

21st October 2021



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Please ask for Jamie Jones
Our Ref [REDACTED]
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Dear Ken,

Portsmouth Water response to draft determination of in-period ODIs 2020/21.

Thank you for the opportunity to respond to the draft determination of our in-period ODIs for 2020/21. Whilst we are supportive of the majority of our draft determination, we wish to make one amendment: to defer £323k of ODI net reward.

We have recently published our draft wholesale charges for 2022/23, which can be viewed on our website, at <https://www.portsmouthwater.co.uk/news/publications/access-code/>. We report that we are expecting to see an average tariff increase of 4.7%, which is driven by high projected November 2021 CPIH inflation of 3.5%, and our strong 2020/21 performance resulting in net ODI rewards.

Within the draft wholesale charges, we propose to retain the £323k penalty for underperformance of our Per Capita Consumption (PCC) performance commitment. The draft determination of in-period ODI's does not include this penalty, proposing to defer assessment of PCC until end-of-period. The result of this change is that we now would expect the average tariff increase to be 5.8%.

We fully support the rationale behind Ofwat's decision to defer the assessment of PCC until end-of-period to allow time for conduct further analysis. We agree that PCC has been significantly affected by changes in customer water use behaviour in response to the Covid pandemic; namely increased handwashing, increased garden watering and a change in use from non-household to household due to more customers working from home.

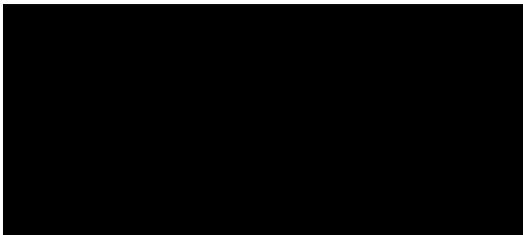
We have observed a 12% increase in household usage during 2020/21 and are continuing to see similar usage during 2021/22. However, we recognise that our PCC performance, adjusting for this impact, would still not meet our ODI targets for FY20/21 and we would still be in a penalty position adjusting for this impact. Furthermore, we are also cognisant of the financial impact the Covid pandemic has had on our customer base. We feel that an average tariff increase of 5.8%, at a time when other utility bills, fuel and food prices are increasing, would not be the right thing to do for customers.

We therefore propose to defer the equivalent value of £323k penalty from our net ODI reward from 2020/21 to keep the average tariff increase in line with our draft wholesale charges, at a forecasted 4.7%. The deferment will also reduce tariff volatility in future years.

To align with the deferment of the assessment of PCC, we propose to instead defer £323k from our net ODI reward in Water Network Plus.

We understand that 4.7% is a significant tariff increase in the current economic environment, albeit on the lowest water bills in the sector. Therefore, we plan to undertake further customer research on the matter and have already made contact with CCWater to discuss our approach. We will complete a programme of customer engagement before submitting final tariffs in January 2022. We are also working hard to reduce demand through a refreshed water efficiency campaign which started in 2021.

Yours sincerely,



C R TAYLOR
Chief Executive Officer