



Phil Griffiths
NHH Retail Price Review
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14 July 2016

Dear Mr Griffiths

PRT submission to the Business Retail Price Review, PR16.

Please find enclosed our submission for the Business Retail Price Review, PR16.

This submission was discussed by the Board on 29 June and they have delegated authority to me to respond on behalf of the Company and in particular sign off the Board Assurance Statement as required.

Portsmouth Water intends to exit the non-household retail market when it opens, assumed to be 1 April 2017. We shall dispose of our customer base to Castle Water. Further, given our charging year starts 1 July, the tariffs which will apply in subsequent years will be based on 2016/17 tariffs which will be in place at our time of exit.

In preparing our submission we have reviewed and note your requirements that:-

- No adjustment is made to the overall level of business retail costs
- No adjustment is made to the overall net margin of 2.5%
- That movements in property counts reflect reclassification to residential rather than significant changes to business customer numbers.

We also note the requirement to establish uniform caps for medium and large users in particular, in accordance with the first two bullet points above. Our submission reflects these two requirements and is explained in section 1 of this note.

To confirm we shall not change our actual NHH tariffs as a result of this exercise.

We also provide a comparison between the number of customers in each band assumed in the Final Determination and actual (or outturn) values, to address your third bullet point above. This is described in section 2 of this note.

The Board Assurance Statement is given in section 3 of this note.

If you wish to discuss further, please do not hesitate to contact me.

Kind regards,

A handwritten signature in black ink, appearing to read "Helen Orton".

Helen Orton
Finance and Regulation Director
h.orton@portsmouthwater.co.uk

1. Reallocation of medium and large users

We note the requirement to allocate medium and large users into two specific bands, 5-50 MI pa and greater than 50 MI pa.

Our tariff structure (and indeed the cost analysis underpinning our Business Plan (June 2014)) had the split at 10 – 50 MI pa, rather than 5 – 50 MI pa as now required.

The average revenue per customer in the Final Determination did not align to our detailed analysis of costs submitted in June 2014 where in particular our analysis showed the same required average revenue per customer for the 10-50 MI class and the greater than 50 MI class. Specifically both classes of customer have twelve meter readings (and bills) per year. The Final Determination did not arrive at the same conclusion, see table below. The data shown below is from the Final Determination for the year 2017/18.

2017/18	PRT Bands	Number of customers	Avg. revenue per customer (£)
Unmeasured		1,481	16.67
Measured	0-10 MI	14,244	20.22
	10-50 MI	153	40.35
	> 50 MI	28	36.74

To comply with this reporting requirement for PR16 we have looked in particular at the customers using between 5-10MI and reallocated them into the intermediate volume band. We can confirm that we have 182 customers using 5-10 MI per annum, and that their average metering reading frequency is 4.27, and thus more frequent than determined in our 0-10 MI band at 2.16 reads per year.

The impact on the meter reading frequency for the 0-5 MI is negligible, reducing to 2.13 reads per annum. We do not believe this warrants a revision to the costs which under pin the allowed revenue for this class.

Further, given the requirement that overall business retail costs should not be adjusted, we therefore assume the customers consuming 5-10 MI have an average allowed revenue of £20.22 and move these customers into the intermediate band with the result being that the average revenue is reduced from £40.35 to £29.41.

2017/18	Ofwat Bands	Number of customers	Avg. revenue per customer (£)
Unmeasured		1,481	16.67
Measured	0-5 MI	14,062	20.22
	5-50 MI	335	29.41
	> 50 MI	28	36.74

The profile of average revenue per customer appears appropriate.

2. Comparison of property counts

We note the expectation to compare property counts between those assumed in the Final Determination and actual. We therefore provide the table below for 2015/16.

Non-household property count

2015/16	PRT Tariff Bands	Final Determination	Actual
Unmeasured		1,620	1,553
Measured	0-10 MI	14,105	14,029
	10-50 MI	153	132
	> 50 MI	28	28
Total		15,906	15,742

Actual Non-household properties are 164 lower than those assumed in the FD.

In comparison our actual household property count is 515 greater than that assumed in the FD. Detail is given below.

Household property count

2015/16	Final Determination	Actual
Unmeasured	207,723	210,156
Measured	80,427	78,509
Total	288,150	288,665

We therefore conclude that in aggregate there is no significant variation to non-household property counts in particular that should revise the allowed revenue per customer.

3. Board Assurance Statement

The information provided in this submission:-

- Is consistent with our legal obligations (including where relevant, the prohibitions on undue discrimination or preference in licence condition E and condition R, and the charging rules issued by Ofwat under section 143 B of WIA 1991) and competition law;
- Confirms that the original allocations and attributes that informed PR14 final determinations remain reasonable, and as such we have not engaged with our Customer Challenge Group or customers in general, and
- That data tables have been completed accurately and consistent with Ofwat guidance.



Helen Orton
Finance and Regulation Director
14 July 2016