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10 October 2022

Dear David,

Letter of Board Assurance relating to the 2023/24 draft Wholesale Tariffs

This letter confirms that the Board of Portsmouth Water believes that the draft Wholesale Tariffs, published on 10 October 2022 for the next charging year (2023/24), comply with the Company's 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 making the statements below we have also prepared draft Retail Tariffs for 2023/24, although these are not published.

The Board discussed the draft Wholesale Tariffs for 2022/23 at its meeting on 27 September 2022. Overall, it has endorsed to increase the draft average Wholesale Tariffs by 7.8%, which is lower than our current November CPIH estimate of 9%.

In determining our draft Wholesale Tariffs for 2023/24 we have considered the impact of the Covid pandemic on the usage patterns of different customer groups for our next charging year, which starts 1 July 2023. At this stage of setting our draft Wholesale Tariffs we have assumed that customer demand, in particular household and non-household demand, will continue to be consistent with 2021/22 actuals. However, we will keep this under review. If we need to revise these assumptions as a result of materially different data becoming available to us when before we determine our final Tariffs, in January 2023, we will update stakeholders accordingly.

The Board has discussed the impact of high inflation in considering our draft Wholesale Tariffs for 2023/24. It is estimated that November CPIH will be at 9%, resulting in all groups of customers experiencing a change in bills greater than 5%. To mitigate against the increase, we will be asking for our 2020/21 ODI deferral to continue to be deferred in our

response to our in-period ODI draft determination. This equates to a reduction in draft Wholesale Tariffs of 1.1%, from 8.9% to 7.8%.

The Board asked a subcommittee to progress this issue further on its behalf. A meeting was held on 6 October to review and approve both this statement and the draft Wholesale Tariffs for 2023/24 on behalf of the Board.

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 (CCWater) in a timely and effective manner on its charges schemes.

We therefore provide our assurance that the draft Wholesale Tariffs 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 draft Wholesale Tariffs result in compliance with the revenue cap for water resources and network plus price controls.

Further in determining our draft Wholesale Tariffs we are able to confirm that as a consequence of these wholesale charges:

- The total bill differential for customers using the same volume of water but charged on different basis, namely measured and unmeasured, is circa £44 to which reflects the additional cost incurred in metering.
- Assessed charges are calculated using volumes of similarly measured properties.
- The total Watersure tariff is set equal to the average measured household bill.

As such we do not believe the draft Wholesale Tariffs exhibit any undue discrimination between different classes of customer.

Whilst the Company has rigorous processes in place to accurately develop its draft Wholesale 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 undertaken a short review of these tariffs and has confirmed that the proposals are compliant with Charges Scheme rules.

The Board believes Frontier Economics are well placed to give this assurance given their knowledge of the water industry.

The Board therefore confirms that charges included in its draft Wholesale Tariffs 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 draft Wholesale Tariffs on customers' bills, for a range of 33 customer types. Due to estimated high inflation of 9% (CPIH), the Board can confirm that all groups of customers will experience a change in bills greater than 5% as a result of the proposed wholesale price changes.

33 groups of customers have been reviewed. This includes the average in each class and an upper and lower customer in each class as required by Ofwat guidelines.

We have completed research into understanding the views of vulnerable customers, in order to ensure that we are meeting their needs. Whilst, overall, customers were positive about the service they receive from us, the research highlighted that we could improve awareness of our bill support schemes. The Company has started to develop an improved affordability communication strategy, which will be assessed by the Board ahead of publishing final wholesale tariffs in January 2023. We are also currently undertaking additional research to expand offers to vulnerable customers, especially our Social Tariff.

- 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 and Risk 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 the Corporate Governance Annual Report & Accounts external assurance and the extent that these have been mitigated.

The Board therefore confirms that the Company has appropriate systems and processes in place to make sure that the data underlying the draft tariffs in this letter is accurate.

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

The Company consulted with the Consumer Council for Water (CCW) on 4 October 2022, outlining reasons for change in the draft Wholesale Tariff of greater than 5%.

CCW welcomed continued deferral of 20/21 ODI rewards, and noted that increases in draft wholesale tariffs that were below inflation.

To conclude, therefore, we re-iterate that the Board believes that the draft Wholesale Tariffs, published on 10 October 2022, 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 10 October 2022 and sent to Ofwat at the same time.

A handwritten signature in black ink, appearing to be 'L. Stoimenova', written over a light blue horizontal line.

Lara Stoimenova
Non-Executive Director and chair of the Audit and Risk Committee

A handwritten signature in black ink, appearing to be 'C. Milner', written in a cursive style.

Chris Milner
Chief Financial Officer

APPENDIX 1

Portsmouth Water - Draft Wholesale tariffs 2023/24

Based on OFWAT Final Determination (published December 2019) and adjusted for Blind Year Adjustment (published September 2021).

Table 1 - Household unmeasured

	2022/23 £	2023/24 £	Change %
Standing Charge	10.07	11.53	14.5
Rateable Value Charge (£/RV)	0.4064	0.4466	9.9
Licence Charge	99.46	109.81	10.4
Minimum Charge	64.50	71.97	11.6
Social Tariff	64.50	71.97	11.6
Assessed Charge 1	53.74	59.77	11.2
Assessed Charge 2	84.58	93.52	10.6

Table 2 - Household measured

	2022/23 £	2023/24 £	Change %
General: 12/15 mm (0.5")	10.13	11.53	13.8
General: 20/22 mm (0.75")	14.66	16.47	12.3
General: 25/28 mm (1")	72.74	79.69	9.5
General: 40/42 mm (1.5")	159.34	174.55	9.5
General: 50/54 mm (2")	202.90	222.27	9.5
General: 75/80 mm (3")	300.26	328.92	9.5
General: 100 mm (4")	763.75	836.65	9.5
General: 150 mm (6")	1702.33	1864.81	9.5
Volumetric Charge (£/m3)	0.7823	0.8615	10.1
WaterSure	93.69	103.11	10.1

Table 3 - Non- Household unmeasured

	2022/23 £	2023/24 £	Change %
Standing Charge	10.19	11.49	12.8
Rateable Value Charge (£/RV)	0.4072	0.4463	9.6
Licence Charge	100.12	109.58	9.4
Minimum Charge	64.81	71.86	10.9

Table 4 - Non- Household measured

	2022/23 £	2023/24 £	Change %
General: 12/15 mm (0.5")	9.62	11.70	21.7
General: 20/22 mm (0.75")	14.71	16.45	11.8
General: 25/28 mm (1")	72.74	79.69	9.5
General: 40/42 mm (1.5")	159.34	174.55	9.5
General: 50/54 mm (2")	202.90	222.27	9.5
General: 75/80 mm (3")	300.26	328.92	9.5
General: 100 mm (4")	763.75	836.65	9.5
General: 150 mm (6")	1702.33	1864.81	9.5
General: 200 mm (8")	2820.37	3089.86	9.6
General: 300 mm (12")	6765.74	7412.21	9.6
Volumetric Charge < 10MI (£/m3)	0.7926	0.8580	8.3
Intermediate Volume charge 10MI - 50MI (£/m3)	0.7693	0.8327	8.2
Large User Volumetric Charge > 50MI (£/m3)	0.6555	0.7096	8.2
Site Fee 10MI - 50MI	233.59	253.20	8.4
Large User Site Fee	5686.48	6156.56	8.3