



To whom it may concern

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Dear Sir

Letter of Assurance from Portsmouth Water Board re Household Charges

This letter is addressed to the customers of Portsmouth Water and other interested parties.

It confirms that the Board of Portsmouth Water believe that the tariffs and associated Charges Schemes will be published 31 January 2019 comply with its regulatory requirements.

The Board have been actively involved throughout the progress of this Charges Scheme.

There were detailed discussion on the subject at the September and December Board meetings and the final approvals were signed off by the Chair of the Audit Committee, management and external advisor in the board sub-committee on 8 January 2019.

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).

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.

- a) *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 household customers will experience a change in total bills greater than 2.91% 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.

15 groups of household customer have been reviewed, including the average and an upper and lower customer in the class as required by Ofwat guidelines. Specifically the price increase is between 2.32% and 2.91% for all 15 groups. (See Appendix A, Significant Changes to Bills)

- b) *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 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 2018/19 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.

- c) *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 7 January 2019.

Conclusion

The Board of Portsmouth Water believe that the tariffs and associated Charges Schemes, to be published 31 January 2019, complies with the Company's legal and regulatory requirements.

This statement will be published on our website on 31 January 2019 and sent to Ofwat accordingly.



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



Helen Orton
Finance and Regulation Director

Appendix A

Statement of significant changes to bills 2019/20

The Board of Portsmouth Water has assessed the effects its 2019/20 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 (both wholesale and retail) greater than 5% as a result of the proposed 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.

Specifically with the November 2018 Retail Price Index implying an inflation rate of 3.2% we confirm that the resultant price increases for any class of customer are no greater than 3.34%.

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 2.32% - 2.91%.

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 with similar usage assumptions. Finally we show how the WaterSure and Social Tariffs will change in the year. The impact of the proposed tariffs are shown in lines 8 – 15 respectively.

Table 1 - Household Bills

		2018/19 (£)	2019/20 (£)	Variance (£)	Variance (%)
1	Unmeasured RV £150	84.97	87.25	2.28	2.69
2	Unmeasured RV £220	112.62	115.80	3.18	2.82
3	Unmeasured RV £300	144.22	148.43	4.20	2.91
4	Licence Charge	112.62	115.80	3.18	2.83
5	Minimum Charge	79.05	81.14	2.09	2.65
6	Assessed Charge (one person)	69.08	70.79	1.71	2.48
7	Assessed Charge (other)	95.82	98.20	2.38	2.48
8	Low User Measured 0.5" meter (50m ³)	65.68	67.20	1.52	2.32
9	Average User Measured 0.5" meter (90m ³)	94.96	97.40	2.45	2.58
10	High User Measured 0.5" meter (150m ³)	138.87	142.70	3.83	2.76
11	Low User Measured 0.75" meter (60m ³)	77.22	79.12	1.90	2.47
12	Average User Measured 0.75" meter (90m ³)	99.18	101.77	2.60	2.62
13	High User Measured 0.75 meter (120m ³)	121.14	124.42	3.29	2.71
14	Watersure Tariff (metered only)	102.74	105.34	2.60	2.53
15	Social Tariff	79.05	81.14	2.09	2.65

Table 2 below shows the impact of the price changes on our non-household customers.

Whilst the Company is no longer a retailer to these customers, and therefore we do not raise retail charges, we have still worked out the total bill impact, given the Ofwat determination of retail charges in summer 2016.

We have selected 18 "typical" non-household customers to illustrate how the price changes affect different customers. The range of price increases is from 2.70% - 3.34%.

The first 5 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) or a minimum charge (where the rateable value is below £135).

For customers with a meter we have three different consumption charges relating to the total volume of water taken in the year. The three charges are for those using less than 10,000m³ (10MI) per annum (lines 6-9), for those using more than 10,000 but less than 50,000 m³ (50 MI) pa (lines 10-14) and those using more than 50,000 m³ pa (lines 15-18). Different standing charges also apply depending on the size of the meter assumed in the illustration.

Table 2 – Non-household bills.

		2018/19 (£)	2019/20 (£)	Variance (£)	Variance (%)
1	Unmeasured RV £170	93.30	95.85	2.56	2.74
2	Unmeasured RV £500	226.61	233.14	6.53	2.88
3	Unmeasured RV £800	347.80	357.95	10.15	2.92
4	Licence Charge	113.51	116.89	3.38	2.98
5	Minimum Charge	79.16	81.29	2.14	2.70
6	Measured <10MI 0.5" meter (266m ³)	226.32	233.34	7.03	3.11
7	Measured <10MI 0.75" meter (375m ³)	311.66	321.43	9.76	3.13
8	Measured <10MI 1.5" meter (1790m ³)	1504.18	1,552.65	48.47	3.22
9	Measured <10MI 1.5" meter (5000m ³)	3892.43	4,017.92	125.49	3.22
10	Measured >10MI and <50MI 0.75" meter (10000m ³)	7518.64	7,728.02	209.38	2.78
11	Measured >10MI and <50MI 1.0" meter (18000m ³)	13368.51	13,747.88	379.37	2.84
12	Measured >10MI and <50MI 2.0" meter (20000m ³)	14940.05	15,365.66	425.61	2.85
13	Measured >10MI and <50MI 4.0" meter (21000m ³)	16196.08	16,660.96	464.87	2.87
14	Measured >10MI and <50MI 4.0" meter (40000m ³)	29952.73	30,816.69	863.96	2.88
15	Measured >50MI 0.75" meter (75000m ³)	51310.87	53,267.92	1,724.05	3.34
16	Measured >50MI 0.5" & 3.0" meter (130000m ³)	85294.00	88,241.85	2,714.85	3.17
17	Measured >50MI 0.5" & 8.0" meter (145,000m ³)	96844.96	100,163.04	3,085.08	3.18
18	Measured >50MI 0.75" & 12.0" meter (250,000m ³)	164817.55	170,160.65	5,110.10	3.10