Portsmouth Water

BUSINESS PLAN 2025 TO 2030

PRT08 DELIVERING OUR INVESTMENT PLAN

CONTENTS

1. AT A GLANCE

The purpose of this supporting document is to set out our understanding of the challenge that we face and to articulate the approach and actions that we have taken and will take to ensure that our Investment Plan for 2025-2030 is deliverable and the risks are managed.

Delivery of our Investment Plan is essential, and the first step needed to support our vision and long-term delivery strategy, which has at its heart ensuring that we have sufficient good quality drinking water and can supply this to meet customer demand.

Our Investment Plan necessarily requires a 150% increase in capital expenditure to c£170m for AMP8 of which c£115m is enhancement expenditure associated with delivering our WRMP, WINEP, and eCAF obligations and ensuring resilience of our assets to deteriorating raw water.

This increase whilst significant for the company is relatively small both within the sector and compared to the recent step change, that we have successfully managed, to procure the Havant Thicket Reservoir (c£325m).

While we recognise that there will be challenges to delivery of our Investment Plan arising from sector, industry, and global supply issues, we have a track record of delivery and a robust delivery plan that will ensure that we are able to meet our commitments.

We have already started delivery of two key elements of our Investment Plan having secured "accelerated funding" for our new CRM system and SMART metering. Learning from Havant Thicket we have established ringfenced Programme Management Offices for both CRM and SMART metering. Further we have contracted with Kraken Technologies to provide their CRM solution which brings energy sector leading capability that we will migrate to water for an industry first. We are also a founding partner in the kraken "Water Lab" which will be used to test innovative approaches to water and/or energy billing and communications in a controlled environment before rollout to our wider customer base. We have also started early market engagement for SMART metering and data solutions and have interest registered from a significant number of organisations which is helping to shape our approach and procurement of Delivery Partners. We will have our Delivery Partners in place before AMP8 commences.

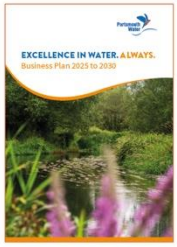
We have worked with pan industry leaders, Arcadis, to assist with the development of our Delivery Model for AMP8 and beyond. This is coalesced around four principles:

- **Building our Capability and Capacity** – we are building a service delivery model that is based on the Intelligent Client, we have established a central PMO with ring fencing of CRM and SMART metering, we are developing and extending our Asset Management and Investment Planning capability and using this to optimise our investment programme, we are increasing our solution development and commercial management capacity to drive efficiency, and we have a People Strategy that will continue to support this.
- **Developing our Supply Chain** – we are developing our supply chain to provide greater expertise and increased flexibility, we will increase the number of Delivery Partners engaged through Framework Agreements and retain competitive tensions to ensure programme and cost efficiency, and we will outsource our direct labour organisation.
- **Leveraging Collaboration and Partnerships** - we have established a sector leading partnerships, i.e. Kraken Technologies, which we will leverage to ensure we maximise the benefit to service and achieving our performance commitments.
- **Enhancing and Embedding Innovation** – we will continue to work with our partner to bring innovation to the benefit of our service and delivery of our Investment Plan, we are a founding partner in the Kraken "Water Lab" and we are using our corporate reach (Ancala Group) to develop innovative "net zero" solutions including heat from water.

We have detailed plans for each of these principles, including a roadmap for delivery, and through adherence to these we will deliver our AMP8 Investment Plan. In developing our plans, we have identified risks to delivery and included mitigation within them as appropriate.

2. DOCUMENT MAP

Business Plan to 2030



PRT01
EXCELLENCE IN WATER. ALWAYS.
Business Plan 2025 to 2030

For the full navigation plan and documents visit **portsmouthwater.co.uk /business-plan-2025-2030**

Supporting Documents

PRT02
Delivering Havant Thicket Reservoir for Our Customers and the Region

PRT03
Engaging and Understanding Our Customers and Communities

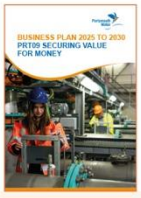
PRT04
Delivering for Our Customers and Communities

PRT05
Delivering Outcomes for Our Customers

PRT06
Managing Our Resilience in the Long Term

PRT07
Our Investment Plan

PRT08
Delivering Our Investment Plan



PRT09
Securing Value for Money

PRT10
Innovation to Enhance Our Service Delivery

PRT11
Addressing Affordability and Vulnerability

PRT12
Accounting for Past Performance

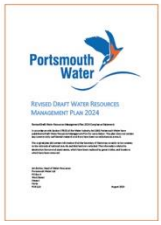
PRT13
Aligning Risk and Return

PRT14
Our People

PRT15
Board Assurance

Vision and Our Long-Term Plans

PRT16
Our 25-Year Vision (consultation version)



PRT17
Water Resource Management Plan (revised)

PRT18
Long-Term Delivery Strategy 2025-2050

3. DELIVERING OUR INVESTMENT PLAN

A. Introduction

In Ofwat's "Our final methodology for PR24" publication there is a requirement for the Board to assure that:

"PR24 plans and the expenditure proposals within them are deliverable and that the company has put in place measures to ensure that they can be delivered. This includes setting out the steps the Board has taken to satisfy itself that supply chain risk is manageable and delivery plans account for:

- the ability of the company and its supply chain to expand its capacity and capability at the rate required to deliver the increased investment;
- the impact of similar levels of growth across the sector and any overall sector and supply chain capacity constraints; and
- key supply chain risks and capacity constraints, such as the availability of specialist resource or components, e.g., river quality monitors, smart meters, or SuDS designers."

The purpose of this supporting document is to set out our understanding of the challenge that Portsmouth Water faces and to articulate the approach and actions that we have taken and propose to take to ensure that our Investment Plan for the period 2025-2030 is deliverable and the risks are managed.

B. Our Investment Plan

The business plan is a significant milestone in Portsmouth Water's evolution. The company is on the cusp in terms of its ability to provide sufficient drinking water to its customers. It is moving from a position of having access to a surplus of raw water and headroom in its treatment capacity to one where it will have access to less water and little headroom. Population growth, climatic change, and tightening environmental and drinking water standards will influence our ability to maintain service levels in the near and longer term. This is evidenced through reducing abstraction licences and known deterioration of raw water quality that requires enhanced treatment process capability.

It is our future focus that, informed by these changing and challenging conditions, has led us to develop an ambitious long-term plan that will allow us to make step-changes and evolve to maintain our vision of "Excellence in Water, Always".

Our Investment Plan is aligned to and allows us to deliver the first five years of our long-term plan (refer to PTR18 Long Term Delivery Strategy for long term plan). It is structured to achieve this whilst ensuring that our customers' bills remain the lowest in the industry and are affordable to all. Importantly, delivery of our Investment Plan will enable us to achieve our Performance Commitments (refer to PTR05 Delivering Outcomes for Our Customers for details of our Performance Commitments and how they will be delivered) and deliver the required standards of service to our customers as we move forward.

Our Investment Plan is transformative from a position that is already delivering strong performance. It delivers improved performance from base expenditure, and it includes a number of ambitious enhancement Investment programmes (refer to PRT07 Our Investment Plan 2025-2030 for details of the Investment Plan including the Investment Cases).

Within base expenditure we are planning two significant investment programmes associated with the refurbishment of 2 membrane treatment plant and 6 strategic pressure reducing valves. In addition, we are planning to relocate to a new purpose-built Head Office.

Our enhancement investment programme includes 7 Investment Cases or programmes of work. These are summarised in the table that follows:

Reference Number	Summary	AMP8 Totex (£m)
PRT07.01	**Security Resilience and eCAF Compliance at Operational Sites** Enhancement of all site based security to comply with eCAF by 31st March 2028 and SEMD. This includes that which is necessary to protect against cyber attack and provision of physical security across all water treatment sites.	15.9
PRT07.02	**Raw Water Resilience Enhancements (Disinfection)** The risk of cryptosporidium in some sources of raw water has increased and accordingly there is a need to make permanent the UV disinfection at West Street, and to provide UV treatment capability at a further four water treatment works (WTW) being Aldingbourne, Northbrook, Walderton and Worlds End. This will include establishment of an emergency mobile UV treatment facility although installation of connection points at the WTW's will be deferred until AMP9.	14.9
PRT07.03	**Raw Water Deterioration and Drought Capacity Enhancements** The level of nitrate in some sources of raw water is increasing which means that nitrate control/reduction process and increased capacity is required at the Eastergate group of WTW's. This also requires nitrate reduction at Lovedean WTW and a drought capacity improvement at Slindon.	15.3
PRT07.04	**The Isolation and Recovery of Service Reservoirs** Provision of reservoir by-pass facilities, variable speed drives to existing booster pumps, control panels and further automation at thirteen service reservoirs.	3.6
PRT07.05	**WINEP and Protecting the Environment** 9 no. WINEP no deterioration investigation and options appraisal studies and installation of information/monitoring boreholes. To include River Meon abstraction group study and support for Slindon and Madehurst Drought Permits.	4.5
PRT07.06	**Reducing Customer Side Demand (Universal SMART Metering)** Universal SMART Metering programme of all customers in accordance with the WRMP/WRSE, installation of new upgraded CRM, GIS and IFS systems that can support the demand reduction strategy, increased and more developed customer communication and engagement to support demand reduction.	65.5
PRT07.07	**Lead Strategy Implementation** Undertake early work to understand and optimise approach to lead replacement strategy that is to reduce lead to no detectable levels by 2050. This includes replacement of customer lead pies to the first tap for all schools and nurseries in the company area of supply.	2.0

The enhancement Investment Plan includes the core of our WRMP, being the "Reducing Customer Side Demand" Investment Case, our WINEP programme, four Investment Cases that are essential to provide water treatment security, capacity and resilience, and the initial phase of our lead replacement strategy. Within our enhancement Investment Cases there is also a significant digital transformation that is necessary to ensure we are "smart meter ready".

These Investment Cases contribute to a step change in total expenditure that is required for the period 2025-2030 (AMP8) compared to the current AMP7 period. The increases are shown in the following table.

Table 2: Wholesale 2022/23 Prices

£m	Final Determination			Latest
	Water Resources	Water Network+	PR19 Total	PR24 Total
Base Opex	28.4	116.4	144.8	126.1
Base Capex	1.8	46.5	48.3	64.8
Base TOTEX	**30.1**	**163.0**	**193.1**	**190.9**
Enhancement Opex	2.3	0.0	2.3	7.1
Enhancement Capex	5.8	14.2	20.0	117.2
Grants and Contributions	0.0	-6.3	-6.3	-12.2
Third Party Costs	0.0	1.4	1.4	4.1
TOTEX	**38.2**	**172.3**	**210.5**	**307.1**

Our proposed Investment Plan is a c150% increase in capital expenditure (capex) rising from c£68m (AMP7) to c£170m (AMP8) in 2022/23 price base. It is important to reflect that this enhanced level of capex is not a single AMP cycle requirement. The Long-Term Delivery Strategy requires a similar level of capex in AMP9.

In context this is a significant increase for Portsmouth Water, but it is a small capex investment programme relative to other water sector (England and Wales) companies. The "Reducing Customer Side Demand" Investment Case, which is essential to our WRMP, includes our universal SMART metering programme and represents nearly 50% of the increase.

C. Challenges to Delivery of our Investment Plan

We recognise that our Investment Plan represents a step change in the level of capital expenditure and adoption of digital technology. Further, we recognise that there are several significant challenges that we have to address in our planning and execution to ensure delivery of our Investment Plan and the associated outcomes.

We are a small, but agile company that is consistently assessed as delivering a high level of performance at an efficient cost in Ofwat assessments. Our ambition is to continue to deliver a high level of service and at a cost that maintains our position as having the lowest household bills in England and Wales. To do so we will need to ensure that we have sufficient capability and capacity both within the company and in our supply chain.

Internally, the scale and complexity of the Investment Plan and the increasing adoption of digital technology will require organisational, systems and people development and capacity improvements.

Externally, we have two delivery partners, one for infrastructure and one for non-infrastructure. We need to broaden the skills capability of our supply chain and enlarge its capacity.

We also need to develop our external partnerships to ensure specialist support, collaborative opportunities and innovation are considered and their benefits maximised.

This need is against the backdrop of increasing demand from a limited pool in the water, utilities and construction sectors that will affect our ability to increase capability and capacity whether internally or through our supply chain. We know that people with the skill sets required to support delivery of our Investment Plan are in demand resulting in a shortfall and/or inflated costs.

The same market pressures apply to securing supply chain support. This situation is exacerbated by some pool size reductions in the supply chain largely driven by a failure to recover from the impacts of Covid and inflationary pressures.

In addition, the impacts of Brexit, the war in Ukraine and rising demand including in other sectors are leading to rising prices and supply chain delivery issues which could affect delivery of our Investment Plan.

D. Our Approach to Delivering our Investment Plan

We are starting from a strong foundation of consistently delivering high levels of performance, efficiently in all areas monitored by the regulators. This is the foundation from which we will build to continue to deliver our vision of “Excellence in Water, Always”.

We are determined to realise the benefits of our Investment Plan for our customers and the environment.

E. Planning for Our Future

We are developing and adapting our delivery capability and capacity through evolution of our current approach and expansion where specialist knowledge and experience is or will be required.

We have already experienced and managed confidently a step change increase in capital expenditure (c£325m) through the Havant Thicket Reservoir project delivery. This required organisational change, PMO (Programme/Project Management Office) establishment, contracting model evaluation and delivery partner procurement for the first reservoir to be built in the UK for more than 50 years. This learning has been used to inform the development and implementation of our approach to Delivering our Investment Programme for AMP8 and beyond.

CASE STUDY

Havant Thicket Case Study

In October 2021, Portsmouth Water was awarded formal planning approval to construct the UK's first major new reservoir since the 1980s. Havant Thicket Reservoir comes at a critical time where climate change and population growth are adding increasing strain on water supplies and the natural environment. Despite being a relatively small water company, Portsmouth Water has responded robustly to these challenges. The new reservoir will provide a sustainable source of water, enabling the reduction in abstraction from world-renowned chalk streams, the River Test and the River Itchen. It's one of a number of solutions, including other reservoirs, being developed by water companies across the country to increase resilience and keep both rivers and taps flowing for years to come.

At the time of planning approval, Portsmouth Water had only two in-house members of staff working on the project: its Chief Executive Officer and its Communications and Engagement Lead. Since then, the team has grown exponentially, starting with the recruitment of a full time Project Director, followed by an Environmental Manager, two Project Managers, a Finance Manager and a Health and Safety Manager, amongst others. The team has built management information systems, created procedures and completed regulatory approvals. It has also awarded the two main contracts for both the construction of the reservoir and associated pipeline. Today, little more than eighteen months later, Portsmouth Water employs a team of around thirty full time members staff on the project and has mobilised a wider workforce of over one hundred people.

In addition, we have obtained accelerated expenditure approval from Ofwat to commence our CRM and universal metering investment programmes. This has allowed us to create the ring-fenced Programme Management Offices for both and to undertake early market engagement and procurement of key supply chain delivery partners. This includes Kraken Technologies who will support the delivery of our new CRM system bringing the insight and benefits realisation from their experience in the energy sector including potentially the linking of water and energy billing. This partnership is a key building block to support our retail strategy and essential to using the data we receive from our smart meters. It will support the enhancement of services across the areas of:

- Demand management
- Affordability
- Vulnerability
- Customer engagement and communications
- Segmentation and analytics

The CRM will support our essential need to move the dial on per capita consumption (PCC) reduction which is an absolute imperative of our Investment Plan. It is proven and will support delivery of dynamic real time targeted and tailored water efficiency messaging and set time tariffs.

We are founding members of the Water Lab which we believe will support leading innovation in the sector with respect to engaging with customers, transforming the relationship, and securing behavioural change in their use of water.

The Kraken Technologies relationship is an exciting sector first and it provides improvement and opportunity, not just for us but for the water sector and beyond. This will be delivered though the partnership that we have with Kraken Technologies and our new CRM capability, but it's not just about the system it's also our culture and operational capabilities alongside that will deliver this vision for our customers and communities. We are currently changing our internal retail operating model to address the future needs of our customers and to meet the challenges we face.

Open Utilities

A collaboration between:

Water Lab

To further inform our delivery approach and model, we have undertaken extensive self-assessment including consulting with our supply chain and we have looked at broader sector experience.

Arcadis, investment programme delivery experts, has provided support through their review of our current approach which included several recommendations for improvement against the backdrop of the step change in our Investment Plan, the service delivery changes that we are making and the challenges we face. This included engagement with other water companies, the wider sector supply chain, and comparison with other sectors.

As a business we have coalesced around four principles for our delivery model that together will support the continued high performance and efficient delivery of our Investment Plan. These are:

- Building our Capability and Capacity
- Developing our Supply Chain
- Leveraging Collaboration and Partnerships
- Enhancing and Embedding Innovation

Our approach to each principle is explained in the following sections.

F. Building Our Capability and Capacity

Our service delivery model is based upon the principles of the Intelligent Client, a model that is supported by the Water Industry Forum (part of British Water) as one of the two which are best fit to the water industry. This model means that we retain responsibility for the ownership, management and delivery of services using the supply chain to support service delivery as necessary. The Intelligent Client is the lynch pin that turns strategy and policy into supply chain delivery and accordingly, it requires the technical knowledge and capacity to competently specify and manage delivery of the services required from within our business or from the supply chain.

The Intelligent Client model is a client-side ownership approach which supports the following benefits among others:

- the delivery supply chain is only contracted once we have defined the solution, determined the risk, and confirmed the affordability ensuring the supply chain is focussed on efficient delivery of a defined solution,
- increased efficiency for the company, through the ability to target work directly to the appropriate partner/tier in our supply chain,
- increased certainty and reduced risk for supply chain,
- we develop and retain a core in-house capability and expertise, and
- we retain control over programme and budget.

The Intelligent Client approach also integrates more sustainably into our wider business operating model relying less on external organisations for core service provision.

We have already commenced increasing our internal capability and capacity to enable delivery of our accelerated programme (CRM and Universal Smart Metering) and in recognition that planning for delivery of our Investment Plan 2025-2030 is required now for the major Investment Cases and key base expenditure. Some of the actions already taken or proposed are summarised hereafter:

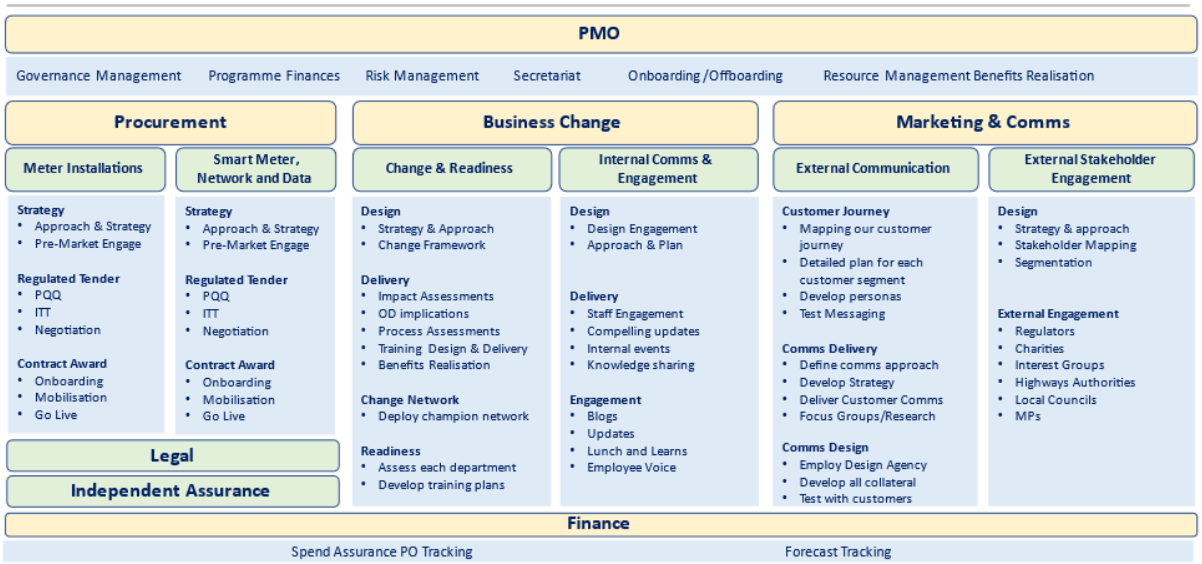
Programme Management Office (PMO)

Our ability to step up and deliver an ambitious programme is evidenced through the Havant Thicket Reservoir. It is a project which has required significant financing, programme and project management, procurement and supply chain expertise, partnership development, and stakeholder relationship creation and management.

We face a similar challenge with our core business as we move towards and into AMP8. The Investment Plan is significant in its overall value but, except for the universal smart metering programme, it comprises many smaller value programmes and projects. The delivery of the Investment plan will require greater governance and control to ensure that we are optimising and delivering efficiently.

We have taken the lessons learnt from Havant Thicket Reservoir and have started development of a central PMO to manage the planning and delivery of the Investment Plan. This includes ring-fenced PMO's for both the CRM upgrade and universal Smart metering programmes (i.e. Investment Case PRT07.06) that have already been established as part of the accelerated expenditure projects approved by Ofwat.

Figure 1: Smart Metering PMO



Board Paper Fig X Our Universal SMART Metering PMO

The figure above is the PMO model that has been already established for universal smart metering and it is the same model that is in place for CRM and will be used to support integration of common management and governance systems, procedures, and processes across our Investment Plan. It is also intended to supplement the central PMO with specialists in areas where we do not retain the necessary expertise including our proposed IT systems upgrade. Ours will be a digital revolution in the early years of AMP8 to ensure we are "smart system ready" at the point that data becomes

available from our meters. This includes replacement of our ERP and GIS at the same time as OT and IT cyber improvements (see PTR07 Our Investment Plan 2025-2030).

The centralised PMO will provide control over execution and delivery of the Investment Plan ensuring that programmes and projects are optimised to deliver Performance Commitments and service levels in the most efficient way.

One critical aspect of this optimisation will be to ensure we maintain sufficient availability of water into supply from our treatment works and service reservoirs when assets are taken out for maintenance/refurbishment/upgrade (i.e. site outage). In order to achieve this, we will maximise the benefit from the site outage to deliver more effectively and efficiently. This will consider planning and execution of work by a combination of site-based, geography, asset type and supplier contract projects and programmes. In doing so, we will realise programme optimisation benefits including from our supply chain.

Outside of the ring-fenced programmes we expect that our PMO will grow proportionately broadly in line with the increase in investment between AMP7 and AMP8 recognising that this is not a linear relationship and small efficiencies will be realised. The growth will be by recruitment to increase internal capacity and we will manage peaks through our Framework Consultancy supply partner.

Our assumptions for PMO and programme-based efficiencies are included and summarised in the supporting document PTR09 – Securing Value for Our Customers.

Asset Management and Investment Planning

Our strategy is very much focused on investing at the right time to be prepared with assets fit for the future, so we are resilient to rising threats over the next 25 years.

To deliver this strategy effectively and efficiently we recognise the need for a robust asset management policy and approach that strengthens the link between future investment and asset health.

We have undertaken a self-assessment of our existing approach to asset management and investment planning to understand how we compare to best practice in investment optimisation, prioritisation and planning which highlighted a need for improvement. This is only reinforced by the most recent Ofwat Asset Management Maturity Assessment (AMMA).

We have already taken steps to address this, and our capability and capacity will evolve further over the remainder of AMP7 and through AMP8.

A core team dedicated to asset management maturity has been established in a standalone department and are extending and embedding ISO55000 processes into business-as-usual activity. This team will be increased over time to manage and deliver the increased workload which will support our processes.

Integral to our development we have invested in the Copperleaf® Decision Analytics Solution tool which provides a platform to capture all the potential investment needs (or asset and operational risks), and option scope, cost, and value details. Using Copperleaf, we can and have used the insight to optimise our wider asset management framework, to consider investments in the round and make quantifiable decisions in the long-term best interests of our customers and environment.

The understanding and use of Copperleaf, and our new supportive asset management processes, will be further developed to optimise and prioritise our investments during AMP8, and to support the ongoing update of our Long-Term Delivery Strategy including decisions around any emergent investment needs. We have collaborated with PA Consulting to ensure that our set up, roll out, and use of Copperleaf benefits from their experience of the system and its use for other organisations.

We have introduced an investment gateway process that is based upon the Value Framework embedded in Copperleaf. The Value Framework is informed by our Performance Commitments and wider societal and environmental benefits, and it is weighted according to customer and company priorities. This supports investment decisions being made that derive maximum value and/or benefit.

As part of our roadmap for providing a systems-based approach to managing risk and resilience (see PTR06 Managing Our Resilience in the Long Term) we are considering the options to fully embed risk management into the Copperleaf support tool.

This intelligence will help make sure all our maintenance activities move from being reactive to proactive and preventative – mitigating risk, increasing the life of our assets and lowering operational costs.

Solution Development

Over recent AMP periods the size and make-up of the Investment Plan was not sufficient to maintain an in-house technical department with the breadth of skills required to develop engineering, process or technical solutions. Accordingly, there was always a reliance on external support which inevitably means a loss of knowledge and expertise that could otherwise be captured and retained. In AMP7, the move towards the Intelligent Client model combined with a modest increase in investment funding and requirements has allowed us to start the process of building internal capability and capacity. During the early part of AMP7 we have recruited a small team of process engineers that support the solution development of our non-infrastructure assets, and we are in the process of recruiting network analysis and design capability.

Looking to AMP8, we will need to increase our internal resource capacity marginally to support solution development and we will utilise our Framework Consultancy supply partner to provide specialist skills and to manage peak workloads.

Commercial and Contract Management

In recent years we have improved our commercial and contract management capability through the appointment of a quantity surveyor, the adoption of the NEC as a standard form of contract, NEC user training for all Project/Contract Managers and the introduction of CEMAR (Contract Event Management and Reporting) to support our contract management.

Despite these changes there is still a shortfall in capacity and capability especially in commercial management. This is an area that will be addressed to ensure we are ready for the contract strategy and planning phase of our Investment Plan. We currently use external suppliers to support in these areas, but we are looking to develop internal capability which will support the complexity of our Investment Plan and ensure we retain the skills required for the mid to long term.

We will focus our procurement team on materials, goods and services. We will recruit a Senior Commercial Manager to focus on our main investment contracts and suppliers, and a specialist IT Commercial Manager to bring expertise to our IT upgrade programme and SMART metering contracts.

Our Investment Plan includes significant upgrade of our site based Operational Technology, new treatment process at several key sites and installations, and refurbishment of existing treatment processes at several key sites. This will require an increased construction management and commissioning capability and capacity. Some of this will be provided through upskilling existing

production operatives and some will be provided by a combination of increased internal headcount and specialist supplier support. Because we will need to retain the knowledge and skills, especially of commissioning, we are looking at how we can develop supply chain partnerships that include staff transfer at the end of the project or programme.

None of the proposed Investment Cases would trigger the requirement for DPC in the AMP8 period and therefore we have not considered the requirements of this procurement approach.

Our People

Like many UK employers we are facing critical challenges in our ability to appoint and retain skilled workers with the necessary technical knowledge and expertise, combined with the pressures of living costs, changing technologies such as AI, an ageing workforce and multigenerational career expectations. This remains consistent with the current UK STEM talent acquisition, demand, and capacity challenges.

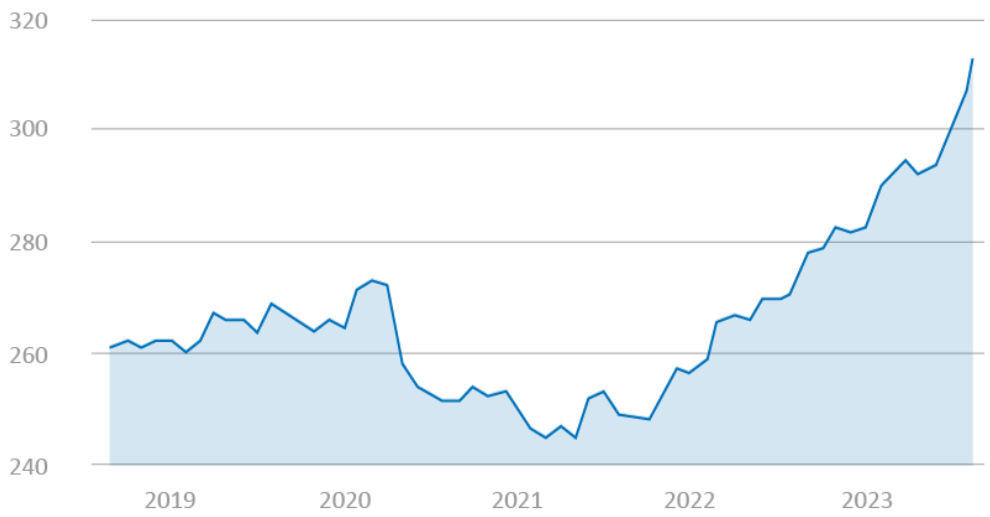
Also, the movement of talent between water sector companies and beyond is prevalent, which combined with hybrid working increase the flight risk and affects our ability to recruit and retain a talented and skilled workforce.

As we have identified we will need to increase capacity and capability of our workforce to meet the need of our Investment Plan and wider business needs. Our People Strategy (see PTR14 – Our People) sets out how we will address the challenges and ensure availability of resources to deliver the need. This includes the following elements:

- Creating Tomorrow, Together
- Growing our Culture
- Developing our Capabilities, and
- Engaging our People

Included within our People Strategy is a demonstration of our ability to ramp up internal resources to provide the capacity. We have increased our headcount by 25% during the period post covid 19. This increase has been informed by existing resource capacity shortfall, changing needs and to support our major projects and change programmes including Havant Thicket, CRM and universal Smart metering.

Figure 2: Headcount increase over time.



Retention is a key part of our People Strategy, and we are developing a comprehensive people retention plan that is more aligned to the company culture and ethos, rather than salary alone.

Also, we have a changing workforce demographic that highlights the need for a robust and effective succession plan which enable knowledge sharing, retention of key skills, and the ability to identify internal bench-strength and co-create career paths to support individual aspirations and opportunities to learn and grow.

We will continue with interventions to support capability and capacity needs that re-design roles, produce alternative workforce and service delivery models, create opportunities for multi-skilling and knowledge sharing, develop new career pathways along with more flexible and hybrid working arrangements to retain and attract sector specific skills and experience.

We have a proven track record in the development and introduction of traditional and non-traditional training pathways and establishing more creative placement and apprentice opportunities. In January 2023, the Company reached an important milestone in drawing down over half a million pounds from the apprenticeship levy digital account to develop our people. This is being used to enhance our operational workforce capability which is essential to support key elements of the Investment Plan and the operational and maintenance requirements that will follow.

We are developing and will implement a talent acquisition strategy to enhance our employer brand by showcasing the people behind the Company and their contributions to its success supported by a dedicated inhouse talent acquisition team to help reduce any dependency on recruitment agencies. This will include digital and social media led campaigns that contain engaging and authentic employee profiles highlighting roles, achievements, and personal stories related to working with the company. It will enable us to showcase how our people directly contribute to the company's purpose and values, alongside testimonials including our customers, to help generate our employee value proposition and promote our inclusive organisational culture. For each campaign we will have metrics such as track likes, shares, comments, and overall reach to gauge audience engagement, as well as tracking the number and quality of applications received. The talent acquisition team will work alongside business partners to ensure the right people are in the right roles and that core skills for example in technical, digital, smart technologies and STEM continue to adapt to future business needs through rigorous role design, gap analysis, and competence review processes.

Our emerging and progressive approach to business planning and innovation is to identify areas with significant performance, sustainability, or efficiency challenges to target our people efforts on those areas in partnership with external organisations. For example, we are currently working with the UKWIR in gaining access to academic networks and programmes in environmental data science and machine learning, identifying research topics to help attract students to work with the Company and apply their skills to solve ‘real-world’ problems. We will continue with our existing collaboration arrangements with the University of Portsmouth for the purpose of utilising shared resources, funding, networks, and research in the delivery of further innovation and improvement in the services we provide, also an employment destination for the university’s student placements and graduates as part of a local talent pool.

This is a snapshot of our People Strategy and is a clear demonstration that we understand the resource capability and capacity challenges that are both with us and lay ahead, and that we are already on a journey of successfully managing them. This gives us the confidence that as we move forward, we will have adequate capability and capacity to support the resource requirements of the Investment Plan and the broader business.

G. Developing Our Supply Chain

Recognising the competing challenges and potential impacts of an increased expenditure and supply chain constraints (i.e. attractiveness of proposition, limited traditional supply chain capacity, cost and inflationary pressures) and how our management of them will affect our ability to deliver the Investment Plan, we have considered previous AMP cycle delivery approaches, held preliminary

discussions with our supply chain, engaged with sector wide research and focus groups, and sought direction from industry leading contract and procurement specialist, Arcadis.

Using this information, we have developed an understanding and approach that we have already started to apply to the procurement of our delivery partners and supply chain. Our process starts with early market engagement to help us understand how we can make the respective propositions sufficiently attractive to the market while providing the most effective and efficient outcome. In doing so we are seeking to understand how we can structure contracts to ensure fair profit with an appropriate allocation of risk that maintains the required performance levels and outputs. Key factors include:

- Scope and scale of contracts.
- Level of committed work bank and certainty needed to enable investment and innovation.
- Capacity and capability requirements for various delivery contracts.
- Appropriate risk allocation for various delivery contracts.
- Understanding fee and profit expectation and scope for incentivisation.
- The opportunity for a contractual efficiency gain sharing mechanism.
- Key metrics or performance measures needed to support delivery of required outcomes.
- Innovation investment and risk sharing approach.
- Delivering environmental and social value, or opportunity for the local communities and businesses to benefit including employment and apprenticeships.

This enables us to develop proposition specific Contract and Procurement Strategy that supports effective and efficient delivery.

Our process then goes into more formal market engagement with an appropriate procurement route used. This is aligned to the generic approach that we have used to procure our delivery partners and supply chain for the Havant Thicket Reservoir project and is a proven process.

In the following sections we summarise how we are using this approach to develop our supply chain to ensure we can deliver the Investment Plan.

Accelerated Expenditure Programmes

In February 2023, Ofwat confirmed that it had approved accelerated expenditure for two separate but linked projects being our CRM replacement and universal Smart metering projects/programme. This has allowed us to make early progress on what are pivotal elements of work linked to delivery of our WRMP and in particular our PCC and leakage reduction PC targets.

CRM

Having progressed through the procurement process we have secured our Delivery Partner for the CRM replacement project. We have contracted with Kraken Technologies who provide the cloud-native platform that provides CRM technology and solutions to the energy sector. They are part of the Octopus Energy Group and provide services to third parties including EDF and E.ON among others. Kraken Technologies currently provides accounts for over 40% of UK energy customers, or more than 25 million accounts. They have transformed customer and employee experience in energy whilst driving down costs and opening up new opportunities through technology and customer engagement. The technology is based upon advanced data and machine learning capability and automation. This will be essential as we rollout smart metering and seek to move to an engaged customer base that works with us to deliver PCC reductions and drive leakage to our 2040 target.

We are the first water company to partner with Kraken and are a founding member of their Water Lab.

This is a cornerstone of being able to deliver our Investment Plan and the outcomes required in our WRMP. The fact that we have managed to secure this partnership and in advance of the AMP8 period is a good example of demonstrating our ability to attract and secure leading and innovative supply chain delivery partners.

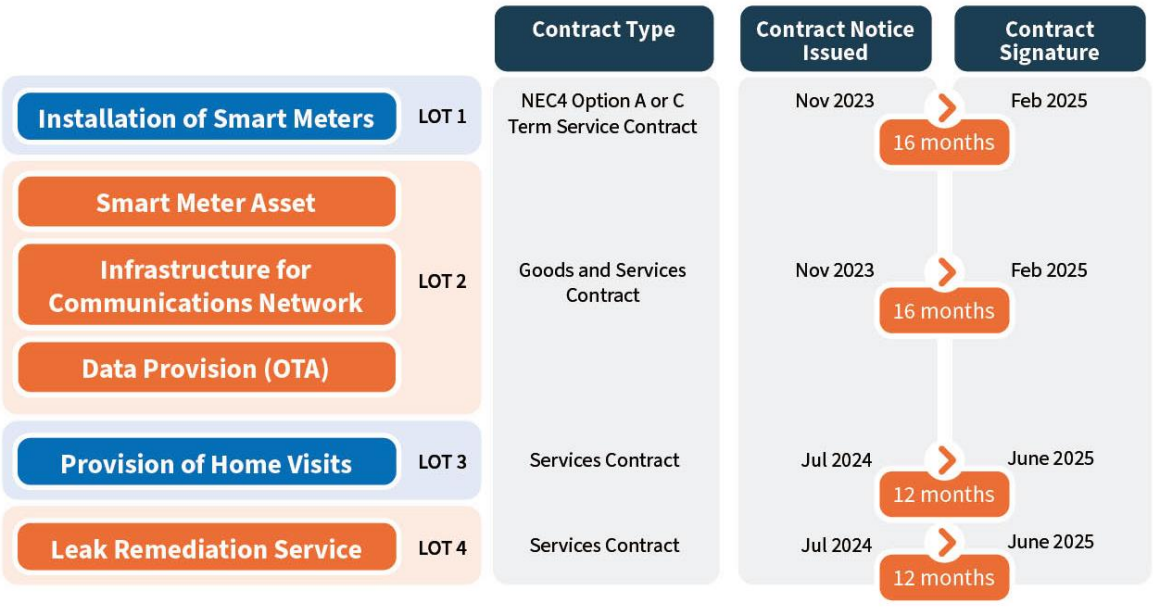
Universal Smart metering

As stated earlier, we have already established our PMO to manage the execution and delivery of the universal smart metering programme that is proposed to be rolled out during AMP8 and AMP9. Accordingly, we have already engaged with the market and other client organisations to develop our understanding of perceived best practice and the most efficient approach to delivery. Informed by this we have established an overarching Contract and Procurement Strategy that identifies the lotted contract approach that we will take within a ring-fenced programme that will be managed by the PMO.

The figure that follows provides a summary of the proposed lots that will require a Delivery Partner, the contract type, and procurement period. Lot 2 will go to market early and this will confirm our network solution. From our early market engagement, we have had a better-than-expected response from interested suppliers giving us confidence that a suitable Delivery Partner will be secured.

Lot 1 will then be refined to be compatible with the Lot 2 network solution and taken to market. Delivery of this programme will position us to award contracts to all of the lot Delivery Partners immediately after Ofwat issue the Final Determination and before the start of the AMP8 period.

Figure 3: Universal SMART Metering Contract and Procurement Strategy Summary



There are two significant procurement decisions that are material in respect of our ability to deliver our Investment Plan and outcomes and these will be resolved before the Contract Notices are issued.

Firstly, we are looking at the opportunity to secure wider programme efficiencies and/or benefits by a single joined procurement event. This is specific to Lot 1 - Installation of Smart Meters c£45m and our need to procure a new Infrastructure Term Service Contract c£35m (values = AMP8).

Our existing Infrastructure Term Service Contract, which includes meter installation as well as other network activity, has an end date that means we must retender and award in a similar timeframe to Lot

1. Also, the infrastructure contract requires similar skills set to deliver the scope and we envisage that it will be of similar size from a resourcing perspective. At the very least, there may be contractor and client management efficiencies and resource allocation optimisation benefits to be realised by award to a single delivery partner. The latter will be particularly helpful in a resource stretched market. Conversely, given the value of the individual and combined Lots maintaining a separation may attract smaller Tier 1/Teir 2 suppliers and more competitive pricing. There are existing examples of a similar approach being taken in the water sector and delivering the benefits described. The lotted approach retains agility to derive maximum benefit from the supply chain until the point of award.

This is an example of the programme efficiencies that we demonstrate in PRT15 – Securing Value for our Customers.

Secondly, we are aware of supply chain issues that may feature across the sector for the purchase of smart meters. Relative to the size of the sector our requirements are small and in competition with the sector our purchasing leverage may not be sufficiently robust if there a problem with demand outstripping supply. Accordingly, we will include the smart meter purchase in Lot 2, as an option, thereby allowing the purchasing leverage of our supply chain to be considered and more appropriate management of the risk to delivery.

We have sought and received third party assurance from Agilia Investment Partners, a specialist consultancy with extensive experience delivering major infrastructure projects across the UK, that our procurement process for universal smart metering is likely to drive best value and is the most appropriate delivery model.

Framework Delivery Partners

We have good experience of the different routes to market for the key elements of our Investment Plan and the respective benefits and disadvantages that each brings. For example, we have used term service contracts, design and build and conventional construction contracts, framework agreements (single and multiple supplier), bespoke and specialist contracts, and management contracts. We also have extensive knowledge of other contracting routes to market including partnerships and alliances.

This experience and knowledge have been used, together with advice from procurement experts Arcadis, to inform our Contract and Procurement strategy and approach to delivery of the Investment Plan component parts, over and above the accelerated expenditure programmes, and to give us confidence that our approach will support successful delivery.

Within our Contract Strategy we consider several factors that are key to ensuring that we manage risk and secure value for our customers. Some of these factors include:

- Scope – we consider what elements of the programme can be standardised and batched by work type and/or work that can be batched by site or geography.
- Work Allocation – we consider when and how work can be allocated recognising that this can have a significant impact on risk to both the solution and cost. Our Intelligent Client model requires allocation at the latest time possible in the procurement process.
- Commercial terms – we consider what is the most appropriate to manage the risk and provide cost certainty. This includes arrangements such as Schedule of Rates vs Call Off vs Project Price, and Fixed vs Target vs Cost Reimbursable.
- Competitive tension – in addition to the normal competitive tension created by procurement of service contracts and framework agreements, we consider the opportunity to secure specific “spot buy” gains which can be either through “one off” bespoke contracts or Framework Agreement mini competitions. However, their use is balanced between the additional costs of the process with the perceived additional value and time benefits that a well-defined scope can bring.

Having looked in detail at our proposed Investment Plan we have summarised our Delivery Partner approach and requirements by principal asset/work type.

Infrastructure

Our Infrastructure term service contract with Delivery Partner Cappagh ends 31st March 2025, this is a term service contract and is based upon a schedule of rates that work is called off against. This approach has served us well over recent years, maintaining excellent performance in those customers facing PC metrics which can be affected. The contract provides a steady workbook and associated incentive which both contribute to provision of a service at unit rates that have been benchmarked and are efficient within the sector.

For AMP8 we will continue with a similar model. However, there are some key considerations:

(a) The value of the contract in current price base will be reduced because of our proposal to renew/replace a lower meterage of pipes in AMP8 and meter installations forming part of the universal metering contract. This may put pressure on the attractiveness of the proposal and the prices.

(b) There are already well-known inflationary pressures that are likely to affect prices in an upward direction.

(c) There are procurement opportunities to realise greater value through a combined procurement approach with other parts of our Investment Plan (i.e. universal smart metering). Based upon experience this will ensure maximum competitive tension, offer programme management and resource availability/utilisation benefits, and is likely to yield greater and broader interest in the supply chain.

As stated in the earlier section on universal smart metering, we have started a lotted procurement process that will deliver our universal smart metering and infrastructure term service contract requirements for AMP8 and AMP9. Our approach will ensure that we have the most efficient outcome with either one or two Delivery Partners.

The two lots will be of similar size from a resource required perspective and as such on their own they are best suited to smaller Tier 1 supplier, but together the opportunity may be more attractive to a larger Tier 1 supplier. Our approach will ensure that all options are considered and the most efficient and effective is selected.

Our proposed approach has received a positive response in the early market engagement that we have undertaken.

Non-Infrastructure

Our Non-Infrastructure work is delivered through a Framework Contract which currently has an end date of 31st March 2025. The contract does have an option to extend by for a period of up to 3 years by agreement. This Framework Contract is based upon a cost reimbursable commercial arrangement where packages of work are developed, quoted, and delivered by our Delivery Partner, Trant.

In AMP8, our Investment Plan includes a step change in non-infrastructure expenditure due to an increase in base and an enlarged enhancement programme. We have several lumpy project-based investments as detailed in our Investment Cases (see PRT13 – Our Investment Plan 2025-30) and a programme to refurbish our membrane plant. The enhancement programme includes a significant Operational Technology (OT) upgrade, raw water treatment process improvement at a number of sites, and resilience improvements at all of our service reservoirs. There is also the base maintenance activity, or minor works, which will continue to be required to support the in-house capability.

Our approach to delivering our Investment Plan requirements will include the establishment of Framework Contracts with several Delivery Partners and bespoke procurement for specialist projects/programmes of work.

We will develop a Framework Agreement for Minor Works (c£20m) that will be based upon a call off and is likely to suit locally sourced Tier 2/Tier 3 suppliers.

We will develop a Framework Agreement for Major Works (c£50m) that will have a minimum of two Delivery Partners and will include options to pre-select for work packages as well as run mini competitions. This approach will ensure that we can manage risk and ensure the most efficient costs on the major project and programmes. It also provides supplier resilience and allows market testing of rates through the duration of the agreement.

We have already commenced a bespoke procurement event to secure a Delivery Partner(s) for our OT upgrade work (c£16m), that must be complete by 31st March 2028, in recognition of the likely industry wide call on resources and technology and the challenging timeframes.

We will continue with our Reservoir Repair and Maintenance Framework Contract and Delivery Partner to complete our reservoir inspection programme and remedial work.

The step up in non-infrastructure expenditure will be supported by increased internal resource as described in the capability and capacity section of this document.

Early market engagement support for our approach has been received and we are going beyond the recommendations of Arcadis (two Delivery Partners) in this area to ensure greater access to the required resources.

WINEP

We have nine water resource studies (includes WINEP requirements) that need to be complete including solution development to include in the next iteration of our WRMP (i.e. 2030 to 2100). The cost of this work is estimated to be £5.2m and includes many different investigations that will need to be coordinated and undertaken by specialists.

We have consulted with specialists in this area of investigation to further understand the best options for procuring this work and concluded that given the complexity and breadth of skills required we will seek a single Delivery Partner with specific expertise in water resource studies to programme manage all of the catchment studies including procurement of the specific investigations.

We believe that our approach is the least risk, best value approach and we understand that there is interest and resource capacity in the market especially given that the majority of WINEP studies have been undertaken during this AMP period.

Given the time constraints for completion of this work we have started procurement preparations with a view to making an early start on this work (i.e. 2024/25).

Consultancy

We have identified the need to increase our solution development capability internally but recognise that we do not have the size of investment programme to sustain the breadth of skill/expertise that is needed to support our Investment Plan and the other consultancy type support that is required through an AMP period (i.e. WRMP, PR29).

We also recognise the resource availability pressure that ad hoc use of external consultancy exposes especially when similar demands are made from across the sector.

Accordingly, we intend to procure a Framework Contract for a consultancy Delivery Partner with specialist water sector expertise and general water engineering capability that we will develop a closer relationship with and have a call off arrangements.

This is an approach taken by other smaller water companies and one which we know will robustly support delivery of our Investment Plan and provide access to additional resource and expertise when needed.

Materials and Equipment

Historically and through AMP8, we have undertaken a mix of direct purchase and purchase through our contractor Delivery Partners for our materials and equipment, each having their respective merits and disadvantages.

For AMP8 our Investment Plan has a step change in meter installation requirements, comprehensive upgrade of our OT infrastructure, and some large bespoke equipment purchases (i.e. membranes). For smart meters and OT equipment there is likely to be significant sector wide demand, and this may result in supply difficulties. As a single organisation with a relatively small annual profile in the early years of AMP8 we are likely to be considered as a smaller customer and unlikely to command priority status with manufacturers and if we do it may be at a premium price. We have considered collaboration with other water companies and joint purchase agreements, but choice of meter and technical solutions are a constraint.

Accordingly, we have taken the decision to include the supply of meters in the universal smart metering Lot 2 – Data and Network Solution, on the basis that this will be a more secure and cost-efficient route assuming our Delivery Partner has a greater market penetration and consequent economies of scale benefits. We consider the risk of smart meter availability to be low for us given our roll out includes for ramping up over the first 3 years of AMP8 giving us time to work with our Delivery Partners and meter suppliers to manage this requirement.

And we are treating OT infrastructure and membrane equipment in the same manner including its purchase in the scope of the specialist Delivery Partner contract(s). This is again the pragmatic approach and should reduce lead times whilst also allowing ownership of the supply chain by our Delivery Partner.

We will continue to use Framework Agreements for our supply of high-volume materials and equipment requirements. Where we can derive benefit, we will participate in collaborative or group purchasing arrangements such as those used in AMP7 and AMP8 including through our “Collaborate 2 Innovate” initiative with SES Water and Bournemouth Sembcorp Bournemouth (now part of South West Water).

For other low volume, low value materials and equipment purchases we will continue with “spot price” purchasing and call off arrangements with local suppliers.

Outsourcing

Despite the Intelligent Client model being central to our organisational design, we have considered the impact of potential resource challenges that we face including the squeeze on availability of skilled resources.

At the start of the current AMP period, we made the decision to outsource the blue-collar element of our Direct Labour Organisation. At the time this decision was based upon our inability to maintain a critical mass of skilled operatives due to our small size and market pressures which were exacerbated at the start of Covid. Our resource requirements were added onto our Infrastructure Term Service Contract and have worked very well after some initial teething, giving us access to a constant and flexible workforce. Accordingly, we will continue with the outsourcing of this part of our operations and include it in a more efficient and structured way that works with our Delivery Partner to manage resource requirements and availability in our new Infrastructure Term Service Contract.

There are no other parts of our operational service that we believe would benefit from outsourcing.

H. Leveraging Collaboration and Partnerships to Provide Innovation and Deliver our Investment Plan

The most important partnership we have is with our customers. We have always enjoyed a largely positive relationship with our customers which is built on delivering good performance, being local, and their trust that we will do what we say. We are upper quartile performers in C-Mex and we intend to stay there. This is an important part of delivering our Investment Plan and performance commitments. Through the development of our Business Plan we have developed and increased the engagement with our customer through more and enhanced communication channels, and greater customer segmentation. This is now business-as-usual and will be a continued engagement to co-create our future Investment Plans.

Our latest partnership with Kraken Technologies (part of the Octopus Energy Group) is one which we believe will lead the sector and provide a positive step change in the relationship and engagement that we have with customers creating greater understanding of the value of water and driving innovation to help customers. This partnership includes the Water Water Lab of which we are founding members. This will be a test bed where we can use a sample of customers, using an open utilities approach to test and deliver innovation. We already have the support of CCWater for this innovative approach. We believe this is a significant step forward in supporting our capability and capacity to deliver our Investment Plan and the performance commitments we have made.

We will be opening the Water Lab up for involvement by many participants with a huge interest in the challenges, including:

- Other water companies
- Energy Companies (Retailers and Distribution Network Operators)
- Regulators (OFWAT OFGEM and UKRN)
- Stakeholders
- MOSL
- Non-Household retailers

The Water Lab will focus on the design, development, and analysis of trial outcomes with Kraken Technologies and the company focusing on deployment and delivery with the Water Lab able to target and segment a core group of test customers alongside a control group.

We are a small water company that we believe understands the benefits and necessity of collaboration and partnerships. We do not have the scale and resource of larger companies and as a consequence we recognise that we need to work with others to deliver our service. We believe that we have done so and demonstrated the benefits through many initiatives in the past including in recent years and this has contributed to our low cost and high performing delivery.

For the past two AMP periods we have delivered our Infrastructure and Non-Infrastructure capital expenditure through collaborative contracts that reward innovation, service delivery and efficiency.

We have worked with other water companies as part of our “Collaborate 2 Innovate” initiative to;

- harness multiuser discounts on a multi-party framework agreement for reservoir repairs and refurbishments,
- benefit from economy of scale purchasing power on material and equipment (i.e. meters, chemicals, pipes and fittings, valves and chambers),
- to develop joint procurement resource (team), and
- to develop best practice working procedures and specifications.

This work is ongoing as we look for other mutually beneficial opportunities to collaborate. Conversations continue with respect to:

- managing and reducing leakage,
- effective roll out of universal smart metering, and
- implementation of systems-based asset management.

Most recently we have demonstrated our collaborative approach in bringing Havant Thicket Reservoir from an idea to construction of the first surface water reservoir in the UK for over 50 years. This has involved collaboration and partnership with an array of organisations to develop what will be a project that deliver significant environmental and community benefit.

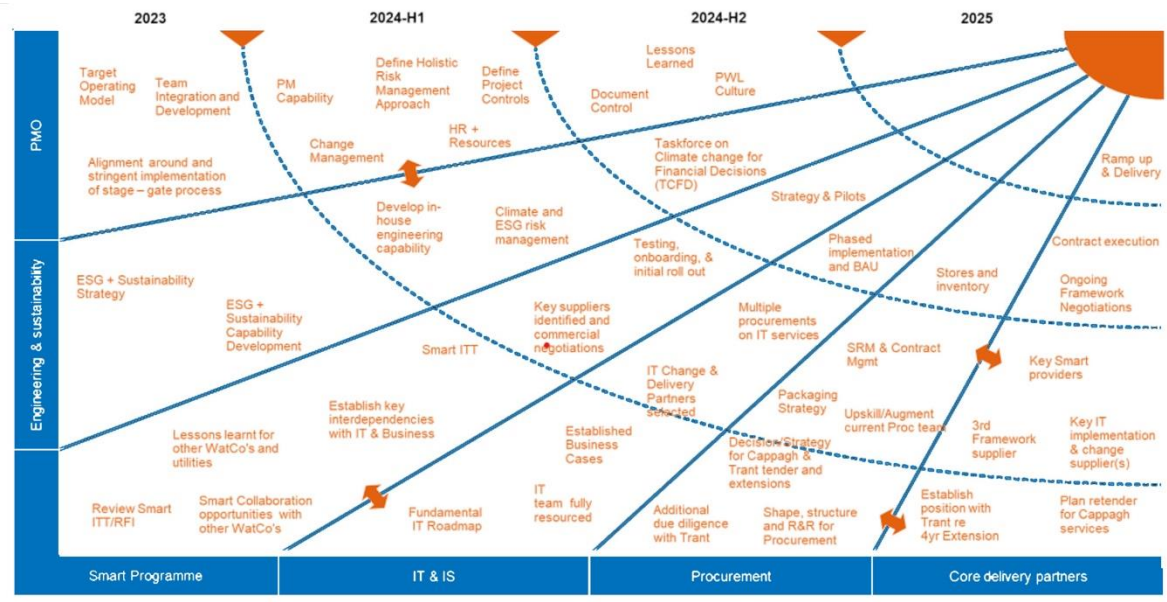
You will also have read that we are advanced in our procurement of Delivery Partners that are the key to delivering our Investment Plan. These will all be collaborative and partnership-based contract which leverage mutually beneficial incentives related to delivery of our Investment Plan and achievement of our performance commitments.

Other innovations that will support delivery of our Investment Plan are referenced in PRT10 – Innovation to Enhance Our Service.

I. Our Road Map to a Deliverable Future

The road map which follows provides a visual representation of the near-term indicative steps/activities that we have identified, through our work with Arcadis and based upon our own knowledge and experience, as being needed to support our capability and capacity development. As we have demonstrated we are already advanced in many of the activities identified and have the detailed plan to deliver the remainder.

Figure 4: Roadmap to a Deliverable Future



Having the clarity of plan, the experience of Havant Thicket and our accelerated programme, and our knowledge of the supply chain in which we operate provides the confidence that our Investment Plan for AMP8 is absolutely one which we can and will deliver for our customers and communities thereby ensuring we also deliver on our performance commitments.

Delivery Risk and Mitigation

Our approach to procurement, and in particular securing our supply chain, is structured to ensure that key risks are mitigated as necessary and appropriate.

Through early market engagement we understand where the supply chain risk exists or is likely to be experienced. This allows us to adapt our Contract and Procurement Strategy accordingly and to adapt along the way. We have recognised the potential for initial supply chain difficulties providing SMART meters to meet a vastly increased demand in the UK water sector and taken mitigation steps including ramping up demand over the AMP period which will allow the supply chain to adapt.

In addition, we are already on a journey that will include more Delivery Partners which creates flexibility and opportunity to mitigate risk and provide increased resilience. In the past we have used common and joint incentive mechanisms to encourage multiple Delivery Partners to collaborate to the benefit of achieving Performance Commitments. An early example of application is our lot approach to SMART Meter Installation and the more conventional Infrastructure Maintenance Contract where resource sharing will be incentivised to manage peaks and troughs and maintain performance such as leakage outbreaks. We also expect this approach to deliver efficiencies and innovation through sharing.

We have demonstrated our ability to ramp up to create capability and capacity of our people and we will continue to do so. To provide flexibility to manage peaks and troughs, and to provide complimentary capability, we are in the process of procuring a number of consultancy Delivery Partners. Each will provide a core team with access to a wider more extensive resource pool thereby helping to mitigate risks within our Intelligent Client model.

We believe that our Investment Plan is deliverable, and we have a strategy that supports this and has risk mitigation embedded in its key components.

4. GOVERNANCE AND ASSURANCE

Production of this supporting document has been undertaken in accordance with internal governance and assurance procedures and processes. Third party assurance has also been provided by Jacobs Global Consultancy.

This comprised initial drafting by an internal Lead Author, including the use of insight provided by Arcadis, under the direction of an Executive Owner who retains Executive responsibility for the document content including robustness and accuracy.

The document has undergone three stages of internal review and third-party assurance before being signed off by the Board. Internally this has included:

i. Executive Owner,

ii. Nominated Executive,

iii. Internal Executive Review Team including the CEO and CFO.

Details of the third-party assurance, including findings/opinion, can be found in PRT15 Board Assurance, Appendix PRT15.04.

The Board has been engaged in the development of the business plan and its content through subject specific discussions at monthly PR24 Steering Committee meetings that have taken place since late 2021. Minutes of relevant meetings are included in PRT15 Board Assurance, Appendix PRT15.01.

Portsmouth Water

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