

**PR24 DRAFT
DETERMINATION RESPONSE
DELIVERING OUTCOMES
FOR CUSTOMERS AND THE
ENVIRONMENT**



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SECTION 1

OVERVIEW OF OUR REPRESENTATIONS ON OUTCOMES



OVERVIEW OF OUR REPRESENTATIONS ON OUTCOMES

This document contains all our Draft Determination representations that relate to Outcomes.

In total there are seven separate representations, with the most material being first. These cover:

1. Per capita consumption (PCC) performance commitment level (PCL)
2. Metering price control deliverable (PCD)
3. Discharge permit compliance outcome delivery incentive (ODI) rate
4. Customer contacts about water quality PCL: Divergence from PR24 final methodology decision on common PCL
5. Biodiversity PCL
6. C-MeX ODI rate methodology
7. Water quality PCD: Mobile UV output

For each representation area, we provide an articulation of the Issue on which we are making representations and our Proposed Remedy for the Final Determination. This is followed by the detailed Supporting Evidence for the case and summary Conclusion. We highlight any Business Plan Tables Impacted by our representations and reference any Supporting Documents that should be read in conjunction with our representation.

Also included in this document is our response to actions set out in the Draft Determination proforma, tab RP1.

Finally, we include two appendices:

1. Leakage methodology update – this provides further details of work we have been undertaking to improve the robustness of our water balance. This does not directly impact our Draft Determination response, but once we have a more complete dataset we would like to discuss these improvements with Ofwat, including any implications for our AMP8 leakage targets.
2. Summary of data table changes

SECTION 2

DRAFT DETERMINATION REPRESENTATIONS: OUTCOMES



1. PER CAPITA CONSUMPTION (PCC) PERFORMANCE COMMITMENT LEVEL (PCL)

A. What is the issue?

Per Capita Consumption (PCC) performance commitment levels (PCLs) for Portsmouth Water have been set at an unrealistic level and are not achievable.

Ofwat's Draft Determination has set both a 2024-25 baseline PCC target and a yearly progression of this target that are too stretching and are not justified by the evidence.

For the 2024-25 baseline target Ofwat has placed too much weight on its own PR19 performance commitment levels (PCL) and has not given any material weight to what companies have actually achieved during the 2020-25 period or the specific circumstances they face. Further, Ofwat has made insufficient allowance for the ongoing impact of greater homeworking following the Covid-19 restrictions.

By not updating the basis on which it is setting targets, Ofwat is effectively penalising the company twice for the same issue (i.e. that the PR19 target was not realistic). This represents an unreasonable approach which locks in material penalties for the whole of AMP8.

For the yearly profile of the PCC target out to 2030 Ofwat has set targets based on expected performance improvements from meter installations and water efficiency enhancement expenditure over 2025-30, but it has not taken account of the changes it has made to the 2024-25 baseline.

- Ofwat has assessed benefits set out in company Business Plans and benefits using its own calculation. It has then used the highest of the two values to determine PCC reduction targets from a 2024-25 baseline.
- For Portsmouth Water, Ofwat has applied our Business Plan reduction profile to its own (lower) baseline. This is not a consistent approach, and it is not reasonable since there is clearly greater scope to reduce PCC from a higher starting level.

More generally, Ofwat is not taking account of the specific circumstances facing Portsmouth Water.

- As the company with the lowest bills in the sector and currently the lowest meter penetration, our customers use more water than most.
- This reflects the lack of an economic incentive as well as a drier and warmer climate on the south coast and a history of relatively plentiful water in our supply area.
- In addition, during Covid-19 we saw the biggest spike in consumption of any company and with no economic incentive to reduce consumption it has remained stubbornly high. Our smart meter programme provides the only genuinely effective tool available to us to begin to tackle this challenge.

B. Our proposed remedy

For the Final Determination Ofwat needs to ensure it takes proper account of our current actual performance and ensure that targets are realistically achievable. Ofwat should use actual performance to set the baseline for the PR24 PCC PCL.

We propose Ofwat uses the lowest actual performance in 2020-25, adjusted for Covid-19, as the 2024-25 baseline. For us, our 2024-25 baseline would be 150.2 litres per person per day (l/pers/d).

We recognise the need to do more in this area, and we are looking at how we can push forward on the delivery of our meter programme to deliver the benefits on PCC as soon as possible. As a result, our proposed profile of the PCC PCL through the 2025-30 period represents one of the highest reductions in the industry, which is challenging but deliverable.

As outlined above, we believe the 2024-25 baseline for Portsmouth Water should be 150.2 l/pers/d. This is lower than the 2024-25 baseline used in WRMP24 of 157.0 l/pers/d. The profile for the remainder of the period has been calculated to reflect the expected performance improvements from meter installations and water efficiency enhancement expenditure over 2025-30, but to also consider reduction in benefit expected related to a lower 2024-25 baseline. This results in an in-year 2029-30 PCC target of 141.0 l/pers/d.

Based on a linear improvement from 2024-25 baseline to 2029-30, we calculate a three-year average PCC target of 142.8 l/pers/d in 2029-30, as set out in Table 1 below.

Table 1: Portsmouth Water Proposed PCC PCL

Year	In-year PCC (l/pers/d)	Three-year average PCC (l/pers/d)
2024-25 Baseline	150.2	150.2
2025-26	148.4	149.6
2026-27	146.5	148.4
2027-28	144.7	146.5
2028-29	142.8	144.7
2029-30	141.0	142.8

C. Supporting evidence

In this section, we set out evidence to support the following statements:

- Our PCL should reflect Portsmouth Water's characteristics
- Our proposed 2024-25 baseline of 150.2 l/pers/d reflects our best actual performance in 2020-25
- We calculate that based on a 2024-25 baseline of 150.2 l/pers/d, our in-year 2029-30 PCC target should be 141.0 l/pers/d
- Based on a linear improvement from 2024-25 baseline to 2029-30, we calculate a three-year average PCC target of 142.8 l/pers/d in 2029-30

Our PCL should reflect Portsmouth Water's characteristics

The PCL for PCC must be achievable for Portsmouth Water and that means it must take account of the relevant circumstances facing the company when it comes to managing household water demand. Our proposals have been designed to set ourselves a challenging and stretching target and taking account of the following circumstances:

- **Lowest water bills in the water.** Our average water bill for 2024-25, at £120, is the lowest in the sector. It is 46% below the sector average of £224 and 18% below the next lowest (Bournemouth Water at £146, data from Discover Water website). This means that our volumetric rates for metered customers will be correspondingly lower than other companies. To illustrate the impact of this, using a typical range of low-price elasticity for water (i.e. between -0.1 and -0.5) this would suggest that our consumption would be between 5% and 23% higher than the industry average.
- **Current low meter penetration.** In 2022-23 our household meter penetration rate was 34.5%. This was the lowest in the sector and compares to the industry average of 58.2% (weighted by size of company). Although this penetration rate will increase as we roll out smart metering during AMP8, the current low level of meter penetration has constrained our ability to meet Ofwat's PCC target during the current AMP.
- **Drier and warmer climate.** The climate on the south coast of England is warmer and drier than the rest of the country. The Met Office describes the south coast area as "the part of the UK closest to continental Europe and as such can be subject to continental weather influences that bring cold spells in winter and hot, humid weather in summer. It is also furthest from the paths of most Atlantic depressions, with their associated cloud, wind, and rain, so the climate is relatively quiescent¹." This warmer and drier climate leads to greater frequency of dry periods and results in an increase in water consumption, particularly in the summer months, compared to other part of the UK.
- **History of resilience in water supplies.** Our customers understand that, historically, we have been resilient in our water supplies. For example, we have not imposed a hosepipe ban on customers since 1976, in contrast to most of the other companies in the South and South East of England. This will have influenced customers' perceptions around water availability and their response to behavioural change initiatives.
- **Impact of Covid-19 greater than industry average.** The consequences of the Covid-19 pandemic had a much greater impact on Portsmouth Water. The Europe Economics report for Ofwat showed that our household consumption in 2020-21 was 14.2% higher than the 2017-18 to 19-20 average. This was the second highest Covid-19 related increase in the sector and compares to the industry average increase of 7.7%.

The most up-to-date report by Artesia Consulting² for a group of water companies has analysed the best available evidence on the impact of Covid and changes in working practices on household consumption. It recommends a company-specific adjustment is made for the Covid-19 impacts in AMP7. It concludes that the impact on consumption arising from changing patterns of usage will be persistent through AMP8. Based on Thames Water it estimates a persistent impact of an increase of 2.7% in PCC. It also recommends that the impact of Covid is assessed at the company level due to regional differences in the data and that a company specific adjustment is made to the baseline target to account for the persistent impact. Given the greater than average impact of Covid on Portsmouth Water, the persistent adjustment for the company should be higher than the 2.7%.

Although the circumstances outlined above have constrained our ability to reduce household water demand, we have not been complacent in our efforts to manage demand. In the first four years of the current period, we have installed over 21,000 water efficiency devices (compared to the planned level of only 2,000).

¹ Met Office, Southern England: climate, Oct 2016

² Artesia Consulting, Water use shock event effects and future regulatory treatment, Phase 2 Report, May 2024.

During the 2022-23 drought period we also significantly increased our water efficiency messaging. This included issuing 43,000 SMS text messages and 104,000 e-mails to residents urging them to reduce their water consumption for the period of the hot weather to avoid supply interruptions. This equates to directly contacting almost half our household customers. As a result, we experienced lower demand compared to what we were expecting in the year.

Ofwat's approach to setting the PCL at the Draft Determination did not take account of these circumstances and their enduring impact and therefore results in a target that is not achievable.

Our proposed 2024-25 baseline of 150.2 l/pers/d reflects our best actual performance in 2020-25

Our proposed approach to setting the baseline, which takes account of the circumstances outlined above, is to set the baseline as the lowest achieved PCC in the 2020-25 period. Table 2 sets out our PCC performance in 2020-25, including performance after considering the impact of Covid on household demand from Europe Economics' Impacts of Covid-19 on PCC report, which was commissioned by Ofwat. It sets out a lowest PCC of 147.5 l/pers/d in 2022-23.

Table 2: Portsmouth Water PCC Performance 2020-25

Year	Annual PCC Performance (l/pers/d)	Ofwat Covid Impact (%)	Annual PCC – Adjusted for Ofwat Covid Impact
2020-21	170.5	9.4%	154.4
2021-22	160.3	4.0%	153.9
2022-23	152.5	3.3%	147.5
2023-24	154.4	2.5%	150.5

Ofwat has also stated that it expects an ongoing 1.8% increase in PCC from the Covid pandemic, in comparison to 3.3% in 2022-23.

We have applied the figure for the Covid adjustment of 1.8% from the Europe Economics analysis, rather than the higher figure that would be implied by the Artesia Consulting work, even though the Artesia analysis is based on a more up-to-date and comprehensive dataset. In doing so we are building in an additional challenge to our baseline.

We therefore calculate a baseline of 150.2 l/pers/d.

We calculate that based on a 2024-25 baseline of 150.2 l/pers/d, our in-year 2029-30 PCC target should be 141.0 l/pers/d

Our proposed profile of PCC reductions to 2029-30 is consistent with our enhancement programme and WRMP24 submission. This assessment of demand management is based on what can be delivered efficiently with a meter penetration of 64% by 2029-30, taking account of the opportunities provided by smart metering data and water efficiency advice and assistance to unmetered households.

As stated in our WRMP24 submission, we expect that based on the expected performance improvements from enhancement expenditure we will achieve an in-year PCC performance of 141.0 l/pers/d in 2029-30.

Whilst we propose a 2024-25 baseline that is lower than our WRMP24, given our 2023-24 actual performance of 154.4 l/pers/d, to achieve 150.2 l/pers/d we will need to bring forward benefit currently included within the 2025-30 period. We therefore feel that to include a lower baseline than our WRMP24, but also retain our full expected benefit of smart metering and water efficiency programmes outlined in our WRMP24, would be double counting.

We therefore calculate a performance of 141.0 l/pers/d in 2029-30.

We have assessed whether this target builds in a sufficient degree of stretch and ambition by comparing it to the performance of other companies. This is shown in Figure 1, which compares PCC to meter penetration.

Figure 1: Water Company Comparison – PCC vs Meter Penetration – 2023-24 Outturn Data

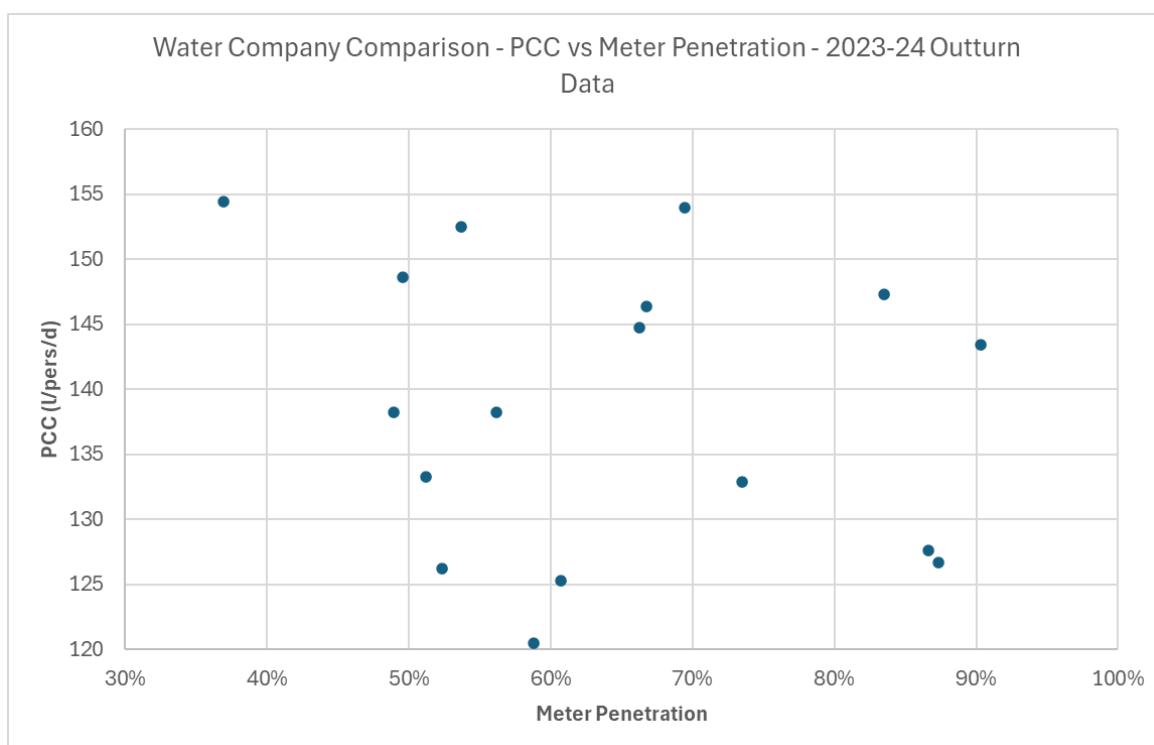


Figure 1 compares water company PCC performance for 2023-24 against meter penetration. The average (mean) meter penetration for companies is 64% and the average (mean) PCC is 138.8 l/pers/d.

The chart also shows the degree of variation between companies, highlighting that meter penetration is not the only factor that drives consumption and that other factors (e.g. bill levels, income levels, household composition and weather patterns) will also be important.

We therefore believe that a PCC target in 2029-30 of 141.0 l/pers/d, for a meter penetration of 64% expected in that year, represents a challenging target. This target represents a comparable PCC level to the water company average for 2023-24, given that some of the circumstances facing Portsmouth Water described above will continue to apply:

- Average bill levels significantly below the sector average.
- The warmer and drier climate on the south coast.

Gross disposable household income (GDHI) in our area is also comparable with the national average, with higher-than-average GDHI in West Sussex but lower-than-average GDHI in Portsmouth and South Hampshire³.

Achieving this target in the face of those considerations will require us to take full advantage of the opportunities provided by smart meter data, to engage with our customers around their usage of water.

Based on a linear improvement from 2024-25 baseline to 2029-30, we calculate a three-year average PCC target of 142.8 l/pers/d in 2029-30

Using the proposed 2024-25 baseline of 150.2 l/pers/d and the proposed 2029-30 performance of 141.0 l/pers/d we calculate in-year PCC levels as set out in Table 3.

PCC is based on a three-year average - that includes the current year and the two preceding years. With an improving trend, this means that the three-year average will be higher than the in-year performance.

Table 3 outlines the three-year average performance associated with the in-year PCC trend. The calculation has included 150.2 l/pers/d for 2022-23 and 2023-24.

Table 3: Portsmouth Water Proposed PCC PCL

Year	In-year PCC (l/pers/d)	Three-year average PCC (l/pers/d)
2024-25 Baseline	150.2	150.2
2025-26	148.4	149.6
2026-27	146.5	148.4
2027-28	144.7	146.5
2028-29	142.8	144.7
2029-30	141.0	142.8

³ Office for National Statistics - Regional gross disposable household income: all ITL level regions

D. Conclusion

PCC PCLs have been set at an unrealistic level and are not achievable

For the Final Determination Ofwat needs to ensure it takes proper account of Portsmouth Water's current PCC performance and ensure that the targets it sets are realistically achievable given this starting point. Ofwat should use actual performance to set the baseline for the PR24 PCC PCL.

We propose Ofwat uses the lowest actual performance in 2020-25, adjusted for Covid-19, as the 2024-25 baseline. For us, the baseline would be 150.2 l/pers/d.

To set a start point based on the PR19 PCL would mean that Ofwat is effectively penalising the company twice for the same performance. It would also mean that Ofwat has failed to take account of the circumstances facing Portsmouth Water, for example the impact of low average bills and lower than average meter penetration.

Our target for 2029-30 is based on the metering programme benefits and is consistent with our WRMP24. The 2029-30 target 141.0 l/pers/d is challenging but achievable.

Figure 2 below outlines the proposed changes to in-year PCC targets compare to both our PR24 submission in October 2023 and the Ofwat Draft Determination. It shows that our proposed target includes a larger reduction from 2024-25 baseline (10.2 l/pers/d) compared to the Ofwat Draft Determination (4.9 l/pers/d).

Figure 2: Portsmouth Water Proposed PCC Target – In-Year Figures

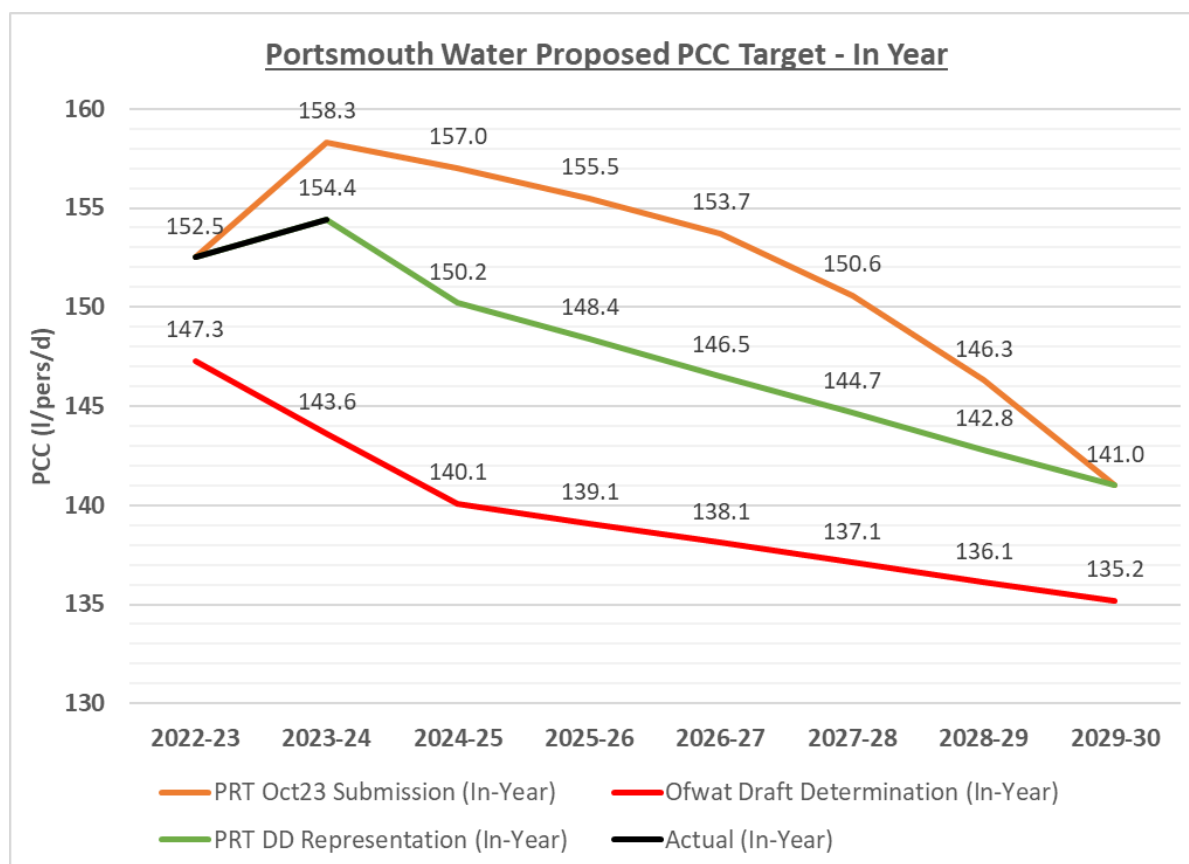
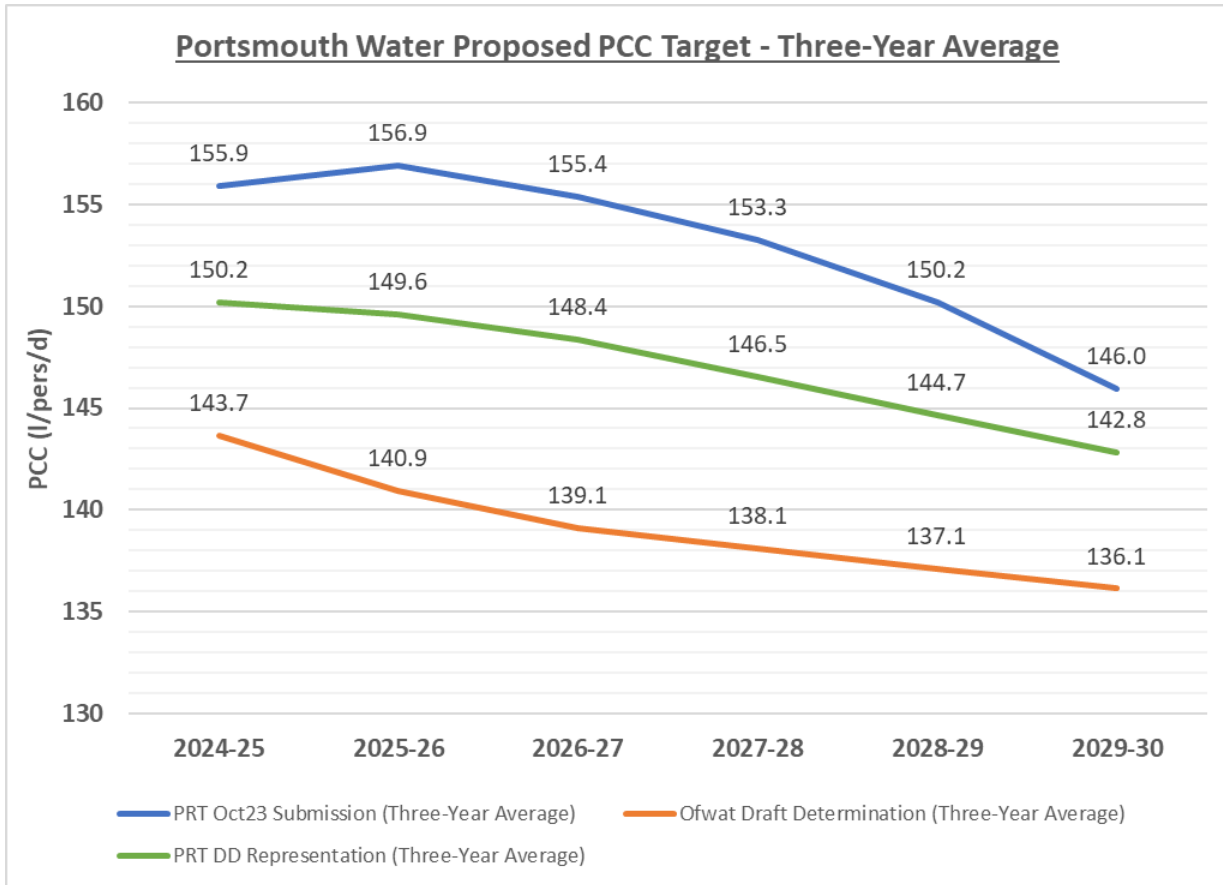


Figure 3 presents the same data but using the three-year average to align with the proposed performance commitment levels.

Figure 3: Portsmouth Water Proposed PCC Target – Three-Year Average Figures



E. Business plan tables impacted

None. Ofwat’s Final PR24 Methodology states that Business Plan tables should align with Water Resources Management Plan (WRMP24) tables.

We have therefore not made changes to the Business Plan tables for 2024-25 onwards. We have updated 2023-24 to align with actual performance.

3. DISCHARGE PERMIT COMPLIANCE OUTCOME DELIVERY INCENTIVE RATE

A. What is the issue?

Ofwat's Draft Determination has set a discharge permit compliance Outcome Delivery Incentive (ODI) rate that results in a significantly higher level of risk for Portsmouth Water, and other Water only Companies (WoCs), compared to Water and Sewerage Companies (WaSCs).

The discharge permit compliance performance commitment is new for WoCs for PR24, having only been included for WaSCs previously. The ODI rates associated with this new performance commitment are significantly different to what Ofwat presented to water companies before the PR24 submission in October 2023. This is therefore the first opportunity for WoCs to fully understand the risk associated with the performance commitment ODI rate and raise concerns over its disproportionately high impact.

Ofwat has set the PCL for discharge permit compliance based on percentage of failed discharges as a proportion of total discharge permits. This fails to recognise the fact that WoCs have substantially lower permit numbers, as they are not responsible for wastewater. This lower number of permits lead to greater variance on percentage compliance, which subsequently disproportionately impacts the ODI penalty per single permit failure.

A single discharge permit failure would result in a £3.8m ODI penalty for Portsmouth Water, which equates to 3.3% of regulated equity which is unreasonable and wholly disproportionate to any customer or environmental harm.

In contrast, the average WaSC ODI penalty is £1.6m per single discharge failure, equating to 0.1% of regulated equity.

B. Our proposed remedy

We propose that ODI rates are updated so that the proportional risk of a single discharge permit failure is the same for each water company.

We propose that an adjustment factor is applied to WoC ODI rates to ensure parity of ODI rates as a percentage of regulated equity. This will ensure that water companies are equally incentivised to ensure they meet discharge permit conditions.

A single discharge permit failure for Portsmouth Water equates to 3.3% of regulated equity. The average WaSC (excluding Hafren Dyfrdwy) ODI penalty per discharge permit failure is 0.1% of regulated equity.

We therefore propose that our ODI rate is divided by 33 ($3.3\% / 0.1\%$) to align risk.

This would mean our ODI rate is reduced from £0.228m to £0.007m per 1% of non-compliance.

C. Supporting evidence

In this section, we demonstrate that different permit numbers for each water company result in significantly different ODI penalties per permit failure. We also show that the ODI rates for discharge permit compliance result in a disproportionately elevated risk for WoCs.

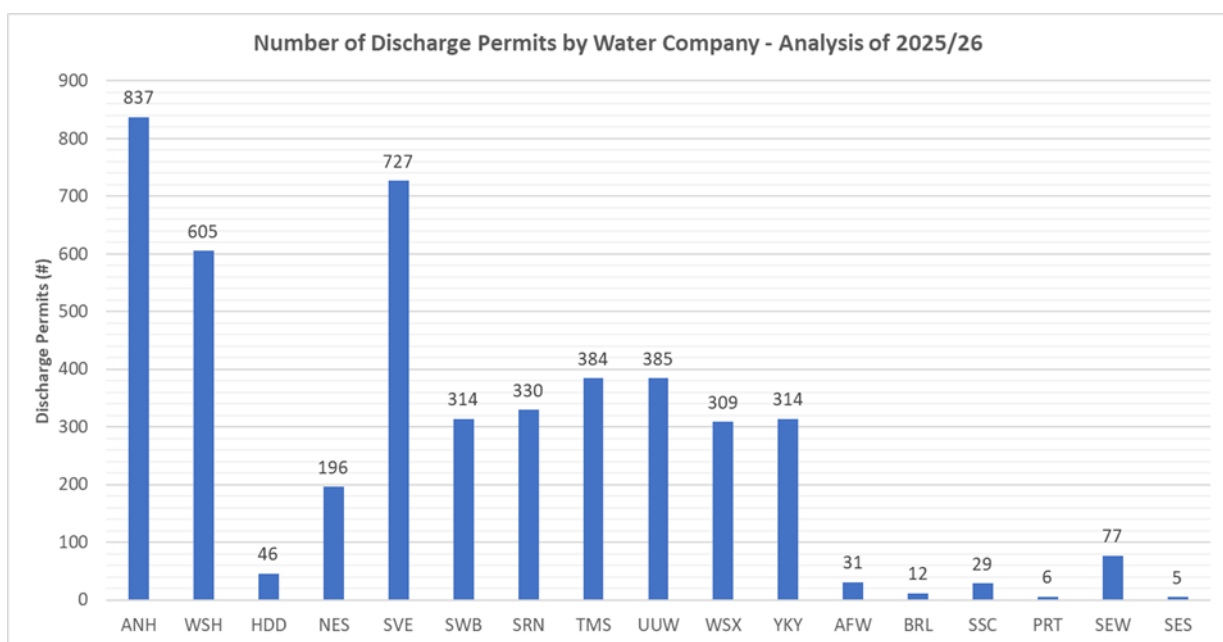
Different permit numbers per water company result in significantly different ODI penalties per permit failure

The PCL for discharge permit compliance is set as percentage compliance of discharge permits, and the ODI rate is set as per 1% of non-compliance.

Using this metric results in significant variance in performance per single discharge permit failure. This was not adequately considered by Ofwat when setting ODI rates.

Using PR24 submission data taken from water company PR24 updated submissions in January 2024, Figure 1 shows the number of discharge permits per company for 2025-26 and highlights the difference between WoCs and WaSCs.

Figure 1: Number of Discharge Permits by Water Company: Analysis of 2025-26

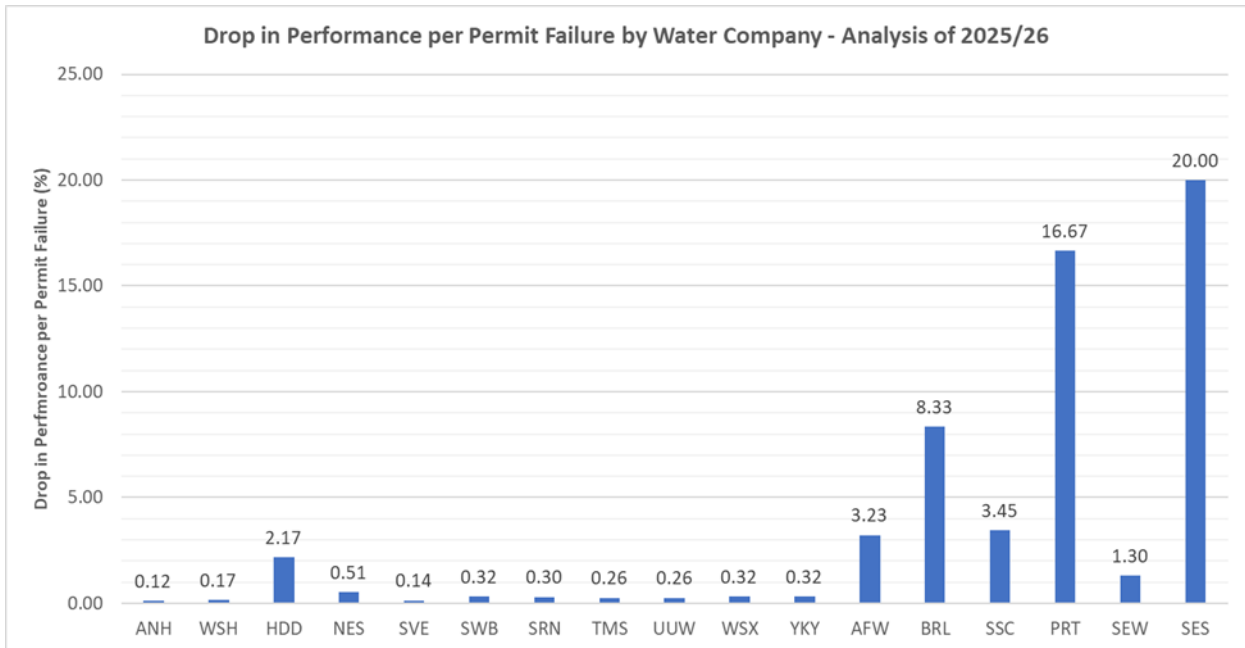


Source: Portsmouth Water analysis of company business plan tables

Figure 2 below shows the drop in performance, expressed as % non-compliance, for a single permit failure. For Portsmouth Water, we only have 6 discharge permits and therefore one failure is equivalent to non-compliance of 16.67%. This is in comparison to an average non-compliance of 0.27% for WaSCs (excluding HDD⁴).

⁴ We have excluded HDD as they have ODI rates that have been calculated separately to other WaSCs.

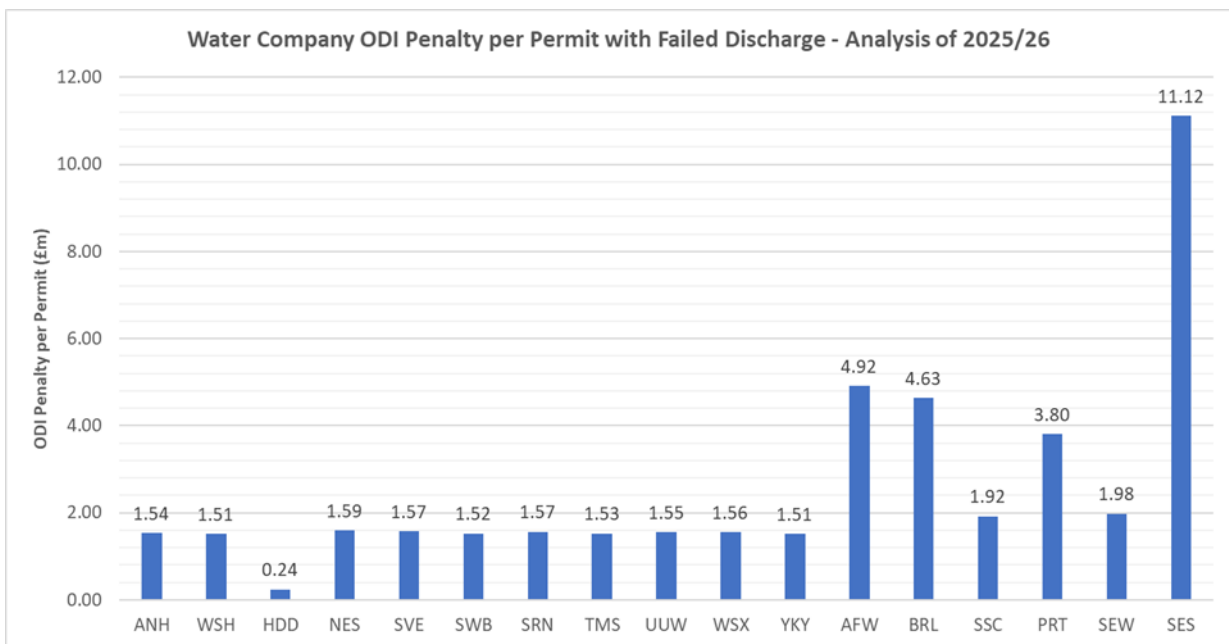
Figure 1: Drop in performance for a single discharge permit failure



Source: Portsmouth Water analysis

Figure 4 below shows the ODI penalty for a single discharge permit failure. Portsmouth Water would receive a £3.8m ODI penalty for a single discharge permit failure, compared to an average of £1.6m per discharge permit failure for WaSCs (excl. HDD).

Figure 2: Water Company ODI penalty per failed discharge permit



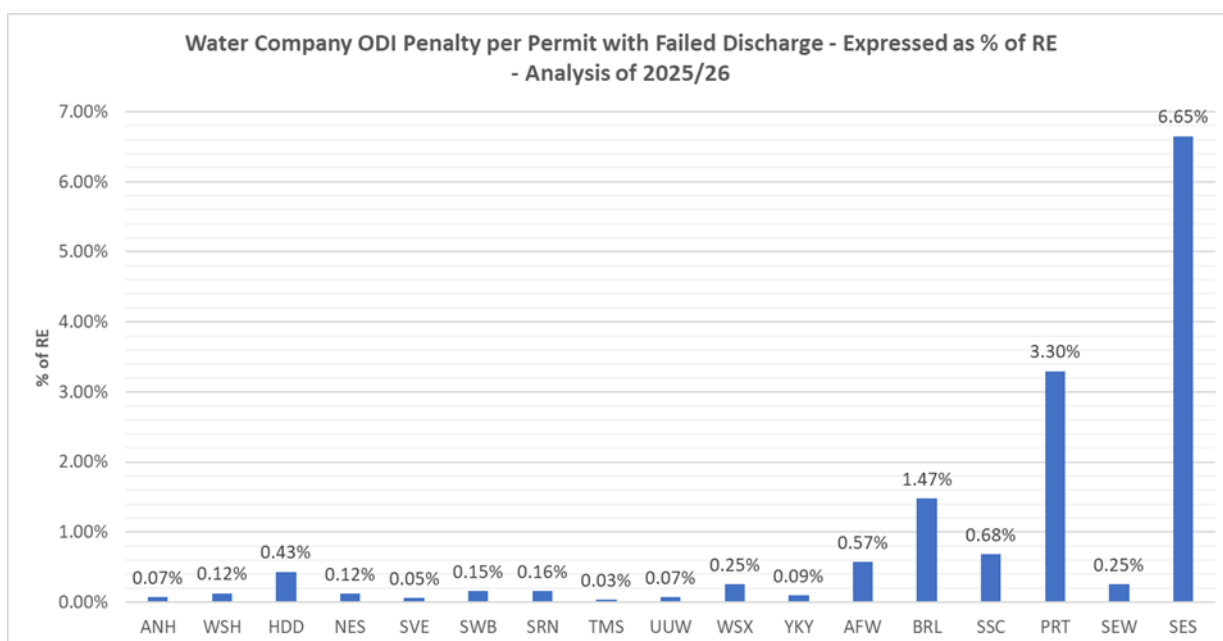
Source: Portsmouth Water analysis

The ODI rates for discharge permit compliance results in a disproportionately elevated risk for WoCs

Our analysis shows that despite consideration of WoCs regulated equity through the setting of ODI rates in general, WoC ODI rates for Discharge Permit Compliance when expressed as a percentage of regulated equity are disproportionately high compared to WaSCs. This results in a significantly higher downside risk.

Figure 5 below shows the ODI penalty per permit failure, expressed as percentage of regulated equity. Portsmouth Water would receive an ODI penalty equivalent to 3.3% of regulated equity for a single discharge permit failure. This is in comparison to an average of 0.1% for WaSCs (excluding HDD).

Figure 3: ODI penalty per discharge permit failure as percentage of regulated equity



Source: Portsmouth Water analysis

D. Conclusion

The ODI rate for discharge permit compliance leads to a disproportionately high £3.8m penalty per permit failure for Portsmouth Water, which is unreasonable and wholly disproportionate to any customer or environmental harm. We propose an adjustment to align the level of risk with that faced by WaSCs.

Our evidence outlines the significantly higher downside risk associated with discharge permit compliance for WoCs. We propose that an adjustment factor is applied to WoC ODI rates to ensure parity with WaSCs on ODI rates as a percentage of regulated equity.

Our ODI penalty per discharge permit failure, expressed as a percentage of regulated equity, is 33 times higher than the average WaSC (3.3% compared to 0.1%). We therefore propose that our ODI rate is divided by 33 to align risk with the average WaSC (excluding HDD). We calculate that our adjusted ODI rate would reduce from £0.228m to £0.007m per 1% of non-compliance. This would mean that an ODI penalty for a single discharge permit failure would be £0.117m (£0.007 x 16.67%).

E. Business plan tables impacted

We have included our proposed remedy within Table OUT7.

We have included a marginal benefit of £0.010m. With a benefit sharing ratio of 70%, this equates to an ODI rate of £0.007m.

4. CUSTOMER CONTACTS ABOUT WATER QUALITY PERFORMANCE COMMITMENT LEVELS

A. What is the issue?

Portsmouth Water is proud to have industry leading performance on customer contacts about water quality.

We understand and agree with the high importance customers place on water quality. We have proactively managed our water treatment processes and water distribution network to mitigate against potential causes of discolouration, taste, and odour.

We also consider water quality impacts when making improvements to the network, such as mains replacement, pressure optimisation and district metering for leakage awareness.

We included a bespoke PR19 performance commitment on water quality contacts and have worked hard to achieve this PCL, despite influence from exogenous factors such as Covid-19 and high-profile water quality incidents (such as Brixham).

In the PR24 Final Methodology (Appendix 9: Setting expenditure allowances, Table 4.1), the customer contacts about water quality performance commitment were assessed as appropriate for a common performance level.

We agree with Ofwat that customers should not expect varying levels of water quality depending on their region, and that companies are funded (and customers have paid for) a level of water quality that meets defined standards⁵.

Setting company-specific levels for customer contacts about water quality undermines this position and sends the message to customers that different levels of water quality are acceptable based their water supplier.

B. Our proposed remedy

We propose that a common performance commitment level for customer contacts about water quality is re-introduced, to align with the decision made at the PR24 Final Methodology stage.

We propose that Ofwat use the analysis used to determine company-specific PCLs to inform an additional stage in the model. We propose that the common PCL for the industry be set at the median of company PCLs calculated by the model for each year. This results in lower total customer contacts for the industry compared to company specific targets.

C. Supporting evidence

In this section, we show that a common performance level will result in lower total customer contacts about water quality for the industry than the proposed company specific levels.

⁵ We appreciate that the Drinking Water Inspectorate (DWI) has issued updated guidance regarding the reporting of customer contacts. We also understand that Ofwat would evaluate associated restated data from water companies before deciding whether a common level is appropriate.

A common performance level will result in lower total customer contacts about water quality for the industry

Our analysis, using data from the customer contacts about water quality PR24 performance commitment model, has calculated that setting a common performance level would result in 20,772 fewer contacts during 2025-30.

We calculated the common median performance commitment level 2024-25 baseline as 0.81 contacts per 1,000 population. We calculate that by using the model output PCLs for 2029-30, the common median performance will reduce to 0.71 by 2029-30. Table 1 sets out the median PCL for each year.

Table 1: Customer contacts about water quality comparison – Median PCLs vs company specific PCLs

Year	Median PCL (contacts per 1,000 population)	Contacts at industry level to achieve median PCL	Contacts at industry level to achieve company specific PCLs	Increase in contacts associated with company specific PCLs
Baseline – 2024-25	0.81			
2025-26	0.78	48,446	54,931	+6,485
2026-27	0.75	46,887	52,902	+6,016
2027-28	0.73	46,440	50,840	+4,400
2028-29	0.72	45,968	48,731	+2,763
2029-30	0.71	45,464	46,572	+1,109
AMP8 TOTAL		233,205	253,978	+20,772

Source: Portsmouth Water analysis

In setting a common median PCL for the industry, customer contacts about water quality would reduce by an additional 20,772 contacts over the 2025-30 period compared to company specific levels.

D. Conclusion

Setting company-specific PCLs for customer contacts about water quality leads to increased contacts at industry level and sends the message to customers that varying water quality is acceptable based on water supplier

We agree with Ofwat's stance in the PR24 Final Methodology that customers should not expect varying levels of water quality depending on their region, and that companies are funded (and customers have paid for) a level of water quality that meets defined standards.

Setting company-specific levels for customer contacts about water quality undermines this position and sends the message to customers that different levels of water quality are acceptable based on water supplier.

We calculate that setting company specific PCLs would result in an additional 20,772 contacts at industry level, compared to setting a common PCL at the median; therefore, setting a common PCL using Ofwat's model outputs is beneficial to customers at an industry level.

E. Business plan tables impacted

None. Whilst we propose a common PCL, we continue to include our forecast performance in the Business Plan tables to enable Ofwat to calculate a common PCL for the Final Determination.

5. BIODIVERSITY PERFORMANCE COMMITMENT LEVEL

A. What is the issue?

Whilst we understand and acknowledge that Ofwat has published an updated Biodiversity PR24 Performance Commitment Model after the Draft Determination, we have completed this representation based on the Biodiversity PR24 Performance Commitment Model published at Draft Determination on 11th July 2024.

There are three errors in the Biodiversity PR24 Performance Commitment Model that in combination increase the 2029-30 Draft Determination Price Commitment Levels (PCLs) from 0.73 to 1.97 biodiversity units per 100km of land served.

- The first error is that the proposed total net change for 2025-30 is incorrectly calculated for each water company. The model calculates it as the sum of performance from 2025-26 to 2029-30. However, as the metric is cumulative, this results in double counting of benefit.
- The second error is that the proposed total net change for 2025-29 is incorrectly calculated for each water company. The model calculates it as the sum of performance from 2025-26 to 2028-29. However, as the metric is cumulative, this results in double counting of benefit.
- The third error is that the model incorrectly calculates the 2029-30 PCL as an individual year target, instead of being cumulative. The model incorrectly subtracts the target for the previous year. This results in a 2029-30 target that is lower than the total net change from 2025 to 2030.

Given our start point, of good performance, and limited opportunities to make improvements in AMP8 Portsmouth Water's Biodiversity performance commitment should not be aligned to a common PCL.

- We have worked hard in previous years to improve biodiversity on our land, as evidenced through our bespoke PR19 performance commitment. This means that we have less opportunity for further improvements compared to water companies that have previously not had a PC.
- We believe we have put forward a stretching target, which is funded entirely through base expenditure.
- We do not have any additional sites available to complete additional biodiversity improvements, and therefore the target set is unachievable without purchasing additional land. We do not believe that is consistent with the intention of the PC, which is to promote good environmental stewardship of land owned by water companies.

B. Our proposed remedy

We propose that all three errors are corrected in the model to reflect company proposed 2029-30 targets.

- These changes result in a reduction in the Ofwat proposed cumulative net change 2025-30, from 2.12 to 0.73 biodiversity units per 100km of land served.
- These changes result in a reduction in the Ofwat proposed cumulative net change 2025-29, from 0.15 to 0.10 biodiversity units per 100km of land served.

We propose the Portsmouth Water's PCL is set in line with our updated PR24 tables, provided as part of our Draft Determination response. Table 1 sets out our proposed PCLs for each year.

Table 1: Portsmouth Water Proposed PCLs for PR24

Year	Portsmouth Water proposed PCL
2025-26	0.00
2026-27	0.27
2027-28	0.62
2028-29	0.62
2029-30	0.62

Source: Portsmouth Water analysis

C. Supporting evidence

In this section, we highlight the three errors in Ofwat's PCL calculations for biodiversity. We also set out why the PCL for Portsmouth Water should be set in line with our proposed Business Plan targets, which reflect the specific circumstances we face.

The first error is that the proposed total net change for 2025-30 is incorrectly calculated for each water company

The Biodiversity PR24 Performance Commitment Model calculates a common PCL based on the median of water company proposed total net change from 2025 to 2030.

Biodiversity units are calculated as a cumulative improvement from a baseline. However, the model calculates the proposed total net change from 2025 to 2030 for each company by incorrectly adding up the biodiversity unit improvement for each of the five years.

Table 2 below shows how the model erroneously calculates Portsmouth Water's proposed total net change from 2025 to 2030 as 2.77 biodiversity units per 100km of land served.

The correct result for Portsmouth Water's proposed total net change from 2025 to 2030 is 0.62 biodiversity units per 100km of land served.

The data used in Table 2 is based on our PR24 submission in October 2023, to align to the Ofwat model. In our PR24 submission, we incorrectly allocated biodiversity improvements to the wrong years, including performance improvements spread over the years between baseline survey and subsequent survey four years later. In tables completed for our Draft Determination response we have now used the Biodiversity Worked Example spreadsheet published on 15 August 2023, which only includes improvement after the subsequent survey.

Table 2: Erroneous Biodiversity PR24 Performance Commitment Model Proposed Total Change 2025-30 Calculation

Year	Portsmouth Water proposed performance	Erroneous proposed total net change 2025-30
2025-26	0.38	
2026-27	0.53	
2027-28	0.62	
2028-29	0.62	2.15
2029-30	0.62	2.77

Source: Portsmouth Water analysis

After this adjustment is made for each water company, the median cumulative net change 2025-30 for all water companies is 0.73 biodiversity units per 100km of land served.

The second error is that the proposed total net change for 2025-29 is incorrectly calculated for each water company

The Biodiversity PR24 Performance Commitment Model uses the median of water company proposed total net change from 2025 to 2029, rounded to the nearest 0.05 biodiversity units per 100km of land served.

Biodiversity units are calculated as a cumulative improvement from a baseline. However, the model calculates the proposed total net change from 2025 to 2029 for each company by incorrectly adding up the biodiversity unit improvement for each of the four years.

Table 2 above shows how the model erroneously calculates Portsmouth Water's proposed total net change from 2025 to 2029 as 2.15 biodiversity units per 100km of land served.

The correct result for Portsmouth Water's proposed total net change from 2025 to 2030 is 0.62 biodiversity units per 100km of land served.

After this adjustment is made for each water company, the median cumulative net change 2025-29 for all water companies, rounded to the nearest 0.05, is 0.10 biodiversity units per 100km of land served.

The third error is that the model incorrectly calculates the 2029-30 PCL

The model sets the 2029-30 PCL at 0.63 biodiversity units per 100km of land served by incorrectly subtracting the median cumulative net change 2025-29 (0.10) from median cumulative net change 2025-30 (0.73).

As both results are cumulative, the model sets a 2029-30 PCL that is lower than the median cumulative net change 2025-30 (0.73).

After an adjustment to the model to align the 2029-30 PCL with the median cumulative net change 2025-30, the 2029-30 common PCL target is 0.73 biodiversity units per 100km of land served.

The PCL for Portsmouth Water should reflect our specific circumstances

Portsmouth Water had a bespoke performance commitment set as part of PR19. This performance commitment (PR19PRT_PRT-Water resources-06) incentivised the company to improve the biodiversity on our land.

The performance commitment ensures that we complete actions required to maintain good stewardship and enhance biodiversity on all priority habitats. These actions are documented in our Biodiversity Management Maps and are agreed with, and audited by, Natural England.

The result is that all priority habitats on our land are being maintained to achieve maximum biodiversity levels achievable through cost-effective expenditure. As most of our land is classified as priority habitats, this means that most of our land is already delivering the most cost-effective biodiversity levels and scope for further biodiversity net gain is very low.

We have identified three sites where biodiversity improvements are possible through the continuation of our work aligned to the PR19 performance commitment and have proposed the most cost-effective maximum biodiversity net gain achievable at these sites. We propose to complete these biodiversity improvements entirely from base expenditure.

Our selection criteria for setting our PR24 forecast considered the following:

- Size - small sites under one hectare were excluded due to the lack of impact expected from interventions.
- Operational use requirements - many water treatment works are not suitable for certain interventions as they are in constant operational use. For example, those that are regularly dug will be unsuitable for planting.
- Management constraints - existing management on some of our sites would limit the opportunity for biodiversity enhancement. For example, hatches and covers that need to be routinely cleared of vegetation and accessed.
- Potential for enhancement - the overall potential for enhancement was considered at the possible sites. Those sites with more potential, such as lack of past management or opportunity for intervention, were prioritised.
- Connectivity - those sites with good connectivity to wildlife corridors and other sites were prioritised due to the multiple benefits to biodiversity of good connectivity.
- Feasibility - the logistical feasibility of each site was considered. This included the potential to get machinery access for interventions to be managed and implemented.

All sites will continue to be evaluated against these criteria and further sites might be selected in future. However, at the PR24 submission stage sites were not chosen due to the following reasons:

- Assessed to be already in good ecological status and have extremely limited opportunity for additional biodiversity net gain. We commit to maintaining the good status of these sites, ensuring no deterioration through ongoing maintenance regimes that are regularly audited.
- Assessed to be not in good ecological status, but improvements would not result in biodiversity net gain under the current biodiversity net gain methodology. Whilst not considered for the performance commitment, we commit to enhancing biodiversity at these sites where there is a benefit to do so, in line with our 25-year Vision commitment to improve biodiversity at all sites.

The targets we proposed in our Business Plan are stretching and include all possible biodiversity net gain on our land; additional biodiversity net gain beyond our proposed target is not achievable.

We would also note that a four-year cycle to undertake improvements is a very short period to create identifiable net gain. The short cycle represents a substantial risk to performance, as exogenous

factors such as weather will have a significant impact on biodiversity net gain between one year and the next. The biodiversity net gain was developed for planning applications and the normal period for identifiable gains is a minimum of 10 years.

D. Conclusion

The Biodiversity PCL is unachievable for Portsmouth Water, due to both errors in the PCL model and the adoption of a common PCL.

There are three errors made in the spreadsheet, which are all related to the incorrect assumption that the biodiversity units per 100km of land served are an improvement from the previous year. Instead, the figures are a cumulative improvement from a baseline. Table 3 sets out correction to the proposed PCL for each year in Ofwat's model.

Table 3: Common biodiversity PCL after correction for model errors

Year	Common PCL (biodiversity units per 100km of land served)
2025-26	0.00
2026-27	0.00
2027-28	0.00
2028-29	0.10
2029-30	0.73

Source: Portsmouth Water analysis

We also believe that the corrected proposed PCL of 0.73 biodiversity units per 100km of land served is unachievable for Portsmouth Water. Previous effort to improve biodiversity has resulted in limited scope for further improvements and means our proposed improvement of 0.62 biodiversity units per 100km of land is the maximum that could be achieved over the 2025-30 period without purchasing additional land. We do not believe purchasing additional land solely to meet the biodiversity PCL is consistent with Ofwat's intention to promote good environmental stewardship of land under company control. Nor do we believe our customers would support such investment via their water bills.

E. Business plan tables impacted

None. We continue to include our best estimate of what we level of biodiversity improvement we can achieve, with justification set out in section C.

6. C-MEX OUTCOME DELIVERY INCENTIVE RATE METHODOLOGY

A. What is the issue?

Portsmouth Water is consistently upper quartile performers in C-MeX (and the previous SIM). We are proud of our performance to date and continue to work hard to improve in line with increasing customer expectations.

Ofwat has proposed changes to the calculation of C-MeX as part of the Draft Determination. Water companies have not had adequate opportunity to input views into this new C-MeX methodology. Changes to the methodology risk undermining good performance in the industry and are likely to result in even the best performing water companies receiving ODI penalties on a regular basis.

- In July 2023, Ofwat opened a consultation on the Measures of Experience Performance Commitments. In this consultation, Ofwat made proposals, in principle, for making greater use of cross-sector benchmarks for C-MeX. It did not, however, explain how adjustments would be calculated and applied to C-MeX ODI rates.
- Ofwat presented calculations on C-MeX ODI rates at a workshop in November 2023 but did not invite further responses to the July 2023 consultation. These calculations have instead been presented for consultation as part of the Draft Determination.
- The C-MeX ODI rate methodology proposed at the Draft Determination, where water companies' ODI rates are calculated based on the water sector's UKCSI performance compared to cross-sector UKCSI performance, leads to negative asymmetric risk and scenarios where a company that is high performing in both C-MeX and UKCSI may receive an ODI penalty.
- Scenario testing the methodology also highlights that there are disproportionate changes to C-MeX benchmarks based on changes to the difference scores between UKCSI cross-sector and water company scores.

B. Our proposed remedy

There is not adequate time between Draft Determination and Final Determination to fully resolve current issues with the new C-MeX ODI rate methodology. The development of the new methodology would benefit from more time to engage with stakeholders on how best to secure the best outcomes for customers before being introduced.

We propose that Ofwat continue with the PR19 methodology for PR24 and work with the industry and stakeholders to develop a future ODI rate methodology that removes the negative asymmetric risk, avoids potentially penalising high performing companies, and aligns changes to C-MeX benchmarks with changes in comparative performance.

C. Supporting evidence

In this section, we show that there is asymmetric risk to water companies, due to the natural negative bias of UKCSI water company results compared to UKCSI cross-sector results.

We also show through scenario testing of the C-MeX ODI rate methodology that a water company could be high performing in both UKCSI and C-MeX but receive an ODI penalty.

Finally, we demonstrate that the C-MeX ODI Benchmark disproportionately penalises a drop in UKCSI water industry average.

There is asymmetric risk to water companies, due to the natural negative bias of UKCSI water company results compared to UKCSI cross-sector results

UKCSI surveys are based on a customer's experience with a service provider that they have recently had an interaction with. UKCSI scores are based on experience and complaint handling (like C-MeX), but also the customer's emotional connection with the provider and customer's views on the provider's ethos and ethics.

For most services, a customer would have chosen their favoured provider to provide the service they require. They will have typically chosen that provider based on previous positive experience, an emotional connection with the provider, and/or because their ethos and ethics align with the provider. Therefore, if that provider has provided a similar service to the customer as before, it will likely score high in the survey.

Should a separate provider have a reputation for poor performance, or the provider's ethos and ethics do not align with the customer, they would likely choose not to use it in the first place. In this instance, a potential low UKCSI score would be avoided. This means that the sample set for most cross-sector UKCSI companies are positively biased.

In contrast, a customer cannot choose their water provider and therefore a water company will not experience the same positive bias as outlined above. It is therefore reasonable to expect that if a water company service were equal to a provider in a sector where customers have choice, the water company UKCSI score would be lower.

As the average water company UKCSI is compared to the average cross-sector UKCSI score to calculate the C-MeX benchmark (with no correction for this bias), this results in negative asymmetric risk to water companies.

A water company could be high performing in both UKCSI and C-MeX, but receive an ODI penalty

The C-MeX ODI methodology compares water industry UKCSI to cross-sector UKCSI to set benchmarks. This means that each water company ODI rate is highly dependent on the average water company UKCSI performance and water companies with strong performance will be penalised for poor performance from others.

Table 1 sets out two potential UKCSI water company score scenarios. In the second scenario Company A improves performance, whilst the rest of the industry performance drops.

Table 1: Potential UKCSI water industry score scenarios

Water Company	UKCSI Score – Scenario 1	UKCSI Score – Scenario 2
Company A	78	81
Company B	77	75
Company C	76	74
Company D	75	73
Company E	74	72
Company F	73	71
Company G	72	70
Company H	71	69
Company I	70	68
Company J	69	67
Company K	68	66
Company L	67	65
Company M	66	64
Company N	65	63
Company O	64	62
Company P	63	61
Company Q	62	60
Water Company Average	70	68.3
Water Company Standard Deviation	4.90	5.49

Source: Portsmouth Water analysis

Table 2 outlines that when these two UKCSI scenarios are run through the C-MeX ODI rate methodology, with C-MeX scores fixed, Company A receives a reward in scenario 1 but a penalty in scenario 2.

Company A has improved its UKCSI performance in scenario 2, which is above the UKCSI cross-sector upper quartile. It has also maintained its C-MeX score as highest in the water industry. However, in scenario 2, Company A is penalised for a drop in average water company UKCSI performance and its C-MeX score drops below the C-MeX Benchmark based on UKCSI average. This means that Company A receives an ODI penalty, despite improving performance.

Table 2: Potential C-MeX ODI Results based on UKCSI water industry score scenarios in Table 1

	Scenario 1	Scenario 2
Water Industry C-MeX Average	75.7	75.7
UKCSI Cross Sector Average	76.6	76.6
UKCSI Water Company Average	70.0	68.3
C-MeX Standard Deviation	5.2	5.2
UKCSI Water Company Standard Deviation	4.9	5.5
UKCSI Cross-Sector Upper Quartile	80.4	80.4
UKCSI Cross-Sector Minimum	62	60
Company 1 C-MeX Score	82.9	82.9
C-MeX Benchmark based on UKCSI Average	82.7	83.6
C-MeX Reward Cap Benchmark based UKCSI Upper Quartile	86.7	87.1
C-MeX Penalty Collar Benchmark based UKCSI Minimum	67.3	67.9

Source: Portsmouth Water analysis

The C-MeX ODI Benchmark disproportionately penalises a drop in UKCSI water industry average

Table 3 outlines a scenario where UKCSI is updated to July 2024. In this scenario, there is a comparative drop of 2.3 in performance between the UKCSI water industry average and the UKCSI cross sector average. The UKCSI cross-sector average drops from 76.6 to 75.8 (drop of 0.8). The water company average drops from 72.6 to 69.5 (drop of 3.1).

We have calculated that this leads to a 3.3 increase in the C-MeX benchmark (from 81.1 to 84.4) and results in a disproportionate increase in ODI penalty / reduction in ODI reward.

Also, in this scenario, there is a comparative drop of 2.1 in performance between the UKCSI water industry average and the UKCSI cross sector upper quartile. The UKCSI cross-sector upper quartile drops from 80.4 to 79.4 (drop of 1.0). The water company average drops from 72.6 to 69.5 (drop of 3.1). We have calculated that this leads to a 3.3 increase in the C-MeX upper quartile benchmark (from 86.1 to 89.4) and results in a disproportionate reduction in ODI reward.

Table 3: Comparison in C-MeX benchmark between July 2023 and July 2024 UKCSI results.

	July 2023 UKCSI	July 2024 UKCSI
Water Industry C-MeX Average (Fixed at 2023-24)	75.7	75.7
UKCSI Cross Sector Average	76.6	75.8
UKCSI Water Company Average	72.6	69.5
C-MeX Standard Deviation (Fixed at 2023-24)	5.2	5.2
UKCSI Water Company Standard Deviation	3.9	3.8
UKCSI Cross-Sector Upper Quartile	80.4	79.4
UKCSI Cross-Sector Minimum	62.4	60.9
C-MeX Benchmark based on UKCSI Average	81.1	84.4
C-MeX Reward Cap Benchmark based UKCSI UQ	86.1	89.4
C-MeX Penalty Collar Benchmark based UKCSI Min.	62.2	63.9

Source: Portsmouth Water analysis

D. Conclusion

There are significant concerns with the current proposals for setting the C-MeX ODI rate, and there is not adequate time between Draft Determination and Final Determination to fully resolve.

The C-MeX ODI rate methodology proposed at the Draft Determination, where water companies' ODI rates are calculated based on the water sector's UKCSI performance compared to cross-sector UKCSI performance, leads to negative asymmetric risk and scenarios where a company that is high performing in both C-MeX and UKCSI may receive an ODI penalty.

Scenario testing the methodology also highlights that there are disproportionate changes to C-MeX benchmarks based on changes to the difference scores between UKCSI cross-sector and water company scores.

The development of the new methodology would benefit from more time to engage with stakeholders on how best to secure the best outcomes for customers. We propose that Ofwat continue with the PR19 methodology for PR24 and work with the industry and stakeholders to develop a future ODI rate methodology that removes the negative asymmetric risk, avoids potentially penalising high performing companies, and aligns changes to C-MeX benchmarks with changes in comparative performance.

E. Business plan tables impacted

None.

7. WATER QUALITY PCD – MOBILE UV OUTPUT

A. What is the issue?

In our PR24 Business Plan submission, we include an enhancement investment proposal to repurpose a mobile Ultra-Violet (UV) treatment plant being used for the treatment of Cryptosporidium.

Whilst Cryptosporidium is a long-standing risk to several abstraction sources used by Portsmouth Water, there is a risk of water from other different abstraction sources including Cryptosporidium in the future. When Cryptosporidium is detected at an abstraction source, the source is immediately taken out of service until treatment is put in place. This removes the water quality risk to customers. Given the importance of returning abstraction sources to service as soon as possible to maintain supplies, mobile UV treatment plants offer an important quick, but temporary solution that enables the abstraction source to be used whilst a permanent treatment plant is designed and commissioned. A recent example of this was West Street Water Treatment Works (WTW), where, after Cryptosporidium was detected for the first time at the source, a mobile UV plant was used to get the site back in service as quickly as possible. This will now be replaced with a permanent solution.

To use a mobile UV plant, on-site emergency connection facilities (fast deployment arrangements) need to be installed. To further minimise the time an abstraction source is out of service, it is prudent to install these fast deployment arrangements at sites where there is risk of Cryptosporidium in the near future. Our enhancement investment case PRT07.02 - Raw Water Resilience Enhancements (Disinfection) outlines the rationale for including fast deployment arrangements associated with one site (Northbrook WTW), in the 2025-30 period, but not for other sites.

In Ofwat's Draft Determination, Ofwat has incorrectly set a PCD for mobile UV fast deployment arrangements at five sites, whereas the company only asked for enhancement funding for one. The sites included in the PCD are:

- Aldingbourne
- Funtington
- Walderton
- Worlds End
- Northbrook

We can confirm that our Business Plan only included expenditure for fast deployment arrangements at Northbrook WTW. No expenditure was included for the other four sites and therefore a PCD is not appropriate.

B. Our proposed remedy

We propose that our water quality PCD on Mobile UV fast deployment arrangements be amended to align with our PR24 submission and only include Northbrook WTW. It should not include Aldingbourne, Funtington, Walderton or Worlds End.

C. Supporting evidence

In this section, we describe the investment decision process used to determine the enhancement investment case for fast deployment arrangements for PR24 and the decision to only include fast deployment arrangements at Northbrook WTW as part of our AMP8 programme.

We went through an investment decision process to determine the case for fast deployment arrangements for PR24

Our early investigations to inform our PR24 submission identified five sites where we believed it would be prudent to install fast deployment arrangements to mitigate against the potential risk of Cryptosporidium in future. These sites were:

- Aldingbourne
- Funtington
- Walderton
- Worlds End
- Northbrook

We presented this risk to the DWI through the Appendix A process. The DWI confirmed that they commend for support proposed fast deployment arrangements at these sites but did not consider it appropriate to put in place a legal instrument at that stage. This is because they did not fully support expenditure to mitigate this risk.

DWI's letter is included in Appendix PRT07.02.02 DWI letter of support - UV Fast deployment arrangements, which is included within our PRT07.02 - Raw Water Resilience Enhancements (Disinfection) enhancement investment case.

After discussions with the DWI, Cryptosporidium was detected at Funtington. The site is currently out of service and a permanent UV plant is being installed to bring the site back into service. Before submission of Appendix B to the DWI, we removed Funtington from the list of sites as the risk had materialised and we needed to put in place mitigation in AMP7.

Before our PR24 Business Plan submission, we went through a process of internal challenge based on affordability and customer bill impact. We identified that UV treatment at three out of the four remaining sites (all except Northbrook) was not likely to be required during 2025-30. We removed the costs of these sites from our enhancement investment case – PRT07.02 - Raw Water Resilience Enhancements (Disinfection).

We continue to monitor the other three sites, and should it subsequently transpire that arrangements are necessary Portsmouth Water would carry the financial risk. This means that the company shares the risk with customers.

As we did not receive funding for the three other sites in Ofwat's Draft Determination, we should not have a PCD to install them.

The costs included in our investment case only include fast deployment arrangement at Northbrook WTW

We outlined our enhancement investment case for mobile UV fast deployment arrangements in PRT07.02 - Raw Water Resilience Enhancements (Disinfection). The investment case only included fast deployment arrangement costs for Northbrook WTW. The costs of £0.544m are outlined in PRT07.02 - Table 6, on page 25, and are included in Figure 1 below.

Figure 1: Mobile UV Fast Deployment Costs in Business Plan Submission Enhancement Investment Case PRT07.02 - Raw Water Resilience Enhancements (Disinfection)

Component	Capex £M	Opex £M p.a.	Cost source
Installation of UV fast deployment arrangements at NorthbrookWTW.	0.537	0.0	Trant
Risk /Contingency allocation	0.054	0.0	Internal
Management and overheads.	0.089	0.0	Internal
Subtotals	0.680	0.0	
Intrinsic allowance (deduction)	0.000	0.0	Internal
Delivery efficiency target (deduction)	0.136	0.0	Internal
Totals	0.544	0.0	

Source: Portsmouth Water Business Plan, PRT07.02

These costs flow through the summary of the investment case, which is outlined in PRT07.02 Table 8, on page 29 and included in Figure 2 below.

Figure 2: All Costs in Business Plan Submission Enhancement Investment Case PRT07.02 - Raw Water Resilience Enhancements (Disinfection)

Solution	Description	Capital cost £M	Operating cost £M p.a.	Type
1	West Street UV	9.817	0	Enhancement
2	Maindell and Slindon UV	2.898	0.047	Enhancement
3	Mobile containerised UV	1.606	0	Enhancement
4	Fast Deployment Arrangements	0.544	0	Enhancement
Total		14.865	0.047	

Source: Portsmouth Water Business Plan, PRT07.02

D. Conclusion

In Ofwat's Draft Determination, Portsmouth Water's PCD against output of mobile UV fast deployment arrangements includes five sites, whereas we have only asked for enhancement funding for one, Northbrook WTW. The water quality PCD for mobile UV should only include fast deployment arrangements for Northbrook WTW.

Our water quality PCD on Mobile UV fast deployment arrangements should be amended to align with our PR24 submission and only include Northbrook WTW. It should not include Aldingbourne, Funtington, Walderton or Worlds End.

E. Business plan tables impacted

It is proposed that Portsmouth Water's water quality PCD for mobile UV be amended to only include Northbrook WTW.

SECTION 3

RESPONSE TO DRAFT DETERMINATION ACTIONS



RESPONSE TO DRAFT DETERMINATION ACTIONS

A. Per Capita Consumption / Business Demand Water Efficiency Benefits

Ofwat Request

As part of our approach to setting performance commitment levels (PCLs) for per capita consumption (PCC) and business demand, we validate the demand reduction benefits companies have proposed from their enhancement activities. For example, the installation of new smart meters and water efficiency activities.

In Table CW8 in its Business Plan, Portsmouth Water has not clearly assigned reductions between household consumption and non-household consumption. However, we appreciate that this was not an explicit requirement for completing this table. We have therefore made an assumption and attributed all of the benefits of Portsmouth Water's water efficiency activities to household demand reduction for the purposes of setting demand reduction PCLs in our Draft Determinations. We request that in response to our Draft Determinations, Portsmouth Water provides updated information that attributes these demand reductions to household and non-household consumption so that we can validate enhancement benefits more accurately.

All calculations are set out in 'PR24 draft determinations: Performance commitment model – Per capita consumption (PCC)' and 'PR24 draft determinations: Performance commitment model – Business demand'.

Portsmouth Water Response

We expect to achieve savings of 4.6 Ml/d from our water efficiency activities in the 2025-30 period. This value is calculated based on the assumption that PCC will be 157.0 l/pers/d in 2024-25 (in-year figure), and that business demand will be 29.8 Ml/d for the same year.

Table 1 outlines the savings expected per scheme, as set out in our PR24 submission table CW8.

Table 1: Water Efficiency Savings per Scheme

Scheme Name	Table Line	Cumulative Benefits by 2029-30 (MI/d)
Pressure control device - Company - High+	CW8.2	0.008
Household audit - Company - High+	CW8.4	0.399
Non-household audit - Company - High+	CW8.5	0.014
Awareness campaign: community - Company - High+	CW8.6	1.444
Multi- channel proactive coms - Company - High+	CW8.7	0.302
Education programme - Company - High+	CW8.8	0.057
Retrofit Gadgets - Company - High+	CW8.9	0.013
Leak Alarm - Company - High+	CW8.11	0.075
Community Reward (Waterfit platform) - Company - High+	CW8.12	0.220
Vulnerability - Company - High+	CW8.13	0.001
Metering CSL - Company - High+	CW8.22	2.064
TOTAL		4.597

Source: Portsmouth Water Business Plan, Table CW8

Except for the “Non-household audit - Company - High+”, all other savings are associated with household water efficiency.

Our primary method of reducing non-household demand is through activities associated with our smart metering programme, which are excluded from CW8. We are also committed to working collaboratively with retailers to help our non-household customers reduce their water usage.

APPENDICES



APPENDIX A.

Leakage Methodology Update

Leakage is a key issue for our customers and consistent and accurate reporting over time is critical. After an increase in leakage in 2022-23 we put in place a comprehensive recovery plan and we are making good progress, with a 12% reduction between 2022-23 and 2023-24. We worked with external experts from RPS and Dayworth Consulting to develop our plan and, as part of our comprehensive review of our leakage strategy, we asked them to review our leakage reporting methodology against industry best practice.

This review highlighted some areas where our current methodology, while applied consistently since 2017-18, and independently assured each year, had fallen behind the latest best practice. Specifically, we currently measure leakage on a zonal balance basis from our service reservoirs, rather than using a fully bottom-up DMA methodology, and our approach does not capture trunk main leakage upstream of service reservoirs and from the service reservoirs themselves. Inclusion of trunk mains leakage is specifically highlighted in Ofwat's latest guidance, published in July 2024, so we need to reflect this in our approach.

Over the last 18 months we have been working to enhance our leakage reporting for AMP8 by moving to a fully bottom-up, DMA-based calculation as well as assessing trunk mains and service reservoir losses. The work was not sufficiently advanced to be reflected in our Business Plan and we did not want to cloud the PR24 discussions. We are currently running our updated methodology in shadow form; we will have a full year's data available on the updated methodology by 31 March 2025 and will be able to back-cast the new methodology to understand the historic impact. When we have this full dataset, we would like to discuss these improvements with Ofwat, including any implications for our AMP8 leakage targets.

APPENDIX B.

Summary of Table Changes

As part of our Draft Determination representation, we include PR24 tables, updated to include 2023-24 outturn data and any associated impacts for future years.

Whilst information on the changes made are included within the table commentary document, we provide a summary of the changes associated with outcomes below for ease of reference.

Table 1: Summary of Table Changes Associated with Outcomes

Table	Line Reference	Line Description	Changes Made
OUT1	OUT1.2	Compliance risk index (CRI)	2030-2035
OUT2	OUT2.1	Water supply interruptions	2023-24
OUT2	OUT2.2	Compliance risk index (CRI)	2023-24 onwards
OUT2	OUT2.6	Biodiversity	2023-24 to 2028-29
OUT2	OUT2.7	Operational greenhouse gas emissions (water)	2023-24 to 2029-30
OUT2	OUT2.9	Leakage	2023-24 to 2025-26
OUT2	OUT2.10	Per capita consumption	2023-24 to 2025-26
OUT2	OUT2.11	Business demand	2023-24 to 2025-26
OUT2	OUT2.18	Mains repairs	2023-24
OUT2	OUT2.19	Unplanned outage	2023-24
OUT2	OUT2.34	Total annual leakage (aligned with PR24 reporting)	2023-24
OUT2	OUT2.36	Per capita consumption (aligned with PR24 reporting)	2023-24
OUT4	OUT4.2	Water supply interruptions - The total number of properties whose supply was interrupted >= 3 hours	2023-24

Table	Line Reference	Line Description	Changes Made
OUT4	OUT4.3	Water supply interruptions - The total minutes lost for supply interruptions of >= 3 hours	2023-24
OUT4	OUT4.12	Biodiversity (water) - Area surveyed per year	2023-24 to 2029-30
OUT4	OUT4.13	Biodiversity (water) - Biodiversity units baseline - area	2023-24 to 2028-29
OUT4	OUT4.14	Biodiversity (water) - Biodiversity units baseline - hedgerow	2023-24 to 2028-29
OUT4	OUT4.17	Biodiversity (water) - Actual biodiversity units - area	2023-24 to 2028-29
OUT4	OUT4.18	Biodiversity (water) - Actual biodiversity units - hedgerow	2023-24 to 2028-29
OUT4	OUT4.24	Operational greenhouse gas emissions (water) - Tonnes CO2e	2023-24 to 2029-30
OUT4	OUT4.91	Mains repairs - Mains repairs - reactive - actual	2023-24
OUT4	OUT4.92	Mains repairs - Mains repairs - proactive - actual	2023-24
OUT4	OUT4.97	Unplanned outage - Peak week production capacity	2023-24
OUT4	OUT4.98	Unplanned outage - Unplanned outage - actual	2023-24
OUT6	OUT6.1	Initial calculation of in-period revenue adjustment by price control - Water resources	2023-24 and 2024-25
OUT6	OUT6.2	Initial calculation of in-period revenue adjustment by price control - Water network plus	2023-24 and 2024-25
OUT6	OUT6.5	Initial calculation of in-period revenue adjustment by price control - Residential retail	2023-24

Table	Line Reference	Line Description	Changes Made
OUT6	OUT6.8	Initial calculation of end of period revenue adjustment by price control - Water resources	2023-24
OUT7	OUT7.1	Common PCs - Water supply interruptions	Marginal benefits (£m)
OUT7	OUT7.2	Common PCs - Compliance risk index (CRI)	Marginal benefits (£m)
OUT7	OUT7.3	Common PCs - Customer contacts about water quality	Marginal benefits (£m)
OUT7	OUT7.6	Common PCs - Biodiversity	Marginal benefits (£m)
OUT7	OUT7.7	Common PCs - Operational greenhouse gas emissions (water)	Marginal benefits (£m)
OUT7	OUT7.9	Common PCs - Leakage	Marginal benefits (£m)
OUT7	OUT7.10	Common PCs - Per capita consumption	Marginal benefits (£m)
OUT7	OUT7.11	Common PCs - Business demand	Marginal benefits (£m)
OUT7	OUT7.13	Common PCs - Serious pollution incidents	Marginal benefits (£m)
OUT7	OUT7.14	Common PCs - Discharge permit compliance	Marginal benefits (£m)
OUT7	OUT7.18	Common PCs - Mains repairs	Marginal benefits (£m)
OUT7	OUT7.19	Common PCs - Unplanned outage	Marginal benefits (£m)
OUT8	OUT8.1	Common PCs from PR19 - Water quality compliance (CRI)	Performance level – forecast 2023-24, and Performance payment forecast 2023-24
OUT8	OUT8.2	Common PCs from PR19 - Water supply interruptions	Performance level – forecast 2023-24, and Performance payment forecast 2023-24

Table	Line Reference	Line Description	Changes Made
OUT8	OUT8.3	Common PCs from PR19 - Leakage	Performance level – forecast 2023-24 and 2024-25, and Performance payment forecast 2023-24 and 2024-25
OUT8	OUT8.4	Common PCs from PR19 - Per capita consumption	Performance level – forecast 2023-24 and 2024-25, and Performance payment forecast 2023-24 and 2024-25
OUT8	OUT8.5	Common PCs from PR19 - Mains repairs	Performance level – forecast 2023-24
OUT8	OUT8.6	Common PCs from PR19 - Unplanned outage	Performance level – forecast 2023-24
OUT8	OUT8.12	Common PCs from PR19 - Low pressure	Performance level – forecast 2023-24
OUT8	OUT8.13	Common PCs from PR19 - Catchment Management	Performance level – forecast 2023-24 and 2024-25, and Performance payment forecast 2023-24 and 2024-25
OUT8	OUT8.16	Common PCs from PR19 - Biodiversity (penalty)	Performance level – forecast 2023-24
OUT8	OUT8.17	Common PCs from PR19 - Biodiversity (penalty)	Performance level – forecast 2023-24, and Performance payment forecast 2023-24
OUT8	OUT8.18	Common PCs from PR19 - Affordability	Performance level – forecast 2023-24
CW5	CW5.35	Water balance - Company level - Total annual leakage	2023-24
CW5	CW5.39	Water balance - Company level - Distribution input (pre-MLE)	2023-24
CW6	CW6.1	Treated water distribution - mains analysis - Total length of potable mains as at 31 March	2023-24

Table	Line Reference	Line Description	Changes Made
CW6	CW6.1	Compliance Risk Index	2023-24, 2025-26 to 2029-30
SUP1A	SUP1A.19	Household population	2023-24
SUP1B	SUP1B.11	Total connected properties at year end	2023-24



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