

BUSINESS PLAN 2025 TO 2030

PRT12 ACCOUNTING FOR PAST PERFORMANCE



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1. AT A GLANCE

Our PR19 business plan and Ofwat's final determination set stretching targets to in terms of delivering improved outcomes for our customers and the environment, at a cost which was below the Ofwat efficient totex benchmark. In addition, we commenced construction of Havant Thicket reservoir, the first major reservoir scheme to be built in the UK since the 1980s.

This document describes how we have performed against the PR19 final determination, and how the learnings from AMP7 will be applied to give confidence in our delivery of our ambitious AMP8 plan. It also sets out how performance will be reconciled through Ofwat's PR19 incentive mechanisms.

Overall, our customers have enjoyed consistently excellent service. We have been ranked in the top three companies in the sector for C-Mex in each year of the AMP (Asset Management Periods) to date and our customers have experienced the lowest level of interruptions to their supply in every year. This is reflected in our ODI (Outcome Delivery Incentive) performance, where we expect to earn a reward of £1m (2017-18 prices) for the AMP for our sector-leading performance on supply interruptions. We will also earn rewards for our performance on C-Mex and D-Mex.

Where we have experienced challenges in meeting our PR19 performance commitments, for example for leakage and per capita consumption, we have put in place recovery plans and appropriate mitigation measures.

Our totex is in line with what we forecast in our PR19 business plan. Following a challenging start to the AMP which was disrupted by Covid-19 and recruitment challenges, our capital delivery is now on track to deliver all of the outputs funded at PR19, with expenditure at the end of 2022-23 ahead of the final determination allowance, and we have made good progress in construction of the Havant Thicket Reservoir (see PRT02: Delivering Havant Thicket for more details).

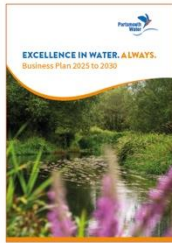
Our AMP7 performance provides clear evidence that we are committed to and capable of delivering our customers' priorities, in line with our PR19 business plan.

There are two areas where we are proposing departures from the PR19 rulebook. In one of these areas Ofwat explicitly recognised the level of uncertainty; the other relates to an uncertainty mechanism included within our bespoke price control. These are:

- The ODI for per capita consumption, where we believe the penalty should be adjusted to reflect the impact of changes in customer behaviours resulting from the Covid-19 pandemic. We set out our analysis of the Covid impact and adjust our reported performance to reflect this.
- The Gearing Outperformance Sharing Mechanism, which is distorted by the regulatory treatment of the Havant Thicket RCV (Regulatory Capital Value), which does not reflect the changes in the cost agreed by Ofwat in 2023 as part of the Cost Adjustment Mechanism.

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. EXECUTIVE SUMMARY

A. Overview

Our PR19 business plan promised improved services to customers and the environment, supported by 15 financial¹ and 10 non-financial outcome delivery incentives, delivered for totex that was materially lower than Ofwat's efficient benchmark, with a real reduction in bills between 2019-20 and 2024-2025.

Overall, our performance in AMP7 has been excellent and demonstrates that we are committed to and capable of delivering for our customers and the environment. By the end of AMP7 we will have:

- Maintained our sector-leading performance in water supply interruptions, earning a material ODI reward for our performance in this area.
- Consistently achieved upper quartile performance in Ofwat's two direct measures of service quality, C-Mex and D-Mex.
- Achieved more than 70% of our performance commitments²;
- Managed our cost base efficiently, with totex that is broadly in line with our PR19 business plan – outperforming Ofwat's final determination totex allowance.
- Made substantial progress in delivering Havant Thicket, the first reservoir to be built in the UK since the 1980s.

Where we have experienced challenges in meeting our PR19 performance commitments, for example for leakage and per capita consumption, we have put in place recovery plans and appropriate mitigation measures.

Our high performance is borne out by CCW's complaints report where for both years of AMP7 for which data is available, we had the lowest level of complaints per 10,000 connections of any company in the sector.

Our AMP7 performance provides clear evidence that we are committed to and capable of delivering our customers' priorities, in line with our PR19 business plan. In this document we describe how our understanding of the drivers of our performance in AMP7 will inform delivery of our new business plan, focusing on those performance commitments that will be carried forward from AMP7 to AMP8.

We also describe the outputs of Ofwat's other PR19 reconciliation mechanisms, based on Ofwat's PR19 reconciliation rulebook. Overall, these result in a net adjustment to revenues of £(1.4)m (£0.6m excluding per capita consumption) and £3.7m to the RCV.

While we understand that consistency of application of these reconciliation mechanisms is important to maintaining confidence in the regulatory regime, there are two specific areas where we are proposing departures from the PR19 rulebook. In one of these areas Ofwat explicitly recognised the level of uncertainty; the other relates to an uncertainty mechanism included within our bespoke price control. These are:

- The ODI for per capita consumption, where we believe the penalty should be adjusted to reflect the impact of changes in customer behaviours resulting from the Covid-19 pandemic. We set out our analysis of the Covid impact and adjust our reported performance to reflect this.
- The Gearing Outperformance Sharing Mechanism, which is distorted by the regulatory treatment of the Havant Thicket RCV, which does not reflect the changes in the cost agreed by Ofwat in 2023 as part of the Cost Adjustment Mechanism.

¹ Excluding Havant Thicket

² APR Table 3A – excludes C-Mex and D-Mex

B. Performance commitments

We have delivered 72%³ of our performance commitments over the first three years of AMP7. This compares with the average performance for the sector of 65% (for years 1-3) and the upper quartile performance of 73%.

In Table 1 below we summarise performance against our 15 financial performance commitments (excluding Havant Thicket) for each year of the AMP, along with the expected under or outperformance payment for the AMP. Over the AMP we expect to earn a net outperformance payment of £1m for our water supply interruptions performance.

Performance on leakage and mains repairs deteriorated in 2022-23, resulting in ODI penalties in these areas. Based on performance to date in 2023, we expect not to meet our Water quality compliance (CRI) target for 2023-24. We expect to recover performance on mains repairs and CRI by 2024-25, but leakage will remain above target, due to the three-year rolling average measurement approach. Despite incurring a penalty in 2022-23, our mains repairs performance remains the best in the sector.

ODI performance payments for the years 2020-21, 2021-22 and 2022-23 have been reflected in our charges within AMP7. Performance for the last two years of AMP7 will be reflected in our charges in AMP8. These totals exclude per capita consumption for which the penalty should be adjusted to reflect the impact of Covid-19.

Table 1: performance against our AMP7 financial performance commitments


















































	✓ Performance commitment met	✗ Performance commitment not met					
	2020-21	2021-22	2022-23	2023-24 (forecast)	2024-25 (forecast)	Forecast reward/penalty for AMP (£m)	
Water supply interruptions	✓	✓	✓	✓	✓	1.074	
Leakage	✓	✓	✗	✗	✗	(0.890)	
Mains repairs	✗	✓	✗	✓	✗	(0.348)	
Water quality compliance (CRI)	✓	✗	✓	✗	✓	(0.604)	
Per capita consumption	-	-	-	-	-	-	

³ Overall PCs achieved (excluding C-Mex and D-Mex) from APR Table 3A – average of 2021,2022 and 2023.

Unplanned outage	✓	✓	✓	✓	✓	0.000
Water quality contacts	✓	✓	✓	✓	✓	0.000
Low pressure	✓	✓	✓	✓	✓	0.000
Catchment management	✓	✓	✓	✓	✓	0.000
Abstraction incentive mechanism	✓	✓	✓	✓	✓	0.000
Biodiversity (reward)	✓	✗	✗	✓	✓	0.000
Biodiversity (penalty)	✗	✓	✓	✓	✓	(0.019)
Voids	✗	✗	✗	✓	✓	(0.114)
Affordability	✓	✓	✓	✓	✓	0.000
WINEP (Water Industry National Environment Programme)	✓	✗	✓	✓	✓	(0.022)
TOTAL	-	-	-	-	-	(0.923)

In addition to our financially incentivised performance commitments, we also have 10 performance commitments which are reputational, including four which are common to all companies (risk of drought restrictions and three Priority Services Register measures). Our actual performance for the first three years of AMP7 and forecast for 2023-24 and 20254-25 is set out in Table 2 below.

Table 2: performance against our reputational AMP7 performance commitments

	 Performance commitment met	 Performance commitment not met			
	2020-21	2021-22	2022-23	2023-24 (forecast)	2024-25 (forecast)
Risk of severe restrictions					
Priority services - PSR (priority services registers) reach					
Priority services - Attempted contacts	-				
Priority services - Actual contacts	-				
Resilience schemes	-				
Avoidance of water supply restrictions					
Carbon					
Addressing vulnerability					
RoSPA					
WINEP delivery					

For those performance commitments that are continued into AMP8 we describe below how we performed against our business plan expectations, how performance affected our customers and the environment and our understanding of the root causes of our AMP7 performance and key lessons learned for delivery in AMP8. Further detail about our proposed AMP8 performance commitments is provided in the Delivering Outcomes for our Customers supporting document.

C. C-Mex and D-Mex

The C-Mex measure takes account of both customer service performance and wider customer experience. Our C-Mex performance in AMP7 has been consistently in the upper quartile of companies, and we were the leading company in the sector in 2020-21. This demonstrates both the sustained trust that our customers have in Portsmouth Water and the excellent standards of service that we provide to those customers that have a need to contact us.

D-Mex was a new comparative measure introduced in AMP7 to reflect the experience of developer customers in the sector. We are proud that, in line with our C-Mex performance, we have consistently achieved upper quartile performance, reflecting the close engagement and excellent standards of service we offer to our developer customers.

D. Totex performance in AMP7

Portsmouth Water has consistently been ranked by Ofwat as one of the most efficient companies in the sector.

We have delivered broadly in line with what we said we would spend in our business plan, with actual totex of £159m in 2017-18 prices, compared with our PR19 business plan projection of £161m, a difference of 1.7%. This represents an 6.5% outperformance against Ofwat's allowed AMP7 costs, which were higher than our business plan projections. This underlines our commitment to delivering on what we say we will do, as well as the robust nature of our cost forecasting and cost management.

Following a challenging start to the AMP which was disrupted by Covid-19 and recruitment challenges, our capital delivery is now on track to deliver all of the outputs funded at PR19, with expenditure at the end of 2022-23 ahead of the final determination allowance, and we have made good progress in construction of the Havant Thicket Reservoir (see PRT02: Delivering Havant Thicket for more details).

E. Other reconciliation mechanisms

In addition to the core incentive mechanisms around service delivery and totex, PR19 introduced a significant number of additional true-up mechanisms, which mostly were designed to balance risk between companies and customers in relation to exogenous factors such as inflation and tax changes. The net adjustments arising from these other mechanisms do not have a material impact on customer bills.

F. Departures from the PR19 reconciliations

While it is important that regulatory rules are applied consistently and in line with published methodologies, where there are genuinely exceptional circumstances that were not foreseen when the mechanisms were created, it is important that regulators take a pragmatic approach to their application.

Ofwat has acknowledged that the impact of the Covid-19 pandemic on household behaviours and hence water consumption was an exceptional circumstance that required further review of the associated ODI under and outperformance payments⁴. We have observed a structural shift in

⁴ [PCC-consultation-decisions-on-reporting-performance-and-ODI-timing.pdf \(ofwat.gov.uk\)](#)

consumption since the Covid-19 pandemic, which means that the targets that were set at PR19 are no longer reasonable. Precise quantification of the impact on consumption of this structural change is difficult to quantify and we suggest that a decision on this aspect is deferred until the draft determination when a further year's data will be available.

For Portsmouth Water there is a second mechanism, the Gearing Outperformance Sharing Mechanism, where the circumstances have changed, and which therefore requires a departure from the published approach. This is because the calculation of gearing for the purposes of this mechanism, does not take account of the impact of the Cost Adjustment determined by Ofwat in January 2023. We show below that if the calculation is based on the notional RCV published as part of the Cost Adjustment Mechanism determination, rather than the PR19 determined value, no penalty is applicable.

4. ACCOUNTING FOR PAST PERFORMANCE

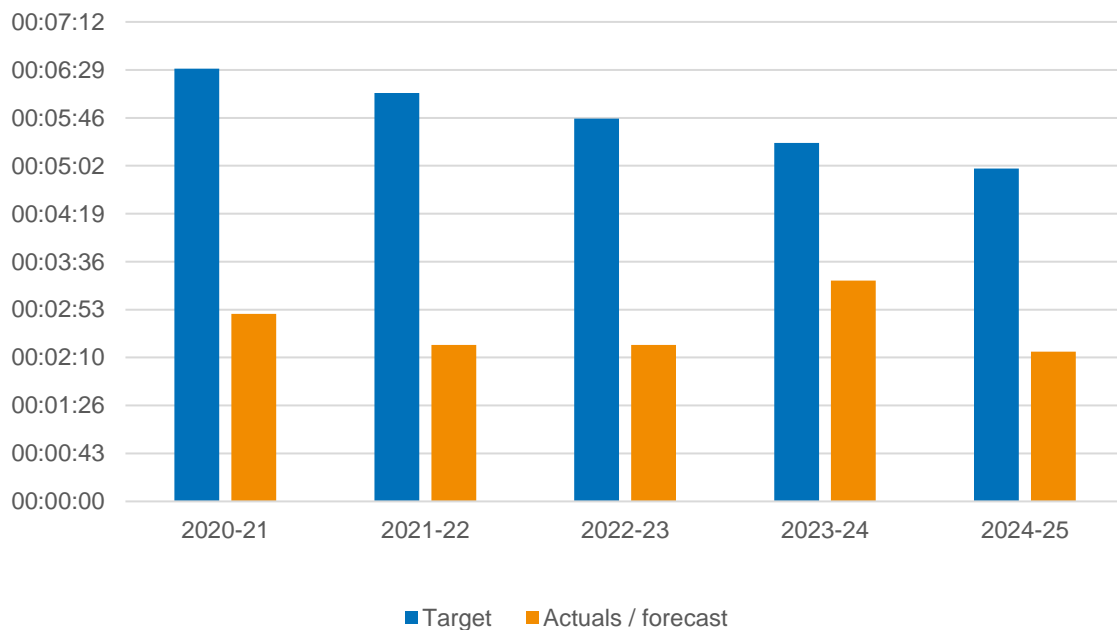
A. ODI performance and key lessons for AMP8

As described above, we have a track record of delivering on the commitments that we made to our customers in our PR19 business plan, with 72% of our performance commitments being achieved during the first three years of AMP7.

In this section we focus on the PR19 performance commitments that will be carried forward to PR24 and beyond, setting out our performance (actual and forecast) against the final determination targets, along with a summary of the key drivers of performance in AMP7 and lessons learned to support delivery of further improvements in AMP8.

Further details of our delivery plans for all our AMP8 performance commitments are set out in PRT05: Delivering Outcomes for Customers.

Figure 1: Water supply interruptions



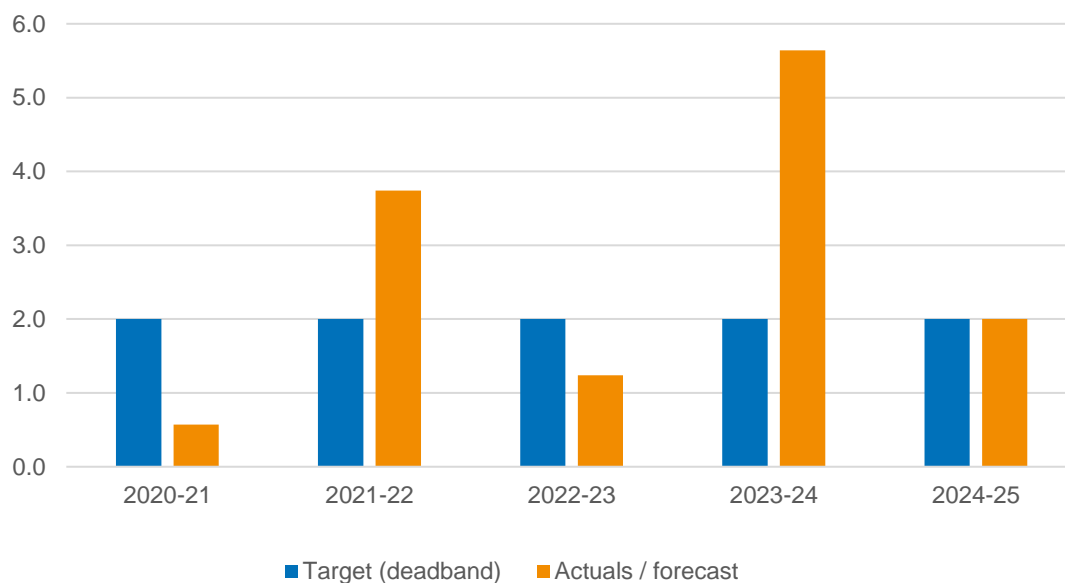
Source: Annual Performance Reports and Business Plan Table OUT1

Performance against our supply interruptions target has been materially better than target in each year of the AMP. Our performance is the best in the sector on this metric and we achieved zero planned interruptions in 2022-23. Our AMP8 plan will deliver further reductions to maintain our sector-leading position.

Lessons from AMP7 performance

- Excellent performance has been maintained despite challenges from hot weather and freeze-thaw events seen in particular in 2022-23.
- The level of bursts on our network is amongst the lowest in the sector (see Mains Repairs below) meaning overall we experience fewer incidents than other companies.
- There were no planned interruptions in 2022-23; good management of unplanned incidents when they do occur, including utilising the flexibility within our network to ensure customers can receive supplies from alternative sources mean we have very few incidents that last more than three hours.
- Continuous improvement in our responsiveness to incidents and development of our 'digital twin' network model will ensure we are able to continue to reduce the level of interruptions in AMP8.

Figure 2: Water quality (CRI)



Source: Annual Performance Reports and Business Plan Table OUT1

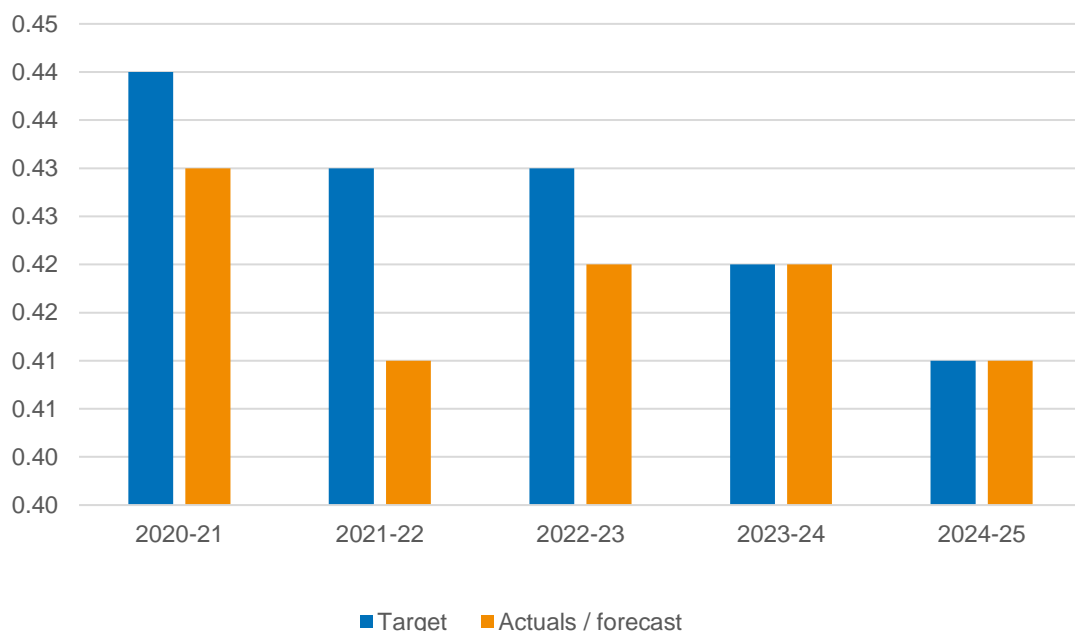
As the chart above shows, performance against the CRI metric is inherently variable between years, with excellent performance being achieved in years one and three of AMP7, and the target not being met in 2021-22. Based on performance to date in 2023 we expect to exceed the ODI deadband and incur a penalty. However, our expectation is that performance will be recovered in 2024 and we will be within the ODI deadband.

Our Pure Excellence programme seeks to address a number of issues raised by the Drinking Water Inspectorate. In its 2022 Chief Inspector’s report the DWI acknowledged the progress made: “The company has taken the time to systematically plan and build the mechanism to identify all risks, and to track and address those risks that are identified. This is being made possible thanks to the additional resource committed to the programme in 2021 by the board, following a business case from the company’s water quality team...”

Lessons from AMP7 performance

- During AMP7 our CRI performance was impacted by known aluminium issues in the network
- We have also experienced issues with a number of our production sites that require further investment in AMP8 to address raw water quality risks and to replace assets that are reaching the end of their design life.
- Through AMP7, we are investing £2.3m in our ‘Pure Excellence’ programme to overhaul our approach to water quality, including addressing issues raised by DWI and improving and documenting all our water quality processes.
- During AMP8 we will build on the Pure Excellence programme by embedding the new processes and continuing to monitor and investigate water quality risks on an ongoing basis
- The level of base investment at our water treatment works will also step up to replace a number of end-of-life assets and implementation of a number of enhancement schemes to reduce the risk from nitrates and cryptosporidium.

Figure 3: Water quality contacts



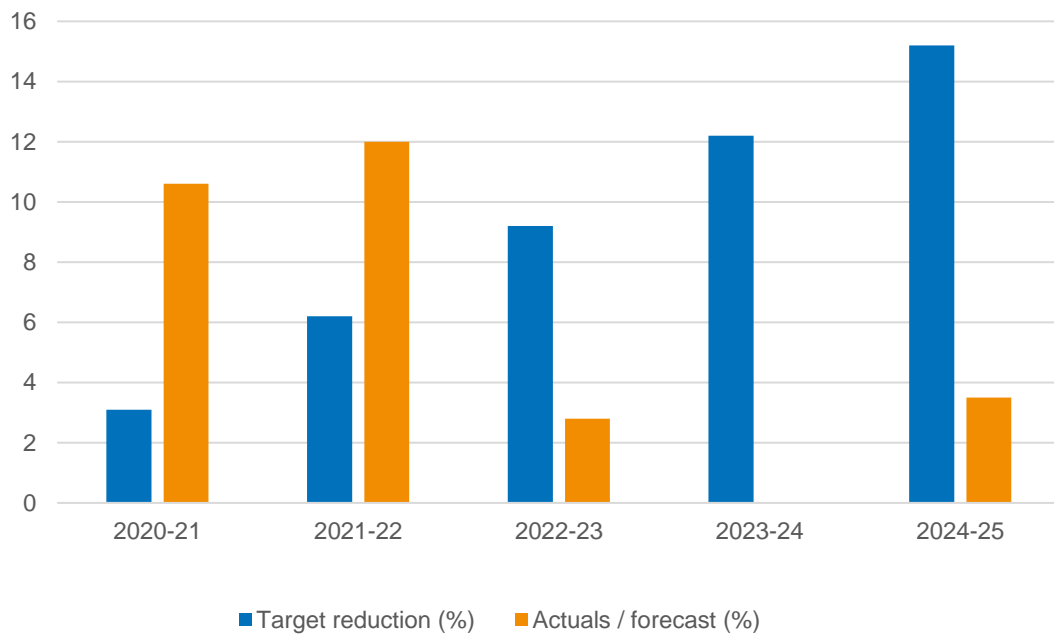
Source: Annual Performance Reports and Business Plan Table OUT1

We have met or beaten our PR19 performance commitments for water quality contacts in each year of AMP7 and our performance has been consistently amongst the best in the sector.

Lessons from AMP7 performance

- Our calm networks strategy seeks to ensure we operate our network in a manner that does not 'shock' the system, particularly when dealing with leakage and bursts. Shocks in the system can result in issues for customers such as discolouration or cloudiness which can lead to water quality contacts.
- A small increase seen in 2022/23 was linked to hot weather which saw a rise in calls related to air in the system.
- During AMP8 we will continue to deliver further reductions to our sector-leading position by targeted investment in the network to maintain calm operating conditions, including renewal of key pressure reduction valves.
- We are also stepping up the level of maintenance at our water treatment works to replace a number of end-of-life assets.

Figure 4: Leakage



Source: Annual Performance Reports and Business Plan Table OUT1

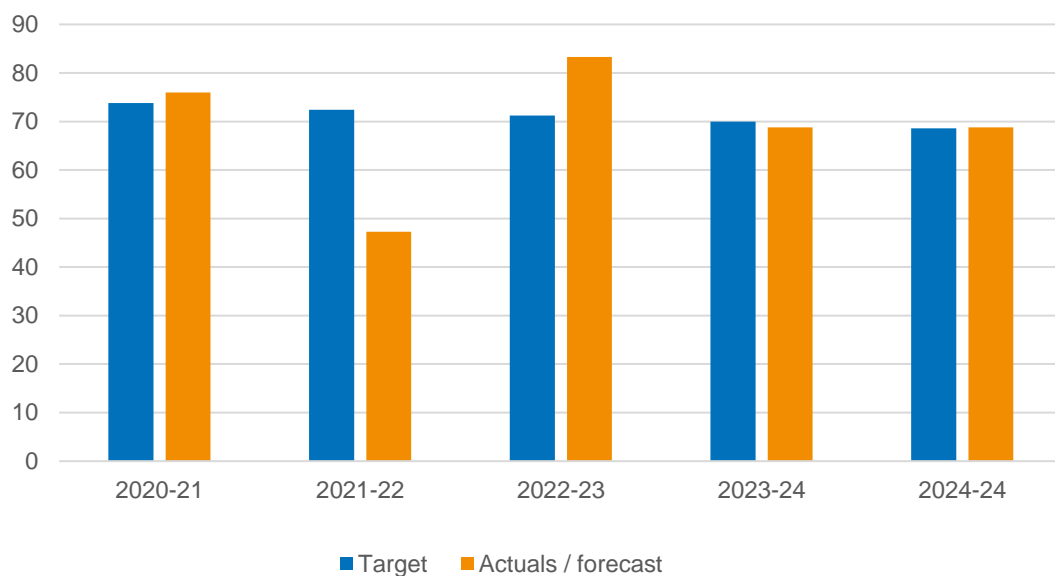
Leakage is measured on a three-year rolling average bases, as a reduction against a 2017-18 to 2019-20 baseline. After an excellent start to AMP7, which saw us deliver the 2023-24 target level reduction by year two, we experienced a significant deterioration in performance in 2022-23.

Due to the three-year average basis of the measure (which means elevated leakage in one year impacts reported performance in the subsequent two years) we do not expect to be able to recover our performance against our target and will incur ODI penalties in relation to years four and five of the AMP, despite forecasting that we will recover in-year performance to forecast levels by 2024-25.

Lessons from AMP7 performance

- Our performance in AMP7 was thrown off course in 2022-23 when after excellent performance in the previous two years, we saw periods of extreme hot weather followed by freeze and thaw events in the winter.
- This increased the level of bursts in our network, and we experienced significant resource shortages, which led to slower than required identification and repair of leaks.
- Our recovery plan is well under way and has oversight from the Portsmouth Water Board.
- As part of the programme, we have successfully partnered with third party companies to increase number and scope of repairs we are able to undertake. This will resolve some of the resource issues that we experienced, meaning we can keep a consistent level of detection and repair resources in the field each year.
- As part of our overall leakage recovery programme, we are also embarking on a programme to improve the use and quality of data to enhance our reporting and detection capability.

Figure 5: Mains repairs



Source: Annual Performance Reports and Business Plan Table OUT1

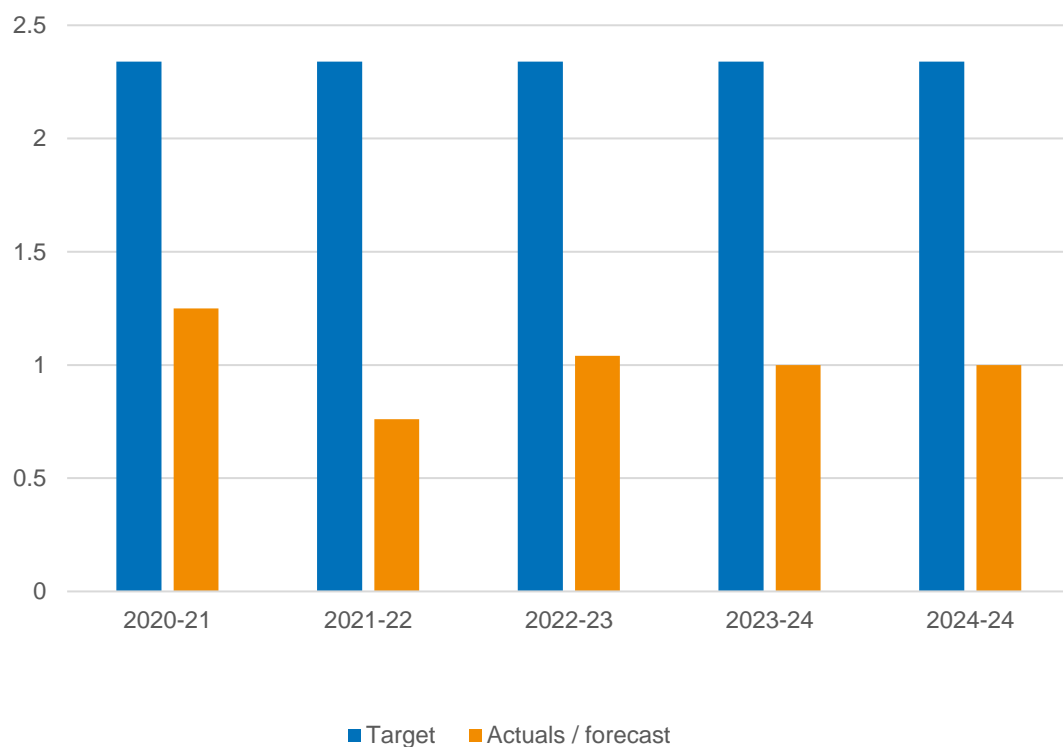
The mains repairs measure seeks to ensure that we maintain the serviceability of our network, measuring the level of bursts and resultant repairs undertaken. However, the measure also includes proactive repairs where we detect and repair leaks, so challenges in leakage can also negatively impact the mains repairs measure. This is partly reflected in our performance in 2022-23 where we exceeded our target for the first time, as we stepped up the level of repairs in response to elevated leakage.

Despite this increase, our mains repairs performance remains the best in the sector by a significant margin. While we incurred an ODI penalty in 2022-23, our performance remained the best in the sector and was around half the average of other companies.

Lessons from AMP7 performance

- As noted above, the freeze and thaw events experienced during late 2022 and early 2023 resulted in a higher level of bursts and leakage on our network and the need for a step up in mains repairs to recover leakage.
- We also experience automation failures of some pressure reduction valves, which undermined our 'calm network' strategy.
- To ensure we maintain our sector-leading position we will continue to operate the network calmly.
- Our AMP8 plan also includes base investment to replace problematic pressure reduction valves and controls.
- We will continue to target 'hot spots', using our enhanced asset management capabilities to maximise the benefits of our mains renewal programme, maintaining a flexible, agile approach to renewals.

Figure 7: Unplanned outage



Source: Annual Performance Reports and Business Plan Table OUT1

We have comfortably beaten our performance commitment in each year of AMP7 and expect to maintain unplanned outage at around 1% of peak week capacity for the remainder of AMP7 – less than half the level of our target.

This performance is around half the industry average and broadly in line with upper quartile performance (in 2022-23 four out of seventeen companies had better performance than us).

Lessons from AMP7 performance

- Our multi-skilled technical team are trained in fault diagnosis rather than just repair and maintenance, which means that when issues arise, we are able to quickly diagnose the root cause, which is key to minimising the duration of any outage.
- A strategy of standardisation of the majority of our PLCs, telemetry outstations, flow meters and water quality instrumentation means we can quickly access spares to repair and faults.
- We will maintain our excellent performance in AMP8 through continuation of our existing approach and targeted investment to improve the reliability and resilience of our water treatment works.

Figure 8: Per capita consumption



Source: Annual Performance Reports and Business Plan Table OUT1

Like leakage, per capita consumption (PCC) is measured on a three-year rolling average basis, as a reduction against a 2017-18 to 2019-20 baseline.

The Covid-19 lockdown which was imposed in March 2020 resulted in a significant increase in PCC in 2020-21, from 149.9 litres per head to 170.5 litres per head. This has reduced significantly and in 2022-23 our PCC was close to pre-pandemic levels at 152.2 litres per head, our three-year average remains well above the target level.

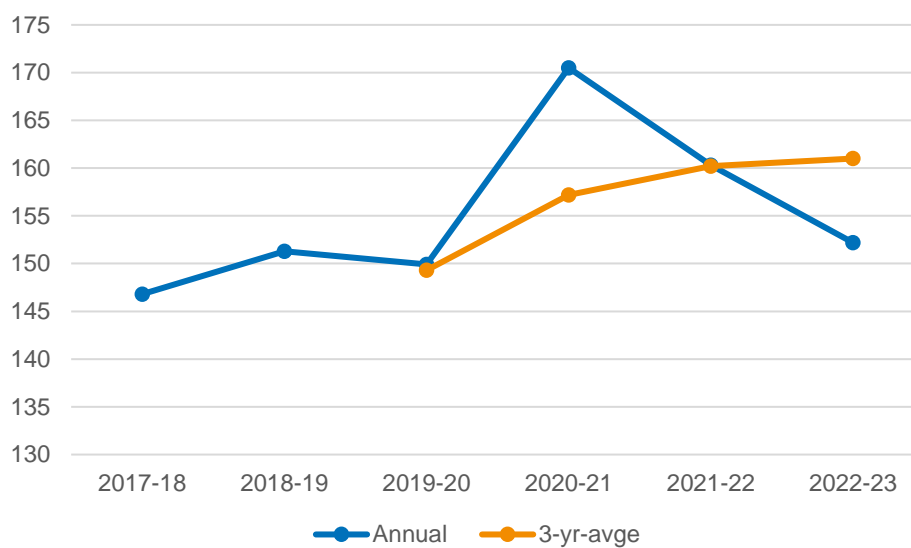
The chart below illustrates the impact of the lag effect of the three-year average – even though annual PCC has fallen very significantly since the pandemic, the three-year average has continued to rise year-on-year.

While we are unable to compulsorily meter customers until our latest WRMP is approved by the Secretary of State, we have taken the opportunity in this AMP to install meters pro-actively where boundary boxes exist, ready for switching over to metered charges in AMP8.

We have also stepped up our water efficiency campaigns as well as trialling new innovations such as the 'LeakBot' – an in-home device which sounds an alarm if a leak on the internal plumbing is detected via temperature monitoring.

Ofwat has recognised that the pandemic resulted in significant shifts in consumption patterns of water customers and deferred any consideration of ODI penalties for PCC to the end of the AMP. We discuss this further below.

Figure 9: Per capita consumption (l/head/day)



B. C-Mex and D-Mex

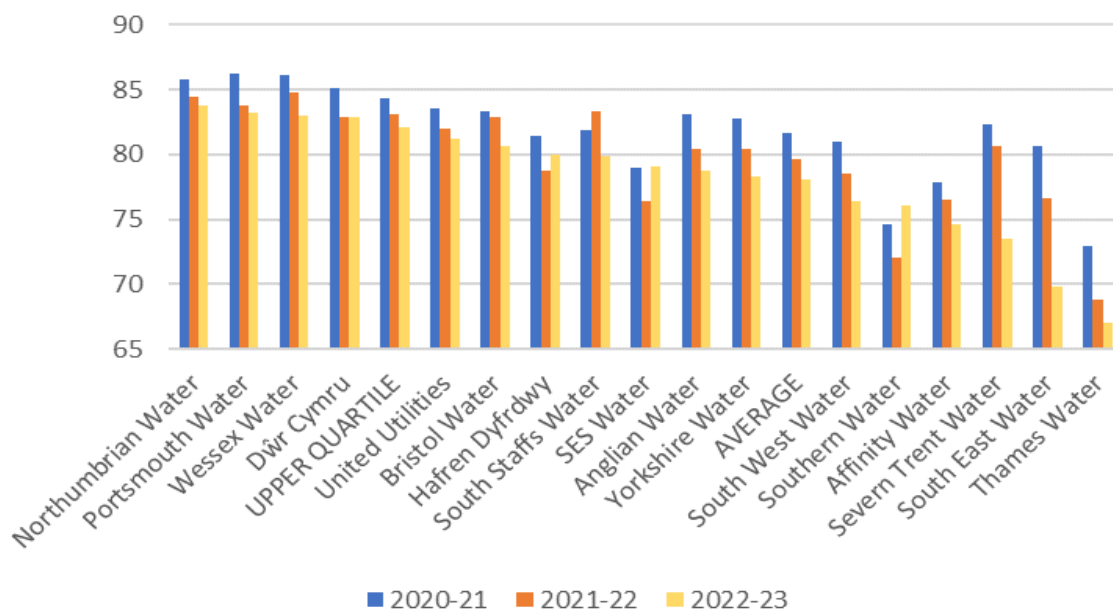
As shown in Figure 2 below, our C-Mex performance in AMP7 has been consistently in the upper quartile of companies, and we were the leading company in the sector in 2020-21. This demonstrates both the sustained trust that our customers have in Portsmouth Water and the excellent standards of service that we provide to those customers that have a need to contact us.

Our excellent performance in this area reflects a locally based call centre which delivers a tangible benefit through local knowledge. This complements an understanding of how different regions within our supply network can be treated according to their needs. Further, the culture within our customer service teams is focussed on delivering the best outcomes for their customers.

Lessons from AMP7 performance

- The lockdowns which occurred during the Covid-19 pandemic brought about a large spike in household consumption in 2020-21.
- Through a combination of the relaxation of restrictions and our water efficiency campaigns and interventions we have successfully reduced PCC from this peak. This included successfully trialling and deploying the innovative Leakbot device, which detects leakage within the home and alerts customers via an app.
- However, we have seen a structural change in consumption post-pandemic, driven by changes in working patterns (such as increased working from home).
- Coupled with this, with a very low meter penetration (36% at the end of 2022-23) and low bills, the economic incentive for our customers to reduce consumption is significantly weaker than for other companies.
- Our AMP8 smart metering programme will be a critical enabler to engaging our customers in reducing their demand, utilising the latest behavioural science, and leveraging our pioneering partnership with Kraken/Octopus Energy to allow customers to make the connection between their water use, and their wastewater and energy bills, enhancing the economic drivers for consumption reduction.

Figure 10: Comparative C-Mex performance 2020-21 to 2022-23



Source: Annual Performance Reports

C-Mex measures both customer service performance, split between billing and water service, and wider customer experience of those that have not contacted the company. Table 4 shows our ranking against each element of C-Mex for the first three years of the AMP, to provide additional insight into our overall performance and those elements where we have scope for further improvements in our relative position.

As the table shows, our performance on the Customer Experience element of C-Mex has fallen since 2020-21, reflecting the heightened negative focus on the sector. In contrast our performance on the Customer Service element was consistent across the three years. Continuing to demonstrate the value that we provide to customers and assuring them that they can trust Portsmouth Water will be a key focus for both the remainder of this period and into AMP8.

We also recognise that our AMP8 smart metering programme has the potential to impact on our customers' perception of the service they receive from us. In particular, as an area with low meter penetration and low bills, the impact could be greater for our customers than for those of other companies which had higher bills and higher existing levels of meter penetration. We are committed to rolling out our metering programme and moving to greater digitalisation of our services in a way that our customers view positively, while maintaining our excellent core service.

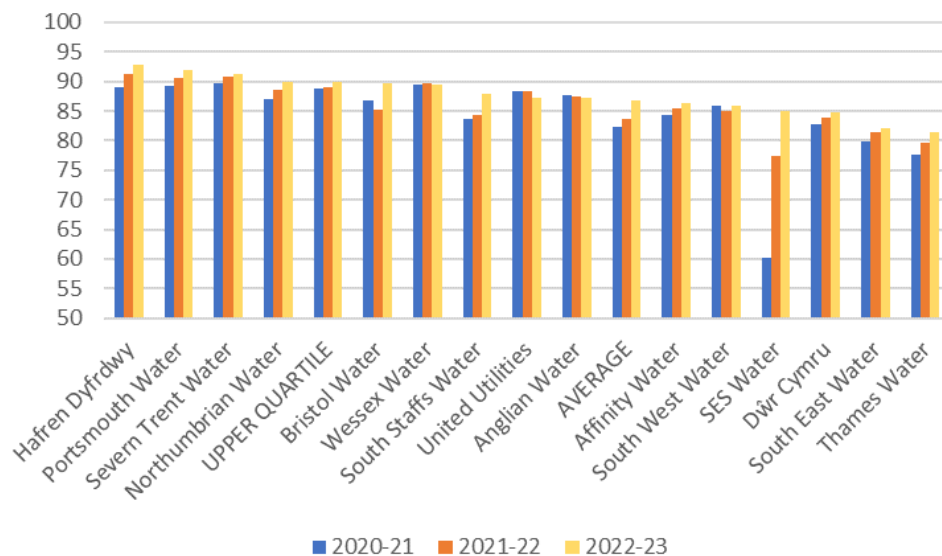
Table 3: Ranking on sub-components of C-Mex

Net debt	2020-21	2021-22	2022-23
Customer service	85.42	85.35	84.76
Customer experience	87.01	82.16	81.58
Overall	1 st	3 rd	2 nd

Source: Annual Performance Reports

D-Mex was a new comparative measure introduced in AMP7 to reflect the experience of developer customers in the sector. We are proud that, in line with our C-Mex performance, we have consistently achieved upper quartile performance, reflecting the close engagement and excellent standards of service we offer to our developer customers. This is illustrated in Figure 2 below, which shows our relative D-Mex scores for the first three years of AMP7.

During AMP8 we will continue to engage closely with our developer customers to ensure that our services continue to meet their needs, as well as ensuring that we meet and exceed the sector's levels of service standards.

Figure 11: D-Mex performance 2020-21 to 2022-23


Source: Annual Performance Reports

C. Customer complaints (CCW)

Consistent with our industry leading position on C-Mex our performance on complaints received, as reported by CCW in its annual complaints report, was the best in the sector for both 2020-21⁵ and 2021-22.

In 2020-21 we received just 10.8 complaints per 10,000 connections, compared to the average for water only companies of 18.3; the following year we reduced complaints by 13% to 9.4 per 10,000 connections compared to an average of 16.0.

CCW data for 2022-23 is not yet available, but we reduced the overall level of complaints from 731 in 2021-22 to 669 and expect to be upper quartile in the sector again.

CCW's report does highlight that while our performance on complaint handling was ranked as 'Better than average' in 2020-21, in 2021-22 we were assessed as 'Worse than average' on this measure. This reflects a higher proportion of complaints not being satisfactorily addressed at Stage 1.

Alongside ensuring that our total number of complaints remains very low, ensuring we reduce the number of complaints that are escalated will be a key area of focus in AMP8.

D. Totex performance

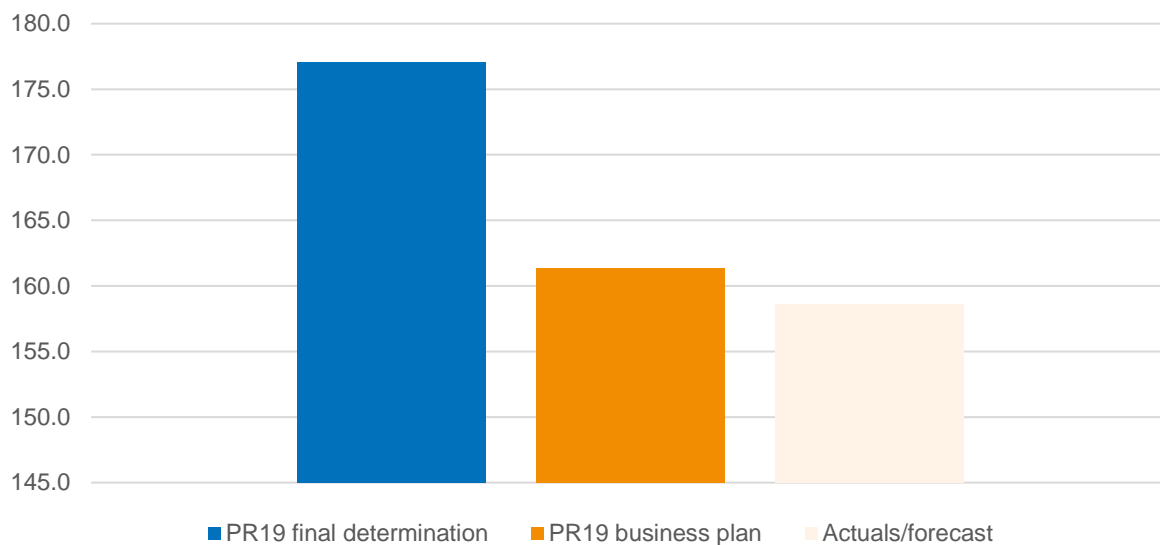
Portsmouth Water has been consistently assessed by Ofwat as one of the most efficient companies in the sector. At PR19 we were the frontier company for wholesale water, with our business plan base costs being 16% below Ofwat's efficient benchmark. The size of the gap between Ofwat's benchmark and our business plan costs reflected both the efficiency of our plan and the fact that, as a small company with relatively few assets, we have a 'lumpy' maintenance cycle and AMP7 represented a trough in our maintenance requirements.

⁵ Excluding Hartlepool Water, which is not a standalone company and whose results are not reported by CCW post-2021

Due to the size of the gap between Ofwat's view of efficient costs and the totex in our plan, Ofwat applied a cap on our cost allowances of 10% above our business plan submitted costs. While we did not agree that this was appropriate, we accepted the decision as part of the overall package.

As shown in Figure 4 below, at a totex level we have delivered broadly in line with our PR19 business plan forecast of £161.4m (1.7% lower). This represents an outperformance of 6.5% against Ofwat's totex allowance.

Figure 12: AMP7 totex compared with the final determination and PR19 business plan (2017-18 prices)



Source: Cost reconciliation model

At the same time, we have delivered service to customers that is upper quartile across a range of measures, including industry-leading performance on supply interruptions, mains repairs and water quality contacts. Most of this variance relates to higher Grants and Contributions than forecast within our PR19 business plan. This delivery against our plans provides clear evidence of the credibility of our plans and ability to accurately forecast the right level of expenditure and underlines the efficiency of our operating model.

Compared to the final determination, we have lower opex and higher capex. Our opex for the AMP (net of 3rd party costs and Grants & Contributions) is £105m compared to a final determination assumption of £125m (2017-18 prices).

In contrast our capex is £2m higher than assumed in the final determination, at £60m compared to £58m. This reflects prudent re-prioritisation to increase our investment in response to challenges in key areas, including addressing emerging water quality risks and recovering our leakage performance.

We have been able to accommodate this additional investment in emerging priorities through additional opex savings that we have delivered during AMP7. These are derived from continued close control of our day-to-day expenditure, along with a number of key initiatives such as the introduction of a virtual operational control centre (using a third party to handle infrequent out-of-hours customer contacts) and the negotiation of a business rates refund from the VOA.

As we enter AMP8, we are moving into a period of higher essential asset maintenance expenditure, as a number of our key assets reach the end of their operating life and require major refurbishment. This is coupled with the need to deliver a step change in our internal capabilities in a number of critical areas such as cyber resilience, asset management, data management and governance.

Our efficient operating model and headroom against Ofwat's efficient cost allowance means we can absorb these additional activities with botex, without the need for additional enhancement funding.

Overall, our actual totex is closely aligned with our PR19 business plan submission, demonstrating that, while we continue to evolve our asset management approach, we have a good understanding of our cost base and delivery costs, as well as the ability to maintain close control of our expenditure, while delivering on the customer outcomes that we committed to.

Ofwat's cost sharing incentive is designed to share the benefits of outperformance with customers. Ofwat applied an ex-ante adjustment of £(7.4)m to our totex allowances at PR19 in anticipation of outperformance, based on our business plan totex. The additional outperformance compared with our business plan in a reduction in AMP8 revenues of £(0.794)m and an opening adjustment to RCV of £(0.192)m (both in 2017-18 prices).

E. Capital delivery

In common with the rest of the sector, our capital delivery programme was disrupted by Covid-19 restrictions and subsequent recruitment challenges at the start of AMP7. Focused efforts over the last year, and successful expansion of our investment function, have led to an acceleration in outputs and expenditure. By the end of 2022-23 expenditure on our enhancement programme was back on track with cumulative expenditure of £14.9m compared with a final determination allowance of £12.3m.

As the table below shows our forecast enhancement expenditure for the AMP as a whole is forecast to be higher than the PR19 final determination allowance, reflecting prudent increases in investment in priority areas.

These include £2.0m of unfunded expenditure on leakage improvements, as part of our wider leakage recovery programme, SEMD expenditure, which was not included in the final determination, and higher investment in addressing raw water deterioration.

A shortfall in our metering programme, as a result of fewer meter optants than forecast, has been offset by the installation of boundary boxes into which meters can be screwed. This will allow for an immediate switch over to metered charges at the start of AMP8, when we are permitted to compulsorily meter customers in line with our WRMP and our status as an area of serious water stress for metering.

We are committed to delivering all of our funded enhancement schemes and are on track to do so.

Table 4: Enhancement expenditure compared with the PR19 final determination

2022-23 prices	Forecast actuals £m	PR19 allowance £m	Difference £m
Eels Regulations (measures at intakes)	1.1	2.0	-0.9
Drinking Water Protected Areas (schemes)	1.6	2.8	-1.2
Supply-side improvements delivering benefits in 2020-2025	2.4	3.1	-0.7
Leakage improvements delivering benefits in 2020-2025	2.0	0.0	2.0
Supply demand balance improvements delivering benefits starting from 2026	0.7	0.0	0.7
Total metering expenditure	4.4	6.2	-1.8
Addressing raw water deterioration (grey solutions)	9.0	6.5	2.6
Improvements to river flow	0.1	0.0	0.1
Enhancing resilience to low probability high consequence events	2.4	1.4	1.0
Lead communication pipes replaced or relined for water quality	0.2	0.2	0.0
Security - SEMD	1.5	0.0	1.5
Boundary Boxes	1.0	0.0	1.0
Total enhancement expenditure	26.4	22.2	4.2

F. Other reconciliation mechanisms

In addition to the core incentive mechanisms around service delivery and totex, PR19 introduced a significant number of additional true-up mechanisms, which mostly were designed to balance risk between companies and customers in relation to exogenous factors such as inflation and tax changes.

We have forecast the impact of each of these mechanisms using Ofwat's published PR19 reconciliation models (provided as part of this business plan) and the results of these mechanisms are summarised in Table 3 below, along with the adjustments for totex and the year 4 and 5 adjustments for ODIs (Outcome Delivery Incentives) (Outcome Delivery Incentive), C-Mex and D-Mex.

Overall, the net adjustments arising from these mechanisms are a reduction in AMP8 allowed revenues of £2.7m and an increase in RCV of £3.7m. However, the revenue adjustment includes an adjustment of £2.6m in relation to per capita consumption, which we do not think is appropriate (see below). If this is removed the revenue adjustment is £0.1m. The impact on customer bills of these adjustments is therefore negligible.

Not included in the table is the Havant Thicket RCV adjustment, which was agreed as part of the Havant Thicket Cost Adjustment Mechanism. This adjustment is £216.117m but does not impact bills for Portsmouth Water customers. Havant Thicket is a 10-year bespoke price control but does have a mid-period review of the cost of debt indexation mechanism. (See PRT13: Aligning Risk and Reward for further details.)

Table 3: summary of impact of Ofwat's PR19 reconciliation models

PR19 reconciliation mechanism (2022-23 prices)	Revenue adjustment (£m)			RCV adjustment (£m)			Type
	Water resources	Network plus	Retail	Water resources	Network plus	Retail	Reconciliation or incentive
ODI incentive (years 4-5)	-2.612	-1.388	-	-	-	-	Incentive
Revenue forecasting incentive	0.047	-0.065	-	-	-	-	Incentive/ Reconciliation
C-Mex incentive (years 4-5)	-	-	0.378	-	-	-	Incentive
D-Mex incentive (years 4-5)	-	0.190	-	-	-	-	Incentive
Residential retail revenue adjustment	-	-	0.222	-	-	-	Reconciliation
Developer services adjustment	-	0.562	-	-	-	-	Reconciliation
Cost of new debt revenue adjustment	0.024	0.575	-	-	-	-	Reconciliation
Gearing outperformance revenue adjustment	-	-	-	-	-	-	Reconciliation
Totex costs sharing	(0.863)	(0.074)	-	(0.192)	(0.034)	-	Reconciliation
RPI-CPIH wedge true-up	0.028	0.721	-	0.110	3.823	-	Reconciliation
Other revenue adjustments	-	0.897	-	-	-	-	n/a
TOTAL	(3.376)	1.418	0.600	(0.082)	3.789	-	

Source: Business Plan Table PD12

G. Adaptations to the PR19 rulebook

It is important for maintaining confidence in the regulatory regime that the regulatory rules are applied consistently and in line with published methodologies. We agree with Ofwat's view as set out in the PR24 methodology that companies should not be seeking to override the operation of the PR19 reconciliation models.

However, where there are genuinely exceptional circumstances that were not foreseen when the mechanisms were created, it is important that regulators take a pragmatic approach to their application.

Ofwat has acknowledged that the impact of the Covid-19 pandemic on household behaviours and hence water consumption was an exceptional circumstance that required further review of the associated ODI under and outperformance payments⁶.

For Portsmouth Water there is a second mechanism, the Gearing Outperformance Sharing Mechanism, where the circumstances have changed materially, and which therefore requires a departure from the published approach.

Per capita consumption

As described above, we saw a significant increase in per capita consumption (PCC) in 2020-21 as a result of the pandemic and associated lockdown. The increase in PCC between 2019-20 and 2020-21 for Portsmouth Water was the third highest in the sector in litres per head per day, and the fourth highest in percentage terms. This reflects the nature of our unmetered customer base, where there was no economic incentive for the majority of our customers to conserve water in the home during the pandemic.

Since then, we have been working hard on messaging with our customers to ensure that despite the lack of an economic driver for our customers, they understand the importance of using water wisely in the home. This has been successful, and we have seen the largest reduction in the sector, in litres per head per day, in PCC between 2020-21 and 2022-23. In percentage terms our reduction was the second highest in the sector.

Nonetheless, PCC in 2022-23 remained slightly higher than before the pandemic at 152.2 litres/head/day in 2022-23 compared to 149.9 litres/head/day in 2019-20.

Across the sector as a whole, it is clear that there has been a structural shift in household consumption patterns, with consumption on average remaining 2.9 litres/head/day above the pre-pandemic level, despite the efforts of the sector to reduce PCC.

We believe this reflects a permanent change in consumption patterns since the PR19 targets were set. We have commissioned further work from water use experts Artesia, to quantify the extent to which the increase in consumption can be attributed to changes in behaviour patterns following Covid-19. It will not be possible to robustly complete this analysis until a further year of data (2023-24) is available for analysis, in order to isolate any impacts from the summer 2022 drought and associated restrictions imposed by some companies. We expect to provide a copy of this analysis in our response to the Draft Determination. (See Appendix PRT05.01: Artesia review of PCC.)

⁶ [PCC-consultation-decisions-on-reporting-performance-and-ODI-timing.pdf \(ofwat.gov.uk\)](#)

As evidenced above, we have worked hard to drive down consumption and have made the biggest post-Covid savings per head of any company in the sector, despite our low meter penetration. We would therefore urge Ofwat to await the conclusions of the further analysis before taking a decision on the appropriateness of any ODI penalties in respect of AMP7 performance.

Within the plan we have included the full calculated penalty, but we would expect Ofwat to adjust this once further information is available about the extent to which changes in AMP7 can be attributed to Covid-19 and the changes it brought about in working and behavioural patterns.

Table 4: Impact of Covid-19 on Per Capita Consumption

	Industry average	Portsmouth Water
Increase in PCC from 2019-20 to 2020-21 (l/head/d)	13.7	20.6
Increase in PCC from 2019-20 to 2020-21 (%)	9.8%	13.7%
Reduction in PCC from 2020-21 to 2022-23 (l/head/d)	-10.8	-18.3
Reduction in PCC from 2020-21 to 2022-23 (%)	-6.9%	-10.7%

Source: Annual Performance Reports

Gearing outperformance sharing mechanism (GOSM)

The GOSM is designed to share with customers the benefit of gearing more than 70% of RCV (in 2024-25). The model used to reconcile the mechanism uses the RCV as published at PR19 as the denominator in the calculation. For Portsmouth Water this approach is not appropriate as it does not recognise the additional costs agreed in January 2023 in relation to Havant Thicket through the Cost Adjustment Mechanism (CAM). The additional costs associated with the reservoir have increased our net debt but the corresponding adjustment to the RCV to recognise the impact of the CAM will not be made until 1 April 2025.

The impact is shown in Table 6 below. Using actual net debt and the PR19 published RCV, which excludes the impact of the CAM, gearing is more than the GOSM thresholds in 2022-23 and 2024-25, which would incur a penalty under the published mechanism.

However, as part of the CAM Ofwat determined that a midnight adjustment to the RCV of £183m, (2017-18 prices) was required⁷. Once an adjustment is made to the RCV, in line with the notional Havant Thicket Price Control RCV published as part of the CAM, gearing is comfortably below the GOSM threshold.

We therefore believe that to ensure consistency across Ofwat's regulatory decisions, it would be unreasonable to apply a penalty in these circumstances.

Table 5: Gearing Outperformance Sharing Mechanism

Net debt	2020-21	2021-22	2022-23	2023-24	2024-25
Net Debt (at 31 March)	£118.3m	£138.3m	£172.8m	£119.6m	£296.1m
RCV (as published at PR19)	£168.2m	£189.4m	£220.4m	£257.6m	£290.3m
Gearing (%)	70.3%	73.0%	78.4%	46.4%	102.0%
GOSM threshold (%)	74%	73%	72%	71%	70%
RCV (adjusted for HT (Havant Thicket) CAM)	-	-	£268.3m	£378.7m	£516.8m
Adjusted gearing (%)	-	-	64.4%	31.6%	57.3%

Source: PWL financial model (actual company structure)

⁷ [Havant-Thicket-CAM-final-decision-document.pdf \(ofwat.gov.uk\)](#)

5. SUMMARY

In this section we have shown that we have successfully delivered in line with the PR19 final determination, including maintaining our sector-leading performance in a number of areas including supply interruptions, mains repairs and water quality contacts. Customer satisfaction, as measured by C-Mex and D-Mex has been consistently in the upper quartile.

For those performance commitments that will be carried forward to AMP8, we have demonstrated that we have a clear understanding of the drivers of performance, giving confidence that we can deliver on our business plan commitment to deliver further improvements in AMP8.

Our totex performance is in line with the forecasts set out in our PR19 business plan, which were materially below the efficient benchmark set by Ofwat. While our AMP8 totex represents an increase compared with AMP8 we are confident that we remain efficient compared to our peers.

We have populated Ofwat's PR19 reconciliation models in line with the PR19 reconciliation rulebook. The net impact of these reconciliations is small and will not have a material impact on customer bills. We have set out two areas where we believe a departure from Ofwat's PR19 incentive mechanisms is justified. These are in relation to the PCC outcome delivery incentive, where we think more evidence is required before a robust judgement can be made on whether any underperformance payments should be made; and the Gearing Outperformance Sharing Mechanism, where an adjustment to the published RCV is required to take account of the additional costs allowed under the Cost Adjustment Mechanism published in January 2023.

6. GOVERNANCE AND ASSURANCE

Performance against the final determination is monitored on an ongoing basis by the Board and Executive and annual performance is reviewed and signed off by the Board as part of the Annual Performance Report assurance process. Formal assurance of annual performance is subject to assurance by Jacobs (non-financial performance) and KPMG (financial).

Forecasts of operational performance for the remainder of the AMP have been subject to internal review and challenge at Executive level and shared with the Board for review. Expenditure forecasts are aligned with our budgeting process, which is overseen by the Board.

The early submission of the totex reconciliation model was subject to independent assurance from Frontier Economics. KPMG have provided assurance in the form of agreed upon procedures over the completion of the Past Delivery tables which are derived from the Ofwat reconciliation models.



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