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12 October 2021

Dear David,

Letter of Board Assurance relating to the 2022/23 draft Wholesale Tariffs

This letter is addressed to Ofwat and other interested parties.

This letter confirms that the Board of Portsmouth Water believe that the draft Wholesale Tariffs, published on 12 October 2021 for the next charging year (2022/23), comply with the Company's 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 2022/23, although these are not published.

In determining our charges for 2022/23 we have considered the impact of the on-going Covid pandemic on different customer groups for our next charging year, which starts 1 July 2022. Given the current uncertainties in relation to the impact of the Covid pandemic, we will re-visit these key assumptions prior to finalising the final tariffs in January 2022.

At this stage of setting our tariffs we have assumed that customer demand, in particular household and non-household demand, will continue to be affected by the Covid pandemic. If, when we determine our final tariffs, in January 2022, we feel that we need to revise this assumption, we will update stakeholders accordingly.

The Board discussed the 2022/23 tariffs at its meeting on 23 September 2021 and asked a subcommittee 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 2022/23 on behalf of the Board and this was followed by a Board call on 11 October 2021 to approve this document and the draft charges.

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 (CCWater) 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 £38 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.

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.

33 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.

We will monitor the inflation outlook carefully as we are conscious that we have limited headroom versus the 5% threshold.

- 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 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 (CCWater) 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 2022.

To conclude, therefore, we re-iterate that the Board of Portsmouth Water believe that the draft wholesale tariffs, published on 12 October 2021, 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 2021 and sent to Ofwat at the same time.

A handwritten signature in black ink, consisting of a large, stylized loop at the top left that extends into a long, horizontal line across the middle of the page.

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

A handwritten signature in black ink, featuring a stylized 'C' and 'M' followed by a long, horizontal line.

Chris Milner
Chief Financial Officer

APPENDIX 1

Portsmouth Water - Draft Wholesale tariffs 2022/23

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

Table 1 - Household unmeasured

	2021/22 £	2022/23 £	Change %
Standing Charge	10.84	9.80	-9.6
Rateable Value Charge (£/RV)	0.3854	0.3991	3.6
Licence Charge	95.72	97.59	2.0
Minimum Charge	62.86	63.36	0.8
Social Tariff	62.86	63.36	0.8
Assessed Charge 1	52.95	52.73	-0.4
Assessed Charge 2	81.79	83.23	1.8

Table 2 - Household measured

	2021/22 £	2022/23 £	Change %
General: 12/15 mm (0.5")	10.71	9.93	-7.3
General: 20/22 mm (0.75")	14.89	14.38	-3.4
General: 25/28 mm (1")	68.28	71.45	4.6
General: 40/42 mm (1.5")	149.56	156.51	4.6
General: 50/54 mm (2")	190.45	199.30	4.6
General: 75/80 mm (3")	281.84	294.93	4.6
General: 100 mm (4")	716.89	750.19	4.6
General: 150 mm (6")	1597.87	1672.10	4.6
Volumetric Charge (£/m3)	0.7467	0.7694	3.0
WaterSure	86.64	91.72	5.9

Table 3 - Non- Household unmeasured

	2021/22 £	2022/23 £	Change %
Standing Charge	10.48	9.91	-5.4
Rateable Value Charge (£/RV)	0.3828	0.4000	4.5
Licence Charge	93.72	98.26	4.8
Minimum Charge	61.93	63.67	2.8

Table 4 - Non- Household measured

	2021/22 £	2022/23 £	Change %
General: 12/15 mm (0.5")	8.65	9.15	5.8
General: 20/22 mm (0.75")	12.74	13.89	9.1

General: 25/28 mm (1")	68.28	71.45	4.6
General: 40/42 mm (1.5")	149.56	156.51	4.6
General: 50/54 mm (2")	190.45	199.30	4.6
General: 75/80 mm (3")	281.84	294.93	4.6
General: 100 mm (4")	716.89	750.19	4.6
General: 150 mm (6")	1597.87	1672.10	4.6
General: 200 mm (8")	2648.11	2770.30	4.6
General: 300 mm (12")	6352.50	6645.62	4.6
Volumetric Charge < 10MI (£/m3)	0.7467	0.7824	4.8
Intermediate Volume charge 10MI - 50MI (£/m3)	0.7246	0.7594	4.8
Large User Volumetric Charge > 50MI (£/m3)	0.6174	0.6471	4.8
Site Fee 10MI - 50MI	220.96	230.59	4.4
Large User Site Fee	5359.15	5613.42	4.7

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.