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13 January 2023

Dear David,

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

This letter is addressed to Ofwat and other interested parties.

This letter confirms that the Board of Portsmouth Water believe that the final Wholesale Tariffs, published on 13 January 2023 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 October 2021 (the Charges Scheme Rules).

The Board discussed the 2023/24 tariffs at its meeting on 27 September 2022 and asked a subcommittee to progress this issue further on its behalf. A meeting was held on 06 January 2023 to review and approve both this statement and the final Wholesale tariffs for 2023/24 on behalf of the Board.

The Board has discussed the impact of high inflation in considering our Wholesale Tariffs for 2023/24. November CPIH was 9.4%, resulting in all groups of customers experiencing a change in bills greater than 5%. To mitigate against the increase, the Board can confirm the decision to continue to defer 2020/21 ODI rewards, which was accepted by Ofwat in our final ODI determination. This equates to a reduction in Wholesale Tariffs of 1.1%, from 8.2% to 7.1%.

The Board has also agreed to further initiatives and actions to support customers through cost-of-living pressures. These are outlined in our letter to Ofwat and CCW on 08 December 2022, and include:

- Continuing to maintain the lowest water bills in the industry,
- Extending our payment holiday and free leak repair and allowance offerings,

- Working to develop an adaptive plan for our social tariff that aligns with Ofwat's Long-Term Delivery Strategy,
- Collaborating with local organisations in the communities we serve on initiatives that benefit our customers, and
- Investing in a new CRM and Billing platform to deliver industry-leading capabilities to customers.

In making this statement we have reviewed the Charges Scheme Rules, first published by Ofwat on 17 November 2015 and updated on 20 October 2021. 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 final 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 wholesale tariffs

- *The total bill differential for customers using the same volume of water but charged on different basis, namely measured and unmeasured, is circa £38 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 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 undertaken a short review of these tariffs and has confirmed that the proposal is compliant.

The Board believe 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 final 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 customers' bills, for a range of 33 customer types. The high inflation of 9.4% has resulted in all groups of customers experiencing a change in bills greater than 5% because of the proposed wholesale price changes.

33 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.

The Board has previously approved handling strategies developed to provide support mechanisms which help customers who are struggling financially. These include arrears assist, social tariff, Watersure, having a water meter installed, working with vulnerable customers, and payment holidays. Portsmouth Water has worked hard to promote these support mechanisms and further communication will be conducted before 2023/24 tariffs commence.

Portsmouth Water wrote to Ofwat and CCW on 08 December 2022 outlining further initiatives and actions in place to support customers through cost-of-living pressures. These include:

- The continued deferral of ODI rewards received for outperformance in 2020/21,*
- Continuing to maintain the lowest water bills in the industry,*
- Extending our payment holiday and free leak repair and allowance offerings,*
- Working to develop an adaptive plan for our social tariff that aligns with Ofwat's Long-Term Delivery Strategy,*
- Collaborating with local organisations in the communities we serve on initiatives that benefit our customers, and*
- Investing in a new CRM and Billing platform to deliver industry-leading capabilities to customers.*

- 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.*

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

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

To conclude, therefore, we re-iterate that the Board of Portsmouth Water believe that the final wholesale tariffs, published on 13 January 2023, 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 2023 and sent to Ofwat at the same time.



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



Chris Milner
Chief Financial Officer

APPENDIX 1

Portsmouth Water – Final 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	11.43	13.5
Rateable Value Charge (£/RV)	0.4064	0.4425	8.9
Licence Charge	99.46	108.81	9.4
Minimum Charge	64.50	71.31	10.6
Social Tariff	64.50	71.31	10.6
Assessed Charge 1	53.74	58.99	9.8
Assessed Charge 2	84.58	93.87	11.0

Table 2 - Household measured

	2022/23 £	2023/24 £	Change %
General: 12/15 mm (0.5")	10.13	11.43	12.8
General: 20/22 mm (0.75")	14.66	16.32	11.3
General: 25/28 mm (1")	72.74	78.96	8.5
General: 40/42 mm (1.5")	159.34	172.96	8.5
General: 50/54 mm (2")	202.90	220.24	8.5
General: 75/80 mm (3")	300.26	325.92	8.5
General: 100 mm (4")	763.75	829.02	8.5
General: 150 mm (6")	1702.33	1847.80	8.5
Volumetric Charge (£/m3)	0.7823	0.8536	9.1
WaterSure	93.69	102.00	8.9

Table 3 - Non- Household unmeasured

	2022/23 £	2023/24 £	Change %
Standing Charge	10.19	11.39	11.8
Rateable Value Charge (£/RV)	0.4072	0.4422	8.6
Licence Charge	100.12	108.59	8.5
Minimum Charge	64.81	71.21	9.9

Table 4 - Non- Household measured

	2022/23 £	2023/24 £	Change %
General: 12/15 mm (0.5")	9.62	11.60	20.6
General: 20/22 mm (0.75")	14.71	16.30	10.8
General: 25/28 mm (1")	72.74	78.96	8.5
General: 40/42 mm (1.5")	159.34	172.96	8.5

General: 50/54 mm (2")	202.90	220.24	8.5
General: 75/80 mm (3")	300.26	325.92	8.5
General: 100 mm (4")	763.75	829.02	8.5
General: 150 mm (6")	1702.33	1847.80	8.5
General: 200 mm (8")	2820.37	3061.67	8.6
General: 300 mm (12")	6765.74	7344.61	8.6
Volumetric Charge < 10MI (£/m3)	0.7926	0.8502	7.3
Intermediate Volume charge 10MI - 50MI (£/m3)	0.7693	0.8251	7.3
Large User Volumetric Charge > 50MI (£/m3)	0.6555	0.7031	7.3
Site Fee 10MI - 50MI	233.59	250.88	7.4
Large User Site Fee	5686.48	6100.25	7.3