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11 January 2016

Dear Cathryn

### **Letter of Assurance re 2016/17 Charges Schemes**

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 which will be published by 1 February 2016 comply with its regulatory requirements.

The Board have been actively involved throughout the progress of this submission. There was detailed discussion on the issue at the October and December Board meetings with a meeting of the Audit Committee with management and external advisers of the Company on 7 January 2016.

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.*

*Further we are able to confirm that:-*

- *The bill “differential” for household 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 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 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.*

- 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 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 appropriate.

*The Board acknowledge the importance of the projected denominators for the charging year 2016/17. These have been established with reference to the mid-year position for 2015/16 with the growth forecasts as per our Business Plan.*

*We have engaged our technical auditors, WS Atkins to audit the 2015/16 base data. They have confirmed that the historic data on which we have established our 2016/17 denominators is appropriate.*

*The Board believe WS Atkins are well placed to give this assurance given their knowledge of the Company systems as part of its annual audits, in particular our billing system which was installed in October 2012.*

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

*We have consulted CCWater on all aspects of our charges schemes and specifically the development of our social tariff proposals. When we met with local CCWater representatives on 24 November 2015 they raised only a few issues with us.*

*The Company has now responded to each of these issues to the satisfaction of CCWater.*

*An e-mail to confirm the above has been received from CCWater dated 8 January 2016.*

To conclude therefore we re-iterate that the Board of Portsmouth Water believe that the tariffs and associated Charges Schemes to be published before 1 February 2016 comply with its regulatory requirements.

Finally we note the requirement that the Company should publish its assurance statement. This statement will be published on our website on 11 January 2016 and sent to Ofwat with information on significant changes to tariffs and average household bill information as attached.



**Heather Benjamin**

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



**Helen Orton**

**Finance and Regulation Director**

## Statement of significant changes to bills 2016/17

*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 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 Retail Price Index in an inflation rate of 1.1% we confirm that the resultant price increases for any class of customer are no greater than 2.5%; these price changes will apply as of 1 July 2016*

*The table below shows the ranges for each of our 6 classes of customer.*

	Range of price movements (%)
Unmeasured household	(0.09) – 1.74
Measured household	0.75 – 1.99
Unmeasured non-household	1.65 – 1.86
Measured non – household < 10MI	2.11 – 2.29
Measured non – household 10MI – 50 MI	2.30 – 2.46
Measured non – household > 50MI	1.99 – 2.38

## Average household bill information

The Board confirms that it quantifies the effects of our charges on average household bills for the regulatory years as follows:-

<b>COMPANY NAME: Portsmouth Water</b>				
<b>HOUSEHOLD AVERAGE BILLS INFORMATION FOR 2016-17</b>				
<b>Table 1: Water supply services</b>				
		<b>Revenue for 2014-15 (£m)</b>	<b>Properties, 2014-15 ('000)</b>	<b>Final average bill for 2014-15 (£)</b>
1	Unmeasured supplies - household	21.018	213.419	£98.48
2	Measured supplies - household	6.331	72.358	£87.50
3	Total	27.349	285.777	£95.70
		<b>Revenue for 2015-16 (£m)</b>	<b>Properties, 2015-16 ('000)</b>	<b>Provisional average bill for 2015-16 (£)</b>
4	Unmeasured supplies - household	20.816	208.274	£99.95
5	Measured supplies - household	7.157	78.285	£91.42
6	Total	27.973	286.559	£97.62
		<b>Revenue for 2016-17 (£m)</b>	<b>Properties, 2016-17 ('000)</b>	<b>Forecast average bill for 2016-17 (£)</b>
7	Unmeasured supplies - household	20.706	204.173	£101.41
8	Measured supplies - household	7.912	86.760	£91.19
9	Total	28.618	290.933	£98.37