

A summary of our plans

We are seeking your views on this strategy and welcome feedback before February 29 2008 to help shape our Business Plan for the period 2010 to 2015.

You can respond to this document by e-mailing SDS@portsmouthwater.co.uk or by writing to: Portsmouth Water, PO Box 8, West Street, Havant, Hants PO9 1LG.

Our plan for maintaining secure and reliable water supplies

By 2020, without further measures, the Company may not be able to meet the demand for water at peak times in the summer. We plan to maintain secure and reliable supplies by:

- Continued promotion of water efficiency with the development of specific initiatives where cost effective.
- Urging Government authorities to ensure that water efficient fittings are provided in new and refurbished housing.
- Meeting new leakage targets which result from Ofwat's review of the calculation methodology.
- Developing a metering programme to deliver 85% metering in domestic households by 2035, in such a way as to minimise the cost and impact on customers bills.
- Developing meter tariffs which will discourage excessive use of water whilst maintaining affordability for domestic needs.
- Recycling of water at our Farlington Treatment Works.
- The development and construction of a winter storage reservoir at Havant Thicket by 2020 to optimise the use of our springs at Havant & Bedhampton.
- Developing further proposals for new resources, such as desalination and effluent re-use if required during the 25 year plan period.

Severe impacts on our abstractions as a consequence of the Habitats Review, or the need to make water available to other companies in the South East will necessitate a more radical, and potentially more expensive, approach to maintaining secure and reliable water supplies.

Our plan for water quality

We will continue to strive to achieve 100% compliance with drinking water standards by:

- Continuing and enhancing an integrated risk based approach to maintaining drinking water quality.
- Urging Government agencies to minimise the infiltration of Nitrates into public water supplies by extending Nitrate Vulnerable zones in key areas.
- Initiating targeted lead pipe replacements in areas where treatment measures are insufficient. Customers may also need to replace their lead pipes.
- Provide more information to customers about water hardness.

Our plan for maintaining services to customers

We plan to maintain high standards of service to customers as a key priority whilst providing additional customer choice through innovative and new technology. The key principles will be:

- Using a risk-based approach to prioritising the renewal of our pipe network. The current plan is to renew 1% of our underground pipe network each year.
- Using a similar risk-based approach, to maintain ongoing investment at treatment works, pumping stations and service reservoirs. In the initial period from 2010 to 2015 this is likely to be at a low rate, followed by increased expenditure from 2015 as a new cycle of investment becomes necessary to update and maintain those works refurbished in the 1990s.
- The creation of greater choice and accessibility in the information provided to customers through staff development, innovation and improvements in technology.

Our plan for balancing water supplies with the needs of the environment

Over the 25 year period we intend to:

- Promote water efficiency.
- Implement, in the most cost effective manner, the measures needed to overcome reduced abstractions at affected European Habitats Directive sites.
- Work with the Environment Agency and other stakeholders to ensure that the Water Framework Directive requirements are implemented in a cost effective and sustainable manner.
- Clearly identify and reduce the level of carbon emissions from our processes.
- Provide innovative solutions in developing and maintaining our assets which will use low carbon technologies.

Our plan for efficiency

To remain at the efficiency frontier, we will:

- Continue to Innovate, producing benefits for the Customer and environment.
- Embrace new technology to reduce the cost of operations and the administrative burden on staff.
- Seek to reduce energy consumption by installing more efficient equipment wherever possible.
- Reduce the long-term cost of maintenance by continuing to install wall mounted meter boxes at all new premises.
- Continue to develop our employees such that they can innovate and develop efficient solutions within a safe and healthy environment.

We believe that with these measures, we can continue to reduce the controllable element of our current operating expenditure in real terms, by 0.3% per annum over the long term. However, these savings will not be sufficient to offset the additional cost arising from the Traffic Management Act, the incremental costs arising from the metering programme, the increasing regulatory burden and the cost of reducing leakage.

Our plan for competition

We believe strongly that vertical integration of the water supply chain provides great benefit in terms of water resource management and the efficient management of operations. Our strategy is therefore based on the continuation of an integrated water company over the long term.

Our plan for financing

We will continue to provide sufficient returns to our shareholders and produce financial results that will ensure existing and potential investors have confidence in the businesses which will allow Portsmouth Water to secure finance on competitive terms.

To achieve this we will:

- Continue to focus on the core water business.
- Maintain our position as one of the most efficient companies in the sector.
- Ensure that the financial structure of the business remains efficient in the long term.
- Work with the regulator Ofwat to ensure they allow an adequate rate of return when setting prices to allow adequate financial results and maintain investor confidence in the water sector.