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13 January 2021

Dear Ms Fletcher

Letter of Assurance from Portsmouth Water Board with respect to Wholesale Charges 2021/22

This letter, together with the resultant wholesale bills (included in Appendix 1), provides Board assurance in relation to the 2021/22 wholesale 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 Wholesale Tariffs, published on 11 January 2021 for the next charging year (2021/22), 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 2021/22 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 for us starts 1 July 2021. Since March 2020 we have seen an increase in household consumption and a significant reduction in non-household (or commercial) use. These trends are assumed to continue into 2021/22.

We are also mindful that there are significant economic pressures on both our household and non-household customers. No customer will see a price increase greater than 4% when our new charging year starts on 1 July 2021; we will continue to offer support to customers who are struggling to pay their water bills.

Finally, we can confirm that our water charges remain the lowest in England and Wales.

The Board discussed the 2021/22 tariffs at its meeting in November 2020 and asked two directors to progress this issue further on its behalf. A meeting was held on 7 January 2021 to review and approve both this statement and the Household tariffs for 2021/22 on behalf of the Board.

In reaching its conclusion, the Board had regard to external assurance work provided by Frontier Economics and Jacobs. 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. Jacobs have reviewed the assumptions for both customer numbers and volumes which are likely to occur in 2021/22 and have concluded that the assumptions are reasonable given the uncertainty Covid presents. The Board consider both Frontier Economics and Jacobs 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 Wholesale 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 wholesale tariffs we are able to confirm that as a consequence of these tariffs

- The total bill differential for customers using the same volume of water but charged on different basis, namely measured and unmeasured, is circa £39 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 Wholesale 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 wholesale bills, for a range of 18 non-household customer types and can confirm that no group of customers will experience a change in bills greater than 5% as a result of the proposed price changes.

33 groups of customer in total have been reviewed including household, analysing the average in a class and an upper and lower customer in the class as required by Ofwat guidelines. Our household analysis is included in our Assurance Statement to be published 29 January 2021.

- 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) and other stakeholders, including retailers and NAVs in a timely and effective manner as we have progressed our Wholesale Charges Schemes.

To conclude, therefore, the Board of Portsmouth Water consider that the Wholesale Charges, published on 13 January 2021, 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 13 January 2021 and sent to Ofwat at the same time.

On behalf of the Board.

A handwritten signature in black ink, consisting of a large, stylized loop followed by a horizontal line.

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

A handwritten signature in black ink, appearing to read 'Helen Orton' in a cursive style.

Helen Orton
Finance and Regulation Director

13 January 2021

Appendix 1

Statement of significant changes to bills 2021/22

The Board of Portsmouth Water has assessed the effects that its 2021/22 charges have on customers' bills, assuming no change in demand, 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.

18 groups of non-household customers 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 2020 Consumer Price Index (excluding housing costs) resulting in an inflation rate of 0.6% we confirm that the resultant price increases for any class of customer are no greater than 4%.

As the Company is no longer a retailer to these customers, we present below the impact of the changes to our wholesale charges for 2021/22. We have selected 18 "typical" non-household customers to illustrate how the price changes affect different customers. The range of price increases is from 2.34% - 3.99%.

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,*
- more than 10,000 but less than 50,000 m³ (50 MI) per annum and*
- more than 50,000 m³ per annum*

Different standing charges also apply depending on the size of the meter assumed in the illustration.

Table 1 - Non-Household Wholesale Bills

		2020/21	2021/22		
	m3 pa	Bill (£)	Bill (£)	Variance (£)	Variance (%)
Unmeasured Non-Household RV £170		73.83	75.56	1.73	2.34%
Unmeasured Non-Household RV £500		195.27	201.90	6.63	3.39%
Unmeasured Non-Household RV £800		305.67	316.75	11.08	3.63%
Licence Charge		90.90	93.72	2.82	3.10%
Minimum Charge		59.88	61.93	2.05	3.42%
Measured Non-HH <10MI 0.5" meter	266	199.79	207.26	7.47	3.74%
Measured Non-HH <10MI 0.75" meter	375	282.32	292.74	10.42	3.69%
Measured Non-HH <10MI 1.5" meter	5000	3,734.19	3,882.96	148.76	3.98%
Measured Non-HH <10MI 0.5" meter	100	80.43	83.31	2.88	3.58%
Measured Non-HH >10MI and <50MI 0.75"	10000	7,203.04	7,479.52	276.49	3.84%
Measured Non-HH >10MI and <50MI 1.0"	18000	12,838.09	13,331.72	493.63	3.85%
Measured Non-HH >10MI and <50MI 2.0"	20000	14,347.70	14,903.06	555.36	3.87%
Measured Non-HH >10MI and <50MI 4.0"	21000	15,534.98	16,154.08	619.10	3.99%
Measured Non-HH >10MI and <50MI 4.0"	40000	28,797.64	29,921.15	1,123.50	3.90%
Measured Non-HH >50MI 0.75"	95000	61,687.60	64,024.83	2,337.23	3.79%
Measured Non-HH >50MI 0.5" & 3.0"	130000	82,794.45	85,937.49	3,143.03	3.80%
Measured Non-HH >50MI 0.5" & 8.0"	145000	93,915.52	97,564.74	3,649.22	3.89%
Measured Non-HH >50MI 0.75" & 12.0"	250000	159,841.96	166,112.43	6,270.48	3.92%