PORTSMOUTH WATER LIMITED

Outcome Delivery Incentives 2015-2020

July 2019

Contents

Background

The regulatory framework for the last Price Review, PR14, introduced the concept of outcomes, performance commitments and outcome delivery incentives (ODIs). The framework includes rewards for service outperformance and penalties for underperformance. We worked with our customers and stakeholders to develop our outcomes, performance commitments and ODIs for the five year period 2015-2020 (AMP6) and these are set out in our PR14 Final Determination.

Portsmouth Water has committed to delivering outcomes that meet the expectations of our customers. These are supported by 13 associated performance commitments that identify the company's committed level of performance under each outcome. For 9 of these performance commitments the Company is subject to associated financial impacts whereby it will incur a penalty for performance below its commitments, but for some can earn a reward for performance better than its commitments.

We have now completed the first four years of this AMP period. This report will enable stakeholders to assess how we have performed against those measures of success that are regarded by our customers as being the most important factors.

Further we are in a position to quantify the financial impact on customer bills of the related rewards and penalties. These adjustments apply as of 1 April 2020 and will impact customer bills over the subsequent 5 years period from 2020 - 2025

The Company recognises the importance of providing information to customers and other stakeholders that is: - customer-led, relevant, clear, useful, complete, accurate and timely. Our ongoing objective is to make information available that is easy to understand and which enables stakeholders to see how we are performing. We believe that this helps to build trust and confidence in the business.

In 2015 Ofwat published "The Company Monitoring Framework" which formalises the process through which they will oversee how stakeholders can have, in particular, confidence in companies' published Performance Measures. We published our Final Assurance Plan for 2018/19 reporting in April 2019, following consultation. This can be found at the following location.

https://www.portsmouthwater.co.uk/news/publications/company-monitoring-plans/

Our Data Assurance Summary is published in conjunction with this document. It explains our approach to Data Assurance and provides the Board's position on this issue.

This report is split into six sections:-

- Overview of the year.
- Background, Assurance and Compliance Statement
- Report from the Customer Challenge Group
- Annual Performance and quantification of rewards and penalties on customer bills
- ODIs and KPIs
- Atkins Assurance Report

Overview of the 2018/19

2018/19 is the fourth year of the current price review period. Our ODI performance remains good, and in many cases industry leading.

The Company published and consulted on its Monitoring Plans for 2018/19 throughout the year. This gave customers, stakeholders and our Customer Challenge Group the opportunity to review and comment on the information we provide externally. We welcome this process and commit to providing our performance to all customers and stakeholders in a clear and transparent manner.

The Company can confirm it failed 2 of its 13 Outcome Delivery Incentive (ODI) targets. There is uncertainty around whether one of these measures, SIM, has been met yet as we need to wait for publication of performance by all companies; our performance has improved on 2017/18, when we were ranked second. Further, the target for household usage, measured by per capita consumption, does not apply until 2019/20.

The two measures failed in the year are discussed in detail in this report, with a very brief discussion in this overview.

Bursts (page 13)
We have seen a high number of bursts this year, predominantly because of the effect of ground conditions on the pipe-network. We experienced a large number of bursts in summer 2018 as the long dry period continued into the early autumn.

The Company does not believe this performance is an indicator of deterioration of the health of the asset but the natural response to changing ground conditions.

Water Quality contacts (page 16)
The water quality contacts target set for the period is extremely challenging, given we did not base our target accurately at PR14. That said, we have continued to reduce the number since 2014 and note that the 2017 performance is better than the leading companies in any of the prior three years and we have improved further in 2018.

The Company implemented its “Calm Network” action plan which focuses on the need to ensure the network is operated appropriately when dealing with leakage and bursts in particular and not result in issues for customers. This initiative has been very successful and has driven down contact levels.

Conclusion
As the Company prepares its plans for its next Business Plan, PR19 covering 2020 – 2025, we believe the performance in 2018/19 ensures we are well placed to continue to deliver high levels of service to customer at an affordable price in the future.

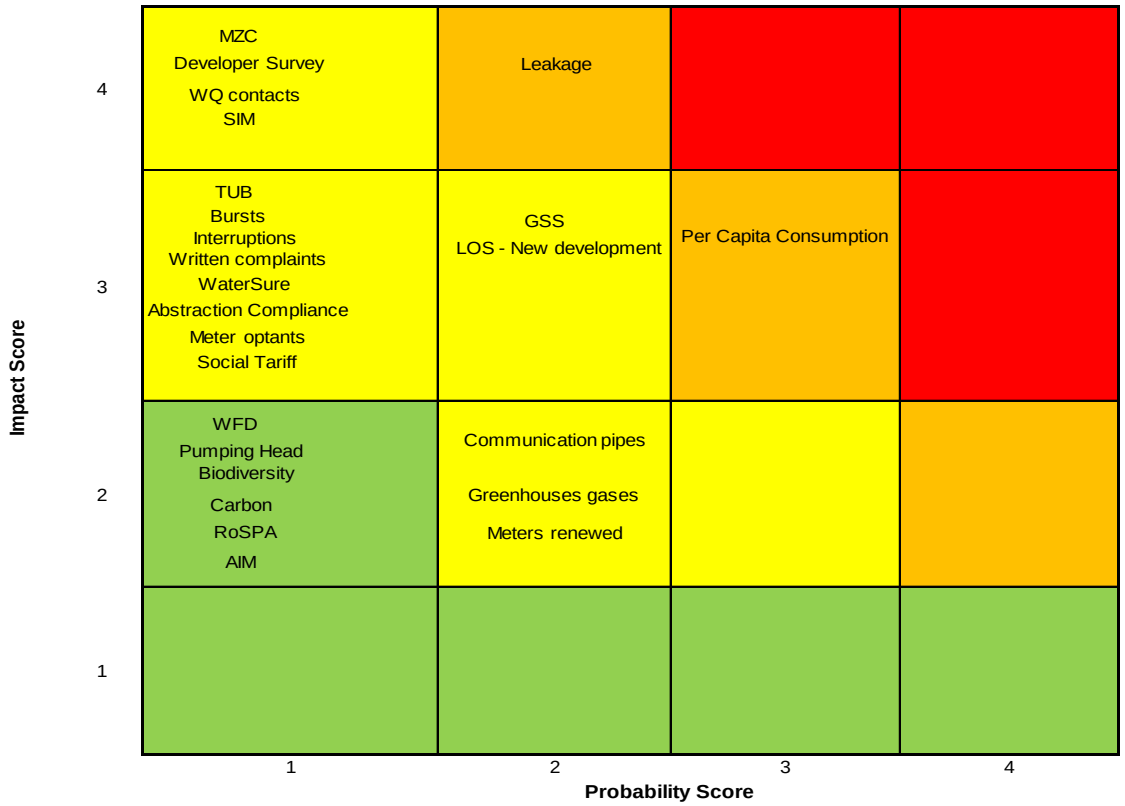
Assurance

Our Reporter from Atkins, has provided third party assurance on our ODIs and other KPIs. The audits are undertaken in accordance with our Final Assurance Plan. The Reporter examines the source of data, checks calculations and assesses the accuracy and compliance to the data requirements of the reported data. The Reporter has produced a report on each audit carried out and his key findings from the audit process are shown on page 42. He attended the Audit Committee in May 2019 to inform the members of the audit findings. Further, on 19 June 2019 he presented his report to our Customer Challenge Group.

As part of the Company Monitoring Framework we undertook an exercise to identify any "risks, strengths and weaknesses" of our data and or processes. The summary results from the risk assessment are shown in the matrix below. All of the data items shown were included in the Reporter's scope for audit purposes.

The matrix assesses each item of data relative to the reliability, accuracy and complexity of its derivation. Those that score relatively higher on this assessment are ranked in the top right quadrant of the diagram, and warrant greater attention from the Reporter. Definitions of each of these items is given on the next page.

PR14 - Impact and Probability Risk Matrix



As part of this process we engaged with our Customer Challenge Group (CCG) in particular to determine which data audits our Reporter would conduct. From discussions with the CCG it was agreed that Atkins' scope would include all ODIs and other KPIs as shown in the table following.

Our ODIs and other KPIs are described as follows.

Outcome Delivery Incentives

Ref	Performance Measure	Board	Management Board	Other review	External review
RA1	Service Incentive Mechanism	Monthly review	Monthly review		Reported to CCWater on quarterly basis. Audited by Atkins at the end of reporting year. Reported in Annual Performance Report (APR) and Statutory Accounts.
RC1	Developer Survey	Yearly review	Yearly review		Reported in APR.
RB1	Per capita consumption	Yearly review	Yearly review		Reported to CCWater. Audited by Atkins at the end of the reporting year. Reported in APR, Statutory Accounts and the Annual Return to the Environment Agency.
WA1	Number of bursts	Monthly review	Monthly review	Reported at weekly Ops meeting	Audited by Atkins at the end of reporting year. Reported in APR and Statutory Accounts.
WA3	Mean Zonal Compliance	Monthly review	Monthly review	Reported at weekly Ops meeting	Reported in Chief Inspectors Annual Report. Reported in APR and Statutory Accounts.
WA4	Number of water quality contacts	Monthly review	Monthly review	Reported at weekly Ops meeting	Reported in Chief Inspectors Annual Report. Reported in APR and Statutory Accounts.
WA5	Temporary usage bans	If required	If required	At weekly operations meeting if required	Reported in APR, Statutory Accounts and in the Annual Return to the Environment Agency.
WB1	Leakage	Monthly review	Monthly review	Reported at weekly Ops meeting	Reported to CCWater on a 6 monthly basis. Audited by Atkins at the end of the reporting year. Reported in APR, Statutory Accounts and Annual Return to the Environment Agency.
WC1	Interruptions to supply	Monthly review	Monthly review	Reported at weekly Ops meeting	Reported quarterly to CCWater. Audited by Atkins at the end of the reporting year. Reported in APR and Statutory Accounts.
WD1	Biodiversity	Yearly review	Six monthly		Reported in APR. and Statutory Accounts Progress discussed with CCG and Natural England every six months
WD2	Water Framework Directive	Yearly review	Six monthly		Reported in APR and Statutory Accounts. Progress discussed with CCG and Natural England every six months
WD3	Carbon commitment to renewables	Yearly review	Electricity consumption reviewed.		Audited by Atkins at the end of the reporting year. Reported in APR and Statutory Accounts.
WG1	RoSPA	Accidents reported monthly	Accidents reported monthly		Reported to the Health and Safety Executive. Reported in APR and Statutory Accounts.

Other Key Performance Indicators

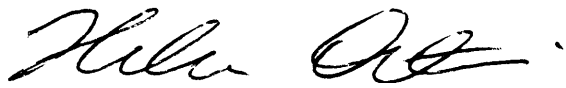
Ref	Performance Measure	Board	Management Board	Other review	External review
O1	Abstraction Incentive Mechanism	Yearly review			Reported in APR.
O2	Optional meters installed	Monthly review	Monthly review	Reported at weekly Operations meeting	Reported annually to the Environment Agency. Audited by Atkins at the end of the reporting year.
O3	Abstraction - compliance with licence conditions	Yearly review		Reported at weekly Operations meeting	Reported annually to the Environment Agency.
O4	Guaranteed Standards of Service	Monthly review	Monthly review	Reported at weekly Operations meeting	Audited by Atkins at the end of the reporting year. Reported in Annual Performance Report and Statutory Accounts.
O5	Watersure	Yearly review	Monthly review	Reported at weekly Operations meeting	Reported quarterly to CCWater. Audited by Atkins at the end of the reporting year.
O6	“Helping Hands” - Social tariff	Yearly review	Monthly review	Reported at weekly Operations meeting	Reported quarterly to CCWater. Audited by Atkins at the end of the reporting year.
O7	New development – levels of service	Yearly review	Monthly review		Reported quarterly to Water UK. Audited by Atkins at the end of the reporting year.
O8	Green House Gas Emissions	Yearly review	Yearly review		Audited by Atkins at the end of the reporting year. Reported in the Statutory Accounts.
O9	Written Complaints by class and cause	Monthly review	Monthly review	Reported at weekly Operations meeting	Reported to CCWater on a quarterly basis. Audited by Atkins at the end of the reporting year. Reported in APR.
O10	Communication pipes	Yearly review	Yearly review		Audited by Atkins at the end of the reporting year.
O11	Meters renewed	Yearly review	Yearly review		Audited by Atkins at the end of the reporting year.
O12	Pumping Head	Yearly review	Yearly review		Audited by Atkins at the end of the reporting year.

Compliance Statement

The Board has reviewed this Outcome Delivery Incentives Report and has approved the following statement:

The Board of Portsmouth Water hereby confirms, in connection with the ODI, that it:

- considers it has a full understanding of, and is meeting, its obligations and has taken steps to understand and meet customer expectations
- has satisfied itself that it has sufficient processes and internal systems of control to fully meet its obligations
- has appropriate systems and processes in place to allow it to identify, manage and review its risks



H Orton
Finance and Regulation Director

M Coffin
Non-Executive Director
Chair of the Audit Committee

12 July 2019

CCG Report on ODI performance 2018/19

The CCG provides independent challenge and assurance on the quality of the Company's customer engagement and the degree to which customer views shape business planning and activities. It also has a monitoring role to review the performance against the Outcomes (Outcome Delivery Incentives) agreed for the current regulatory period.

The CCG met 10 times in the year 2018/19 often at short notice, as the Company prepared its Business Plan to Ofwat in September and its response to the Ofwat Initial Assessment of its Plan in January 2019. I thank the members for their commitment to this group.

ODI Performance 2018/19

The Company reports that it has met 11 of the 13 Outcome Delivery Incentive (ODI) measures, detailed later in this report. Whist it is disappointing to note any failure, the Company have discussed performance of all of its ODIs throughout the year, and we consider we have a good understanding for the reasons and mitigations the Company has put in place to improve.

Water Quality contacts

The Company states that, in light of more comprehensive reporting, the target it set for the period is extremely challenging. We note the significant improvement since 2014 and the fact that the 2018 performance is better than the leading companies in any of the prior years.

The Company has implemented a number of engineering actions which aims to ensure the network is operated appropriately when completing repair work associated with leakage or bursts. This means that customers are not impacted when the main is recommissioned with issues associated with the appearance of the water supplied. This focus has resulted in a reduction of the number of contacts relating to the appearance of the water in the year, and underpins the improvement in the year.

Bursts

The Company states that it has seen a high number of bursts this year, predominantly because of the effect of ground conditions on its pipe-network. It experienced a large number of bursts in summer 2018 as the long dry period continued into the early autumn.

The Company has stated that they do not believe this performance is an indicator of deterioration of the health of the asset, however, we note there is an increasing trend in the number of bursts over recent years and encourage the Company to keep close monitoring of this situation. We have asked the Company for evidence to support their position and will review this at a subsequent meeting of the CCG. We note however the impact on customers of any burst remains low, with an interruption to supply value better than in recent years.

Leakage

In 2017/18 the Company failed its leakage target significantly. Given the profile this issue has with customers, we challenged and encourage the Company to look at how other water companies around the world are using new technology to address this issue.

The CCG are pleased that the Company has responded positively to this challenge and are able to report a significant reduction in leakage year on year, exceeding the annual target set by Ofwat at PR14 for 2018/19.

Mean Zonal Compliance
In recent years the Company has twice failed the water quality compliance measure, Mean Zonal Compliance. The Company state that the overall result were disproportionately impacted by lead failures arose as a result of lead in the customer side supply pipes. We are therefore pleased that the Company has achieved this target in 2018.

Service Incentive Mechanism
Whilst the Company has improved its overall SIM score again this year, it is not able to report against its commitment of being an upper quartile performer, until all companies publish their performance in July 2018. That said, we note that in 2017/18 the Company was ranked second in the industry and is likely to be a similar ranking in 2018/19 given the improvement in the year.

Per capita consumption
We again note the increasing trend for per capita usage over recent years. There must be uncertainty if the Company will achieve its 2019/20 ODI for this measure. We have challenged the Company to look at the benefits of wider scale metering and we are pleased that it's Business Plan and Water Resources Management Plan has recognised this issue.

Environmental performance
The CCG notes that the Company has also made material progress on its Biodiversity and Carbon programmes in this AMP period. It also notes that the water resources schemes set out in the Water Industry National Environment Programme for AMP6 are now complete and signed off by the Environment Agency.

Customer Engagement and Business Planning
During the year the Company undertook many specific activities in preparing its Business Plan (PR19) which will cover the 5 year regulatory period from 2020. This was submitted to Ofwat in September 2018.

The activities included detailed customer engagement on Outcome Deliver Incentives. Not only did the Company use traditional focus group but established a Customer Advisory Panel, (CAP) which met during the year to allow greater discussion around specific issues faced by the Company.

The Company kept the CCG informed on all of its engagement activities and responded positively to any challenges we have made. We submitted our report to Ofwat on the Business Plan in September 2018.

Terms of Reference
Following publication of the PR19 Methodology by Ofwat in December 2017, the Terms of Reference of the CCG were expanded to include participation and review of the PR19 plan, with specific emphasis on customer-impacting areas such as charges, vulnerability and resilience.

Lakh Jemmett
Chair of Customer Challenge Group

Section 1 – Outcome Delivery Incentives (ODIs)

The table below details the ODIs for the Company and performance in 2018/19 against our commitment, or target. Further details on each ODI can be found in the pages below.

ODI Performance 2018/19

ODIs	Unit	Incentive Type	2018/19 Target	2018/19 Actual	2018/19 target met?
Bursts	Nr	Financial	342	347	✗
Mean Zonal Compliance *	%	Financial	100.00	99.96	✓
Water quality contacts *	Nr/1000 population	Financial	0.417	0.437	✗
Temporary Usage Bans	Nr	Reputational	0	0	✓
Leakage	Ml/d	Financial	29.85	28.12	✓
Interruptions to supply	Minutes per properties served	Financial	6 Mins	3 Mins 54 Secs	✓
Biodiversity Action Plan	%	Financial	80	Progress as planned	✓
Water Framework Directive	Completion date	Financial	No yearly target	Completed March 2018	✓
Carbon	% increase	Reputational	8	Over 95% of electricity used is from renewable sources	✓
RoSPA Accreditation*	Accreditation awarded	Reputational	Awarded	Awarded	✓
Service Incentive Mechanism Quantitative – No. of complaints and unwanted contacts etc. Qualitative – Customer experience survey	Quantitative Qualitative Total Score	Financial	Upper quartile	22.3 66.8 89.1	✓
Reducing per capita consumption	l/h/d	Financial	144.6	152.4	n/a (as target is 2019/20)
Survey of developers	%	Reputational	70	91	✓

* Calendar year 2018

The table below details the impact of our ODI performance in the four years up to and including 2018/19 and quantifies the potential outperformance (rewards) and underperformance (penalties) that would apply at the start of the next price review period, 2020.

ODIs	**Reward / Penalty or Reputation**	**2015/16**	**2016/17**	**2017/18**	***2018/19***	**Reward / penalty (£000s)**	**Assumption**
Bursts	Reward / Penalty	219	298	347	*347*	0	average of 303 - in dead-band
Mean Zonal Compliance *	Penalty	99.94	99.99	99.93	*99.96*	-639	no further performance below 99.95%
Water quality contacts *	Reward / Penalty	0.570	0.665	0.549	*0.437*	-1,903	capped at 0.505
Temporary Usage Bans	Reputation	0	0	0	*0*	n/a	No TUB applied
Leakage	Reward / Penalty	28.23	30.38	32.87	*28.12*	0	AMP6 average of 29.9 Ml/d achieved
Interruptions to supply	Reward / Penalty	3 mins 30 secs	4 Mins 9 Secs	4 Mins 17 Secs	*3 mins 54 secs*	60	average of 4 mins for AMP6
Biodiversity Action Plan	Penalty	As planned	As planned	As planned	*As planned*	0	Signed off by CCG year 5
Water Framework Directive	Reward / Penalty	As planned	As planned	Complete	*Completed*	0	Completed March 2018
Use of renewable energy	Reputation	Over 95%	Over 95%	Over 95%	*Over 95%*	n/a	Target achieved in year one
RoSPA Accreditation*	Reputation	Awarded	Awarded	Awarded	*Awarded*	n/a	Target achieved each year
Service Incentive Mechanism	Reward / Penalty	89.5	87.7	87.9	*89.1*	unknown	Upper quartile
Reducing per capita consumption	Penalty	143.3	145.1	147.6	*152.4*	-163	target of 143.9 l/h/d to be achieved in year 5
Survey of developers	Reputation	89	85	91	*95*	n/a	Target achieved each year
Total						**-2,645**	

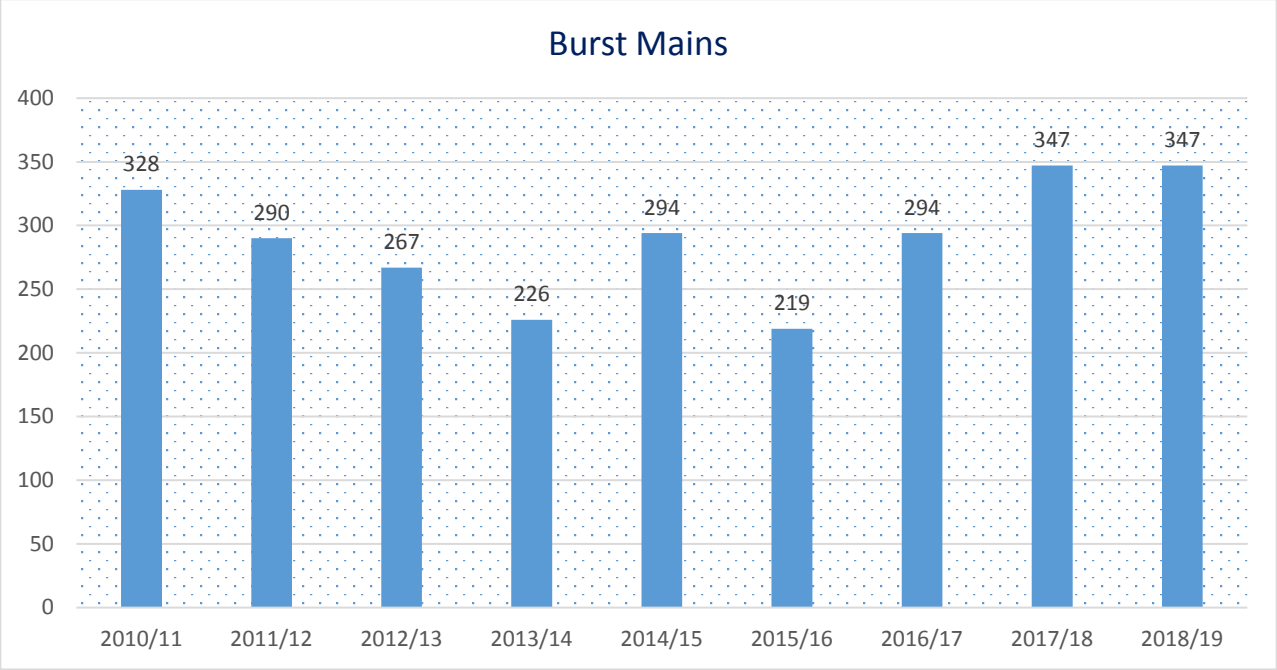
Applying the aggregate underperformance payment of £2,645,000 over AMP7 results in an annual bill reduction of £1.65 per customer.

There will also be an outperformance payment which will counter this reduction relating to the Service Incentive Mechanism. At this stage of the regulatory cycle we do not know the magnitude of this outperformance value. It will be disclosed by Ofwat when it publishes its Draft Determination for PR19 on 18 July 2019.

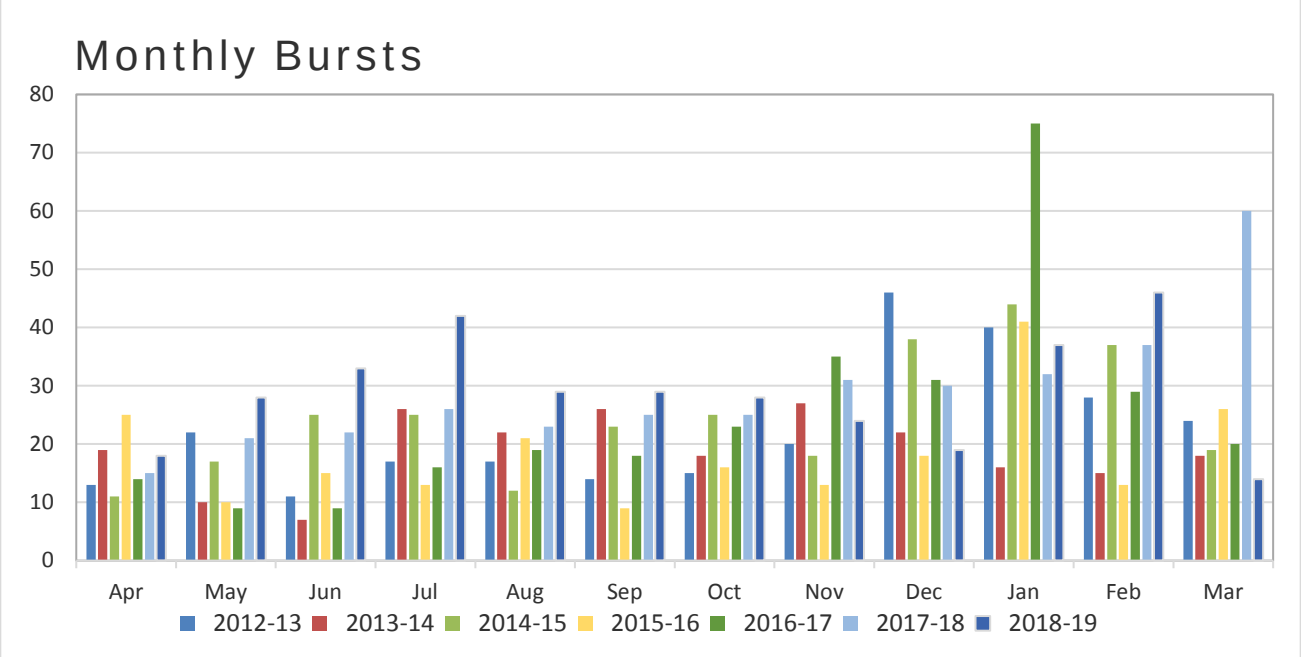
Wholesale water outcome: Safe secure and reliable drinking water

Performance commitment: Bursts

The number of burst mains experienced in 2018/19 was 347, exactly the same as 2017/18, compared to our annual target of 342. It equates to 104 bursts per 1,000km in the reporting year.



The chart below shows the monthly number of bursts over the last seven years. High burst rates were seen throughout 2018/19, with a particular increase over the long dry summer period between June – October 2018.



In the year 2018/19 the number of bursts was in line with the performance commitment of 342 and well within the tolerance band 250-435.

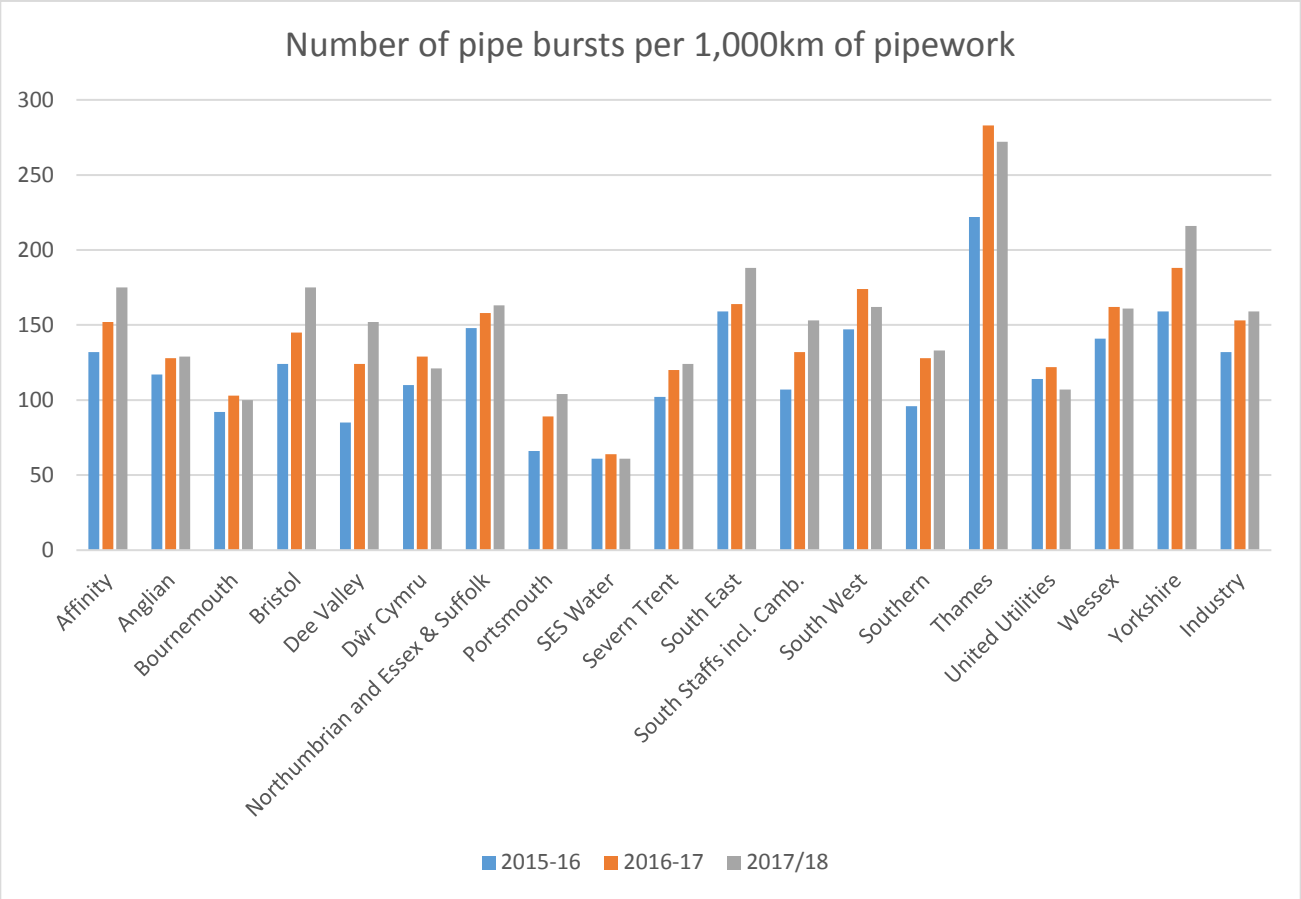
As part of the Ofwat ODI scheme, rewards and penalties apply at the end of the current period and to the average number of bursts over the five year period. Based on the first four years of this AMP period no reward or penalty would apply as the performance falls within the dead-band.

We continue to target mains for renewal based on the impact of bursts on customers.

The industry performance for burst is shown in the graph below. It is for the last three years where data is published up to and including 2017/18.

It shows that relative to other companies our number of bursts per 1,000 km of main is third lowest in the industry and approximately two thirds of the industry average of 159. Our performance rate of 104 for 2017/18 is better than the upper quartile performance.

Industry burst performance, 2015/16 – 2017/18 (number per 1,000km)

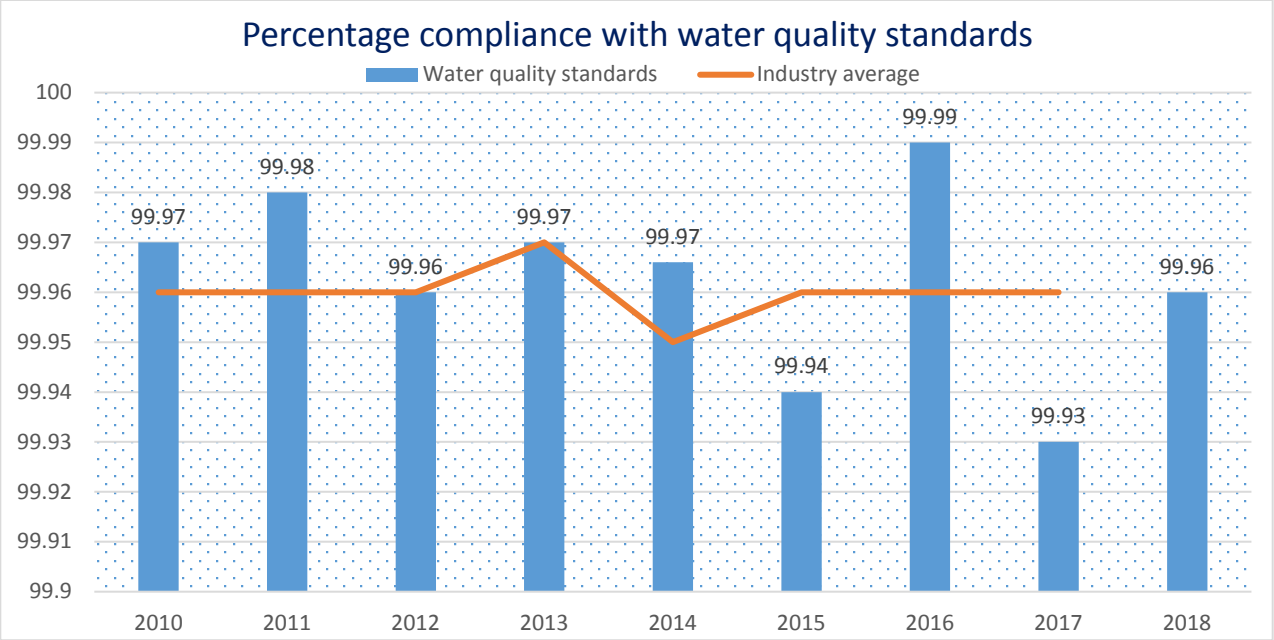


Wholesale water outcome: Safe secure and reliable drinking water

Performance commitment: Water quality standards

Our measure of water quality compliance is confirmed at 99.96% for calendar year 2018. The mean zonal compliance (MZC), which is the representation of overall drinking water quality in customers' properties, is reported to the Drinking Water Inspectorate (DWI) on an annual (calendar) basis.

The industry average for 2018 will not be published until July 2019.



During 2018 calendar year the company carried out a total over 17,500 determinations in samples taken at customer taps; 2 of these failed to meet the relevant standard and failed the water quality compliance measure, Mean Zonal Compliance.

- The first failure in our Portsmouth Water Quality Zone (WQZ) was caused by a lead pipe in the customer property. We worked with the customer to replace the pipe.

- The second failure related to the odour of a sample at a property in our Northbrook WQZ. We advised the customer that odour was from alkathene pipe; the customer stated they were happy with taste and odour of the water and no further action was taken.

We continue to work with an industry group to promote good plumbing workmanship which plumbers can be accredited to giving customers confidence that their work will not impact on water quality.

Penalties apply annually for any year that performance is below 99.95%. The ODI performance for 2018 results no underperformance payment being required.

Wholesale water outcome: Safe secure and reliable drinking water

Performance commitment: Water quality contacts

This measure reflects the number of contacts we receive from customers with dissatisfaction in the taste, odour or colour of their water. This is calculated as the number of contacts per 1,000 population and is reported annually (for the calendar year) to the Drinking Water Inspectorate.

Our target for this period was based on 2013 performance. However, as a result of introducing a new Customer Relationship Management System (CRM) in October 2012, we are now recording, more accurately, resulting in a greater number of contacts.

We therefore set ourselves an extremely challenging level of less than 0.417/1,000 population for 2018. Unfortunately, we reported 312 water quality contacts of this nature which equates to 0.438/1,000 population. Despite this value being above our ODI value it remains significantly below the 2017 industry average of 1.31/1,000 population.

	2013	2014	2015	2016	2017	2018	2018 Target
Appearance	147	308	180	262	152	114	
Taste & Odour	155	253	194	189	222	180	
Illness	5	22	24	17	15	18	
Total	**307**	**583**	**398**	**434**	**389**	**312**	**298**
Population (000s)	708	693	698	703	707	714	
Rate per 1,000 population	0.43	0.84	0.57	0.67	0.55	0.44	0.417
Industry average	1.91	1.75	1.64	1.35	1.31		

In the year we continued to implement a number of initiatives to further reduce the level of water quality contacts. These include:

- The Company's website includes information on hardness, taste and odour of the water and cloudy water. The hardness section of the website has been updated recently to try and make it easier for customers to find the hardness value for their area. The data is now presented in a table format indicating whether the water is 'soft', 'moderately hard' 'hard' etc. It is hoped that this will reduce contacts of this nature. Further updates are planned in relation to lead and taste contacts.

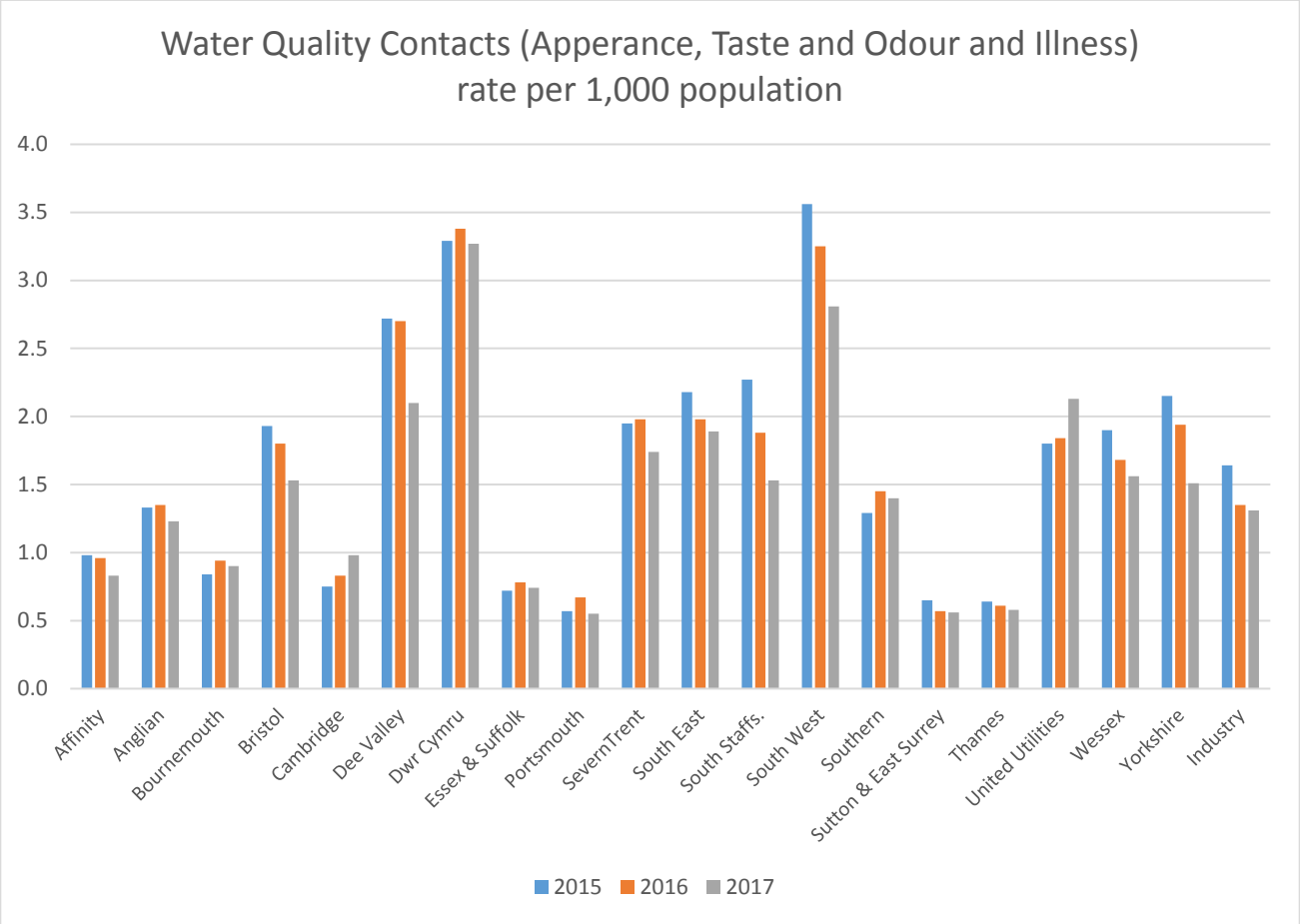
- Information videos are now available on the Company's website to try and reduce the number of contacts. This includes a video on 'air in water' and will show how customers can identify air in the water.

- Water quality contact data is shared with the Distribution department to analyse if there is any correlation between distribution activities and water quality contacts. We have undertaken "Calm network training" for inspectors on valve operations on the network. This aims to minimise water surges and their associated problems.

- We are monitoring the air in water contacts and analysing the network to evaluate the possibility of any network modifications that may improve air control. A programme of air valve maintenance is also planned once the plotting of contacts is completed.

As part of the Ofwat ODI scheme, rewards and penalties apply at the end of the current period and to the average contact rate over the five year period. If contacts remained at this level over the final year of the current period, a financial penalty would be incurred and as a result allowed revenue will be reduced by £1.9m over the next price review period (2020-2025).

The industry performance on water quality contacts is shown in the graph below. It is for the period 2015 to 2017 as the data is not published for 2018 until July 2019. It shows that our performance for 2017 was first in the industry and that for 2018 we are likely to remain upper quartile.



The Company shared its action plan to reduce the number of Water Quality Contacts with the CCG, who have monitored performance during this AMP period.

Wholesale water outcome: Safe secure and reliable drinking water

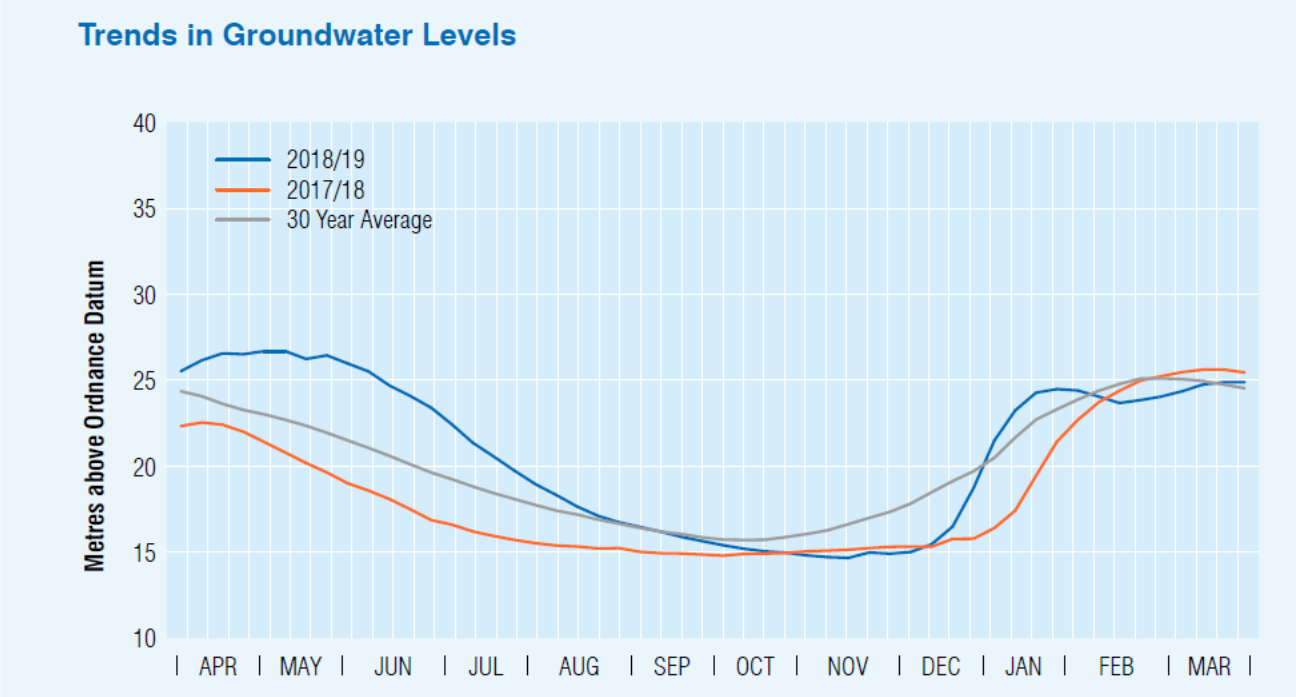
Performance commitment: Temporary usage bans

This is defined as the introduction of water restrictions on customer usage in the period in accordance with the company's approved drought plan. This is a reputational ODI with no financial incentives.

84% of water supplied to customers is from groundwater springs and boreholes which abstract from the underground chalk of the South Downs. Groundwater levels are, therefore, critical to maintaining supplies to customers.

The Company has for many years monitored the groundwater levels at Idsworth Well, Rowlands Castle. The Company has not had to impose restrictions on our customers since 1976.

Whilst ground water levels from September 2018 - December 2018 were consistently below the 30 year average, it was not significant enough to require us to impose restrictions on usage in 2018/19.

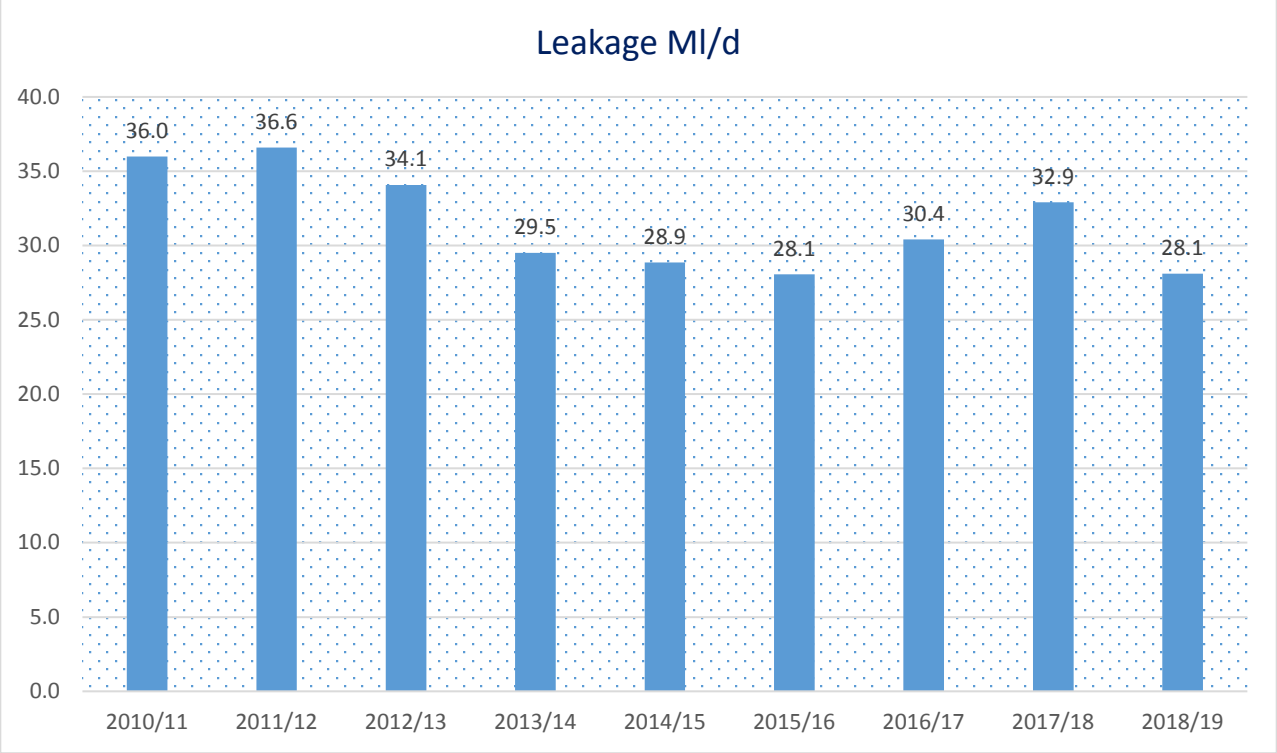


Ground water levels were lower than average at the start of 2019 though we have seen rapid re-charge from January 2019 means that it is unlikely that we need to impose restrictions this summer (summer 2019).

Wholesale water outcome: Less water lost through leakage

Performance commitment: Leakage

For the year 2018/19 average leakage is calculated (post Maximum Likelihood Estimate (MLE)) at 28.1 Ml/d. This is against the target of 29.85 Ml/d. The graph below shows the long term trend in leakage performance and the significant improvement in 2018/19. Portsmouth Water's 4-year average is 29.9 Ml/d. The Company is on track to meet its 5-year AMP6 ODI of 29.9 Ml/d.



The harsh winter of 2018 led to a 4.0 Ml/d rise in leakage in late 2017/18 that would need to be recovered during 2018/19. Consequently, a successful leakage recovery plan was put in place aimed at innovating through collaboration to reduce leakage.

Portsmouth Water spent £3.9m on leakage activity in 2018/19, compared to £1.3m in 2017/18. The increased spend reduced leakage by 7.0 Ml/d from April 2018 to March 2019. Specifically:-

- £1.0m was spent on fixed noise correlators to improve leakage detection efficiency. Portsmouth Water has worked in partnership with manufacturers to develop the new equipment and now has fixed noise correlators listening for leaks in real-time on 25% of its network.

- £0.2m was spent on flow and pressure logging and software to improve network understanding. This included working collaboratively with a local business to develop an Internet of Things pressure sensor which has significantly lowered the cost of real-time pressure monitoring. Higher frequency data has allowed for faster resolution of issues, shortening the run-time of leaks.

- £1.2m was spent on specialist leakage detection technician resources. A total of 26 technicians were deployed during 2018/19 to locate leaks, a rise of 15 technicians from 11 in 2017/18. The 'Beast from the East' not only increased network leakage, but also led to more leaks on customers supply pipes and internal plumbing. As part of the increase in resources, the Company intensified its support to customers in finding and repairing these leaks. The result of this increased effort can be seen in Table 1 below with a 213% increase in service/supply pipe leaks detected.

- £0.6m was spent on leakage management, analysis and consultancy. Included in this expenditure was additional spend on consultants to create the recovery plan, a dedicated leakage project manager responsible for implementing the plan and additional analysts to monitor the plan.

- £0.9m was spent on leak repairs. This involved improvements to repair processes and techniques which gave a step improvement in efficiency, thus allowing an increased number of leaks detected to be repaired in a timely manner.

In total, 4,025 leaks were detected during 2018/19, compared to 2,841 in 2017/18. This equates to 42% increase and resulted in a leakage reduction of 7 Ml/d over the year.

Total Leaks Detected – Comparison 2017/18 to 2018/19

	2017/18	2018/19	Increase
Mains/Ferrules	483	557	15%
Service Pipes/Customer Side	413	1294	213%
Mains Fittings	134	148	10%
Stopcocks	1811	2026	12%
TOTAL	2841	4025	42%

For the purpose of reporting we have split the year into five periods of activity and describe our progress over the year accordingly.

A. Leakage reduction from 33.7 Ml/d to 27.0 Ml/d over the spring and summer period. This reduction is due to increased leakage detection equipment and resources.

B. Maintaining leakage at 27.0 Ml/d throughout autumn period despite increase in bursts due to ground movement. A result of continued high levels of leakage detection and repair.

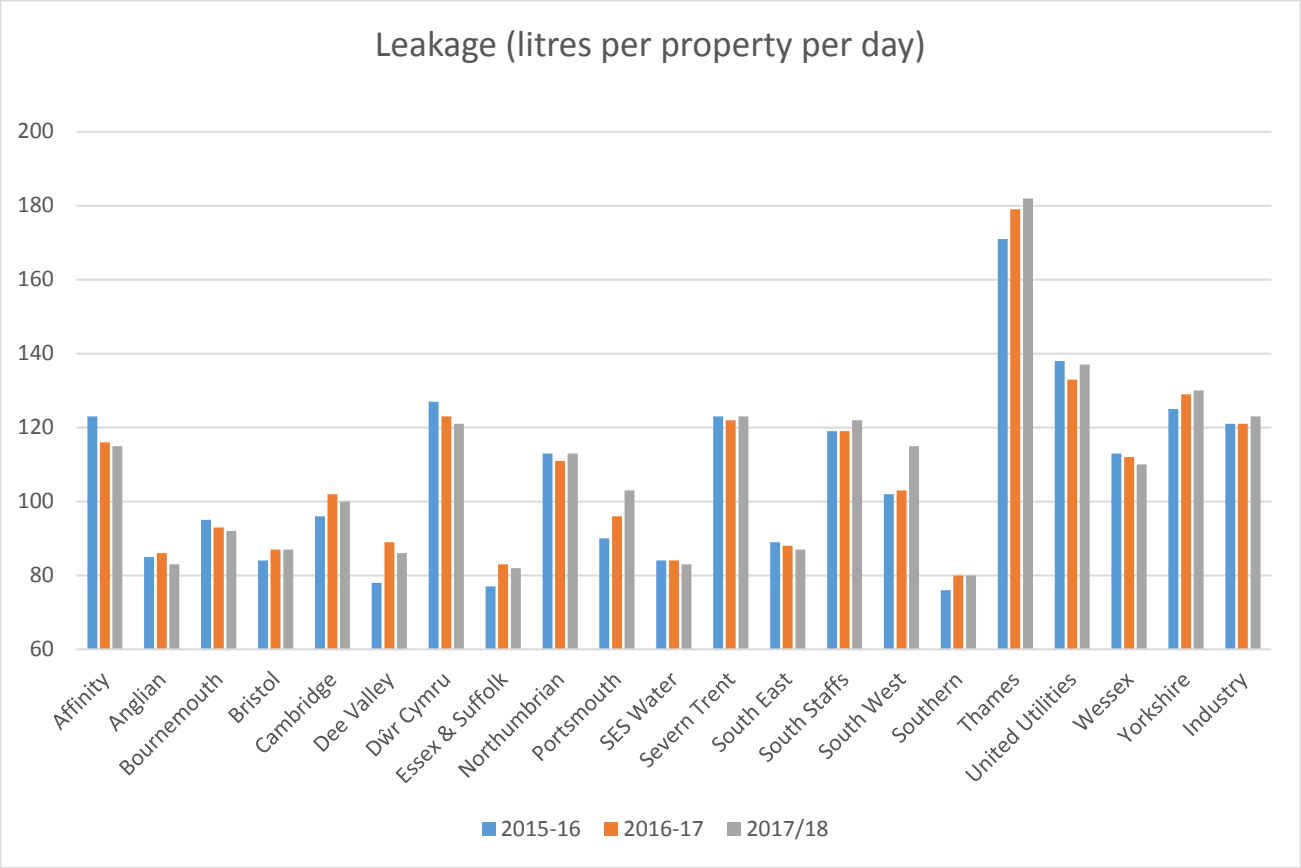
C. Small increase in leakage of 1.0 Ml/d as a result of period where night temperatures dropped below zero through late December. Quickly recovered in early January through additional leakage detection and repair effort.

D. Larger increase of 4.0 Ml/d as a result of extended period where night temperatures dropped below zero through late January and early February.

E. Winter leakage recovery from early February to end of March through sustained additional effort. Leakage fully recovered back to pre-winter level of 27 Ml/d by end of March, finishing at 26.6 Ml/d.

The industry performance for leakage is shown in the graph below. It is for the three years up to and including 2017/18 as the data is not published for 2018/19. Despite the challenges in this area in 2018/19, our performance remains better than the industry average.

Industry leakage performance, 2015/16 - 2017/18 (litres / property / day)



As part of the Ofwat ODI scheme, rewards and penalties apply at the end of the current period and to the average leakage rate over the five year period. At the end of year 4 we are almost exactly on target for the period. It is unlikely that any significant reward or penalty will apply as a result of 2019/20 performance.

Wholesale water outcome: High quality service

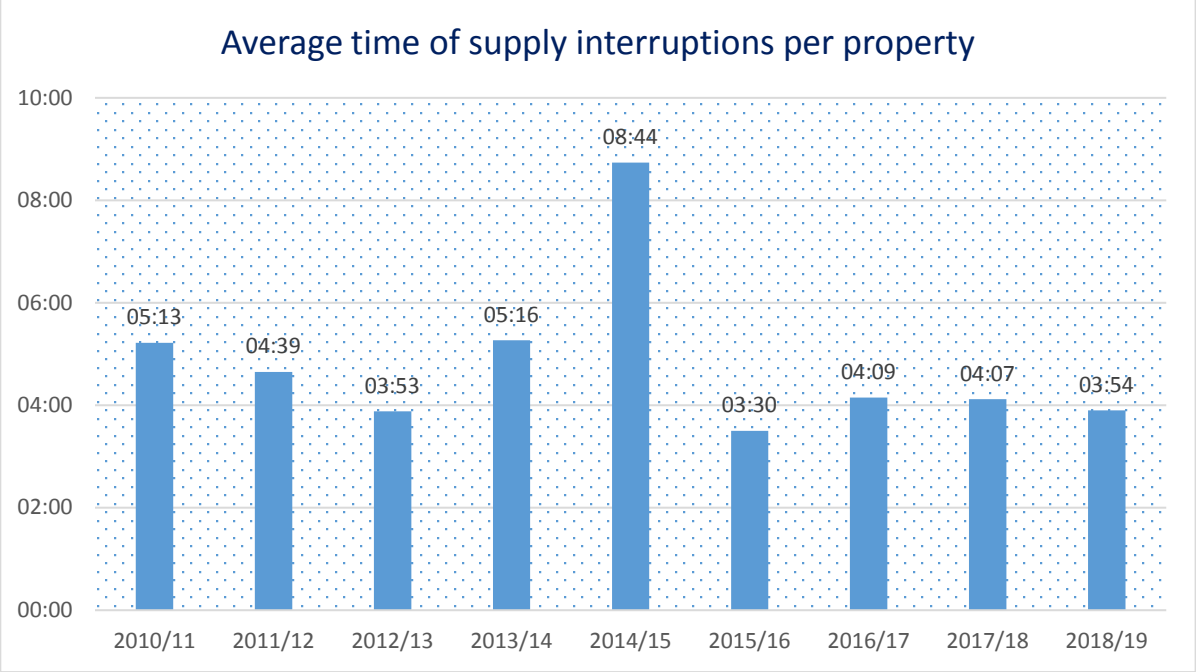
Performance commitment: Interruptions to supply

This is defined as the average time of supply interruption per property within our supply area and includes both planned and unplanned interruptions.

Portsmouth Water's customers experienced an average interruption to their supply of 3 minutes 54 seconds per total properties served, a reduction from 4 minutes and 17 seconds in the previous year.

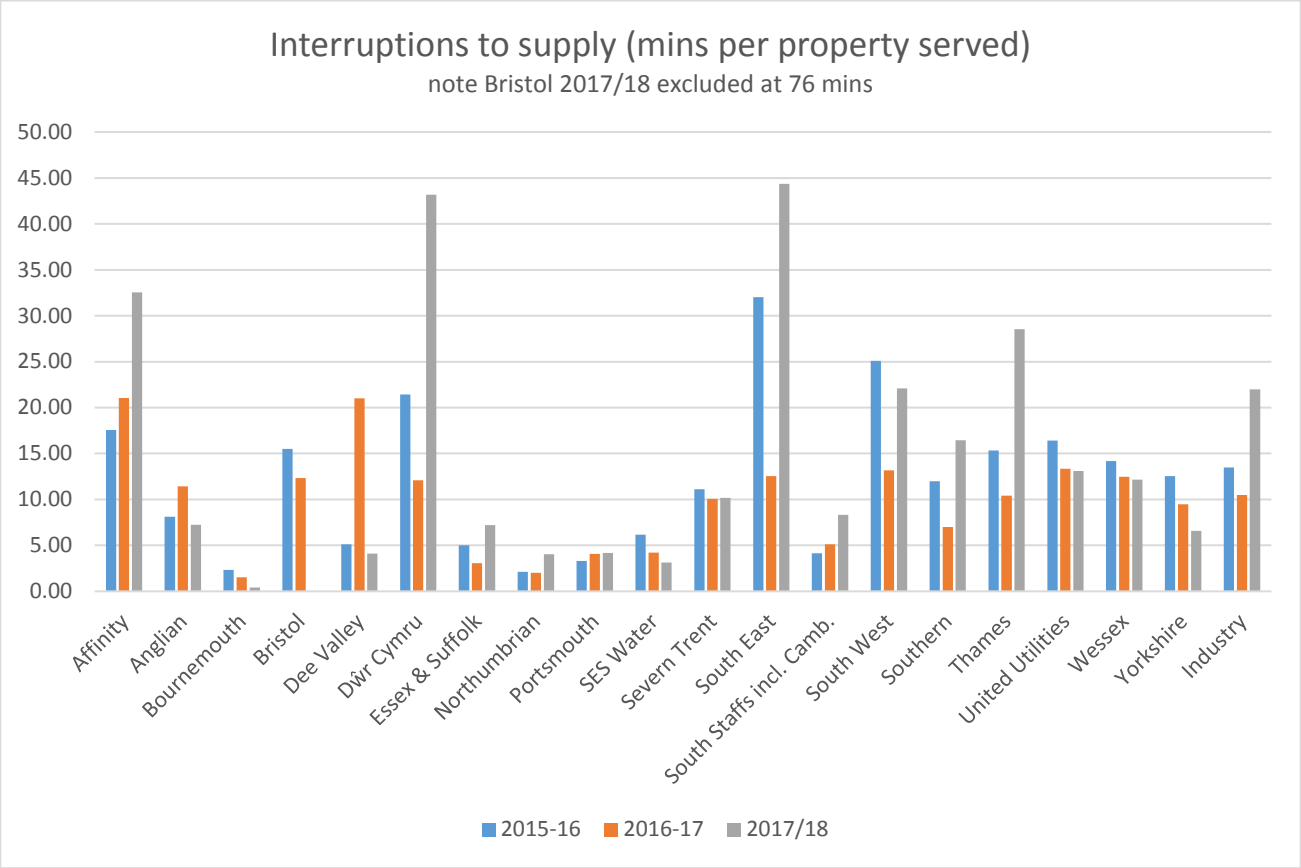
The primary reason for improvement in performance since 2014/15 is due to better management of planned interruptions. The increase relative to 2015/16 reflects an increase in planned interruptions figure from 1 minute 57 seconds to 2 min 30 seconds in 2016/17, 2 mins 40 in 2017/18 and 2 mins 6 secs in 2018/19 as we increased the length of renewals activity from 11.6km in 2015/16 to 21.5 km in 2016/17, 21.9 km in 2017/18 and 21.9km in 2018/19.

The level of unplanned interruptions was above the long term average in 2018/19, at 2 min 6 seconds. Despite a similar number of interruptions over 3 hours to previous years, an increase in the number of properties affected per interruption has led to a slight increase compared to the past few years.



In the year the performance commitment of 6 minutes per property has been met. If interruptions outturn at 4 mins for the five year period a financial outperformance payment would be gained and as a result allowed wholesale revenue will be increased by £60,435 over the next price review period (2020-2025).

The industry performance for interruptions is shown in the graph below. It is for the three years up to and including 2017/18 as the data is not published for 2018/19. It shows that our performance for 2018/19 at 3 mins 54 seconds per property would remain upper quartile.



Wholesale water outcome: An improved environment supporting biodiversity

Performance commitment: Biodiversity

The Company has made a commitment to support conservation and biodiversity. A Biodiversity Action Plan is to be agreed with relevant stakeholders including our CCG. As part of PR14 we have increased our budget in this area in order to undertake more conservation and biodiversity projects.

In summer 2015 we appointed a specialist consultant to complete an ecological survey of 52 of our sites. A key objective of the surveys was to identify potential biodiversity enhancement projects. In 2016 the recommendations were collated and prioritised for action into a 4 year programme. The biodiversity action plan programme was then agreed with Natural England and the Customer Challenge Group.

The following prioritised conservation tasks have been completed in 2018/19;

- Employed an experienced botanist to carry out a detailed vegetation survey and map priority habitats at 4 sites.
- Employed a specialist consultants to complete invertebrate surveys at 4 high conservation value sites. This found that the Street End SR site was particularly important habitat for a variety of notable species and the site management regime has been reviewed.
- Monitored the enhanced tidal flooding and saltmarsh plant community developing in the excavated channels at Bedhampton grazing marsh.
- Wetland enhancement works were completed in partnership with the Arun and Rother Rivers Trust at Lavant WTW. This included river restoration work, creation of scrapes in the flood plain and a new spring pond.
- Thinning of trees which were shading the ponds at Head Office allowing more light into the water, which will help encourage marginal vegetation to flourish. In addition, we are supporting a joint project with the Horizon Angling Club and Environment Agency to create new marginal habitats and floating islands which will benefit insects, fish and birds.
- A new hedgerow was planted at Hoads Hill SR and gaps in the hedgerow filled at Shedfield SR using native species. These projects have increased the connectivity of the habitats on site for the benefit of wildlife.
- Continued improvement works to the lagoons at Itchen WTW. Including undertaking a major desilting project at the old lagoon to enhance the habitat for water vole and other wetland species.
- A new pond has been created at Fishbourne WTW which has already filled with water.

In addition the following projects were also completed in 2018/19

- Three volunteer staff conservation working parties undertook a range of projects, including planting trees at Havant Thicket.
- Erection of a kestrel nest box at Itchen WTW.
- Ongoing work to restore chalk grassland at Farlington WTW.
- Scrub clearance at Highwood SR to keep the banks open for the benefit of wildflowers and reptiles.
- Working in partnership with the Goodwood Estate to start a woodland thinning project at Lavant SR to create a more diverse habitat for wildlife.

- Hazel coppicing and scrub management at Hoe SR was completed to prevent damage to the important grassland community which includes green winged orchids.
- Facilitated a bee keeper to set up hives at two sites which will benefit pollination in the local landscape.
- Monitoring of the new pond at Westergate WTW has shown a diverse range of wetland vegetation has already become established.

All survey and biodiversity projects agreed for the financial year 2018/19 were completed on time.

The commitment is to achieve 90% of the agreed plan by the end of 2020 and this will determine whether a penalty of £44,000 for each 10% of the plan not achieved should apply.

We plan to achieve our commitment on biodiversity and would not expect a penalty to apply.

Wholesale water outcome: An improved environment supporting biodiversity

Performance commitment: Water Framework Directive

Obligations under the Water Framework Directive are required to be complete by 2021. The Company committed to deliver by 31 March 2018, with a penalty for later delivery and a reward for earlier delivery. The programme was signed off by the EA in winter 2017 in advance of the deadline. This has been achieved and no reward or penalty is now due.

Detail of what we have delivered as part of the NEP is given in previous reports.

Wholesale water outcome: An improved environment supporting biodiversity

Performance commitment: Renewable Energy

As part of our business plan we have committed to increasing the amount of electricity that we use from renewable sources by 10% by the end of the current five year period.

The target for the year 2018/19 was an 8% increase in the amount of electricity that it uses from renewable sources.

In January 2015 the Company switched electricity supplier. Over 95% of all electricity we use is from renewable sources and thus we consider we have achieved this ODI.

Further we address carbon emissions in a number of different ways;

- Operate solar arrays at 5 of our water treatment works.
- Preparing and submitting our Energy Savings Opportunities Scheme (ESOS)

We will continue to investigate the feasibility of sustainable wind and solar energy projects and other renewable technologies where cost effective.

We continue to work towards further reductions in our power consumption including;

- Enhancing telemetry controls monitoring power consumption

- Targeting investment to optimise pump operation, reduce our base level power requirement and through life monitoring of pump efficiency.

- This is the fourth year we have also participated in National Grid's Demand Side Balancing Reserve (DSBR) where we switch off our pumps during times of peak demand, to assist the Grid in balancing supply and demand in the UK.

This is a reputational ODI with no financial incentives.

Wholesale water outcome: Health and safety culture

Performance commitment: RoSPA accreditation

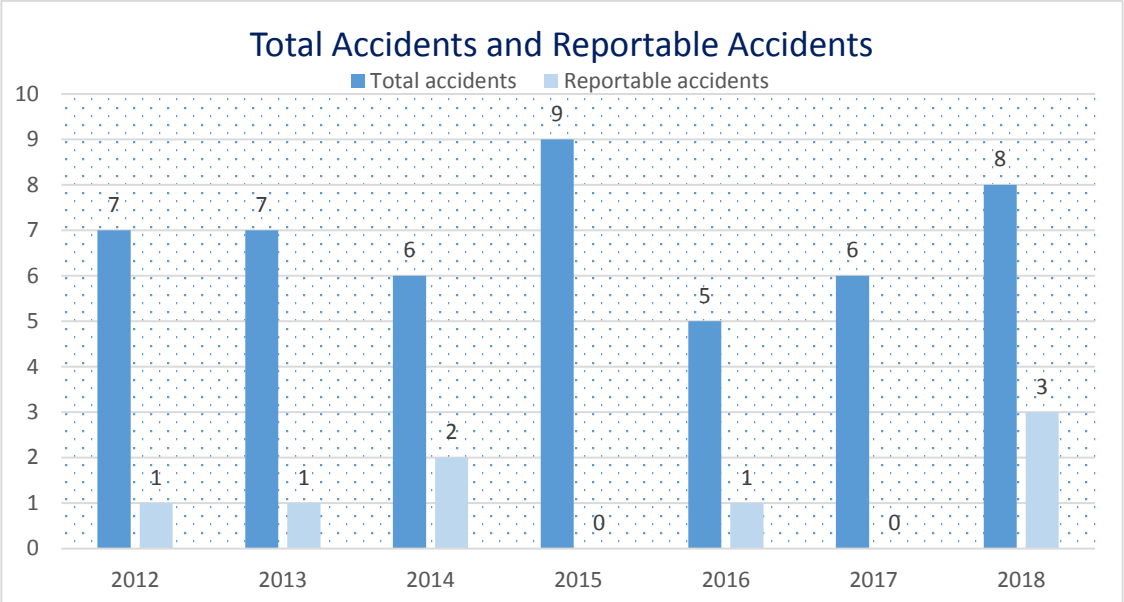
Health and Safety has been a priority within the Company for many years and in recent years this focus has driven a very low number of employee accidents. However in 2018 we saw an increase in both total and reportable accidents. Reportable accidents are those which result in more than 7 days off work.

We continually review our working practices, challenge ourselves and our colleagues to ensure we put safety first. We are proud of our safety record in recent years but we encourage a culture of continuous focus and improvement. Much of our historic approach to H&S had been a top down prescriptive approach. During 2015 we introduced “hearts and minds” with the intention of driving a ‘bottom up’ engagement with H&S, where our operational staff drive both the culture, appropriate H&S activities and changes. In 2018 we refreshed our programme, highlighting the word complacency.

That said, 2018 saw us become the holder of the RoSPA President’s Award for Health and Safety for the fourth successive year. The President’s Award, is part of the RoSPA prestigious awards scheme and is given to organisations that have demonstrated excellence in the area of Health and Safety consistently for 10 years or more.

The President’s Award acknowledges our achievements in the previous 14 years.

The performance commitment is to be awarded RoSPA annually, which we have again achieved.



This is a reputational ODI with no financial incentives.

Retail outcome: High quality service

Performance commitment: Service incentive mechanism

Ofwat use a methodology for measuring customer service known as the Service Incentive Mechanism (SIM). This seeks to measure the quality of service provided by companies to household customers only. The SIM is divided into two elements:

Quantitative - measured by:

- The number of unwanted telephone contacts
- The total number of written complaints
- The number of escalated written complaints
- The number of CCWater investigations where a complaint was not resolved by a company

Qualitative - measures how satisfied customers are with the quality of service they receive based on a survey of customers who have had direct contact with their water company.

The performance commitment is to achieve a score in the upper quartile within the industry and we will know this following publication of all data, on 15 July 2018.

The table below compares performance for 2018/19 with 2017/18, where the Company was second in the industry.

SIM Scores		**2017/18**		**2018/19**	
Quantitative Measure	**Multiplier**	**Number**	**Score**	**Number**	**Score**
Unwanted Phone Contacts	1	12,175	12,175	12,988	12,988
Written Complaints	5	296	1,480	294	1,470
Escalated Written Complaints	100	14	1,400	18	1,800
CCWater Investigated	1,000	0	0	0	0
			15,055		**16,258**
Connected Properties year end			301,485		303,208
Quantitative SIM Score			**22.5**		**22.3**
Qualitative Measure		**4.49**	**65.4**	**4.56**	**66.8**
Total SIM Score			**87.9**		**89.1**

The number of unwanted calls increased in the year. An unwanted contact is a phone contact received from customers that are 'unwanted' from the customer's point of view. This includes a contact about an event or action that has caused the customer unnecessary aggravation (however mild). It also includes repeat or chase calls by the customer to the company.

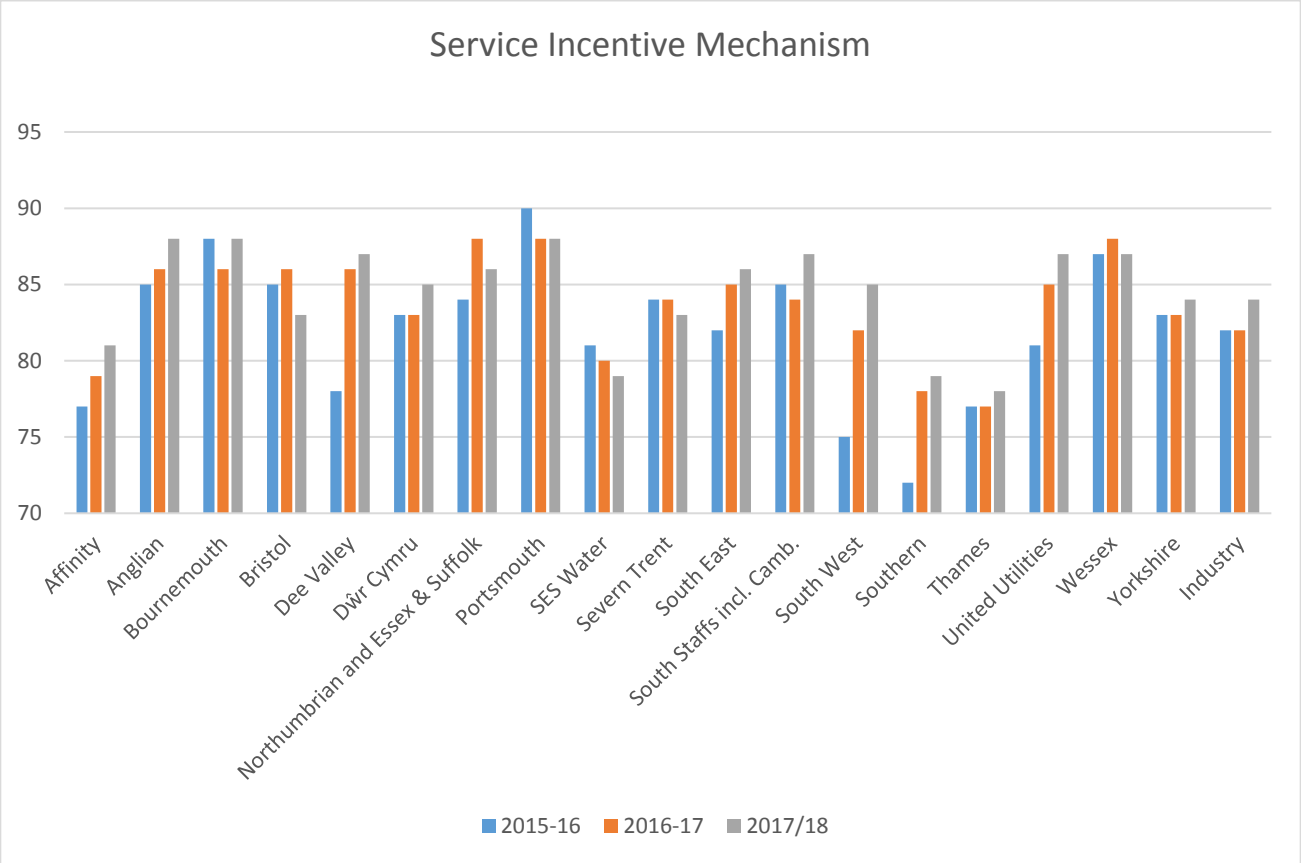
For 2018/19, Portsmouth Water had 10.3 complaints per 10,000 customers. This is exactly the same as 2017/18 when we were lowest (best) in the industry. The quantitative score reduces slightly to 22.3 out of 25 for the year.

In the Qualitative assessment for the four quarters in 2018/19 the Company was ranked 2nd of the 18 companies with 4.56 points out of 5.00. The Company's Qualitative score was 66.8 out of 75.

This gives Portsmouth Water a total score of 89.1, an increase from 87.9 last year, when we were ranked second in the industry.

Rewards and penalties apply at the end of the current period in 2020. We do not know yet which position we will achieve in the industry performance.

The industry performance on SIM is shown in the graph below. It is for the year 2017/18 where we were ranked second.



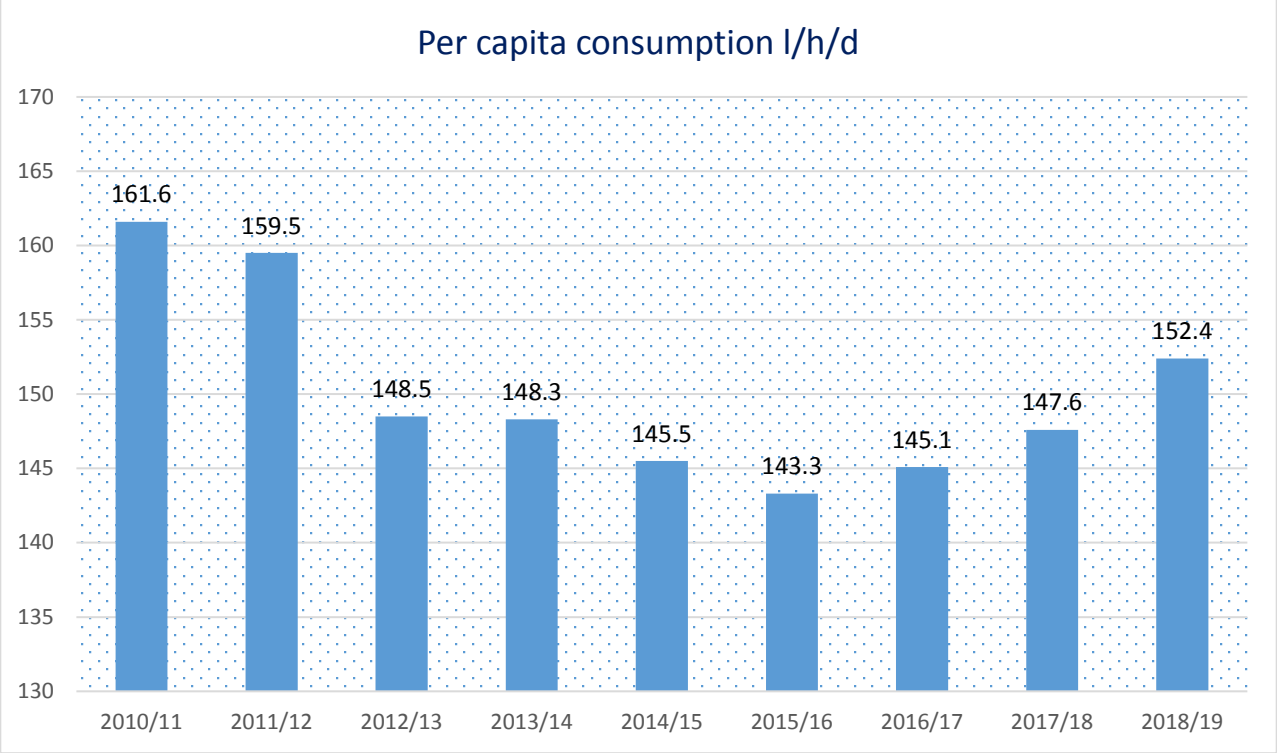
Our performance in 2018/19 is likely to ensure we retain upper quartile status.

Outcome: An improved environment supporting biodiversity

Performance commitment: Reducing per capita consumption

Per capita consumption was 152.4 l/h/d which is an increase from 147.6 l/h/d in the previous year. This reflects the low dry summer in 2018, where customers used significantly more water than normal.

The graph shows the reported per capita consumption since 2010/12, based on data reported to the Environment Agency in particular.



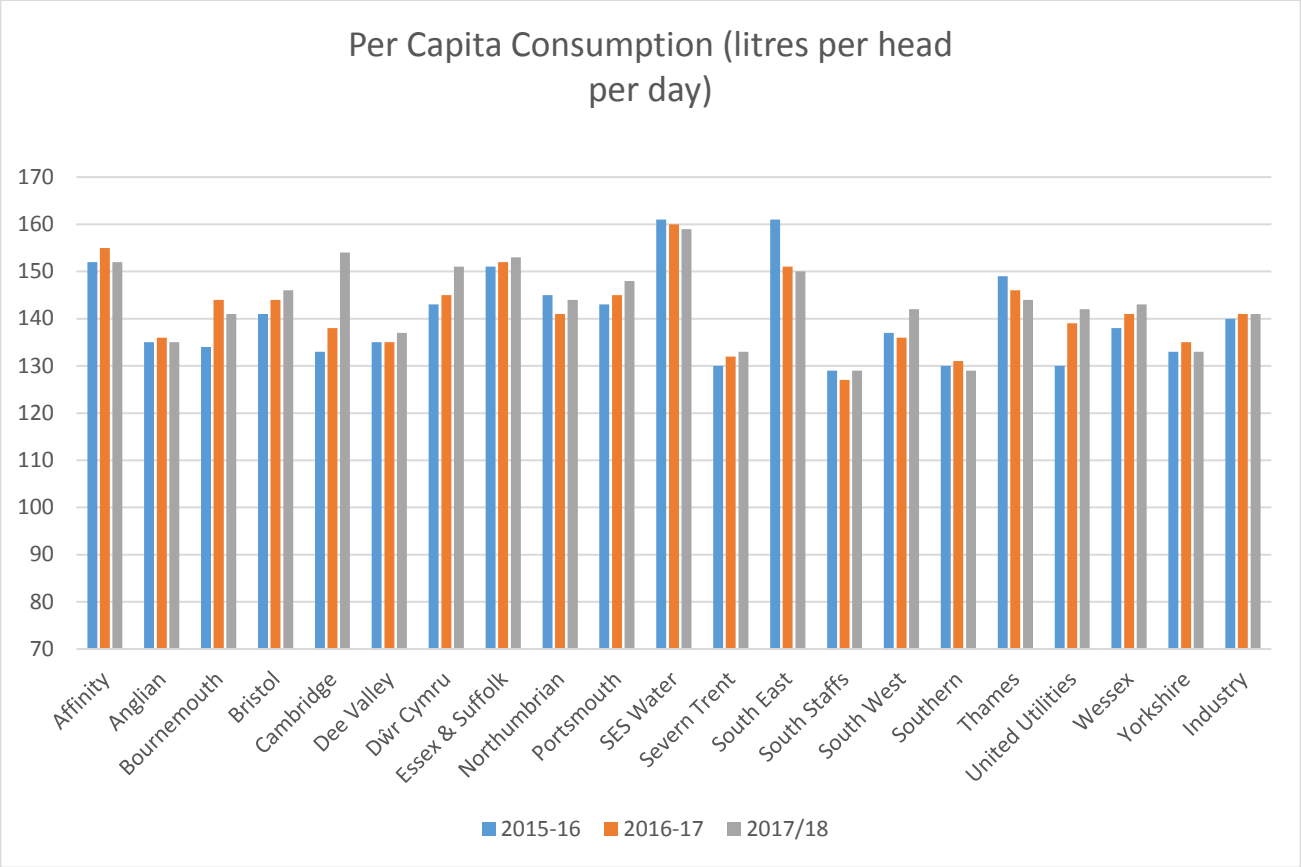
We continue to monitor household usage of our customers to calculate this measure. There are two groups of household customers, those who are metered and we have an explicit volume of usage and those who are not metered. For this latter group we monitor usage of over 1,000 households with their consent. They provide information on occupancy rate and white goods ownership. From this sample we estimate how much water all of our unmeasured customers use each day.

Household consumption is heavily influenced by the weather. We experience increases in demand during the summer primarily due to external use in the gardens. A 'wet' summer reduces this demand, and we note the summer and autumn of 2018 were relatively dry with a corresponding increase in usage.

In this context, the Water Efficiency programme has distributed over 150,000 free water saving devices to our customers since 2010. The Company continues to promote the benefits of saving water to our customers. We are constantly looking for new ways to encourage water saving. We promote ways to reduce water consumption through our website, free devices, community and school events and this year a team was set up to promote the benefits, financial and environmental, of a customer switching to a water meter.

The ODI target is based on reaching a per capita usage figure of 143.9 l/h/d in 2019/20. No penalty will thus be applied until we know performance in 2019/20.

There is significant variation in PCC across the industry. The graph below shows the variation by company and over time.



Generally people in the south of England use more water than those elsewhere in the country. There are a large number of reasons for this including weather patterns, socio-demographics and meter penetration.

Retail outcome: Supporting the community

Performance commitment: Survey of developers

During the year we have again undertaken extensive work with developers working with us in order to understand both their experience and expectations of working with us.

The results have indicated that the level of service we provide is good, our communication and quality of work meets their expectation. This is an important customer segment for the business and wider economy

The commitment is to achieve a 70% satisfaction rate in the survey relating to the service delivered to developers.

In the year we surveyed 20 developers. These are a representative sample of active developers that Portsmouth Water dealt with in 2018/19.

There was a 95% satisfaction rate with 19 out of 20 developers reporting to be ‘satisfied’ or ‘very satisfied’ with their overall dealings with Portsmouth Water. This is a small % increase from 2017/18, where 10 out of 11 developers, (91%) were at least satisfied.

This is a reputational ODI with no financial incentives.

Section 2 - Other Metrics

In response to requests from stakeholders we report our performance against various other KPIs. The Reporter also provided assurance on these items; see page 43.

Abstraction Incentive Mechanism (AIM)

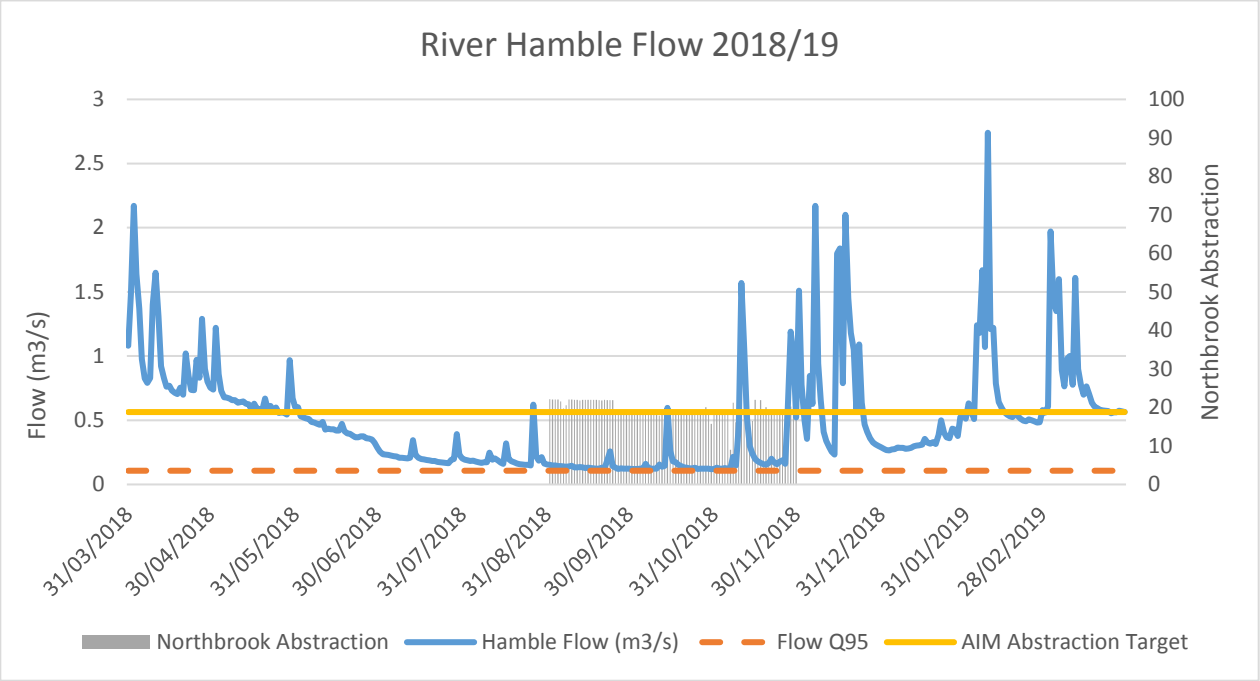
The abstraction incentive mechanism (AIM) has the objective of encouraging water companies to reduce the environmental impact of abstracting water at environmentally sensitive sites during defined periods of low surface water flows. The AIM aims to help to improve the resilience of water supply and ensure that it is provided in a more sustainable way (Guidelines on the abstraction incentive mechanism, Ofwat, 2016).

Northbrook is the only Portsmouth Water site remaining in the Abstraction Incentive Mechanism (AIM) as it is deemed to impact on flows on the River Hamble.

In 2017/18 Portsmouth Water completed an NEP (Natural Environment Program) scheme designed to improve water quality on the River Hamble. It is possible that future enhancement schemes may take still take place for the River Hamble, although this is still subject to review.

The AIM minimum flow target for the River Hamble is 0.104 m3/second and is represented by the orange line in the figure below. This target is based on Q95 flows and recent actual abstraction from the period 2007 to 2014.

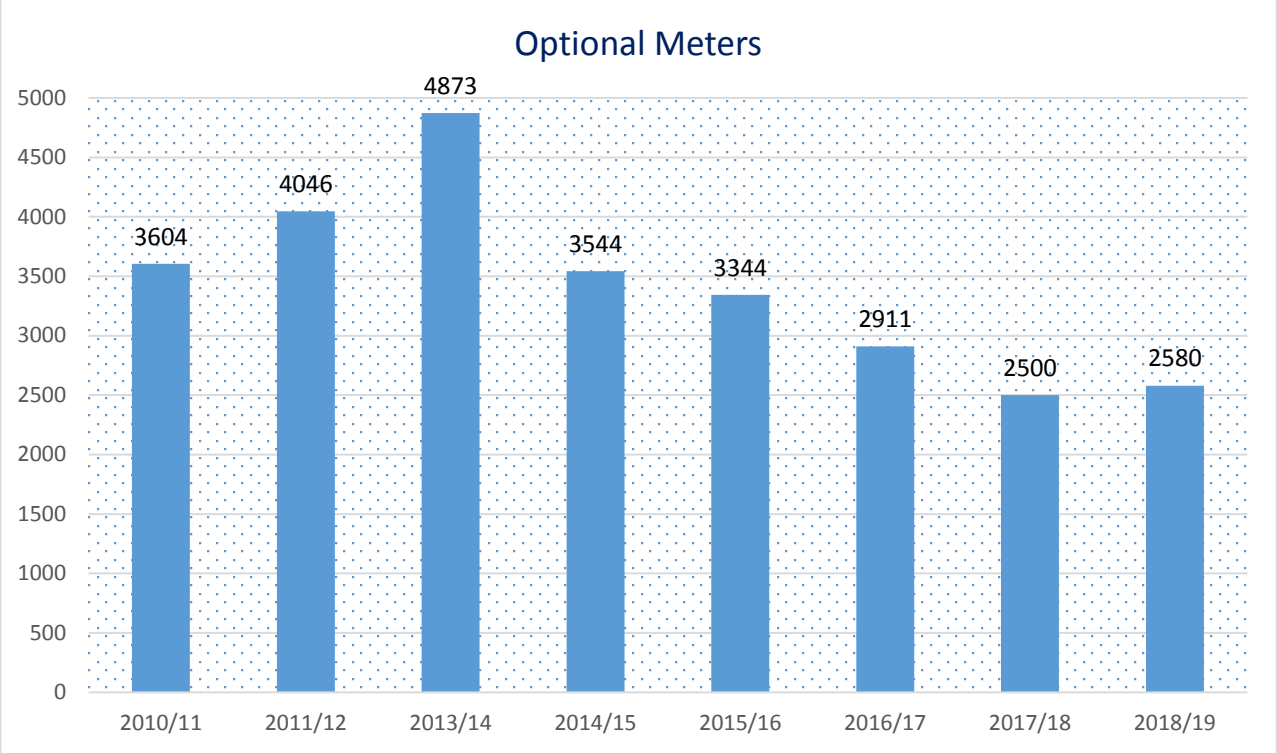
During 2018/19 the low flow trigger was not passed in any day, and therefore, annual reporting are all zero. The graph below also shows the abstraction rate from Northbrook at times of low flow, for information. Had the river level fallen below the trigger level we would have reduced abstraction at Northbrook to the target value of 20.8 Ml/d.



Meter Optants

All domestic customers are entitled to be charged in relation to the volume of water used. Thus those who currently pay in relation to the rateable value of their property or a fixed licence fee are normally able to have a meter installed free of charge.

Our Business Plan commitment was to promote metering to customers who would benefit from a financial point of view. The Company proposed to install 5,500 domestic meter options per year, and in 2018/19, and despite a number of initiatives just over 2,500 customers chose to switch to a measured supply as part of the optional metering.



Initiatives in 2018/19 to increase meter penetration, include the following:-

- Promote metering over the phone to those customers that would benefit financially
- Installing loggers on meters for customers before they switch, to identify usage patterns
- Send out leaflets via email to unmeasured customers in specific areas and socio-economic groups promoting metering
- Put metering messages on our contractor vans
- Update the back of Portsmouth Water envelopes to promote metering
- Promote metering at local community events

The average meter penetration rate for 2018/19 was 31.5% of household customers, an increase of one percentage point from last year.

Compliance with Annual Abstraction Licences

The annual average distribution input was very similar to the 2017/18 value of 174 Ml/d. The volume of water distributed is influenced by many things, including the weather. We have experienced a very dry period in the autumn in particular, which has resulted in increased demand. The peak week of 218 Ml/d occurred in early-July 2018.

Annual abstraction is drawn from three types of source, the River Itchen Works which treats surface water, boreholes and wells which abstract groundwater from the underground chalk and Farlington Water Treatment Works which treats spring water from Havant and Bedhampton.

Abstraction from the Company's sources in 2018/19 was as shown in the table below.

Source	Annual Abstraction - Ml/Yr			
	Source Licence	Source Actual 2018/19	Group Licence	Group Actual 2018/19
Northbrook	7,487	5,031	7,487	5,031
Lower Upham	640	0		
West Street	3,328	556		
West Meon	166	0		
River Itchen	15,916	10,702		
Maindell	2,040	0		
Soberton	3,294	616	3,294	619
Newtown	695	3		
Worlds End	8,296	3,815		
Lovedean	4,148	1,583		
Havant & Bedhampton	35,770	19,842		
Walderton	9,955	6,760	23,740	16,806
Woodmancote	1,103	188		
Fishbourne	3,741	2,669		
Funtington	2,920	1,720		
Lavant	9,950	4,198		
Brickkiln		1,271		
Eastergate	10358*	3,153	10,358	8,038
Westergate		2,083		
Slindon		657		
Aldingbourne		2,145		
Total	116,066	66,992	44,879	30,494

* The Eastergate group (Eastergate, Westergate, Slindon and Aldingbourne) operates within a group licence – with specific constraints on each site.

The Company complied with its annual licence requirements in 2018/19.

Guaranteed Standards of Service

We operate a compensation scheme as part of our Customer Charter. This includes the service standards as set out in law, under the Guaranteed Standards Service (GSS) scheme. If we fail to meet any of the standards outlined in the GSS guidelines, customers are entitled to a compensation payment. The GSS standards cover the following areas;

- Making and keeping of appointments with customers
- Responding to account queries
- Responding to complaints
- Dealing with interruptions to the water supply (planned and unplanned)
- Meters not read in the year

In the year 2018/19 the company made 67 GSS payments which is a reduction from 158 in 2017/18. There was only one interruptions to supply which was not managed properly, and this affected only one customer.

Detail is shown in the table below:-

	2015/16	2016/17	2017/18	2018/19
Making and keeping of appointments with customers	27	26	30	37
Responding to account queries	10	22	11	6
Responding to complaints	4	3	3	1
Dealing with interruptions to the water supply (planned and unplanned)	63	191	97	1
Meters not read	6	1	17	22
Total	110	243	158	67

One issue that was again raised in our audit was the appointment management procedures of smaller contractors. We are reviewing our internal policies accordingly.

Social Tariffs and affordability support

In recent years the country has seen increasing levels of household debt. Accordingly the Company pays close attention to how we support customers who may be struggling to pay their water bill. We have a number of options available to support these domestic customers.

We introduced our 'Helping Hand' Social Tariff in July 2016. In 2018/19 this tariff caps customers' bills at our minimum charge, £79.05, for those customers whose household income excluding certain benefits, is less than the Government's low income threshold of £16,105. Working with Southern Water, the wastewater provider, we have over 7,400 customers on this tariff since its launch.

Customers can also apply to be placed on the WaterSure Tariff. This tariff is for metered customers who are in receipt of certain benefits and have a medical condition that requires an individual to use more water or has 3 children under the age of 19 resident in the property. These customers have their measured bills capped at our average bill value. As expected, the number of customers has dropped marginally to 190, as customers switch to our Helping Hand social tariff.

Our Arrears Assist Scheme started in May 2014. Through this scheme we encourage customers back into making regular payments by matching the payments we receive £ for £. We have found the Arrears Assist Scheme has been successful in encouraging customers to engage with us about payment of their water accounts. It also enables us to better understand our customers' financial situation and the hardships they are facing. We currently have 261 customers on this scheme. As important is the 435 customers who have completed this scheme and now paid off their debts.

We also operate a scheme called Water Direct. Customers who receive certain benefits from the Department of Work and Pensions, and are in arrears on their bills, can request that water bill payments are deducted straight from their benefits. In recent years there has been a reduction in the number of customers on this scheme because, in part, when talking to customers we have encouraged them to switch to direct debit.

Finally we have an in-house Customer Support Officer whose role is to engage with hard to reach customers, and the organisations that support them.

Detail of the number of customers as at 31 March for the last four years is shown in the table below.

	2015/16	2016/17	2017/18	2018/19
Social Tariff	n/a	2806	5,312	7,411
Watersure tariff	255	234	210	190
Arrears Assist	240	218	183	261
Water Direct	1277	687	579	649
Special Assistance	205	225	315	419

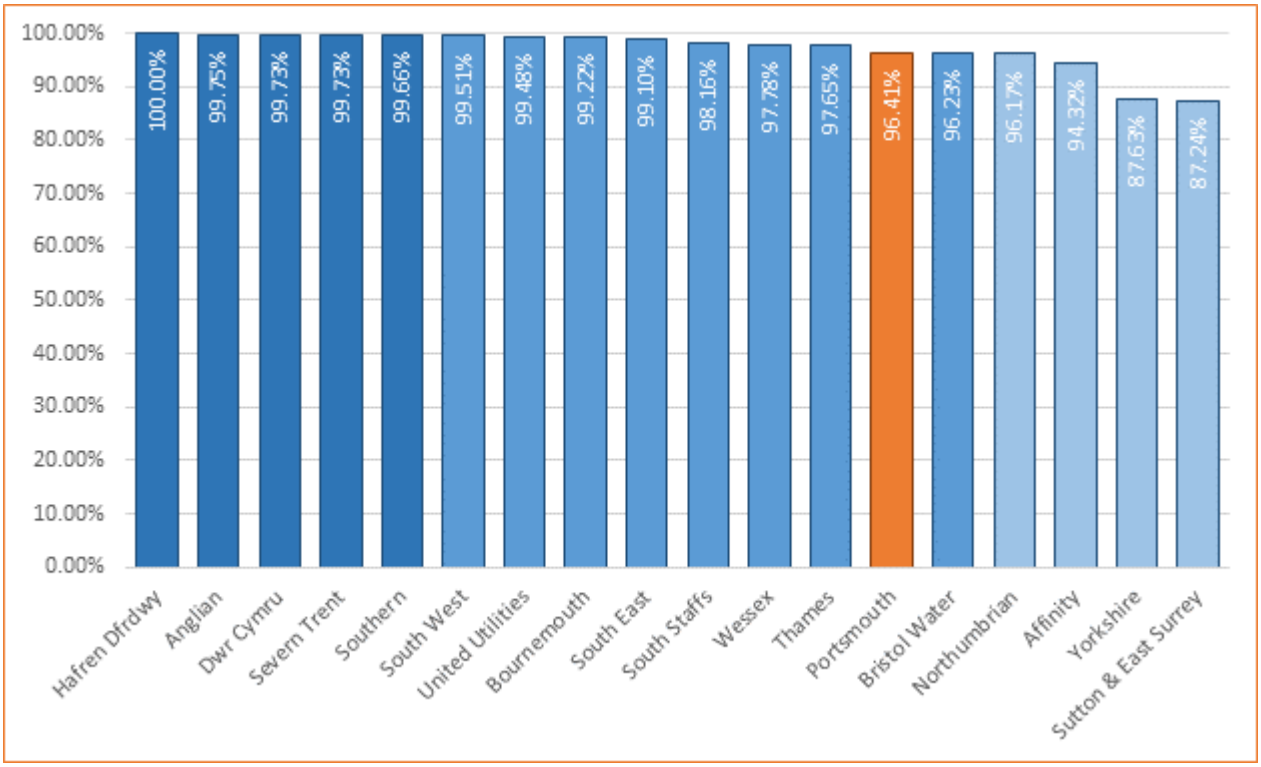
Levels of Service for Developers

During the year 2015/16 the industry published, for the first time, its performance relating to developers. The level of service provided by the Company to this important class of customer is consistently close to 100%.

The levels of service being monitored relate to the following:-

- Pre-development enquiries
- Service pipe connections
- Mains design
- Mains diversions and
- Self-lay providers

At 96.4%, has fallen this year and is now below the industry average of 97.0% as shown below.



The reason for our poorer performance was related to our requirement that developers use ductile iron pipe on specific sites. This had now been mitigated against by the use of plastic barrier pipe. We also performed badly in the timing of the issuing of vesting certificates for self-lay. We issued a number retrospectively last year, but they went down as failures, due to the delay in issuing them.

This KPI should be read in conjunction with our developer survey shown on page 32. We believe the level of service demonstrated in this graph is consistent with the high degree of satisfaction achieved in the survey.

Greenhouse gases

Our Gross Operating Emissions has fallen from 9,718 tCO_2e to 8,417 tCO_2e in the year.

The table below shows how this has been achieved.

Our analysis has been prepared in accordance with the UKWIR methodology and reflects advice from Defra on the appropriate conversion factors for many items to establish the units which relate to carbon dioxide.

The classifications of activity, shown in the table below, are used in the assessment:-

Component	**2015/16 tCO_2e**	**2016/17 tCO_2e**	**2017/18 tCO_2e**	**2018/19 tCO_2e**
Burning of fossil fuel	444	400	315	452
Transport for operational staff	412	426	449	464
Electricity	10,025	9,292	8016	6758
Business travel	47	2	22	6
Outsourced activities	58	117	167	160
Transmission and Distribution associated with electricity	828	840	749	576
Total	11,813	11,079	9,718	8,417

Our GHG intensity ratio has reduced from to 153 kg CO_2e / Ml in 2017/18 to 132 kg CO_2e / Ml for 2018/19.

The most significant factor leading to the overall decrease is a 1,255 tCO2e reduction in Scope 2 emissions *'Total grid electricity used by company*'.

The reduction is due to the change in the UK grid Electricity generation mix. The UK has continued to see a reduced dependence on coal and a movement to low carbon generation.

Low carbon generation accounted for a record high of 52.8 percent of supply in 2018, up from 50.1 percent in 2017 due to increased generation from wind (due to an increase in capacity).

Despite a 4.8% increase in the use of electricity for pumping and treatment in 2018/19, the change in the grid factors resulted in an overall reduction of 1,255 tCO2e.

Written Complaints

The number of household written complaints has increased by 2 in the year.We no longer report Non-household complaints, as the NHH customer base transferred to Castle Water as at 1 April 2017.

We critically review each complaint to ensure we understand why the customer has been dissatisfied and put actions in place to mitigate the risk of repeat.

Categories of written complaints	2015/16	2016/17	2017/18	2018/19
Charging and billing	185	210	168	147
Water service	69	158	123	161
Metering	3	2	0	4
Other service issues	3	10	5	0
Total	**260**	**380**	**310**	**312**

The Company has been consistently classified by CCWater as a best performer for written complaints when scaled by the households we serve, and we would expect this to remain the same for 2018/19.

Communication pipes

The Company has over 300,000 communication pipes connecting its mains to customer supply pipes. We continue to improve our data systems to accurately record this asset, following a data request from Ofwat. The data for this year has improved as we prepare our next Business Plan.

As at the end of March 2019, we have the following communication pipes by material

- Lead 81,447
- Galvanised Iron 18,037
- Other 208,359

Total 307,843

Meters Renewed

The Company renewed 11,470 household meters in the year and 209 non-household meters in the year 2018/19. The household number is part of an on-going proactive replacement programme reflecting the age of the meter. This data is being provided following a request from Ofwat.

Pumping Head

An important cost to the business is that of electricity. The amount of electricity used is dependent, in part to the height we need to pump our water for our customers. Ofwat have requested we provide this data for different activities, water resources, treatment and distribution.

m hd	2017/18	2018/19
Water resources	30.7	29.6
Treatment	2.2	2.0
Distribution	36.4	38.0
Total	**69.3**	**69.6**

ATKINS

AMP6 Reporter

2018-19 Annual Assurance Performance Report

Portsmouth Water

18th June 2019

Contains *sensitive* information

Notice

This document and its contents have been prepared and are intended solely for Portsmouth Water's information and use in relation to AMP6 Reporter 2019 Annual Performance Audit.

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This document has 14 pages including the cover.

Document history

Job number: 5160859			**Document ref: 5160859/DH/DG/33**			
Revision	Purpose description	Originated	Checked	Reviewed	Authorised	Date
1	Draft Interim May Report to the Board	DH	JAJ	JPA	DH	15/05/19
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Client signoff

Client	Portsmouth Water
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Assurance Statement for Portsmouth Water's 2018-19 APR

Atkins is engaged by Portsmouth Water to provide independent assurance on non-financial aspects of the annual reporting activities that Portsmouth carries out. That includes all reporting against Performance Commitments, the Abstraction Incentive Mechanism (AIM) and the Service Incentive mechanism (SIM). For the 2018/19 report year our assurance activities also covered Tables 4D and 4P of the Annual Return.

Our scope of audit is specifically designed to provide assurance for the data integrity of the Company reporting against the AR19 Performance Commitments (PCs), plus the reporting of the common metrics for leakage, customer interruptions and unplanned outage events in Table 3S, which need to be prepared in accordance with the water industry consistent reporting guidance referred to in Ofwat Information Notice IN 18/07 (commonly referred to as 'shadow reporting'). Our audit activities are designed to support Portsmouth Water's Assurance Plan, and follow a risk based Audit Plan that was agreed with Portsmouth Water's regulatory team in March 2019. As part of our preparatory work we considered the risks and audit needs required to provide the Audit Committee with an appropriate level of assurance, and satisfied ourselves that the Audit Plan was sufficient to meet this need. Our scope of assurance therefore included the process, systems and figures audits relating to the Annual Performance Report, and specifically the Outcome Delivery Incentive reporting contained within that report.

Our assurance activities are tailored so that, at the end of the process, we are able to confirm whether:

- Portsmouth Water has appropriate systems, procedures and reporting mechanisms in place to control and meet its reporting obligations.
- Portsmouth Water understands the accuracy of the data that it is providing and is able to identify where specific reported data may not be appropriate to regulatory expectations. Many of the items that we audit inherently contain an element of uncertainty, so it is not possible to assure their absolute accuracy. However, Portsmouth Water operates a process of data 'confidence grades' for all of the data used to report against its PCs, and in all cases we provide comment and feedback on the appropriateness of the grades that have been assigned. We also indicate where grades may not be appropriate, or have deteriorated from previous years. Where confidence grades are not used we seek to identify any shortfalls in the reporting processes and highlight any areas of material weakness to Portsmouth Water.
- The key assumptions and processes that are used to report against Portsmouth Water's Performance Commitments are consistent with the way that the target was set for the PR14 Final Determination.
- The methodologies that have been used for reporting of the common metrics in Table 3S are consistent with the technical guidance that has been published by Ofwat, and where there are shortfalls these have been identified appropriately using the Red/Amber/Green (RAG) classifications provided by Ofwat.

Our audits covered all of the Annual Return performance commitments. Based on our audits we can confirm that the vast majority of reporting processes continue to demonstrate either consistent good practice or incremental improvements from previous years. Where we have previously noted areas of inadequacy in reporting procedures these have now been addressed, and clear written procedures remain in place for all PCs that have been publicly reported on this year. Based on the findings of our audits there are no outstanding issues that materially affect the quality of the reported data.

For the interruptions to supply common metric ('shadow' reporting in Table 3S) we confirmed that the methods and RAG classifications used for the reporting of continue to be appropriate with very few shortfalls against best practice. For the reporting of leakage, we found that Portsmouth are complying with the guidance as far as they are currently able to, and their assessment of the quality of their reporting components is appropriate. For the reporting of per capita consumption Portsmouth Water relied on its existing PCC monitor, which is not compliant with reporting requirements in some areas, as reporting from the new Small Area Monitor was not ready in time for the report year. The Small Area Monitor was useable for the reporting of household night use as part of the leakage calculation, but with a relatively small sample

size, which displayed some volatility so may not be large enough or representative enough for shadow reporting at this stage. This area of the 'shadow' reporting will need investment before reported figures for either PCC or leakage can be fully compliant with the prescribed methodology, but for leakage reporting we confirm that the estimation method used to generate the figure is reasonable and hence the reported leakage value is a fair representation of the 2018/19 network leakage. Our review of the methodology used for the reporting of mains bursts and risk of severe restrictions in a drought confirmed that the process that was used and the RAG classifications that were proposed were appropriate and in accordance with the technical guidance. Following our audit challenge, feedback and changes made to the reporting, we can also confirm that that the process that was used and the RAG classifications that were proposed for unplanned outage were appropriate and in accordance with the technical guidance.

For Table 4D (capital allocation), we did encounter some errors, but these were rectified at audit so we can confirm that reporting guidance had been followed and capital allocations were appropriate. Following our comments last year on Table 4P, Portsmouth have now undertaken a methodical review of all age and diameter of mains. We have challenged the Company approach and assumptions for categorising any 'unknown' mains. The Company have satisfactorily responded to and addressed the challenges we made.

We confirm that Portsmouth Water has continued to provide us with full and transparent access to its systems and processes. During the assurance activities, we had free access to the Regulation Manager and his team, and the full cooperation of the people responsible for preparing and reporting the 2018-19 APR and Wholesale Cost Assessment submissions and the supporting information.

Douglas Hunt
Associate Director
Reporter providing Technical Assurance Services to Portsmouth Water

Summary Report

1. Introduction and Scope of work

This report provides the findings of Atkins' assurance for the 2018/19 report year. Our scope of audit is specifically designed to provide assurance for the figures that Portsmouth Water will submit to monitor their performance against the PR14 Performance Commitments (PCs) for the report year 2018/19. Our scope also covers the additional performance information that Ofwat have requested through Information Notice IN 18/07 and the associated IN 17/08 Regulatory Accounting Guidelines as well as other areas of reporting (Drinking Water Inspectorate, CC Water). Specifically, our remit includes the following additional data:

- Technical performance aspects of the Cost Assessment tables that are used by Ofwat in its comparative assessment and econometric modelling, where our audit activities were limited as follows:
  - For the financial tables we audited the capital expenditure allocations in Tables 4D. Our audit activities only continued to the point where we were able to reconcile the data against the information that has been previously submitted via the statutory and/or regulatory accounts.
  - For the non-financial tables (4P) this only generally required reconciliation of data to other reporting systems. The exceptions to this were:
    - Calculations associated with average pumping head, which were the subject of a separate audit that has already been completed. We reviewed the assigned confidence grades to check they agree with our understanding of the systems involved.
    - The methodology used for classifying mains ages and numbers of communication pipes replaced, which we reviewed specifically as part of our audit activities.
- The requirement that water companies submit additional leakage, per capita consumption, interruptions to supply, mains bursts, unplanned outage, risk of severe restrictions in a drought and vulnerability figures that follow a specified methodology that is intended to allow comparative assessment across the water industry (commonly referred to as 'shadow' reporting). These are reported in Table 3S of the RAG performance reporting spreadsheets. We have also commented on the implications of the current reporting processes associated with this for the AMP7 period, particularly in relation to the achievability of PC targets within the AMP7 ODIs (see future reporting issues in Section 3.6.).
- Assurance relating to the Compliance Statement, with a focus on Guaranteed Standards Scheme (GSS) and Developer Services.

As part of their overall assurance framework, Portsmouth Water has also asked us to review a number of other matters that relate to the reporting of information to stakeholders. These include:

- Assurance on the management and administration of the Helping Hand social tariff.
- Assumed water efficiency savings activities, including meter installation and other activities, which may be required as evidence to support progress on the per capita consumption PC (PC ref. RB1).
- Reporting of Health and Safety figures to the HSE (this just covers the collation and reporting of data, not the health and safety reporting systems themselves)
- CC Water complaints data

The scope of our audits covers all reported lines within the elements referred to in our assurance statement, plus the supporting data tables, processes and base data sources that are used to generate those lines of data. We operate a risk based approach to audit so do not examine every source of data, but rather work with

Portsmouth Water to identify areas of potential risk, uncertainty and key assumptions that need to be tested in order to provide the assurance that is required.

Many of the items that we audit inherently contain an element of uncertainty, so it is not possible to assure their absolute accuracy. Where the Company has estimated the level of accuracy in its reported data (through confidence grades), we have reviewed this and provided commentary as appropriate. Although uncertainty exists, we note that the purpose of the PC reporting within the Annual Performance Report is to monitor the progress of the Company against the targets that it set itself within its 2014 Business Plan. As a result our assurance includes an evaluation of the consistency of reported figures with the methods, calculations and key assumptions that were used to set the targets for the PR14 Business Plan and associated Final Determination, and, where inconsistencies exist, commentary on their significance.

As with previous years our reporting is carried out on an exception basis, whereby we have concentrated on any issues, concerns or areas of improvement that we identified during the course of our audits. We audit a large number of processes, systems and calculations in order to cover the scope of work described below, and the vast majority of these do not include any areas of exception that we consider are worthy of note within this report. Our scope is confined to the numerical reporting systems used to provide data relating to the areas of scope coverage described above. We are not responsible for assurance relating to financial reporting, or compliance with legal requirements under the Water Industry Act, although we have included a review of the reported Health and Safety figures as they do form part of the PC reporting.

2. General Comments on Governance, Processes and Reporting

All reporting systems that are used for the PCs are now familiar to us, so we are able to comment on both their adequacy and consistency with previous report years, and in particular whether key assumptions and processes are consistent with the way that the PC was set. We are able to confirm that there continues to be a general improvement in processes and procedures.

There are still some areas where processes are not documented and/or fully capturing data. These are Mean Zonal Compliance and Water Quality Contacts (both PCs), the affordability and vulnerability measures (WaterSure and Helping Hand social tariffs, Arrears Assist, the Priority Services Register), new customer channels reported to CC Water (Live Chat, Twitter) and ancillary reporting matters such as Developer Services surveys and some parts of the business managing GSS appointments.

Although Portsmouth Water is able to report most data in accordance with reporting requirements, in areas such as bursts, pumping head, the water balance and some customer service data, we continue to note that there is a tendency to rely on our assurance services as ‘first line’ QA for the underlying spreadsheet and systems calculations, with a lack of evidence that spreadsheets and processes have been peer reviewed or checked internally before our external assurance. The introduction of internal QA and checks across all reporting areas is recommended to reduce the risk of error in the reported figures.

The generation of data for the Cost Assessment tables (4D and 4P) is improving and errors were relatively minor in comparison to last year. This was addressed during our audit, but, as with the QA comments above, reliance on external assurance to assist with data generation does not represent good practice.

Based upon our activities and information collated to date we can also state that we believe that:

- We have been given free access to relevant staff and information on request.
- Except where noted below, the processes, procedures and data complied with the required assurance criteria as set out in our scope of works

3. Findings and Issues Raised During Data Audits

3.1. Performance Commitments

3.1.1. Significant Findings

As with previous years we have classified the 'exceptions' that we have identified into 'red', 'amber' and 'green' categories. In order to satisfy the changes in reporting requirements we have adapted the definition for each category as follows:

- 'Red'. These are material issues that mean that either we cannot provide assurance to that area, or there are issues that present a material reporting risk to the Company, either in terms of inconsistency with the Business Plan PCs, or in terms of the Company's ability to understand whether it has discharged its obligations.

- 'Amber'. These are significant issues that are worthy of comment at the Audit Committee level, and may need to be addressed in order to mitigate the risk to the business in the longer term.

- 'Green' these are relatively minor issues that are designed to provide continuous improvement to the reporting process and are highlighted within the individual audit summaries that we provide for the Company.

We have not identified any issues that will result in a 'red' classification. Where we have previously audited and commented upon the PCs, we have found these remain generally adequate.

Following our process of challenge and review with Portsmouth Water we only have one remaining 'amber' issue In previous years we have noted that the methods used for reporting on leakage are very simplistic, but are well managed and entirely consistent with the way that the PR14 PC was set. However, for this year we have noted that the unusual weather conditions encountered in 2018/19 have required that Portsmouth Water adapts its AMP6 consistent reporting system, which has generated an 'amber' risk issue.

Similarly, we have noted that the PCC reporting method relies on some significant, un-evidenced assumptions that are used to modify the raw data that underpins the unmeasured component of the analysis. However, because PCC reporting is entirely consistent with the way the PC was set we have not assigned any 'amber' risks for the reporting area. In both cases the relatively simplistic reporting methods mean that there are relatively large levels of uncertainty about what the 'true' figure has been over the past few years, and this has implications for the 'shadow' reporting methods for leakage and PCC and the associated PC target setting for PR19. Our comments in relation to this are provided in Section 3.3 of this report.

Table 1: Summary of Notable Issues Encountered at Audit.

Reporting Area	Nature of Issue	Classification (RAG) and Implications
Leakage (AMP6 ODI compatible)	The very hot weather in summer 2018 meant that leakage reporting could not be carried out using the full legacy method, as that would have resulted in a 5 month exclusion that biases leakage towards winter and hence results in over-reporting. The household night use trend that is available from the 'shadow reporting' process was therefore used to allow the company to estimate leakage throughout the year (i.e. with no summer exclusion), which we consider to be a reasonable approach that is in line with the best practice identified in the shadow reporting guidance. However, we noted that the trends exhibited in the small area monitors (SAMs) used for the night use monitoring indicate that there is considerable volatility in the figure, which results from demographic variability in the SAMs, and means that the current sample size is too small to be reliable. It is	Amber – the revised figure is a reasonable compromise, but there is a relatively high level of uncertainty.

	recommended that the number of SAMs is increased to 30 to provide a statistically robust sample. The current uncertainty in the monitor means the reported leakage figure itself is uncertain with a likely variability of between 27 and 29 Ml/d. It is clear from both the Distribution Input (DI) trend and through analysis of the leakage trends that there was a continued and significant reduction in leakage over the summer and autumn of 2018. At audit Portsmouth Water revised its approach to estimating leakage that represents a mid-range estimate of the actual leakage in 2018/19, which had an outturn value of 28.2Ml/d before water balance (MLE) adjustment. Therefore, although there is some uncertainty in the report year we were able to assure that the figure generated at audit is a reasonable estimate.	

As with previous years we have identified a reasonably large number of 'green' continuous improvement type issues. These are logged in audit feedback reports and monitored through an issues log that is shared with Portsmouth Water. We note that there are inconsistencies in the reported number for Greenhouse Gas Emissions for 2017/18 and 2018/19 between the IAP and APR and submissions. This appears to be associated with differences in forecast versus in-year published conversion factors, but at the time of writing this had not been fully confirmed. The differences are small (3%), so are not material to the overall quality of the APR submission. We also note that the Company failed to provide a compliant sample for the SIM Quarter 1 survey. A new report was developed but it failed to capture written contacts. Neither the Company's internal checks nor the market research company carrying out the SIM survey identified the omission. Once identified, this error was corrected so we have not assigned an 'amber' classification, but note that internal QA systems need to ensure compliance as the survey company will not necessarily identify such errors.

3.1.2. Key Assurance Statements

Although uncertainties exist within the reported figures, we have reviewed the PCs that currently report a 'no penalty' classification and are confident that the uncertainties that are present are not sufficient to risk a re-classification into a penalty banding. This includes the reported leakage figure, which, although there is some uncertainty in the reported figure due to the impact of the exceptional hot summer conditions, we consider is highly unlikely to include uncertainties that are large enough to bring it above the performance commitment value for the report year.

Only two PCs fell below the target in 2018/19. The first, customer contacts for water quality, has once again exceeded the penalty deadband by a considerable amount, so there is no risk that the ODI penalty has been mis-calculated or mis-reported. The second, mains bursts, will be assessed on a rolling average basis under the ODI framework, and is highly likely to fall within the deadband (i.e. no reward or penalty) by the end of AMP6. Based on our review of the burst mains reporting system we consider that it is very unlikely that there are any errors in reporting that are significant enough to change this outcome.

The Mean Zonal Compliance PC has incurred penalties in previous years but we confirmed that it is within the PC deadband for the report year so no penalty applies.

3.2. Statutory and Regulatory Obligations

Overall, Portsmouth Water's management of Guaranteed Standards Scheme (GSS) is appropriate and the Company appears to be meeting its obligations. There is one significant area of weakness which we have highlighted repeatedly in our audits over the years and which the Company has failed to address: the Company goes to considerable effort to manage its appointments in line with the GSS Regulations however there are few checks carried out to determine if contractors have in place the understanding, systems and processes to manage their obligations in this area. While the volume of appointments managed by third parties is lower, the Company is not monitoring their compliance and we are not able to assure the third-party reporting. This applies to three of the Company's four sub-contractors (Gasco, JTS and Cappagh). Internally, the record-keeping for Developer Services appointments is also poor compared with other parts of the business.

GSS is also likely to receive more significant external scrutiny in the near future. In November 2018 Ofwat published its recommended changes to the statutory minimum statutory compensation scheme – the GSS – for consideration by the UK Government. These recommendations originated from Ofwat's concerns with how

the freeze thaw events were handled by some water companies in early 2018 and were then followed by a period of consultation with stakeholders. Ofwat called for immediate changes as well as setting out longer-term changes which will require the legislation governing GSS to be changed. The industry has been focused on PR19 and the Business Plan submission so to our knowledge some companies have been slow to respond. The changes impact on companies both in terms of the level of compensation on offer for customers as well as what is covered. For Portsmouth Water, the Company enhances its interruptions payment already to £30 in all household circumstances so it was already compliant with that element. The Company has not formally agreed its position on other payments but has indicated that it expects to do so by the end of June.

Affordability and vulnerability measures would be strengthened by the documentation of the processes. The main source of reporting is from the Rapid billing system however the processes tend to be managed by manual inputs to spreadsheets. The challenges in auditing and assuring the processes is that the numbers often do not reconcile. Furthermore, there are also multiple reports from Rapid and again the numbers for the same areas of reporting also sometimes do not reconcile with each other. While the differences between the totals are not material, it is challenging to confirm which is the "correct" dataset to report. These are relatively minor problems, but they should be addressed given the increased scrutiny in this area.

In terms of meeting standards and reporting to Water UK for Developer Services, we found that the quality of the reporting spreadsheets and associated quality assurance has improved since last year. The Company have undergone a reorganisation of the Developer Services team, with a single person responsible for the reporting, however there remains a need to document the reporting processes. There continues to be a reliance on people rather than processes and systems to provide accurate reporting. We have noted improvements in the overall internal QA of the data. The overall relative industry performance for some metrics is very sensitive to a few minor service failures which is compounded by the relatively low volume compared to other Companies.

At the time of our audit the Company was working towards developing the reporting formats for the D-MEX submission. The guidance issues by Ofwat is not always clear and we have suggested the Company issue particular clarifications to Ofwat within the next reporting period to ensure consistent and appropriate reporting from the start of AMP7.

3.3. Reporting of Common Metrics for PR19 'Shadow Reporting'

As noted previously, our audit activities this year covered the reporting of per capita consumption, interruptions to supply, mains bursts, unplanned outage, risk of severe restrictions in a drought and vulnerability according to the 'shadow reporting' requirements that Ofwat refers to in information letter IN18/07. We reviewed these against the detailed technical methodologies that have been developed by Ofwat and the associated Red/Amber/Green (RAG) classifications where applicable that Ofwat require to be submitted to indicate the quality of reporting for the various components that make up the reporting process for each metric.

For the interruptions to supply metric we found that the process is largely compliant with the best practice guidance, as this closely matches the processes that were already being used to report against the AMP6 PCs. As with last year we only noted one minor area (the use of pressure loggers to confirm when an incident has resulted in pressures less than 3m) where best practice guidance is not being followed, and confirmed that the RAG classifications that are proposed are appropriate. The Company have a significant programme of installing pressure logger across all its Small Meter Areas and are working towards full compliance in this regard before the start of AMP7

For leakage, the convergence method reporting was subject to the same uncertainties and adaptation of the household night use allowance as detailed under the AMP6 ODI reporting above. This meant that the household night use element of reporting was changed to a 'red' classification in line with the guidance. Other than that we found that the systems were robust and noted that non-household night use reporting had improved to a 'green' classification. We also agreed with the proposed RAG classifications proposed in all categories of Table 3S.

For PCC reporting, Portsmouth was not able to report a reliable figure from the Small Area Monitor for unmeasured PCC. This should therefore be classified as 'red' and appropriate comment should be made in the reporting. Other than that we confirmed that the processes associated with measured household PCC and the water balance were of the same quality the same as last year, and agreed the RAG classifications proposed for the remainder of the topic areas.

For the reporting of unplanned outages, we reviewed both the data, reporting process and proposed RAG classifications. We confirmed that both were in accordance with the guidance. Where 'amber' classifications are proposed for certain elements by Portsmouth Water, these tend to result from the fact that the reporting requirements are new, and the issues will need to be tested and addressed in-year prior to the next submission, rather than as a result of poor reporting practice. We consider there to be areas of the guidance which are open to interpretation and ambiguity and where this is the case Company appear to have made a reasonable and appropriate interpretation.

Reporting of mains bursts and risk of severe restrictions in a drought was in line with the guidance and we agreed with the RAG classifications that had been applied.

For the reporting of vulnerability, we found that overall the Company's method for managing and reporting customers on the Priority Services Register complies with the Ofwat guidance. There is no written procedure and we have recommended that the Company produces one to capture its end-to-end processes and to minimise risks of errors. As of 31st March 2019 there were 419 customers on the Register which is ahead of the 365 forecast in the PR19 Business Plan submission. However, there is an outstanding query with the Company because when we compared the consolidated reported total with the granular reporting in the monthly reporting where individual services (as opposed to customers) are registered, the total is 433. The Company was not able to reconcile the difference of 14 between the two reports and agreed to investigate further to confirm the reported total should be 419 not 433. This metric has two parts, the latter relates to the percentage of customers contacted to confirm they still require the services because in the past some companies have expended little or no effort on cleansing their registers. Portsmouth Water is reporting 100% of customers as contacted because in May 2018 the Company carried out a mailshot to all those registered. However, the Company was not able to confirm the response rate and outcome of the activity, so the utility of the information for management information purposes is limited.

3.4. Reporting of Data for the Wholesale Cost Assessment Tables

For Table 4D (capital allocation), we did encounter some errors, but these were rectified at audit so we can confirm that reporting guidance had been followed and capital allocations were appropriate.

Following our comments last year on Table 4P, Portsmouth have now undertaken a methodical review of all age and diameter of mains. We have challenged the Company approach and assumptions for categorising any 'unknown' mains. The Company have satisfactorily responded to and addressed the challenges we made. Based on the above we therefore consider that there are no outstanding material issues for Tables 4D or 4P.

A final copy of Table 4L was not available at the time of writing, but we are able to confirm that the capital expenditure for Table 4L reconciles back to the financial accounts.

3.5. Other Matters and Future Reporting Issues

The findings of the unmeasured PCC audit for this year do cause some concern with the achievability of the PC ODI target for AMP7. This will be based on the 'shadow reporting' convergence method for PCC. Because Portsmouth Water is having to rely on assumptions about the convergence PCC figure due to the lack of a reliable monitor, the likely base year starting value remains very uncertain.

We note that for WRMP19 and the September 2018 Business Plan submission, the lack of a reliable convergence PCC figure meant that last year's ODI reported PCC and the associated water balance was used as the basis for the AMP7 forecasts. However, because the household night use allowance within last year's 'shadow' reporting of leakage did not include some of the improvements made this year, the reported leakage was higher than the legacy ODI reported leakage value by 5Ml/d. The WRMP baseline water balance therefore also assumed that leakage was 5Ml/d higher, as the convergence method will be used for reporting in AMP7. This led to PCC being reduced by circa 5l/h/d as a result of the water balance (MLE) reconciliation, and this value (142l/h/d) was included in WRMP19 and draft Business Plan baseline. The AMP7 ODI target was then set using that baseline. In reality it appears that the convergence leakage reported value is close to the 'legacy' ODI value that is currently used, which implies that the legacy PCC reporting is actually likely to be similar to the convergence PCC. That in turn means that the AMP7 ODI PCC

start point, and hence the end of AMP7 target, may be up to 4l/h/d higher than was assumed in the Business Plan. This will make the ODI target even more challenging.

The Company has suggested that it will not be reporting a proxy calculation for SIM for 2019/20 because Portsmouth Water did not propose an internal performance measure or a specific commitment for AMP6. We do not believe this is a correct interpretation and we believe all companies must report a proxy SIM calculation. This is because other companies have stated their commitment was to be for example upper quartile or in the top 5 which relies on the whole industry reporting its SIM proxy calculation in order for them to be able to state whether they have met the commitment or not.

We were also asked to review the reporting for Social Media and Live Chat for the first time. This is currently reported to CC Water and will form part of the new complaints metric discussed below. The processes are not formally documented and the internal quality assurance requires strengthening in line with the robust checks and controls put in place for telephone reporting. The main risk that we identified at present is that for Live Chat the facility only stores records for one month so it was not possible to audit last year's reporting. This would be an issue for future reporting as there are essentially no records retained so it is not possible to verify or assure the reported number. We have suggested that the Company should explore with its supplier the scope to (and cost implication of) retaining records. For Twitter, the main risk identified was that half the customer contacts we reviewed in our sample were not being logged onto Rapid: if they are not being logged, this means that the contacts will not be sent for inclusion in the C-Mex survey which would be an area of non-compliance; also it is poor customer service practice not to retain a complete and accurate history of interaction with customers.

We also discussed how the Company is preparing for the new customer service measures which are being piloted in 2019/20, the C-Mex and the new complaints metric developed by CC Water, for implementation in AMP7. The implications of C-Mex are very similar to the existing SIM survey in that the Company must provide a compliant sample of customer data and this poses no challenges for the Company. The guidance for the new complaints metric is in our opinion not robust and very challenging in its current format to report on. We have discussed the benefit of a mid-year audit (around October 2019) to gauge how effectively changes to the systems and new processes are bedding in at the Company and to identify what if any risks need mitigation.

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