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31 January 2022

Dear David,

Letter of Assurance from Portsmouth Water Board with respect to Household Charges 2022/23

This letter, together with the resultant bill changes (included in Appendix A), provides Board assurance in relation to the 2022/23 household 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 Household Tariffs, published on 31 January 2022 for the next charging year (2022/23), 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 determining our charges for 2022/23 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 2022. Since March 2020 we have seen an increase in household consumption and a significant reduction in non-household (or commercial) use. These trends continue in 2021/22 and are expected to continue into 2022/23.

We are also mindful that there are significant economic pressures on both our household and non-household customers. We are one of two water companies to have deferred some 2020/21 Outcome Delivery Incentive (ODI) rewards, which has helped to mitigate against bill increases due to high inflation.

Despite this, customers will see an average price increase of 6.1% when our new charging year starts on 1 July 2022. Over the past couple of years, we have significantly increased the number of customers on our social tariff and will continue to offer support to customers who

are struggling to pay their water bills. We offer an Arrears Assist Scheme, a WaterSure tariff and Payment Holiday to help customer pay our bill. We will also continue to promote water efficiency and metering to help customers reduce bills.

Finally, we can confirm that our water charges remain the lowest in England and Wales. Our average household bill for 2022/23 will be £109.

The Board discussed the 2022/23 tariffs at its meeting in November 2021 and asked our Chief Financial Officer to progress this issue further on its behalf. A meeting was held on 10 January 2022 to review and approve this statement 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 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 Household 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 household tariffs we are able to confirm that as a consequence of these household tariffs

- *The total bill differential for customers using the same volume of water but charged on different basis, namely measured and unmeasured, is circa £41 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 in total 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 Household 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 15 household customer types. Due to high inflation of 4.6% all groups of customers will experience a change in bills greater than 5% as a result of the proposed price changes.

Over 30 groups of customers in total have been reviewed including non-household, analysing the average in a class and an upper and lower customer in the class as required by Ofwat guidelines.

The Board approves the impact assessments and handling strategies in place to assist customers.

- 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 (CCW) in a timely and effective manner on its charges schemes.*

We have consulted with the Consumer Council for Water (CCW) in a timely and effective manner as we have progressed to our Household Charges Schemes.

To conclude, therefore, the Board of Portsmouth Water consider that the Household Charges, published on 31 January 2022, 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 31 January 2022 and sent to Ofwat at the same time.

On behalf of the Board.

A handwritten signature in black ink, appearing to read 'C Milner', with a long horizontal flourish extending to the right.

Chris Milner
Chief Financial Officer

Appendix A

Statement of significant changes to bills 2021/22

The Board of Portsmouth Water has assessed the effects its 2022/23 charges have on customers' bills for a range of different customer types.

The Board can confirm that all groups of customers will experience a change in bills (both wholesale and retail) greater than 5% as a result of the proposed price changes. 15 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 with the November 2021 Consumer Price Index (excluding housing) implying an inflation rate of 4.6%, we confirm that the resultant average price increase of 6.1%

Table 1 below shows the impact of the price changes on our household customers. We have selected 15 "typical" customers to illustrate how the price changes affect different customers. The range of price increases is from 5.48% - 6.74%.

The first 7 illustrations listed relate to customers without a meter. They may pay in relation to the rateable value of their property, a fixed licence charge (typically for properties built between 1990 and 2005), a minimum charge (where the rateable value is below £135) or assessed charges where meters cannot be installed for customers.

For customers with a meter we have selected a low metered user, equating to 50 m3 per annum, an average user at 90 m3 and a high user at 150 m3 per annum. Further we differentiate by size of the supply, typically new homes, with similar usage assumptions.

Finally we show how the WaterSure and Social Tariffs will change in the year.

Table 1 Household Bills

| | | 2021/22 | 2022/23 | | |
|-------------------------------|-------|----------------|----------------|--------------|--------------|
| | | Total bill (£) | Total bill (£) | Variance (£) | Variance (%) |
| Unmeasured Household RV £150 | | 83.31 | 88.92 | 5.61 | 6.74% |
| Unmeasured Household RV £220 | | 110.57 | 117.70 | 7.14 | 6.45% |
| Unmeasured Household RV £300 | | 141.71 | 150.59 | 8.88 | 6.26% |
| Licence Charge | | 110.57 | 117.70 | 7.14 | 6.45% |
| Minimum Charge | | 77.76 | 82.73 | 4.97 | 6.39% |
| Assessed Charge 1 | | 67.79 | 71.98 | 4.19 | 6.18% |
| Assessed Charge 2 | | 96.63 | 102.83 | 6.20 | 6.41% |
| Measured Household 0.5" meter | 50 m3 | 64.03 | 67.99 | 3.96 | 6.18% |
| Measured Household 0.5" meter | 90 m3 | 101.10 | 106.88 | 5.77 | 5.71% |

| | | | | | |
|--------------------------------|--------|--------|--------|------|-------|
| Measured Household 0.5" meter | 150 m3 | 139.70 | 147.35 | 7.66 | 5.48% |
| Measured Household 0.75" meter | 60 m3 | 75.77 | 80.45 | 4.68 | 6.17% |
| Measured Household 0.75" meter | 90 m3 | 105.28 | 111.40 | 6.12 | 5.81% |
| Measured Household 0.75 meter | 120 m3 | 121.18 | 128.07 | 6.89 | 5.69% |
| Watersure Tariff | | 104.29 | 111.14 | 6.86 | 6.58% |
| Social Tariff | | 77.76 | 82.73 | 4.97 | 6.39% |