Social Tariff	59.88	61.93	3.4
5W	Assessed Charge 1	49.94	51.51	3.1
6W	Assessed Charge 2	77.64	79.06	1.8

Table 2 - Household measured

		2020/21 £	2021/22 £	Change %
7W	General: 12/15 mm (0.5")	9.95	10.36	4.2
8W	General: 20/22 mm (0.75")	13.83	14.41	4.2
9W	General: 25/28 mm (1")	63.46	66.09	4.2
10W	General: 40/42 mm (1.5")	139.00	144.77	4.2
11W	General: 50/54 mm (2")	177.00	184.35	4.2
12W	General: 75/80 mm (3")	261.93	272.81	4.2
51W	General: 100 mm (4")	666.24	693.93	4.2
52W	General: 150 mm (6")	1484.97	1546.71	4.2
13W	Volumetric Charge (£/m3)	0.7190	0.7277	1.2
14W	WaterSure	83.48	83.57	0.1

Table 3 - Non- Household unmeasured

		2020/21 £	2021/22 £	Change %
15W	Standing Charge	11.28	10.27	-8.9
16W	Rateable Value Charge (£/£rv)	0.368	0.380	3.3
17W	Licence Charge	90.90	92.33	1.6
18W	Minimum Charge	59.88	60.99	1.9

Table 4 - Non- Household measured

		2020/21 £	2021/22 £	Change %
36W	General: 12/15 mm (0.5")	8.53	8.17	-4.2
37W	General: 20/22 mm (0.75")	12.68	12.39	-2.3
38W	General: 25/28 mm (1")	63.46	66.09	4.2
39W	General: 40/42 mm (1.5")	139.00	144.77	4.2

40W	General: 50/54 mm (2")	177.00	184.35	4.2
41W	General: 75/80 mm (3")	261.92	272.81	4.2
42W	General: 100 mm (4")	666.24	693.93	4.2
43W	General: 150 mm (6")	1484.97	1546.71	4.2
44W	General: 200 mm (8")	2458.64	2563.33	4.3
45W	General: 300 mm (12")	5897.99	6149.14	4.3
27W	Volumetric Charge < 10MI (£/m3)	0.7190	0.7277	1.2
49W	Intermediate Volume charge 10MI - 50MI (£/m3)	0.6980	0.7044	0.9
46W	Large User Volumetric Charge > 50MI (£/m3)	0.5950	0.5993	0.7
48W	Site Fee 10MI - 50MI	210.00	232.77	10.9
47W	Large User Site Fee	5154.00	5256.78	2.0

Note – the two site fees relate to the relevant total volumetric charges and not the wholesale elements presented in this table. The site fee ensures the customer is only better off on say the large user tariff if they use more than 50MI per annum.