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15 January 2015

Dear Ms Ross

### **Assurance of proposed 2015/16 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 Schemes sent to Ofwat on 16 January 2015 for approval comply with its regulatory requirements.

On 3 October 2014 the Company submitted an early indication of proposed charges for 2015/16 to Ofwat. These were based on the Draft Determination. In its feedback to the Company, Ofwat highlighted a number of issues and required an update on progress in addressing the issues by 12 December 2014. This was duly undertaken. To date no feedback has been received on our report.

The Board believe this submission has addressed the concerns highlighted and indeed are able to state that such issues do not arise in this submission.

The Board have been actively involved throughout the progress of this submission. There was full discussion on the issue at the November Board meeting with a detailed workshop with management and external advisers of the Company on 8 January 2015. Directors were also in attendance when the management presented the proposal to our Customer Challenge Group, including CCWater, also on 8 January 2015.

The Board therefore believes it is in a position to confirm the following:-

- a) The Company complies with its legal obligations (including competition law) relating to the charges set out in its Charges Schemes.

*Specifically we confirm that the charges result in compliance with the three revenue caps of wholesale, household retail and non-household retail and that the costs associated with Open Water are appropriately recovered from our non-household customer base only.*

*We propose to continue to develop our wholesale charges and application of retail margins over the next year.*

*Further we are able to confirm that:-*

- The differential between household measured and unmeasured projected bills is circa £31 to reflect the additional cost incurred in metering*
- Assessed charges are consistent with volumes of similarly measured properties.*
- The Watersure tariff is set equal to the average household bill.*

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

*We have engaged a third party to review this submission in light of (a) above 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 of the water industry and experience in advising clients in Scotland on tariff issues in particular, given the similarities of approach with England & Wales. Their letter to the Board is enclosed with this submission.*

- b) *The Board has assessed the effects the new 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 greater than 5% as a result of the proposed price changes. Over 30 illustrative bills have been presented, 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.*

*Critically for this submission the Board acknowledge the importance of the projected denominators for the charging year 2015/16. These have been established with reference to the mid-year position for 2014/15 with the same growth forecasts as per our Business Plan.*

*We have engaged our financial auditors, Saffery Champness to audit the 2014/15 base data. They have confirmed that the historic data on which we have established our 2015/16 denominators is accurate.*

*The Board believe Saffery Champness are well placed to give this assurance given their knowledge of the Company systems as part of its annual audits, in particular our new billing system which was installed in October 2012. Their report is enclosed with this submission.*

- d) *The Company has consulted the Consumer Council for Water (CCWater) in a timely and effective manner on their charges schemes.*

*The Company confirms that it has consulted with CCWater in a timely and effective manner.*

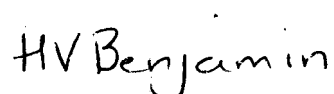
*We received initial feedback on a limited number of issues from CCWater on 4 December 2014. The Company has responded to each of these issues to the satisfaction of CCWater.*

*A meeting was held with CCWater on 8 January 2015 to discuss and confirm their position.*

*Email confirmation was received on 13 January from CCWater that they had been appropriately consulted with in a timely and effective manner. This email is enclosed with this submission.*

To conclude therefore we re-state that the Board of Portsmouth Water believe that the tariffs and associated Charges Schemes sent to Ofwat on 16 January 2015 for approval comply with its regulatory requirements.

Finally we note the requirement that the Company should publish its Assurance Statement. This statement will be available on our website on 16 January 2015.



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



**Neville Smith**  
**Managing Director**