

20 October 2022



[REDACTED]
Ofwat
Centre City Tower
7 Hill Street
Birmingham
B5 4UA

Registered Office:
Portsmouth Water Ltd
PO Box 8
Havant
Hampshire PO9 1LG

Tel: 023 9249 9888
Fax: 023 9245 3632
Web: www.portsmouthwater.co.uk

Please ask for
Our Ref
Your Ref



Dear Ken,

Portsmouth Water response to draft determination of in-period ODIs 2021/22.

Thank you for the opportunity to respond to the draft determination of our in-period ODIs for 2021/22. Whilst we are supportive of the majority of our draft determination, we wish to make one amendment: to continue to defer £333k of ODI net reward from 2020/21.

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 7.8%, which is driven by projected November 2022 CPIH inflation of 9.0%. Without inflation, our tariff would remain flat, with our strong 2021/22 performance resulting in net ODI rewards offset by an over-recovery of revenue for the previous year.

Within the draft wholesale charges, we propose to continue to defer £323k of net reward from 2020/21, which has now increased to £333k because of the time value of money adjustment. This is the equivalent value of a deferred potential penalty for underperformance of our Per Capita Consumption (PCC) performance commitment in 2020/21. Without the continued deferral of this ODI reward, we would expect the average tariff increase to be 8.9%.

We fully support the rationale behind Ofwat's decision to defer the assessment of PCC until end-of-period, to allow time to conduct further analysis. We agree that PCC has been significantly affected by changes in customer water use behaviour in response to the Covid pandemic and we observed a 12% increase in household usage during 2020/21. The rise in usage was 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 also continued to see high household usage in 2021/22 and the summer of 2022/23 compared to pre-pandemic as customers continue to show different behaviours since Covid.

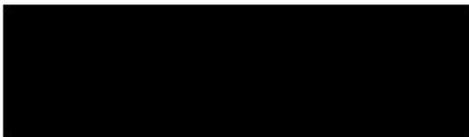
We are facing significant risk on energy costs in 2023/24. Power price inflation is currently considerably higher than CPIH, and we are exposed to market prices from April 2023. Whilst we have put in place energy efficiency initiatives to mitigate the risk, we feel the additional revenue associated with 2021/22 ODI rewards

will be required to offset the additional energy costs. We therefore do not propose to defer 2021/22 ODI reward. However, we are also cognisant of the financial impact the cost-of-living crisis has, and will continue to have, on our customer base. We feel that that continuing to defer 2020/21 ODI rewards, but not 2021/22 rewards, offers a fair balance between our rising costs and customer affordability.

We are always aiming for strong performance across all ODI's, however due to the increasing stretching AMP7 ODI targets, we are not expecting ODI rewards in future years to be of the same magnitude as previous years. We therefore also consider the continued deferral of our 2020/21 ODI reward a way to reduce tariff volatility in future years. We therefore propose to continue to defer the £323k of reward from 2020/21, which has now increased to £333k because of a time value of money adjustment.

We understand that 7.8% is a significant tariff increase in the current economic environment, albeit on the lowest water bills in the sector. We also acknowledge the recent letter from David Black and Emma Clancy on supporting customers through cost-of-living pressures and have discussed with our board additional measures to support customers during the cost-of-living crisis. Whilst we already propose to defer ODI reward for the second year running to mitigate tariff impact, we will continue to monitor inflation between now and submitting our final tariffs in January 2023. We also plan to undertake further customer research on affordability and have already made contact with CCWater to discuss our approach. This will include considering strengthen our social tariff offering, should we get customer support to do so. We will complete the programme of customer engagement before submitting final tariffs in January 2023 and engage with Ofwat and CCWater on additional opportunities to provide further support to customers.

Yours sincerely,

A large black rectangular redaction box covering the signature area.A small black rectangular redaction box covering the name of the Chief Financial Officer.

Chief Financial Officer