



**PORTSMOUTH WATER LIMITED**

**RISK AND COMPLIANCE STATEMENT - JUNE 2014**

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**CONTENTS**

**Executive Summary ..... 1**

**Statement of Board Assurance ..... 6**

**Risk and Compliance Statement..... 9**

**Chapter 1 - Company Strategy ..... 10**

**1.1 Changes in Methodology and Approach ..... 12**

**Chapter 2 - Key Performance Indicators, Outputs and Service Delivery ..... 13**

**2.1 Service Incentive Mechanism (SIM) ..... 14**

**2.2 Water Service Delivery ..... 17**

**2.3 Capital Maintenance - Exceptional Outputs ..... 21**

**2.4 Delivery against Supply/Demand Outputs..... 22**

**2.5 Drinking Water Quality Enhancements..... 29**

**2.6 Resilience ..... 30**

**2.7 Health and Safety ..... 30**

**2.8 Carbon Accounting..... 31**

**2.9 Key Supporting Information ..... 32**

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## Executive Summary

### *Our Mission Statement*

“To supply high quality drinking water whilst providing excellent levels of service for our customers at the lowest price in the country.”

Portsmouth Water has been an independent water company proudly supplying water for over 150 years.

The Company:

- serves large towns and cities such as Portsmouth, Gosport, Fareham, Havant, Chichester and Bognor Regis, as well as rural areas of South East Hampshire and West Sussex
- has the lowest bills in England & Wales and is considered to be one of the most efficient companies in the water sector
- has 21 water sources comprising 1 group of springs, 1 river and 19 borehole sites. However, despite being located in the South of England and, therefore, in an area of water stress, the company has not had a hosepipe ban since 1976
- provides a bulk supply to Southern Water of up to 15 MI/d
- works with other suppliers within the South East to develop a regional strategy for Water Resources

For the reporting year 2013/14 Ofwat require the Company to publish a Risk and Compliance Statement. This statement requires the Company to confirm that it has complied with all the relevant statutory, licence and regulatory obligations during the reporting year, and is taking the appropriate steps to manage the risks it faces. This document sets out the Risk and Compliance Statement for Portsmouth Water.

In preparing this statement the Company has monitored its performance against its key performance indicators (KPI's) (see table below) and these are explained in detail in the report. The Risk and Compliance Statement made by the Directors is shown at the end of this Executive Summary. The full table of Key Performance Indicators is detailed below:

### Regulatory Compliance KPIs

Key Performance Indicator	Unit	Green - Meeting Target, Amber – Marginal, Red - Needs improving	Company -Target
Service Incentive Mechanism (SIM) (Quantitative – Number of complaints and unwanted contacts. Qualitative – Customer experience survey)	nr	38.3 – Quantitative	>65 (Total Score is out of 100)
		44.5 - Qualitative	
		82.8 – Total Score	
Water Supply Interruptions	Hours per total properties served	0.086	0.10 (6 minutes) (Company – Average achieved previous 5 years)
Serviceability (Water Non-Infrastructure)	Text	STABLE	STABLE (From FD)
Serviceability (Water Infrastructure)	Text	STABLE	STABLE (From FD)
Leakage	MI/d	29.50	30 (From FD)
Security of Supply Index	Index Score	100	100 (From FD)
Green House Gas Emissions	ktCO2e	11,389	<10% over 11,501 (From FD)
Pollution Incidents Water	Category 1=13 incidents per 1,000 km of main	0	Below Industry Average (Regulatory Compliance Guidance)
Discharge Permit Compliance	%	100	Above Industry Average (Regulatory Compliance Guidance)
Post Tax Return on Capital	%	4.36	>5.62 (From FD)
Gearing (Long term debt compared to capital)	%	81.4	<84
Interest Cover		1.58	>1.6
Mean Zonal Compliance (Number of Water Quality samples meeting drinking water standards)	%	99.97	99.96
Reportable Accidents	Nr	1	Nil

Much of the focus over the past year has been around the preparation of its Business Plan to deliver the outcomes its customers' value and to submit this to Ofwat for the next price review period (2015 - 2020). Ofwat sets price limits for Portsmouth Water every five years. The Company submitted its Business Plan to Ofwat in December 2013. In March 2014 Ofwat announced which Companies had achieved "enhanced" status i.e. the Companies which had produced the best all round plans. Whilst not achieving "enhanced" status, it is clear from subsequent correspondence from Ofwat, that Portsmouth Water's Business Plan was well received. The Company regards this as a significant achievement, and is testimony to the excellent work undertaken by our staff. It is particularly pleasing that the Company's investment proposals were accepted by Ofwat. The Company is currently in the process of revising its Business Plan to be in line with Ofwat's guidance on Risk and Reward. The revised Plan will be submitted to Ofwat in June 2014 with a Draft Determination expected in August 2014. Ofwat expects all Final Determinations to be issued in December 2014.

In the last year Ofwat has published the principles of Corporate Governance which it expects companies to follow. The Company has always had a structure that, through its independent Chairman and non executive directors, provides high levels of oversight and input on the strategy and performance of the Company. However, it was agreed that further improvements in transparency could be achieved and so the Board has established a Governance Code which is published on the Company website. Details of our compliance with the Ofwat principles is shown in the Corporate Governance section of the Company's Annual Report.

The overall level of service to customers has been maintained at a high level, as measured by the Service Incentive Mechanism (SIM) methodology. In October 2012 the Company successfully implemented a new billing and customer relationship management system (CRM). During 2013/14 the Company has really started to see the benefits of this new system. For 2013/14 the Company was ranked 7th out of 21 companies in a qualitative survey of customers conducted by Ofwat to assess how well the Company handled all types of contact. The Company was ranked 3rd overall (and 1st among water only companies) in terms of its handling of customer contacts for billing matters. In addition the Company maintained the lowest level of complaints in the industry and the overall level of complaints fell by 26%.

Our quantitative score has thus improved from 38.3 to 44.5 with our aggregate SIM performance increasing from 68.0 to 82.8.

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In addition, the Company received only 7.6 written complaints per 10,000 connections, compared to 10.5 in 2012/13. This compares to an industry average of 49 for 2012/13.

The Company considers its assets to be in a stable condition. All asset performance measures are within the specified ranges.

Portsmouth Water's customers experienced an average interruption to their supply of 0.080 hours per total properties served, an increase from 0.067 in the previous year, as a result of greater planned interruptions in the year as we increase our maintenance programme.

As reported in last year's report the Company had carried out a full, independent review of its leakage calculation and methodology. The review had confirmed that there was an error in the calculation of the leakage figure and we determined that our leakage level was higher than we had been reporting by approximately 6.6 MI per day for 2011/12. The Company immediately reported this to Ofwat and put in place a programme to reduce leakage which was paid for by shareholders.

The leakage recovery programme has made excellent progress and for the full year 2013/14 average leakage was recorded at 29.5 MI/d (2012/13 - 34 MI/d) although the winter was exceptionally mild resulting in a lower level of bursts. This is within the leakage target agreed with Ofwat and was achieved well ahead of our intended schedule. We continue to improve our data and review our methodology.

Gross capital investment during the year was £10.7m (2013 - £15.4m) and included £5.4m (2013 - £5.2m) on infrastructure renewals. After receiving capital contributions and infrastructure charges of £1.1m, net capital expenditure was £9.6m (2013 - £14.5m). During the year the Company renewed 24.7km of mains at a cost of £5.4m.

Gross expenditure on above ground assets at £4.2m included £0.4m on the construction of roofs over the Highwood raw water reservoir to reduce the risk of Trihalomethanes and over the clarifiers at the River Itchen and Farlington treatment works in order to provide security for the open water at these sites. These schemes which were a major part of the AMP 5 programme have now been completed at a total cost of £6.2m.

In the Final Determination the Company was given an allowance of 5,000 domestic meter options per year, and in 2013/14, 4,873 customers chose to switch to a measured supply. At March 2014, meter penetration for the Company was 23% of household

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customers.

Current cost operating profit on a like for like basis was £4.8m compared to £5.3m in 2012/13. Turnover was 2% higher than the previous year due to higher consumption from non-household customers. However this was offset by higher operating costs due to the additional costs associated with the leakage recovery programme (£0.5m) and costs incurred in submitting the Company's Business Plan to Ofwat (£0.3m). The post tax rate of return on capital is therefore lower than the Determination.

The cumulative shortfall in tariff basket revenue over the price review period compared to the determination before tax adjustment is £8.39m. After tax the shortfall is £6.29m. This is mainly due to lower new properties being put into charge and lower metered consumption.

The shortfall in revenue by year is:

	2010/11 £m	2011/12 £m	2012/13 £m	2013/14 £m
Shortfall pre-tax adjustment	1.61	2.09	2.29	2.34
Tax adjustment	(0.41)	(0.54)	(0.55)	(0.54)
Net shortfall in Tariff basket revenue	1.20	1.55	1.74	1.80

The Company has managed to maintain its key financial performance indicators as a result of the benefits of a one-off tax gain, operating efficiencies and lower dividend and interest payments. The Company has also invested in IT infrastructure, to improve service to customers. This expenditure was not allowed for in the Final Determination.

In the reporting period however, the Company out-performed the Final Determination for operating costs achieving efficiency of 5.19% versus an assumption of 0.25% in the Final Determination.

The health and safety of employees has the highest priority for the business and the effort and commitment of everyone at the Company was once again rewarded by the award of a Gold Medal from RoSPA for 2014. This will be the ninth consecutive year that the Company has received this accolade and demonstrates all the hard work that has been done in making the Company a safer place to work.

**Statement of Board Assurance**

The Board of Portsmouth Water recognises its responsibility in ensuring that the Company complies with all the relevant statutory, regulatory and licence obligations. We are of the opinion that we are aware of, and understand these obligations and that, as a Board, we have met them and, in all respects, and have acted with the appropriate level of diligence and thoroughness. We recognise the importance of ensuring that all the information and data which is provided to the Board is accurate, complete and reliable, since we rely on such information to assess the progress of the Company.

Portsmouth Water is one of the smaller Water Only Companies (WOCs) in the industry and, as such, the Board, including the Non Executive Directors, are able to have a close relationship with the senior managers within the organisation and our customers. The managers of the business report on a regular basis to the Board on such matters as Water Quality, Regulation, Health & Safety, Risk Management, capital expenditure, Projects, Procurement, operational matters and Customer Service. All data provided to the Board will have been reviewed by the relevant senior manager before being presented to the Board.

The Board comprises a non-executive Chairman, three executive Directors and two other non-executive Directors. The non-executive Directors bring a wide range of experience and knowledge to the Board, which complements the expertise of their executive Director colleagues. They are all considered to be independent of management and the ultimate shareholder.

In 2014 Ofwat published the principles by which water companies should deal with Board leadership, transparency and governance. In March 2014 the Company adopted its own Governance Code which can be found on the Portsmouth Water website. The Board believes that it complies with the principles although the structure of the Board does not strictly comply, in accordance with the Ofwat guidelines.

The Ofwat principles suggest that independent non-executives should constitute the largest segment of Directors. The Board of Portsmouth Water consists of three independent non-executive Directors (including the Chairman) and three executive Directors. The Chairman has the casting vote and therefore in principle the independent non-executives have the effective majority. Further on the issue of dividends 2 of the executive directors do not vote. Overall we believe that this ensures that the independent Directors have a significantly strong voice in all discussions.

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The Board have carefully considered this issue and believe the structure is appropriate. To increase the number of non-executives would be an unnecessary expense and the Board believe it is important to have an engineering and finance executive responsibility on the Board. The Board will continue to ensure that compliance with its own Governance Code is maintained in future years.

In addition, the Company will continue to have regard to the UK Corporate Governance Code. There were a number of changes made to this Code during 2013 and the Directors have taken the view that the Company should take a pragmatic approach to the new requirements and comply with those that are deemed consistent with the Ofwat principles.

The Audit Committee comprises the three non-executive Directors. It meets at least three times during the year. The purpose of the Committee is to ensure the preservation of good financial practices throughout the Company, to monitor that controls are in force to ensure the integrity of those practices, to review the interim and annual financial statements and to provide, by way of timely meetings, a line of communication between the Board and the external auditors. The Committee reviews the independence and objectivity of the external auditors. Reports prepared by the Company's auditor or technical Reporter are presented at the Audit Committee. The Audit Committee meets with both the financial auditor and the technical Reporter at least once a year.

The Remuneration Committee meets during the year to consider and approve, on behalf of the Board, the conditions of service of the executive Directors of the Company. It comprises the three independent non-executive Directors, Mrs. H. V. Benjamin (Chair of the Remuneration Committee), Mr. T. M. Lazenby MBE and Mr. M. P. Kirk. The format of the Directors' Remuneration Report in the Company's Annual Accounts has been revised this year to comply with the new legal requirements.

The Nomination Committee comprises three independent non-executive Directors, Mr. T. M. Lazenby MBE (Chairman), Mr. M. P. Kirk and Mrs. H. V. Benjamin and the Managing Director, Mr N Smith. It is responsible for recommending new appointments to the Board. Decisions regarding the appointment of Directors are taken by the Board as a whole. The Nomination Committee met once during the year.

Following the completion of the annual accounts, regulatory accounts and Risk and Compliance Statement, a schedule of lessons learnt and actions arising is prepared.

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This includes all the recommendations by the financial auditor and technical Reporter, as well as those issues identified internally. It was through this process that the leakage error was identified and notified to Ofwat. The Company has a risk management process. All identified risks are recorded in a comprehensive risk register which includes the mitigation controls in place and corrective actions where necessary. The register is reviewed regularly by the Board.

The Company has a Conduct and Ethics Policy which all managers are required to sign annually. This includes a policy to ensure that if any employee becomes aware of any activity which may contravene the Company's policies or breach any law or regulation can be reported confidentially.

The Board continues to review its tolerance for risk and is progressing a programme to ensure risk management is embedded in the business.

The Company identifies risks under ten main headings - Operational, Water Quality, Financial, Environmental, Regulatory, Information Technology, Health and Safety of Employees, Human Resources, Legal (including whistleblowing and fraud) and Business Continuity. Individual risks facing the Company are identified and recorded in a risk register. For each risk the consequences, impact and likelihood of failure are identified, together with the management controls in place. The register also clearly allocates management responsibility and whether any further measures are required to mitigate the risks.

The Board reviews the risk register and the controls established to mitigate these risks on an annual basis. The Directors also receive reports from independent regulatory bodies, which comment on the performance of the core water business.

In 2012/13 the Company has appointed a new external Reporter (W S Atkins) to audit non financial data and to report back to the Board on their findings. A thorough review was carried out in 2012/13 and a number of actions identified. For 2013/14 the Reporter focused on areas of the business deemed as either higher risk or where issues were identified in the prior year.

The Board has reviewed this Risk and Compliance Statement and has approved the following statement:

**RISK AND COMPLIANCE STATEMENT  
PORTSMOUTH WATER**

The Board of Portsmouth Water hereby confirms 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

In preparing this risk and compliance statement, the Company is aware of its obligations in legislation and our licences that the Company must comply with. These include the following:

- confirming that it has sufficient financial and management resources (licence condition F6A)
- confirming that there are sufficient rights and assets available to enable a special administrator to run the business (licence condition K)
- ensuring that trade with associates is at arm's length (licence condition F6);
- publishing a statement explaining any links between directors' pay and standards of performance (section 35A of the Water Industry Act 1991); and
- make all reasonable endeavours to maintain an investment grade credit rating (licence condition F6A).

N SMITH  
MANAGING DIRECTOR  
JUNE 2014

M P KIRK  
NON-EXECUTIVE DIRECTOR  
Chairman of the Audit Committee

## Chapter 1 - Company Strategy

For many years Portsmouth Water customers have enjoyed very high standards of drinking water quality, customer service, together with the lowest charges for water supply.

In the performance assessments carried out by Ofwat and CCWater, the Company is recognised as one of the best performing companies in the water sector. We achieve:

- The lowest rate of customer complaints
- High levels of service for customers
- The lowest water charges
- The highest level of efficiency
- High standards of drinking water quality

Throughout our long history of independent public water supply in South Hampshire and West Sussex we have remained focussed upon the key principle of maintaining reliable water supplies to customers that are affordable. To maintain this commitment, the Company has a well developed, focussed strategy which will meet the demands of all its stakeholders.

### Mission Statement

'To supply high quality drinking water whilst providing excellent levels of service for our customers at the lowest price in the country'

To deliver this commitment, the Company has a well developed, focussed strategy which will meet the demands of all its stakeholders.

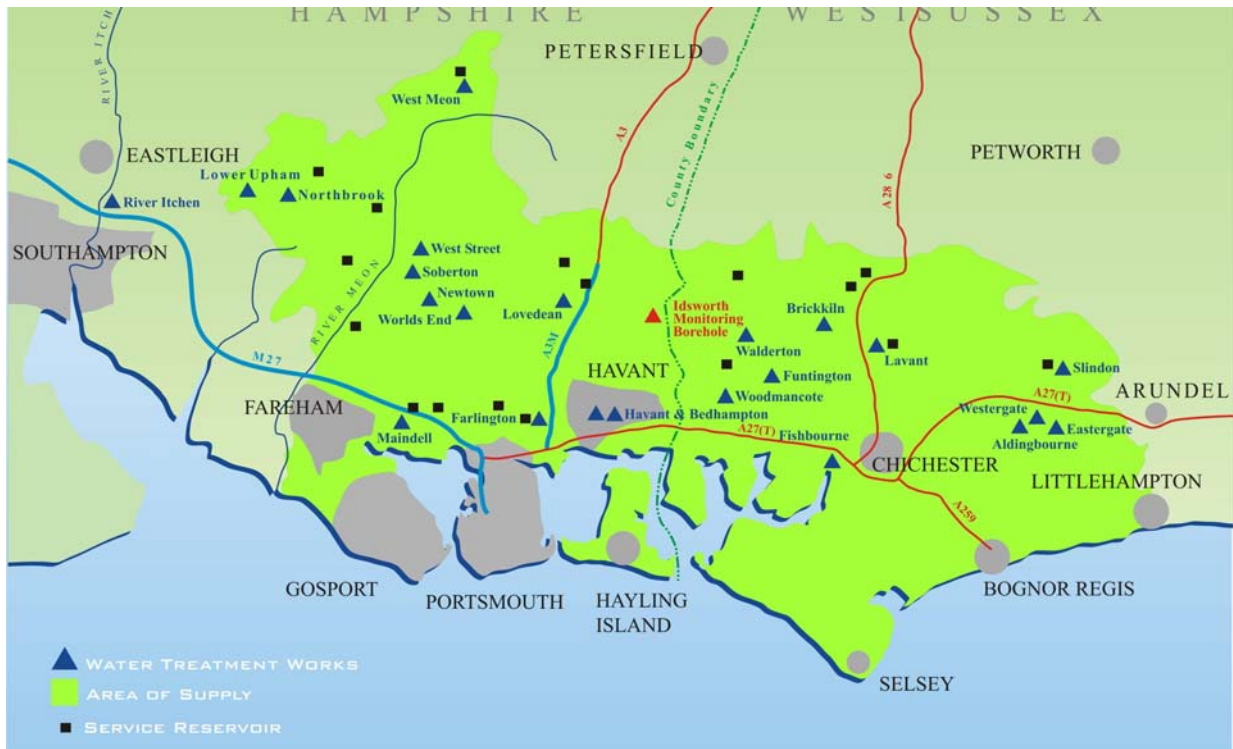
The key objectives are:

- To ensure customers enjoy reliable and secure supplies meeting all water quality standards.

- To maintain our standards of customer service as one of the highest in the industry.
- To provide value for money by continuing to focus on operational efficiency. A goal of stable prices is seen as a driver for the business.
- To minimise the impact on the environment to ensure we have a sustainable long term future.
- To grow the business where appropriate utilising a good resource position to provide bulk supplies and trade water.
- To achieve returns consistent with retaining investor confidence.

This Risk and Compliance Statement demonstrates how we are delivering against these objectives.

### A Map of the Company's Area



## 1.1 Changes in Methodology and Approach

There have not been any material changes of approach during the year.

In October 2012 the Company successfully implemented a new billing and customer relationship management system. The system allows us to make improvements in services to customers. In terms of SIM, it has improved our ability to classify telephone calls as either wanted or unwanted. 2013/14 is our first full year on this system.

W S Atkins have considered the supporting documentation, data and evidence which make up the 2014 KPI's and Risk and Compliance Statement to assess whether:

- at a component level the various teams compiling the documents and information had an understanding of and were meeting their obligations;
- the Company has sufficient processes and internal systems of control to fully meet its obligations;
- the Company's explanations of where and why it cannot fulfil its obligations are soundly based;
- the Company has sufficient processes and internal systems in place to identify, manage and review its risks; and
- the Company's explanations of how it will manage and/or mitigate material or potentially material risks are soundly based.

In their report to the Audit Committee W S Atkins concluded that "Portsmouth Water is reporting information to Ofwat in a manner that is consistent with the targets laid out in the PR09 Final Determination (FD)".

In their report W S Atkins utilise a 'traffic light' approach to assessing risks. These are classified as follows:

- 'Red'. These are material issues that mean that either we cannot provide assurance to that area of the submission, or there are issues that present

a risk of regulatory action by Ofwat in relation to the current year's reporting data if they become aware of them in future.

- '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 will be highlighted within the appendices to their main report.

No issues from the audit were classified as 'Red'. However there were 3 areas which were classified as amber. The Board has reviewed these areas and instigated corrective action.

## **Chapter 2 - Key Performance Indicators, Outputs and Service Delivery**

The table below details the Regulatory Compliance Key Performance Indicators (KPIs) for the Company. This includes all the KPI's required by Ofwat plus two additional indicators:

- i) The number of Water Quality samples meeting Drinking Water Standards measured by Mean Zonal Compliance
- ii) Reportable Accidents - for Health and Safety

All the KPI's have been audited by the Company Reporter. These KPI's are commented on below:

## Regulatory Compliance KPIs

Key Performance Indicator	Unit	Green - Meeting Target, Amber – Marginal, Red - Needs improving	Company -Target
Service Incentive Mechanism (SIM) (Quantitative – Number of complaints and unwanted contacts. Qualitative – Customer experience survey)	nr	38.3 – Quantitative	>65 (Total Score is out of 100)
		44.5 - Qualitative	
		82.8 – Total Score	
Water Supply Interruptions	Hours per total properties served	0.086	0.10 (6 minutes) (Company – Average achieved previous 5 years)
Serviceability (Water Non-Infrastructure)	Text	STABLE	STABLE (From FD)
Serviceability (Water Infrastructure)	Text	STABLE	STABLE (From FD)
Leakage	MI/d	29.50	30 (From FD)
Security of Supply Index	Index Score	100	100 (From FD)
Green House Gas Emissions	ktCO2e	11,389	<10% over 11,501 (From FD)
Pollution Incidents Water	Category 1=13 incidents per 1,000 km of main	0	Below Industry Average (Regulatory Compliance Guidance)
Discharge Permit Compliance	%	100	Above Industry Average (Regulatory Compliance Guidance)
Post Tax Return on Capital	%	4.36	>5.62 (From FD)
Gearing (Long term debt compared to capital)	%	81.4	<84
Interest Cover		1.58	>1.6
Mean Zonal Compliance (Number of Water Quality samples meeting drinking water standards)	%	99.97	99.96
Reportable Accidents	Nr	1	Nil

## 2.1 Ofwat Service Incentive Mechanism (SIM) - Results for 2013/14

Ofwat use a methodology for measuring customer service known as the Service Incentive Mechanism (SIM). This seeks to measure the quality of service



provided rather than just the time taken to provide the service which the original DG indicators measured.

The SIM is divided into two elements:

**Quantitative** - measured by:

- The number of CCW investigations
- The number of escalated written complaints
- The total number of written complaints
- The number of unwanted telephone contacts
- The total number of abandoned calls
- All lines busy

**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.

Table 2.1 shows the performance against the Company's Key Performance Indicators for 2013/14.

**Table 2.1**

<b>SIM scores</b>				
<b>Quantitative Measure</b>	<b>Number</b>	<b>Multiplier</b>	<b>Total</b>	<b>Per 1,000 Properties</b>
All Lines Busy	2,970	1	2,970	10
Calls Abandoned	11,686	1	11,686	38
Unwanted Phone Contacts	26,227	1	26,227	85
Written Complaints	236	5	1180	4
Escalated Written Complaints	14	100	1400	5
CC Water Investigated	-	1,000	-	-
			<b>43,463</b>	<b>142</b>
Connected Properties ('000)			310	
<b>Quantitative SIM Score (calculated as per the Ofwat methodology)</b>			<b>38.33</b>	
<b>Qualitative Measure</b>	<b>4.56</b>	<b>10</b>	<b>44.5</b>	
<b>Total SIM Score</b>			<b>82.8</b>	

The overall Quantitative assessment score of 38.33 is higher than the previous year. We have also seen a reduction in the number of calls abandoned from 14,971 to 11,686. Although the new billing system has now settled, we would expect to see a continuing improvement in performance in abandoned calls as process improvements are implemented.

“All Lines Busy” at 2,970 is a reduction on the previous year but still higher than the historic average. This is due to a high level of calls received outside of office hours in relation to two no water incidents. We are considering increasing our number of telephone lines in order to better manage such rare events.

We have seen a good improvement on the number of unwanted contacts recorded. This is primarily due to the reporting figure being obtained from our new billing system for the whole reporting period. With further training and process improvements we would expect to see this performance continuing to improve.

In the Qualitative assessment for the four quarters in 2013/14 the Company was ranked 7<sup>th</sup> of the 21 companies with 4.56 points out of 5.0, top was 4.66, bottom was 4.03. The scores show that the industry is continuing to improve whereas we appear to be maintaining our performance seeing us move from 5<sup>th</sup> to 7<sup>th</sup> place.

The Company's overall Qualitative score was 44.5 and the Quantitative score was 38.33. This therefore, gives Portsmouth Water a total score of 82.8 compared to 68.00 last year.

For 2013/14, Portsmouth Water had 7.75 complaints per 10,000 customers. This is a decrease on last years 10.5 and is back to the levels seen before our billing system was implemented.

### **Water Supply Interruptions**

Portsmouth Water's customers experienced an average interruption of 0.086 hours per total properties served. This compares to 0.067 hours reported last year. In the year, no properties experienced an interruption of more than 12 hours however there were a greater number of planned interruptions for maintenance.

**2.2 Water Service Delivery****2.2.1 Serviceability Water Infrastructure**

Table 2.2 shows the performance against the serviceability water infrastructure performance indicator target.

**Table 2.2 - Infrastructure Performance Levels**

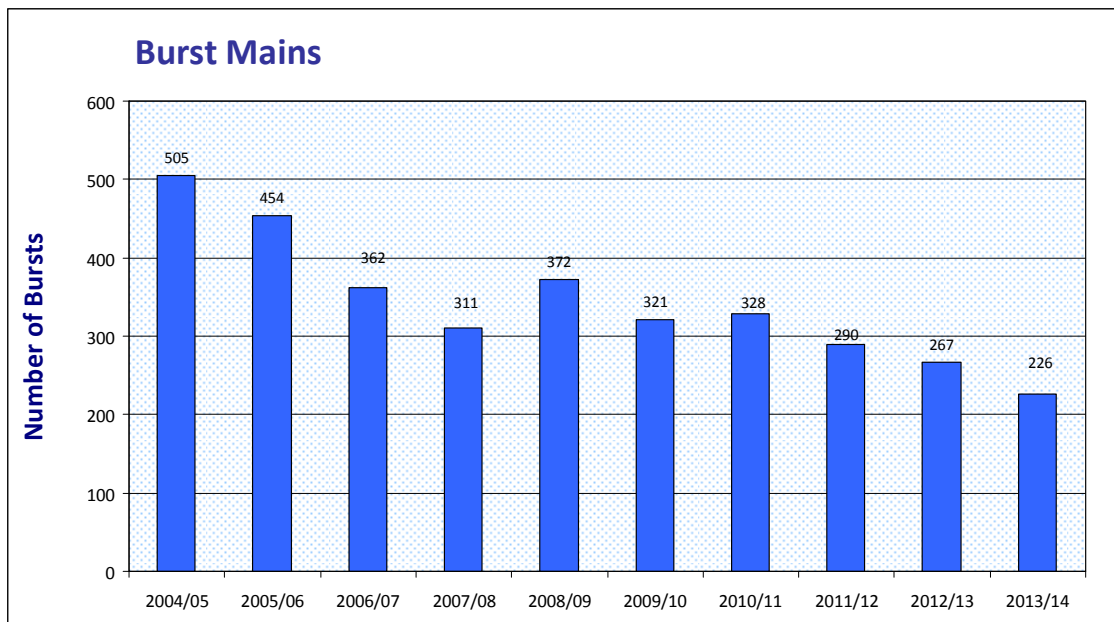
<b>Serviceability Indicator</b>	<b>Unit</b>	<b>2012/13</b>	<b>2013/14</b>	<b>AMP5 Reference Level</b>
Total bursts	Nr	267	226	342
Bursts per 1,000km		81	69	104
Properties experiencing an interruption >12 hours	Nr	NIL	NIL	50
Iron non-compliance (as 100 - mean zonal compliance)	%	NIL	0.09	NIL
Customer contacts - discolouration	Nr/1,000 population	0.08	0.04	0.06
Distribution Index TIM (as 100 - mean zonal compliance)	%	NIL	0.03	NIL

For most of the KPI's the performance in 2013/14 was an improvement on the previous year. The two exceptions are the non-compliance for iron and the distribution index which increased due to a single failure of the iron standard. The total number of contacts for appearance of water (discoloured plus particles plus air contacts) have decreased for a second year from 176 in 2012 to 147 in 2013.

### **2.2.2 Burst Mains**

The number of burst mains experienced in 2013/14 was 226, compared to 267 that occurred in 2012/13. The majority of the bursts occurred on 3" - 6" cast iron mains and were generally associated with the swelling and shrinking of clay due to changes in soil moisture and temperature. The number of bursts normally increases during the winter and the lower overall level of bursts this year is most likely to be due to the mild winter of 2013/14.

We continue to target mains for renewal based on the impact of bursts on customers. The graph below indicates the overall reduction of bursts as a result of the renewals programme.



**2.2.2 Water Serviceability non-infrastructure**

Table 2.3 shows the performance against the Company's Key Performance Indicator target.

**Table 2.3 - Non-infrastructure Performance Levels**

Serviceability Indication	Unit	2012/13	2013/14	AMP 5 Reference Level
Water Treatment Works Coliforms Non-compliance	%	NIL	NIL	0.03
Service Reservoirs Coliforms Non-compliance	%	NIL	NIL	NIL
Turbidity	NIL	NIL	1	NIL
Enforcement	Nr	NIL	NIL	NIL
Unplanned Maintenance Jobs	Nr	767	740	831

Table 2.3 above shows the Company's performance against the AMP5 reference level. There was only a single turbidity failure and therefore the Company believes the overall serviceability for non infrastructure remains stable and supported by the results of compliance testing in accordance with the Water Quality Regulations.

It should be noted that the original AMP5 reference level for unplanned maintenance jobs was 557. In 2011/12 the Company proposed to Ofwat that the reference level be revised. This was due to the fact that three cryptosporidium filtration plants were commissioned in 2007 and 2008 and improved management control implemented during 2008 and 2009. Both of these drivers had resulted in a significant increase in recorded jobs. Ofwat agreed to revise the reference level to 831. For the year 2013/14 the number of unplanned maintenance jobs totalled 740 and was therefore below the revised reference level and above the lower band limit.

Water quality regulations are in place to ensure water supplied to customers is safe to drink. There are 58 standards in the regulations covering microbiological, chemical and physical parameters. In 2013 the Company carried out a total of 39,376 determinations in samples taken at treatment works, service reservoirs and customer taps. Of these the overall mean zonal compliance (MZC), which is the representation of overall drinking water quality in customers' properties as reported to the Drinking Water Inspectorate (DWI), was 99.97% for 2013 (99.96 in 2012).

Within the MZC, results are grouped by the DWI to reflect the stages of the processes. Process control, Disinfection control and Service Reservoir have been chosen by the DWI to reflect the performance of Non Infrastructure assets.

Process control quality compliance is based upon a selection of parameters which are, in general terms, controlled by the processes in place at water treatment works. The focus is on chemical parameters and in 2013 100% of the samples taken were compliant.

Disinfection control quality compliance is based upon a selection of parameters which demonstrate the effectiveness of disinfection and pathogen removal. Microbiological standards are of particular importance and based upon the presence of coliforms which are excellent to use as an indicator of any problems with the disinfection of the water. In 2013 100% of the samples taken were compliant.

Reservoir integrity quality compliance is based upon a selection of parameters to reflect the hygienic status of service reservoirs and includes microbiological analysis. In 2013 99.90% of the samples taken were compliant. There were two failures of the coliform standard at a service reservoir during 2013. The investigation into these failures found that they were most likely due to some faulty lagging on the tap which contaminated the samples while they were being taken. Given the two failures represent less than 5% of all samples taken at the reservoir, no entry is required in table 2.3.

The Company believes that serviceability for non-infrastructure has been maintained as stable.

**2.2.3 Key Supporting Activities****Table 2.4**

Activity	2011/12	2012/13	2013/14	Expected Activity 2010-2015
Mains Renewal Km	23	19	25	116
Mains Relined Km	0	0	0	0
Number of household Meters renewed nr	171	228	2,799	15,000

During the year the Company renewed 24.7km of mains (2013 – 18.9km) at a cost of £5.4m (£5.2m - 2013). The outturn rates for mains renewals have improved from £275/metre during 2012/13 to £218/metre for 2013/14. This improvement is in part due to the use of prechlorinated pipe which has reduced installation time and an increase in the use of no dig techniques. We renewed 26.2% of the mains using no dig techniques, compared with 20.6% in 2012/13.

A programme for household meter replacements has been initiated this year which replaces all meters over 12 years. In total this programme replaced 2,652 meters with 147 reactive replacements.

**2.3 Capital Maintenance - Exceptional Outputs**

In the Final Determination, the Company had two exceptional items, both to maintain serviceability and to reduce algal growth in the clarifiers and in a storage reservoir at the River Itchen. The two projects, which are required in response to an undertaking to the DWI are:

- To construct a roof over the clarifiers - Final Determination Completion date 2011
- To construct a roof to cover the bankside storage reservoir - Final Determination Completion date 2013

The projects were completed during the previous year. £0.4m was spent on construction of roofs over the Highwood raw water reservoir to reduce the risk of Trihalomethanes and over the clarifiers at the River Itchen and Farlington Treatment Works in order to provide security for the open water at these sites. These schemes which were a major part of the AMP5 programme have now been completed at a total cost of £6.2m.

## 2.4 Delivery against Supply/Demand Outputs

**Table 2.5 - Security of Supply Performance against target**

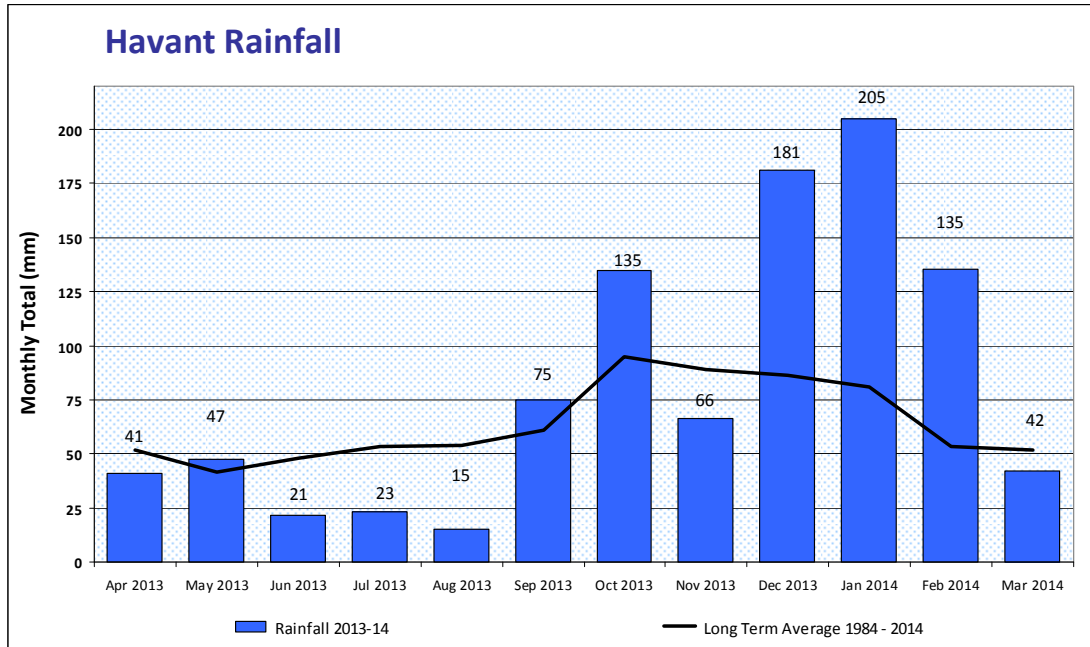
	Performance 2013/14	FD Target
SOSI dry year average	100	100
SOSI critical / peak	100	100
Leakage Ml/d	29.5	30.0
Water Efficiency Base Target Ml/d	0.32	0.29
New Properties connected (000's)	1.55	2.5
Metering - Optional Meters (000's)	4.87	5.0

### 2.4.1 Rainfall

Last year's rainfall was characterized by less than average summer rainfall and greater than average autumnal and winter rainfall.

December, January and February saw double the long term average. January rainfall of 205mm was the highest recorded rainfall for January since records began in 1886. Annual total rainfall was 988mm and compares with the long term average of 765mm.





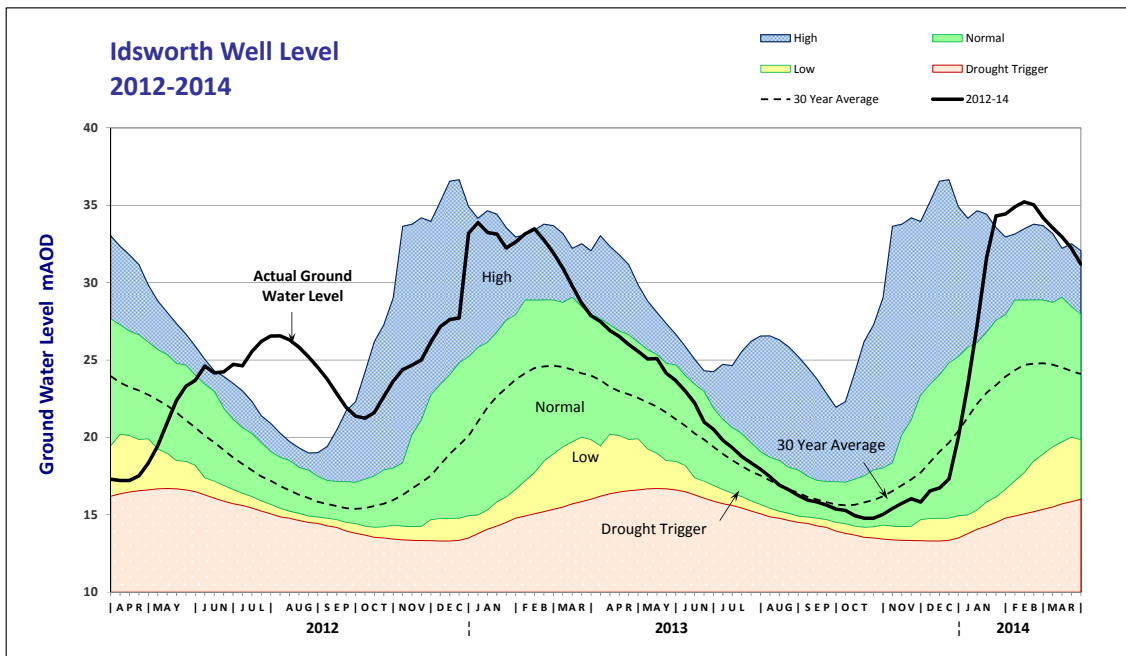
**2.4.2 Groundwater Levels**

Groundwater levels are an indication of the weather conditions for the year and the relationship to the “dry year”. Levels were close to average for most of 2012/13 but the very wet winter meant that they rose to some of the highest levels ever recorded in February.

The Company has monitored the groundwater level at Idsworth Well, Rowlands Castle, for many years since the well is unaffected by abstraction and is representative of groundwater conditions in the South Downs chalk. Around 85% of Portsmouth Water’s abstractions are from underground sources and so groundwater levels are critical to maintaining supplies.

Groundwater in the local aquifer normally fluctuates approximately 9.5m between maximum and minimum annual levels. Groundwater levels in the Autumn of 2013 were slightly lower than average due to lower than average rainfall in June, July and August. Slightly above average rainfall in September and October saw groundwater levels start to recover and with the heavy rain of December, exceptional January and February rainfall groundwater levels dramatically recovered. By 16 February groundwater rose to 35.5m, the second highest level recorded in the month of February since records commenced in 1932. As is normal groundwater fell in the spring and by the end of March was 31.2m, still approximately 7m above the long term average.

The graph below shows the change in groundwater level over the last twenty-four months compared to the Long Term Average (last 30 years).



**2.4.3 Abstraction**

Abstraction from the Company's various sources in 2013/14 was as shown in the table below:

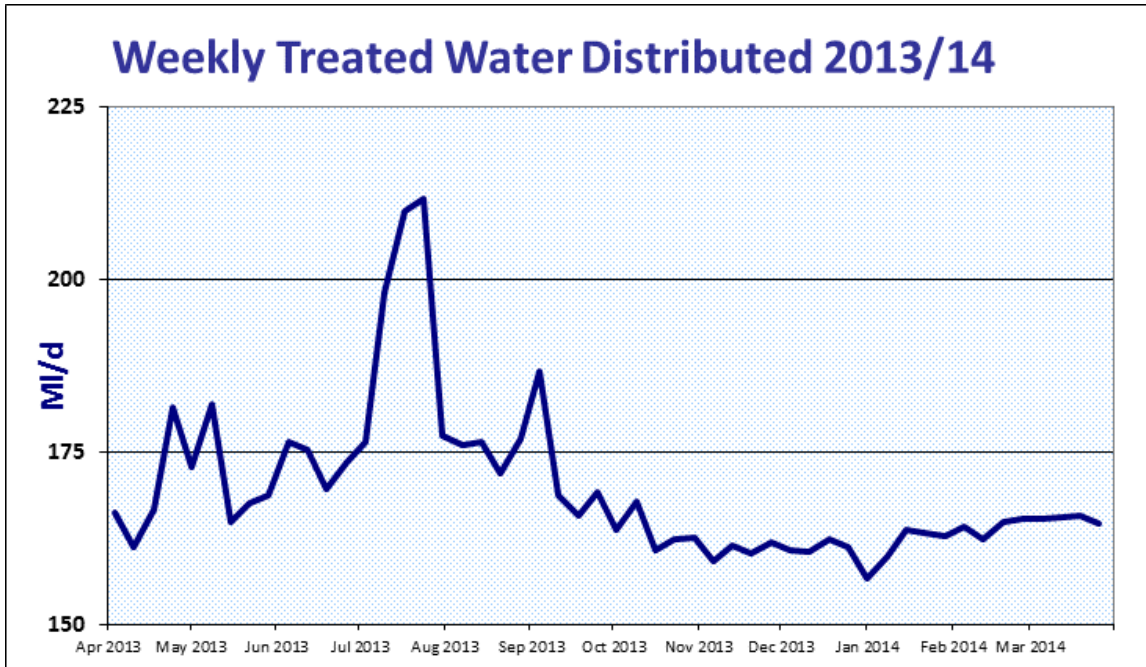
Source	Licensed Annual Abstraction (Million Litres)	Actual 2013/14 Abstraction (Million Litres)
Northbrook	7,487	6,487
Lower Upham		303
West Street	3,328	2,966
West Meon	166	17
River Itchen	15,916	6,522
Maidell	2,491	862
Soberton	3,294	1,152
Newtown		52
Worlds End	8,296	3,753
Lovedean	4,148	97
Havant & Bedhampton	35,770	18,005
Walderton	9,955	7,065
Woodmancote	1,364	628
Fishbourne	3,741	1,102
Funtington	2,920	2,079
Lavant	9,950	4,997
Brickkiln		1,589
Eastergate	10,358	1,749
Westergate		2,019
Slindon		667
Aldingbourne		2,543
<b>Totals</b>	<b>119,184</b>	<b>64,654</b>

Abstraction is drawn from three groups of sources, 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.

Our largest source utilises water from a group of natural springs at Havant and Bedhampton. Water from the springs is treated at Farlington Water Treatment Works.

The nature of the chalk aquifer of the South Downs ensures that at many sites high quality water is abstracted which requires only minimal treatment. Some chalk sources are at risk of cryptosporidium oocysts (which can cause severe stomach upsets) being present in the water which require enhanced treatment by membrane filtration.

**Treated Water Distributed**



The annual average distribution input dropped from 171.4 MI/d in 2012/13 to 169.6 MI/d to 2013/14. The volume of water distributed is influenced by many things, including the weather. The peak week of 210 MI/d occurred in July and remained high in August most likely due to the low rainfall.

#### **2.4.4 Leakage**

As reported last year the Company had carried out a full, independent review of its leakage calculation and methodology. The review had confirmed that there was an error in the calculation of the leakage figure and we determined that our leakage level was higher than we had been reporting by approximately 6.6 MI per day for 2011/12. This was reported immediately to Ofwat and the Company put in place a programme to reduce leakage which began in November 2012.

The leakage recovery programme has made excellent progress and for the full year 2013/14 average leakage was recorded at 29.5 MI/d (2012/13 – 34.0 MI/d) although there was an exceptionally mild winter resulting in fewer burst mains. This is within the leakage target agreed with Ofwat but further work is being undertaken to ensure we achieve our target under normal conditions. We continue to improve our data and review our methodology.

#### **2.4.5 Base Service Water Efficiency**

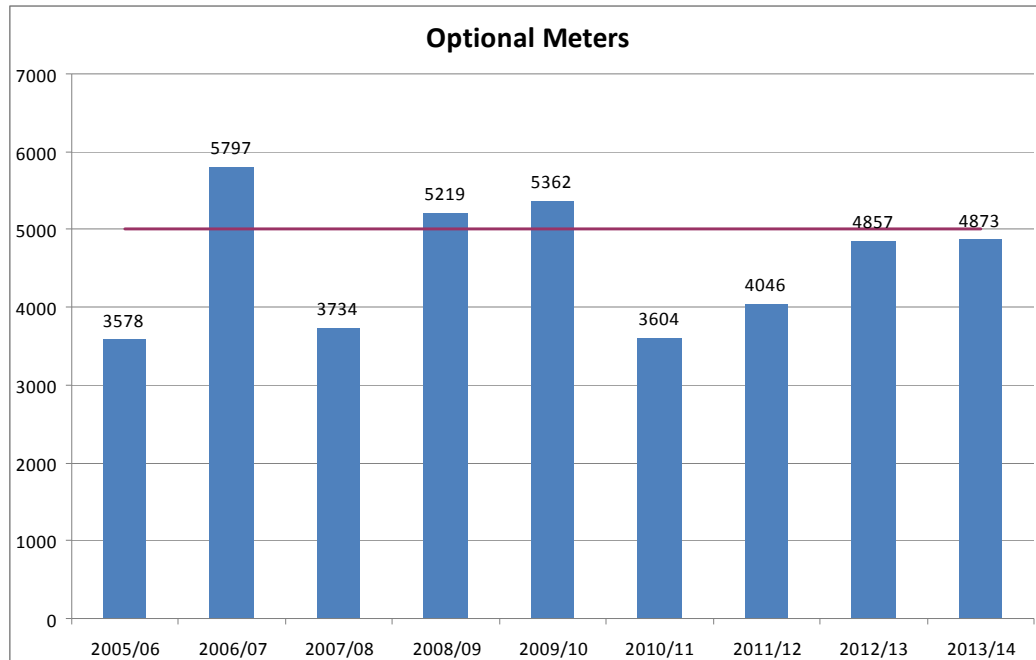
In 2010 Ofwat set the Company an annual target of achieving water savings, through water efficiency, of 0.29 mega litres per day (MI/d). This equated to an overall five year target of 1.45 MI/d.

The Company has exceeded the target in the year by achieving overall savings of 0.32 MI/d. This was achieved by initiatives such as supplying free water saving packs and subsidised water efficient devices such as shower heads to customers. This was in conjunction with a number of proactive water saving campaigns in the local media such as the “Water Saving Challenge” which is designed to encourage customers to change their behaviour when it comes to water use.

#### **2.4.6 New Properties Connected**

The slower than anticipated growth in housebuilding is still having an effect in the Company's area of supply and is lasting longer than anticipated at the time of the Final Determination. In 2013/14 1,554 properties were built compared to the Final Determination of 2,500.

### 2.4.7 Optional Meters



Following a drop off in the number of optional meters in 2010/11 the Company increased its publicity to promote switching to a meter. The publicity highlighted the savings that some customers are able to make through switching to a measured supply, focussing on the customers with higher than average unmeasured charges due to the size of their property. This was in addition to the usual advertising that we carry out to promote meter optants; on our website, in our annual newsletter and on our charges leaflet (which is included with all unmeasured bills).

The total for 2013/14 was 4,873 and this was just below the target of 5,000 per year. Further optional metering initiatives will be implemented in 2014/15.

## **2.5 Drinking Water Quality Enhancements**

### **2.5.1 Security and Emergency Measures (SEMD)**

The security improvements consist of 5 distinct projects. Four have been completed, and one scheme, with the agreement of CPNi, has been deferred for approximately two to three years.

### **2.5.2 Environmental Obligations**

The Company was required to undertake two environmental studies, the Post Implementation Monitoring of the impact of abstraction on certain Habitats Directive sites and the impact of abstraction on the water quality of certain catchments under the Water Framework Directive. Both schemes were completed in March 2013 and the results passed on to the Environment Agency (EA). The EA updated the National Environment Programme (NEP) in December 2013 and this was used as the basis for the proposals included in the Wholesale Business Plan.

The Water Framework Directive schemes were discussed with the relevant Catchment Partnerships and other local stakeholders such as landowners. Capital expenditure is included in the 2015/16 budget but these schemes may be brought forward to 2014/15. The Habitats Directive scheme does not involve any capex and the licence variation is being discussed with the Environment Agency.

### **2.5.3 Catchment Management**

The Company has continued to work in partnership with stakeholders to reduce diffuse pollution in the catchment. This should be delivering benefits to drinking water quality and the environment.

## **2.6 Resilience**

In the Final Determination three small schemes were included to reduce the risk of supply interruptions for 34,000 properties from 1 in 100 years to effectively zero. These schemes were completed in 2011/12.

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## 2.7 Health and Safety

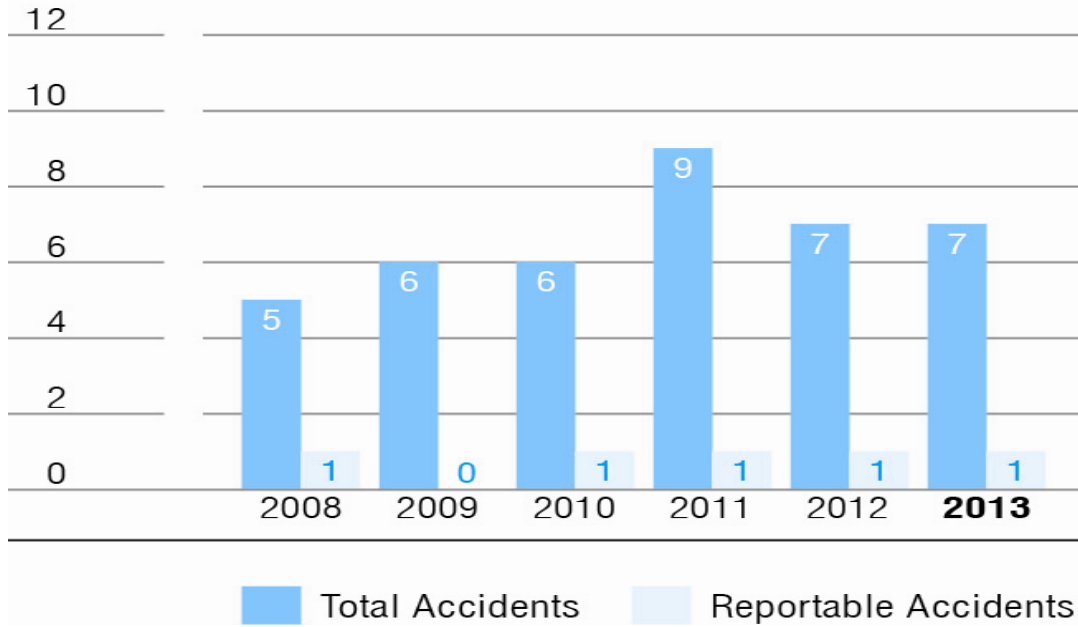
In 2002 and 2003 we had an accident record of 51 and 30 for each of these years and a reportable accident rate of 11 for both years. It was decided that these statistics along with the overall H&S performance were not good enough and as a result, led by the Board, we embarked on a mission to improve our health and safety performance. H&S was put at the top of the agenda and resources have been allocated to ensure the performance in this area improved.

Several years later the emphasis on H&S remains and considerable time and resources is put into raising awareness of H&S. The results for the years following 2003 including 2013 are very positive, and confirm that the Company is a safer place to work. Looking at both the long term downward trend in overall statistics, and from the initiatives that are being carried out throughout the Company it is increasingly apparent that H&S is becoming routinely part of our day to day operations

Another positive note for the year was the Company being awarded by RoSPA the GOLD MEDAL in Occupation Health and Safety. The Gold Medal is awarded for Companies that have achieved the Gold Award standard for 9 consecutive years. This Award is a testimony of continued high level performance by employees in respect of H&S. We are proud of our safety record in recent years with Health and Safety of our employees our number one priority.



**Total Accidents and Reportable Accidents**



**2.8 Carbon Accounting**

Portsmouth Water’s total carbon emissions for the reporting year were 11,389 tCO<sub>2</sub>e based on the Defra definition. Further efficiencies and a rise in the generation, use and exportation of renewable energy over the last year have led to a reduction in our carbon emissions from 11,632 tCO<sub>2</sub>e in the previous year.

The improvements have also meant that the amount of carbon emitted per megalitre (kgCO<sub>2</sub>/MI) of drinking water has decreased to 167 kgCO<sub>2</sub>/MI. This is despite a necessary increase in electricity use to pump from our western boundary to maintain customer supplies due to the loss of a key source in our central area.

The Company has reported a green status for this KPI, with emissions lower than our target. Portsmouth Water has based its carbon target on the projection included in the final Business Plan for the 2009 price review, adjusted to take into account of schemes not included in the Final Determination. Compared to the rebased target of 11,501 tCO<sub>2</sub>e, there has been a 1% decrease in emissions this reporting year. It should be noted that this is despite the increased scope of our carbon accounting since 2008.

## 2.9 Key Supporting Information

**Table 2.6**

	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
Distribution Input MI/d	178.3	178.0	180.4	179.4	175.8	173.0	171.5
Water Delivered MI/d	156.8	155.6	159.7	157.8	153.8	146.9	150.0
Percentage of households metered %	10.1	12.4	14.9	17.0	19.0	21.0	23.0
Average billed properties	294,000	294,000	295,000	299,000	299,000	301,000	300,000

Distribution input is lower than 2013/14 because of the very wet winter and the impact of the Leakage Action Plan.

The percentage of metered households continues to increase due to the Optional Metering Programme. The Business Plan assumes that 70% metering penetration will be achieved by 2039/40.

The average number of billed properties has fallen because of better information on void properties resulting from the new billing system. Measured voids have been calculated for the first time and this has increased the total number of voids from 6,651 in 2012/13 to 9,486 in 2013/14.