



To whom it may concern

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Dear Sir

### **Letter of Assurance from Portsmouth Water Board re 2020/21 Wholesale Charges**

This letter is addressed to the customers of Portsmouth Water and other interested parties, including Non-Household Retailers.

Since publishing our wholesale charges on 14 January 2020 we have identified an error in our proposed charges. We immediately contacted Ofwat and agreed an appropriate course of action.

We have published a statement explaining how this issue has occurred, and the consequences for wholesale charges in general.

The Board are disappointed that we need to revise our charges at this late stage and have undertaken a full review as to the reasons why this occurred and the mitigations it will put in place to ensure it does not occur again.

This letter confirms that the Board of Portsmouth Water believe that the tariffs and associated Charges Schemes which will be published 20 March 2020 comply with its regulatory requirements.

The Board have been actively involved throughout the progress of this Charges Scheme. There was detailed discussion on the subject at the September and December Board meetings and a specific meeting of the Chairman of the Audit Committee, management and external advisers of the Company on 9 January 2020 and also on 18 March 2020

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

- a) the Company complies with its legal obligations relating to the Wholesale Charges it has published;

*Specifically the Board confirms that the charges are compliant with the wholesale revenue cap determined by Ofwat at PR19 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).*

*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.*

- b) the Board has assessed the effects of the new charges on water supply and sewerage licensees (as a whole or in groups) who are retailing wholesale services and on customers occupying Eligible Premises (as a whole or in groups) and approves the impact assessments and handling strategies developed in instances where bill increases for licensees (as a whole or in groups) who are retailing wholesale services and on customers occupying Eligible Premises (as a whole or in groups) exceed 5%;

*The Board can confirm that no wholesale tariff will increase. The Final Determination published by Ofwat on 16 December 2019 requires charges to fall in 2020/21.*

*33 illustrative customer groups have been reviewed, including the average in a class and an upper and lower customer in the class as required by Ofwat guidelines.*

*For non-household customers the total bill reduction ranges from 2.4% to 8.4% depending on the method of charge and usage. Thus we do not need to establish either an impact assessment or a handling strategy for any class of customer.*

- c) the Company has appropriate systems and processes in place (including up-to-date models and data) to make sure that the information published about its Wholesale Charges 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, Jacobs, to audit the denominators. They have confirmed that the historic data on which we have established our 2020/21 denominators is appropriate. The Board believe Jacobs are well placed to give this assurance given their knowledge of the industry and specific experience on this issue.*

- d) the Company has consulted with relevant stakeholders in a timely and effective manner on its Wholesale Charges;

*The Company confirms that it has consulted with CCWater in particular, who it considers to be the relevant stakeholder, in a timely and effective manner. We received a letter of support for our proposed charges from CCWater on 12 March 2020.*

- e) where Final Wholesale Charges are significantly different from the indicative Wholesale Charges published for the same period, the Board has considered the reasons why those

changes occurred and has issued a statement explaining why those changes were not anticipated and/or mitigated.

*We have compared our final wholesale charges for 2020/21 with the draft charges we published on 11 October 2019. There are changes in the proposed tariffs, reflecting the movement in allowed revenue between the Draft Determination, published by Ofwat in July 2019 and the Final Determination, published by Ofwat in December 2019.*

*In addition there are minor changes in assumptions on numbers and usage, the final tariffs have been adjusted slightly to give a more equal distribution of the price reduction amongst the different customer types.*

*The Board therefore conclude that whilst there have been changes between the draft and final charges for 2020/21, these are driven largely by the Ofwat determination.*

### **Conclusion**

The Board of Portsmouth Water believe that the tariffs and associated wholesale Charges Scheme, to be published 20 March 2020 complies with the Company's legal and regulatory requirements.

This statement will be published on our website on 20 March 2020 and sent to Ofwat together with information on significant changes to tariffs and average household bill information.



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



**Helen Orton**  
**Finance and Regulation Director**