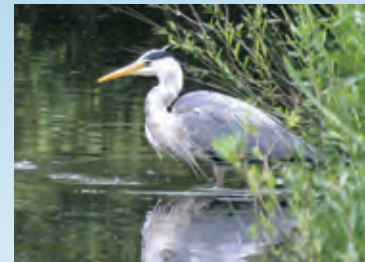


Portsmouth Water Limited
Appointed Business

Business Plan 2015 – 2020

**Portsmouth
Water**



Delivering Customer Priorities

Key facts



We are an independent company unique in the industry as we are majority owned by a Trust on behalf of our employees

150

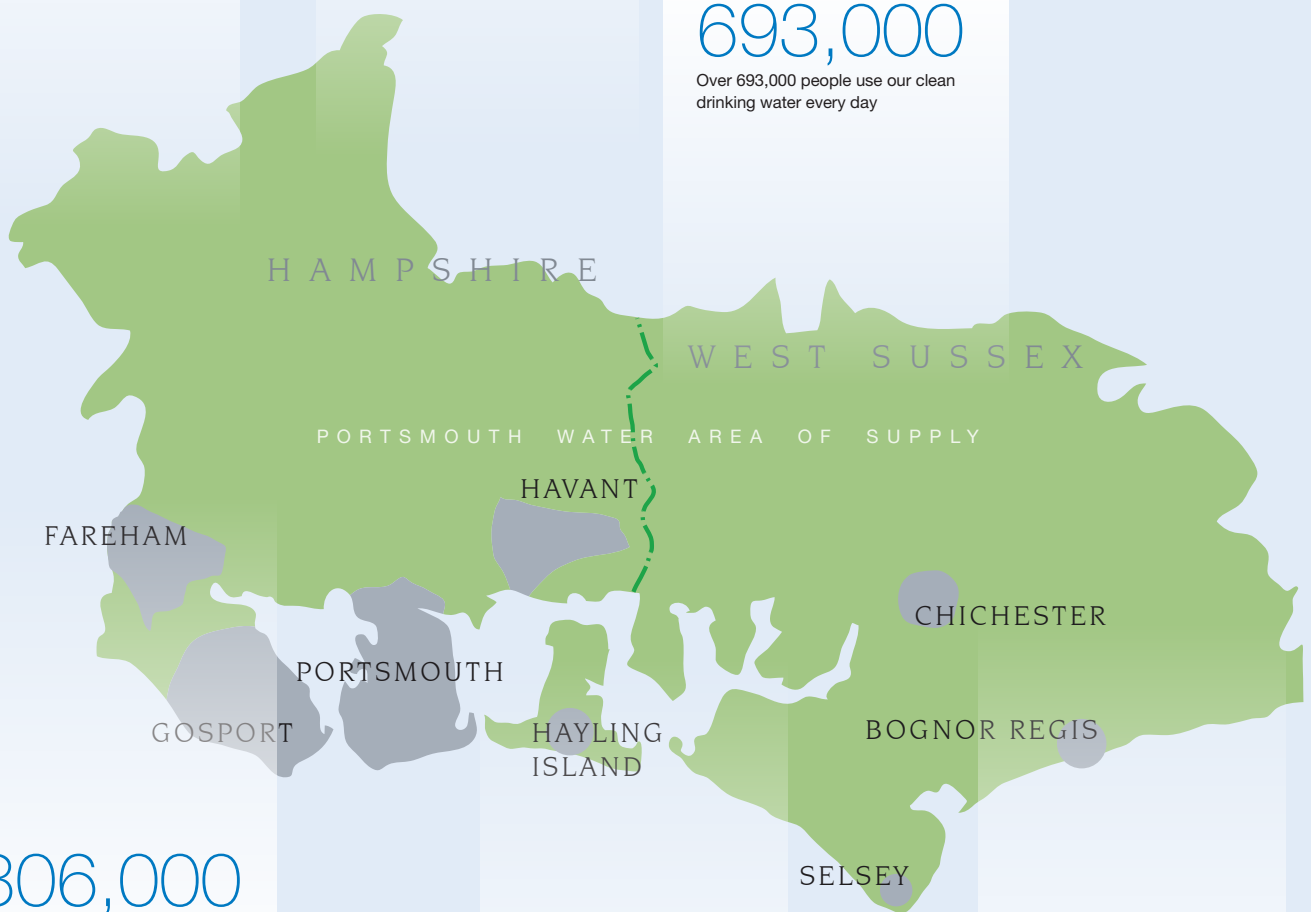
We are proud to have served the local community for over 150 years.

94.5

On average our customers pay £94.5 per year for their water supply.

693,000

Over 693,000 people use our clean drinking water every day



306,000

We provide clean drinking water to 306,000 homes and businesses.

3,200

Our area of supply has a network of over 3,200 kilometres of underground mains.

176

We serve the cities and towns of Portsmouth, Chichester, Fareham, Gosport, Havant and Bognor Regis. On average, each day we supply approximately 176 million litres of water.

We provide drinking water only. We do not provide sewerage services; this is normally provided by Southern Water

Portsmouth Water Limited

The Appointed Business

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Key Messages



Customer Engagement

- The plan reflects our customers' stated priorities and challenges
- Customer acceptability of the plan is 99% domestic and 94% business

Affordability

- Prices will not increase by more than inflation. The Plan is affordable for our customers. Our bill represents less than 0.5% of average household income, and this is less than it was in 1997
- Cost efficiency created since 2010 will be returned to customers earlier than is necessary under the price setting methodology (£2m in total). Future outperformance will be shared with customers

Environment

- The Environment is a high priority for our customers and we have proposals to exceed our obligations in this area
- Leakage will be below the sustainable economic level

Service

- Customer service will improve as will our Service Incentive Mechanism Score
- Capital Expenditure will increase to ensure water quality, to protect the environment and to prevent deterioration of our assets and this will be delivered efficiently
- Provision of a consistently reliable supply of water will continue
- Our Plan sets out what our staff are expected to deliver

Financeability

- We are efficient, having the lowest cost to serve in the industry
- The Plan is financeable and sustainable for the long term
- It is a package of measures, individual elements cannot be changed without affecting the whole Plan
- Ownership of the Company by its employees allows the longer term view to be taken

Board Assurance

- The whole Board of Portsmouth Water own this Business Plan believing it to be of high quality



Introduction

Our Mission

“ To supply drinking water of the highest quality providing high levels of customer service and excellent value for money ”

This document is a summary of three plans for:

- **Household Retail**
- **Non-household Retail**
- **A Wholesale Plan**

and represents the overall approach for the Appointed Business

This document provides an overall summary for our proposals for continuing to deliver a high quality water service and value for money between 2015 and 2020. **We will meet new quality obligations and ensure that our current assets are adequately maintained, whilst ensuring that bills do not increase beyond the level of inflation. Our bills will remain the most affordable in England and Wales; currently they are 24% below any other water company and are now lower in real terms and as a proportion of average earnings than they were in 1997.**

Details of our three Plans can be found at www.portsmouthwater.co.uk.

We are an independent company, unique in the industry as we are majority owned by a Trust on behalf of our employees, most of whom are themselves our customers. We believe this enables us to take a long term view and to strike an appropriate balance between returns to shareholders and charges for customers. We strongly believe that employees sharing in the long-term success of the business are likely to be more engaged and deliver higher levels of customer service.

This Plan sets out what the Directors and staff will deliver between 2015 and 2020.

Our Business Plan has been developed to deliver good outcomes for current customers, future customers and the environment, that are sustainable and ensure that the business is financeable.

We have challenged ourselves and accepted challenge from other stakeholders in delivering a plan that: delivers the outcomes desired by customers; strikes the correct balance between risk and reward for customers, investors and other stakeholders; and is fully supported by the Board of Portsmouth Water.

In preparing this Plan we have conducted research which has shown that, whilst customers value water quality, security and reliability of supplies, they are satisfied with the service we provide and are not in general, willing to accept price increases for improved services. In the current economic climate this is understandable. As a result, through continued efficiencies and innovation we are committed to further improving the experience of customers in their dealings with us, without this impacting bills.

As part of our customer engagement on the development of our Plan we have worked very closely with the Portsmouth Water Customer Challenge Group (CCG) and also spoken direct to a range of customers including other business groups.

The CCG is an independent panel made up of representatives from the regulators of the water industry along with local councils, large business customers and representatives from the local community and environmental bodies. We would like to thank them for their input and the challenges which they have put to us.

From our stakeholder engagement we have developed a series of Commitments (outcomes), which meets their expectations over the long term and will be achieved with bills remaining flat in real terms over the period 2015-2020.

This document will:

- **Set out how we engaged with customers**
- **Demonstrate the rigorous process through which the Board has assured itself that the Plan is good for current and future customers, the environment and shareholders**
- **Outline our performance since 2010**
- **Our commitment to customers**
- **How the plan will be financed**
- **The cost to deliver this Plan**
- **A review of risks**
- **The impact on bills**
- **A review of risks and financeability (Ofwat version only)**¹

This plan is affordable and provides an appropriate balance of risk for current and future customers, the environment and investors.

¹ Contains sensitive information

Board Assurance

The Board of Portsmouth Water is responsible for the strategic development of the Appointed Business and takes this responsibility seriously at all times. Led by an Independent Chairman, with two further independent non-executive directors, an integral part of this approach is a culture that encourages constructive challenge of proposals put to the board by the executives.

This culture has been brought into the process for developing the Business Plan for PR14. We appreciate however, that the new regulatory approach developed by Ofwat requires the board to clearly demonstrate how it has managed the process in a consistent and robust manner. This we have done and the Non-Executive Directors have been heavily involved in the preparation

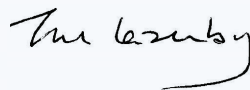
and shaping of this Plan. The most important element of the new approach is the development and delivery of a plan that is focused on the delivery of customer priorities.

Each plan has a Board Assurance document and there is a full explanation of the Board process in the technical documents.

This Business Plan is of high quality which:

- **Delivers good outcomes that current customers want, protects the environment and does not place an undue burden on future customers and protects the environment.**
- **Ensures the Company meets its statutory obligations.**
- **Is based on high quality engagement with customers, investors and other stakeholders.**
- **Is endorsed by customers (99% of domestic and 94% of non domestic customers found it acceptable or completely acceptable.)**
- **Is an efficient Plan containing accurate plans and estimates.**
- **Is both affordable and financeable.**
- **Proposes a reasonable balance between customers, investors and the environment with proposals to share pain and gain with customers.**

Signed:



T M Lazenby
Independent Non-Executive Chairman



N Smith
Managing Director



M Kirk
Senior Independent Non-Executive Director



R C Porteous
Engineering Director



H Benjamin
Independent Non-Executive Director



N J Sheeran
Finance & Regulation Director



Customer Engagement and Research

Our Engagement

In preparing this Business Plan we have engaged with our customers and stakeholders and listened to their views. As a local company with a long history, customers have always been our focus and we have put customers at the heart of our plans; using the feedback gained from our engagement to form our views and base our plan on the priorities of our customers.

In all we have engaged with approximately 1,500 household and business customers using:

- Qualitative Research - Focus Group
- Quantitative Research, including Willingness to Pay through face to face interviews
- Acceptance Testing
- Responses on our website to our Looking Ahead and Draft Business Plan documents where we offered the chance to win a prize draw
- Questionnaires completed at roadshows in local shopping centres, which were all attended by Board members including Non-Executives.

The CCG were highly influential in our approach to conducting the research.

For greater details on the research conducted please refer to our Retail on Wholesale Plans.



Customer Priorities

The principal messages coming through from our customers included the following:

- Whilst customers did express a willingness to pay (WTP) a modest amount for improvements in certain areas of the service they receive, we did not see this as a mandate to increase bills in real terms, rather we saw this as defining their priorities.
- The main areas where customers were willing to see small increases in their bills for specific improvements in service were as follows:
 - **Protecting wildlife habitat in local rivers and streams**
 - **Hard water**
 - **Leakage**
 - **Carbon footprint**
 - **Public amenities/community support**
 - **Water efficiency**



- A majority of customers surveyed were in favour of increasing the number of properties with a water meter, especially for those customers who would be most likely to save money. This aligns with our proposed metering strategy in the plan.
- Our commercial customers want us to do more for them in terms of helping them with their on-site leakage detection. Some customers are also keen for us to provide additional services such as water efficiency audits and consolidated billing. This input is forming our strategy for business customers going forward
- Customers appreciated the fact that when they called us they could quickly get through to talk to someone in person. The plan reinforces our way of operating.

- Customers rarely need to contact us and were generally happy with the level of service we provide. They were not willing to pay for additional spend to increase the level of service offered by our call centre, so in our Business Plan improvements are being funded entirely by efficiencies and innovation.
- Acceptance Testing of the Draft Business Plan Proposals. 99% of household customers and 94% of non household customers were happy with our proposals. The split by socio-economic grouping of household customers is shown below.

Acceptable/Unacceptable	A/B	C1/C2	D/E
Acceptable/ Completely Acceptable	98%	98%	100%
Unacceptable/ Completely Unacceptable	2%	0%	0%
Don't Know / Can't Say	0%	2%	0%
Total	100%	100%	100%

- We also asked customers if they wished to see a reduction in bills, combined with the potential impacts on long term service. No customers supported this option, with only 2% neither agreeing nor disagreeing. Thus 98% of customers would prefer not to see bills drop if it risks increasing supply interruptions in the longer term.



Our Performance 2010-2015

In the period since 2010 we have continued to provide our customers with an excellent service at the most affordable price in the industry. We have continued to improve our efficiency and to invest in our infrastructure.

In 2010 we committed to deliver:

- Investment to ensure compliance with Drinking Water Standards
- High Standards of Customer Service
- Reliable water supplies
- Improvements to the environment

We have achieved this and more. In this section we explain this in more detail.

We have provided excellent value for money to our customers. This is supported by the level of complaints we get (the lowest in the industry) and by the results of Ofwat's own research into customer satisfaction (5th best in the industry) and by our

own customer research. This level of performance is linked to the Board's continuing commitment to delivering excellent service over the long-term. In this period they have approved additional investment not allowed for in Company bills at the last price

determination to improve service levels and to deal with unexpected events – at the same time as working through a period where our revenues were materially less than expected when Ofwat set the price limits.

Charges to Customers

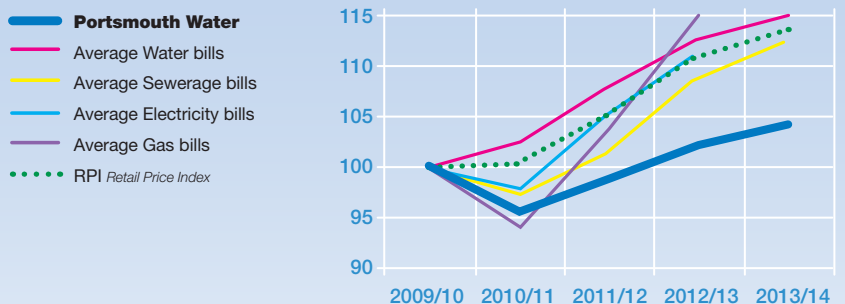
In 2009, Ofwat set price limits for the period 2010 to 2015 and at the same time we agreed a number of performance commitments for our customers.

Our price limits provided customers with reductions in charges in real terms. The table below shows these and compares them to the industry average.

Water companies are allowed to increase prices by the Retail Prices Index (RPI) plus or minus the price limit. For our customers this means that including inflation the average bills to customers have risen by 4.3% in the period between 2009 and 2013; this is considerably below the level of inflation and other utility bills as shown in the chart (right).

	2010/11	2011/12	2012/13	2013/14	2014/15	Average per Annum
	%	%	%	%	%	%
Our Price changes before inflation	-4.8	-2.1	-1.7	-1.4	-0.6	-2.1
Industry Average before inflation	+0.3	+1.6	+0.6	+0.4	+0.5	+0.5

Price Changes (before inflation) compared to the industry average for England & Wales



Nominal Price Changes compared to other Utilities and RPI

The average household bill for Portsmouth Water customers in 2013/14 will be £94.50, (26p per day) and will be the lowest in the industry by some considerable margin as shown in the table (right).

	price per customer
Portsmouth Water	£94.50
Next lowest company	£130.00
Industry Average	£186.00

Average Household Water Bill 2013/14

Note: This is for water only and does not include a charge for sewerage services, which in Portsmouth Water's area of supply is supplied by Southern Water Services.

Service Provided

Despite its low charges, Portsmouth Water delivers excellent levels of service.

The table below shows our performance against our commitments at the last Price Review.

What we said we would do	What we have done
Deliver high Quality Water >>	<ul style="list-style-type: none"> 99.97% of all samples taken meet quality standards Invested over £5m at our treatment works to ensure quality standards are met
Maintain our pipes, pumping stations and treatment works >>	<ul style="list-style-type: none"> The number of burst pipes are reducing year on year Interruptions to customers' supplies are among the lowest in the industry
Deliver high standards of Customer Service >>	<ul style="list-style-type: none"> Ranked 5th out of 21 companies in 2012/13 in an Ofwat survey (2nd in 2011/12). Our score has continually improved. Lowest level of written complaints per customer in the industry Implemented new billing system to deliver better service
Reliable supplies of water >>	<ul style="list-style-type: none"> No hosepipe bans in this period - even in the drought of 2012 when we continued to make bulk supplies to neighbouring companies.
Improvements to the environment >>	<ul style="list-style-type: none"> We reduced abstraction at our River Itchen works ahead of schedule, helping to protect this important river
Leakage - maintain at 30 million litres per day >>	<ul style="list-style-type: none"> Figure for 2012/13 34.1 Ml/d - We discovered errors in the way we estimated leakage and Ofwat was promptly notified. An enhanced leakage programme funded entirely by shareholders was put in place, to deliver additional reductions to ensure that we will be back on target by the end of 2014/2015.
Promote the wise use of water by our customers >>	<ul style="list-style-type: none"> Through our "Saving Water Challenge" customers have delivered a saving of over 1 million litres of water every day

Our Performance 2010-2015 *continued*

Service Incentive Mechanism

Ofwat use the Service Incentive Mechanism (SIM) to assess the quality of customer service provided and is made up of two elements:

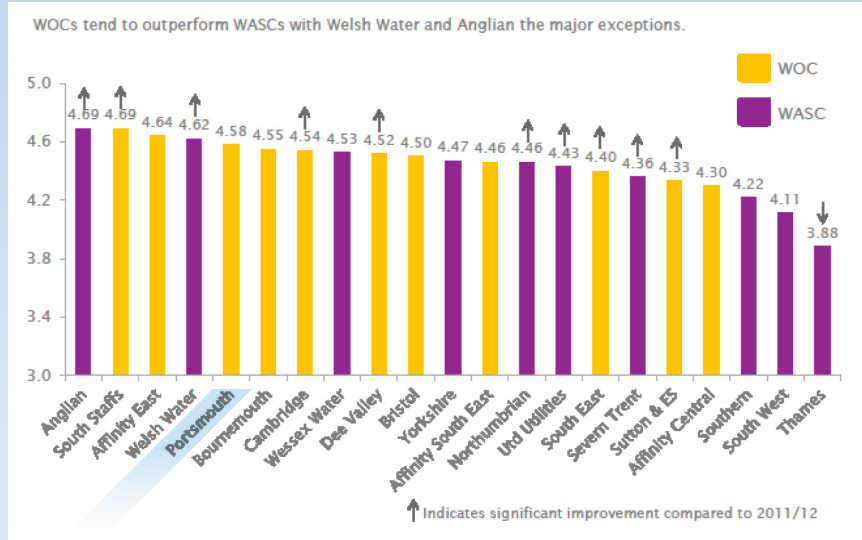
Qualitative – measures how satisfied customers are with the quality of service they receive based on an Ofwat managed survey of customers who have had direct contact with their water company.

The chart (right) shows the results of this element for 2012/13.

We have always scored highly in this area – we provide a very high level of customer service in a way that our customers like. The chart shows that we were 5th out of 21 water companies with a score of 4.58. This score was an improvement on 2011/12 (when we were second). We intend to improve even further as detailed in our Retail plan.

Quantitative – a compound measure made up of selected regulatory statistics:

- The total number of written complaints
- The number of written complaints that needed to be escalated to a Director for resolution
- The number of investigations carried out by the Consumer Council for Water after we have not resolved a complaint to the satisfaction of the customer
- The number of unwanted telephone contacts (calls that the customer would not have wanted to make e.g. because of poor service)
- The total number calls that were abandoned
- The times that all our incoming lines were busy.



Satisfaction by Company (Q60 - weighted data) Source: Ofwat

We receive the lowest number of written complaints in the industry – in itself a measure of overall good service. In 2012/13 we received 10.5 complaints per 10,000 customers, compared to an industry average of 49. While this was an increase on 2011/12 the level to date in 2013/14 has reduced to an annualised basis of 8.5 complaints per 10,000 customers.

Nevertheless, we have not performed as well as would have liked in this area of the SIM for 2012/13 and we were third from the bottom for the overall SIM for the year. Until the middle of 2012/13 we did not have a dedicated Customer Contact System and this made contacts difficult to classify. As a result, a high proportion of calls were, by default, classified as “unwanted” - in 2011/12 almost 50% of calls, compared to an industry average of around 10%. This issue has impacted our ranking since SIM was implemented in 2010/11. Partly as a result of this the Board decided to implement a new Billing and Customer Contact System. Although the system was implemented without major disruption for customers, in the build up to implementation and for a period afterwards there was an increase in the number of abandoned calls and

complaints as a result of experienced staff working on the project. Pleasingly, performance in these areas are now returning to levels recorded in 2011/12.

The new Customer Contact system is already enabling us to provide a better customer contact service and is also providing us with information to help improve standards even further.

With the new system operational we can now classify calls much more accurately and we are now seeing significant improvements in several areas. Manual recording of unwanted calls significantly overstated the unwanted contacts number (because Ofwat guidance requires contacts to be assumed as unwanted where they cannot clearly be identified as wanted). With the improvements brought by the new system we can already see a reduction in the number classified as unwanted. The figure began to improve in 2012/13, but the new system was only in place for the final part of the year. However, we anticipate unwanted calls will fall further once we report an entire year’s figures on the new basis and this is one of the targets we are including in our customer strategy going forward

Our analysis of the latest data on unwanted contacts and abandoned calls puts us back in the top 10 if applied to the rest of the 2012/13 data. We believe this demonstrates our ability to provide strong service in the future.

The system has also enabled to be flexible in adapting contact with our customers regarding direct debits etc which drive further efficiencies utilising self service aspects of the system.

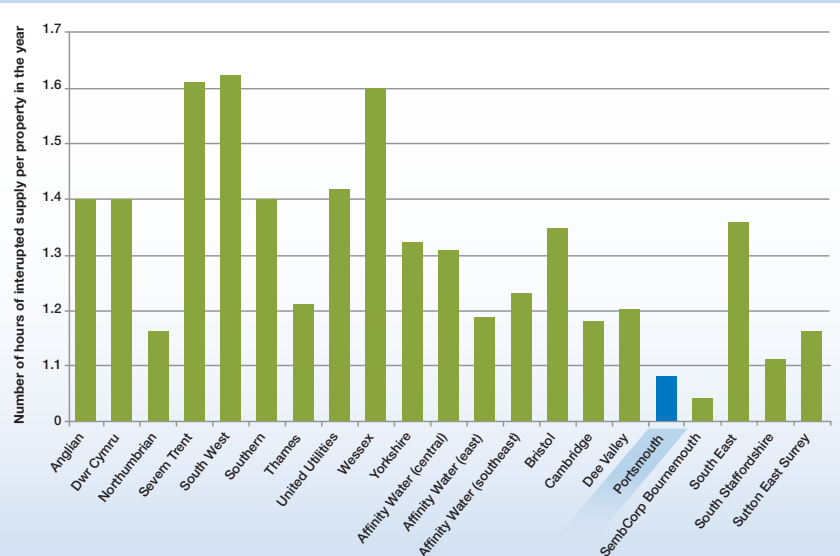
Reliability of Water Supplies

We provide a consistently reliable water service. Our customers have not suffered a hosepipe ban since 1976, including in 2012 when most companies in the region did have restrictions.

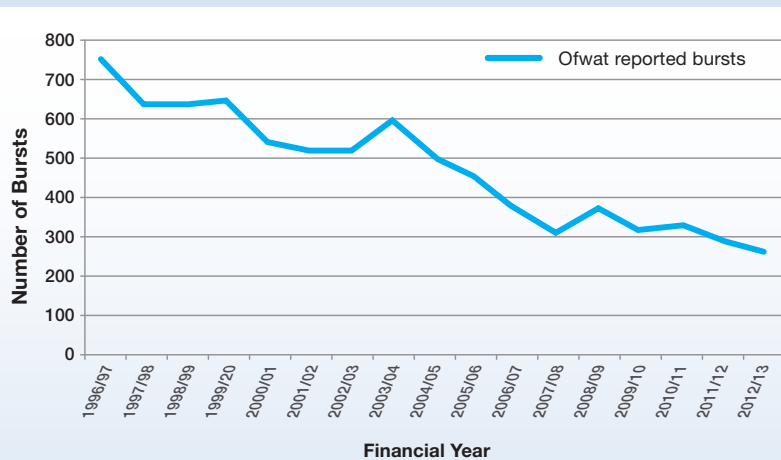
On average in the three years to March 2013, less than 1% of customers received a supply interruption of greater than three hours and the average interruption for each customer was 6 minutes per year which was one of the best records in the Industry, which is illustrated in the chart top right.

The number of burst pipes has fallen over the last few years indicating that we are maintaining our assets in good condition.

The quality of water we supply is very high with an average of 99.97% of all samples over the last 5 years, meeting standards set by the water quality regulator, the Drinking Water Inspectorate. We received 1 contact about the quality of drinking water for every 2,000 customers. The average number of contacts for the industry was 4 contacts per 2,000 customers. However, we are not complacent and we will take prompt action to address the small number of issues identified in the drinking water quality risk assessments we regularly undertake.



Water supply interruptions



Portsmouth Water - Declining burst rates

We know that leakage is also an important issue for our customers and is one that we remain very focussed on. It was disappointing that in 2012/13 we failed to meet our leakage target by over 10%. However, we fully understand the issues that gave rise to this and we have a programme in place to ensure we reduce leakage to achieve our target by 2015. Although leakage is an issue, it does not affect supplies to customers and there is no impact on the charges that the customer pays.

Our shareholders, not our customers, have funded the costs of this additional work to meet the target.

Our Performance 2010-2015 *continued*

Financial Performance

Although we are one of the most efficient companies we have continued to generate savings in operating expenditure and have invested in new systems to deliver better services even though this was not allowed in the previous determination by Ofwat.

We report here on the key financial outcomes for the current period:

- At each price determination, the Regulator Ofwat, issues price limits which will allow an efficiently run company to raise sufficient revenue from customers to meet its costs and an agreed performance level. At the end of the price control period, Ofwat compare these assumptions against actual revenue collected and where appropriate, make adjustment for any gain or shortfall experienced by companies at the next Price Review, in this case for 2015-2020. In the last three years we have received considerably less revenue than was expected when prices were last set by the regulator Ofwat, which has presented us with a major challenge. However we have risen to this challenge by becoming more efficient and having a Board with a long-term approach. This has not only allowed us to live with the revenue deficit, but to deliver our new billing system and resolve the leakage issue. The Board could only commit to this investment against an expectation of the end of period adjustment that is allowed under the price determination methodology.
- We have generated £2m per annum of savings in Operating Costs compared to the allowance made by the regulator Ofwat at the last determination. This represents 5% of turnover.
- Dividends equating to 4.6% per annum of shareholders' equity.

Despite the shortfall in revenue, capital expenditure has continued and we have delivered all the programmes identified at the last price review. Indeed, we have carried out improvements to our Billing and Asset Management Systems, investing £2.6m at shareholders risk, in order to deliver better services to customers, which was not allowed for at the last price review.

Key programs to be completed between 2010-2015

- Improvement at Treatment works to reduce the risk of taste and odour issues at a cost of £5.4m
- Improved security at our works at a cost of £1.5m
- £5.7m maintaining water treatment works, pumping stations and reservoirs
- The renewal of 111km of pipes at a cost of £23.9m
- The installation of 23,000 meters for those customers who have opted to pay their water through a meter

We expect the total capital cost between 2010 and 2015 to be £46.3m (2012/13 prices).

Our Commitments (Outcomes) to customers

Following engagement with customers and other stakeholders we have identified seven commitments (outcomes) which we believe reflect what matters most to our customers and by which we can be held accountable. They are:-

	Total Cost of Delivering the Outcome
1 A safe, secure and reliable supply of drinking water	£90.0m
2 Less water lost through leakage	£3.9m
3 A high quality service and value for money	£46.4m
4 An improved environment supporting biodiversity, public amenities and recreation	£17.5m
5 Supporting the community we serve by taking opportunities to support the local economy	£0.8m
6 Proving attractive to investors by providing a long term financially sustainable business	N/A
7 Recognised by stakeholders as having a culture of health and safety through all our activities	£0.9m

Note: The costs shown above do not include the costs of finance and returns to shareholders

£159.5m

The following pages give a detailed summary of the commitments above >

Elements of these commitments will be delivered in both the Retail Plans and the Wholesale Plan. The responsibility and cost of delivering each element and the appropriate incentive is clearly allocated in each of the Plans.

Our Commitments

Water resources

1 A safe, secure and reliable supply of drinking water

Our Obligations

Every 5 years, water companies are required to review their resource situation and determine whether they have sufficient resources to provide reliable supplies to customers for the next 25 years and publish a Water Resources Management Plan.

A draft Water Resource Management Plan was published for consultation in May 2013 and the representations were considered and the Company issued its response in November 2013.

What customers have told us:

- Whilst research has shown that the reliability of water supply is important, our customers have expressed a willingness to accept restrictions at the level of 1 in 20 years which is a 5% chance of restrictions in any one year.
- We should review the resilience of our supplies.

Current Record

- Our Draft Water Resource Management plan published in May 2013 showed that we have sufficient resources to meet the projected demand from customers through to at least 2040.
- We have not applied restrictions since 1976, not even in the drought of 2012.
- We have developed facilities to allow us to sell surplus water to neighbouring companies. These 'bulk supplies' have been developed as part of a regional water resources strategy.
- Our plans are based on the Company only expecting to impose restrictions on customer use once in every 20 years.
- Our plans also demonstrate that even in a 1 in 200 year drought we would avoid the need for stand-posts in the street.



Challenges

- The major challenge for the Company is to have resilient water supplies against droughts that may happen in the future. As the climate changes, there is a possibility of more severe droughts than we have experienced in the past.
- Although we have sufficient water resources to meet the projected demands of our customers, other Companies in the South East of England have deficits in their Water Resource Management Plans. The Government and Regulators are encouraging us to help such companies by providing bulk supplies to them.

Our Proposals

- We will continue to invest in the installation of meters for those customers who want them, and promote water efficiency measures. We will continue to provide a level of service in which we expect not to impose restrictions more than once every 20 years.
- Although we did not have restrictions in the drought in 2012, we will engage with Industrial and Commercial customers to develop less financially damaging restrictions on water use in the event of a future drought.
- We will make additional bulk supplies available to Southern Water in accordance with our Water Resources Management Plan.
- We will review the resilience of our assets and undertake a wide ranging resilience study to understand the base resilience of our business across all significant risk areas of our operations.

Our Measure of Success

Rewards and Penalties

(Outcome Delivering Incentives)

We will avoid temporary use restrictions in all but drought conditions that happen on average once in 20 years.

Reputational only - The Company will publish its performance highlighting the number and type of restrictions applied to customers on an annual basis.



Our Commitments

The quality of your drinking water

1 A safe, secure and reliable supply of drinking water

Our Obligations

We are required to provide safe and wholesome drinking water that complies with Drinking Water Standards and supports the health and well being of our consumers.

What customers have told us:

- The quality of drinking water is important
- A desire for more information on water quality issues was identified in our customer research.
- We should review the resilience of our supplies.

Current Record

- In the last 20 years we have invested in additional water treatment facilities and improved the condition of our water mains to meet the strict drinking water standards set by European and UK legislation as overseen by the Drinking Water Inspectorate.
- We have a Water Quality Risk Management system in place for the monitoring and management of water supplies - the Drinking Water Safety Plan.
- We are required to take samples from customer's properties and on average 99.97% of samples have complied with quality standards over the last 5 years.
- The 2012 Drinking Water Regulators Chief Inspector's report showed that we had one of the lowest levels of contacts from customers about Water Quality issues. We had 1 contact per 2000 customers, with an industry average of 4.
- In the last few years we have proactively worked with local farmers to improve the quality of raw water in the water catchment. The purpose of this activity, known as Catchment Management, is to stop at source potential water quality problems such as nitrate pollution, which is found in fertilisers, rather than build expensive treatment solutions to remove the problem after the event.
- A significant proportion of our customers have lead pipes which deliver water from our mains onto their property. The pipe from the boundary of the property into the property itself is the responsibility of the customer. Although there is no lead present in the water leaving our treatment works, lead can dissolve from these pipes into the water. To reduce the impact of this, we treat our water going into supply so that the rate of lead dissolving from our customer's pipes is significantly reduced.



Challenges

- **Lead.** A tightening of the lead standard from December 2013. Although very few of the samples taken from customers' taps fail the standard for lead, there is the possibility this will increase.
- **Cryptosporidium.** We have identified that the raw water from two of our sources have a higher risk than had previously been the case of a parasite known as Cryptosporidium, which has the potential to cause severe stomach upsets. Whilst we continually monitor for this there is a significant risk that the parasite could be present in the raw water. Further action on our part will be required.
- **Nitrates.** We have identified that some of our sources of water may, in the future, see nitrates above the levels permitted by the Drinking Water Standards. Currently, we blend water at risk of high nitrates with water from other sources to mitigate the risk to customers. However in future this may not be sufficient.
- **Oil Leaks.** In the last few years we have been notified of oil leaks from private storage tanks in the area feeding our water supply. Oil leaks have the potential to damage our sources of water with significant consequences for the supply of water and our costs.
- **Levels of Investment.** Following a risk-based assessment of our treatment works and pumping stations we have identified that we need to increase capital maintenance in this Plan period to ensure that required water quality standards are delivered over the long term for future customers.

Our Proposals

To meet our Obligations

- We will invest over £5m to protect against the risk of cryptosporidium at two treatment works.
- We will invest £1.6m to improve disinfection to meet Water Quality Standards. This follows a review of our processes at all of our sites.
- We will enhance our catchment management activity with an increase in expenditure from £50,000 per annum to £300,000 to protect the quality of our water sources. The three key areas we will address are:
 - Encouraging farmers to reduce the use of nitrates and avoid costly treatment solutions.
 - Work with customers to reduce the risk of oil leaks.
 - To undertake a resilience study of our supply.
- We will continue the process of treating water put into supply to significantly reduce the rate of lead dissolving and will provide educational material for our customers so they may understand better the problems with lead. Complete replacement of lead pipes would be very expensive, adding considerably to bills. We believe that continuation of the current approach protects customers appropriately without causing significant bill increases.
- Increased investment at operational sites to ensure no long term deterioration in service.

Our Measure of Success

Rewards and Penalties

(Outcome Delivering Incentives)

The number of samples meeting Water Quality Standards will be between 99.98 and 100% each year. *(Our average performance over the last 5 years was 99.97%)* This will be reputational only.

Reduced number of times customers need to contact us with concerns over taste, odour and colour. Contacts per 1,000 population will reduce by an average of 1% per annum. *(Current performance – well below the national average)* This will be reputational only.

There will be no deterioration in the performance level of our assets. We will incur a penalty if we fail to maintain our assets in good condition.

See Wholesale Plan for details.

- To ensure the barrier to cryptosporidium is maintained we will have to replace the membrane filters at our plants at a cost of £2.2m. These plants were constructed between 2000 and 2008 and this is the first time the membranes have been replaced. At our largest treatment works at Farlington it is more cost beneficial to replace the membrane plant with Ultra Violet light treatment (UV) at a cost of £1.6m. Membrane filters are very expensive and there is only one supplier. The cost has increased by 33% this year.

Meeting Customer Requirements

We will also provide more information to customers on the effects of lead.

Cost of Delivering Commitment

The total cost of delivering this commitment is £90.0m.

Delivering this commitment accounts for 47% of a customer's bill.



Our Commitments

2 Less water lost through leakage

Our Obligations

We are required to set a leakage target. Leakage targets are set at a level that ensures that, wherever cost effective, leaks are repaired. This includes the costs to the environment and this level is known as the sustainable Economic Level of Leakage (SELL). SELL has been calculated at 31.4 million litres per day (MI/d) or 17% of our supply. Our target has however, been set lower than this at 29.8 MI/d for 2015-2020. The target is currently 30 MI/d.

What customers have told us:

- Customers have told us they are concerned about leakage and would be willing to see modest bill increases to reduce it.
- At times of drought we must do more to reduce leakage.

Current Record

- We have identified that we had made errors in the assessment of our leakage calculation which has resulted in us under reporting our level of leakage and Ofwat was promptly notified once our own internal processes had made us aware of the issue.
- We have implemented an action plan to reduce leakage to the new target of 29.8 MI/d by 2015 and are on track to meet this. The costs of the action plan is being funded by shareholders and not customers.

Challenges

- Our customers value a lower level of leakage. Although they are willing to accept a modest increase in bills to pay for this, there is pressure not to increase overall bills.
- We will adopt innovative approaches to find more efficient ways of reducing leakage without increasing customers' bills.

Our Proposals

- By seeking out new technologies, innovative practices and driving further efficiencies we will be able to reduce the cost of leak detection and repair, and therefore deliver a lower level of leakage whilst maintaining customer bills at the lowest level in the industry
- By challenging ourselves to detect and repair leaks more cost effectively we will be able to reduce leakage to a level below our current target.

Cost of Delivering Commitment

The total cost of delivering this commitment is £3.9m.

Delivering this commitment accounts for 1.9% of a customer's bill.

Our Measure of Success

Rewards and Penalties

(Outcome Delivering Incentives)

If we fail to meet our target, the Company will incur a penalty at the end of the period.

If we reduce leakage below our target for 2015-20 we will receive a reward at the end of the period.

See Wholesale Plan for details.



Our Commitments

3 A high quality service and value for money

Our Obligations

We have to meet certain standards of service in relation to complaints, dealing with contacts, interruptions to supply and water pressure.

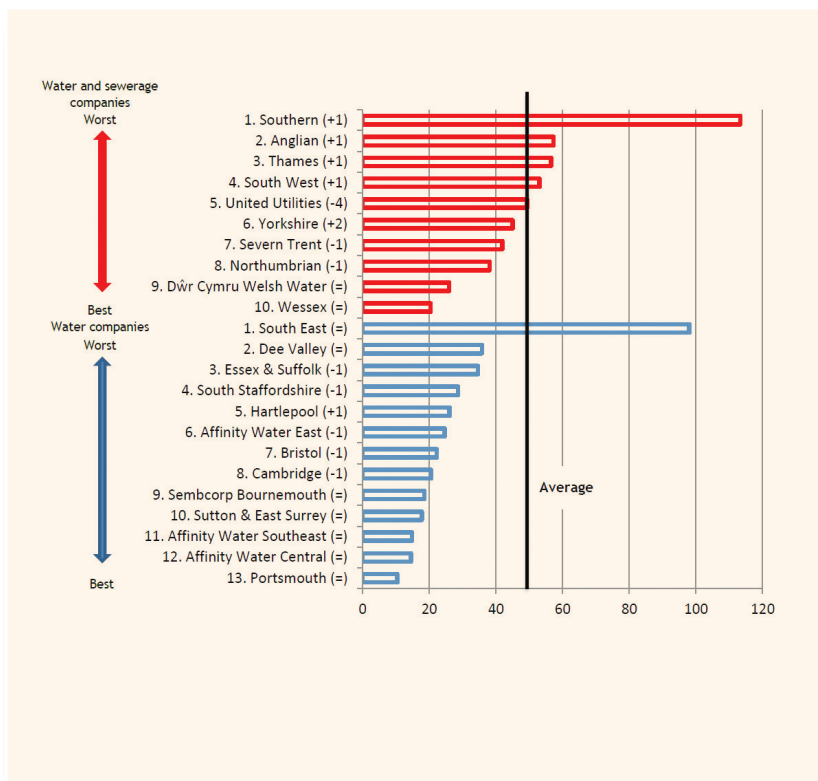
Current Record

- Our charges are the lowest, by far, in the industry with an average bill for fresh water of £94.50 per annum. The next lowest is £130.
- We have the lowest level of written complaints in the industry. See chart below.
- The prices we charge have only increased by 4.3% since 2010, despite inflation over this period being 13%.

What customers have told us:

- Our research showed that over 90% of domestic customers are satisfied with the level of service we provide and 88% of domestic customers believe our services are good value for money. For Business customers the figures were 85% and 68% respectively.
- They appreciate that calls are handled locally and in person, rather than automated options.
- In surveys they have not expressed a willingness to pay more to improve the level of services they already receive which includes the level of supply interruptions and the handling of billing queries. However it is clear from correspondence and complaints that they expect certain services that we do not currently provide. For example; certain web services and the ability to contact us about billing matters after 4.30pm.
- Business customers have expressed a desire for us to provide a service to help them with leakage and the management of their own pipe networks and to provide improved information with their bills.
- Customers are generally not aware that we have by far the lowest charges for clean water only in England and Wales.
- Water we supply is naturally moderately hard and a high proportion of customers are willing to accept a small increase in bills to pay for softening.

Source: *Complaint Handling in the Water Industry England and Wales April 2012 - March 2013* - Consumer Council for Water



Our Commitments

3 A high quality service and value for money *continued*

Current Record *continued*

- We currently provide one of the highest levels of service in the industry. We have consistently been in the top quartile in customer surveys carried out by Ofwat as part of its overall satisfaction measure, SIM (Service Incentive Mechanism).
- Before inflation, charges for Portsmouth Water customers have fallen for each of the last 3 years and are in fact less than they were in 1997. As a proportion of household income, Portsmouth Water customers also pay less than they did 15 years ago as shown in the chart opposite.
- Calls to the Company are answered locally and in person.
- As part of our planned maintenance activities we do have to interrupt supply to the customers on occasions. For this type of work we always give 48 hours notice. On occasions, customers suffer unplanned interruptions which are generally caused by burst water mains and where we have to effect emergency repairs. On most occasions repairs are carried out within 3 hours. Currently on average an individual household would expect an interruption just once every 50 years (or on average less than 6 minutes per year).
- Only 66 of 307,000 properties we serve are at risk of low pressure.
- We seek to exceed customer expectations through a highly motivated workforce. Our staff, through an Employee Benefit trust are majority shareholders in the Company. As a result they share in its success and we believe this motivates them to deliver a high quality service to customers. In a recent employee survey, 99% of employees surveyed said they were proud to work for Portsmouth Water. One of the key aspects of the business plan involves our people strategy to ensure we are able to deliver both current and future services and have capabilities in our organisation to flex for our requirements.

Challenges

- Customers are becoming more demanding of the services they receive and expect a high quality service but according to our research are not prepared to for bills to go up to pay for it. The implementation of the Service Incentive Mechanism has lifted standards in the Industry and we will need to continually improve our service without increasing bills.
- From 2017, all business customers will be able to choose their water supplier. This will further drive increases in service expectations and potentially lower bills. We are already working closely with our business customers and our teams to shape the product and service propositions to be ready for when the market is open.
- Affordability is an issue for a number of customers. Whilst our bills are the lowest in the industry and our bills alone is unlikely to be the cause of financial difficulties, we have to recognise that for many, income is rising less than the cost of living and those with debts elsewhere may struggle to pay our bill, especially as other services such as gas, electricity, telephone, broadband may have priority as they have the right to disconnect for non-payment.

Our Measure of Success

- **Improved customer experience. We will improve the general score in the Ofwat survey and remain within the top quartile of the industry**

Performance for 2012/13: Position 5th out of 21 companies

- **The level of unplanned interruptions will remain below an average 6 minutes per year.**

Performance for 2012/13: 6 minutes on average per year

- **Average household bill will be less than 0.5% of average household incomes in UK.**

- **First time resolution of issues will rise to 90%**

Current Performance - 68%

See Retail Plan for details.

Rewards and Penalties

(Outcome Delivery Incentives)

We will be subject to a financial incentive and penalty related to the SIM score.

Cost of Delivering Commitment

The total cost of delivering this commitment is £46.3m

Delivering this commitment accounts for 28.9% of a customer's bill.

Our Proposals

We Will Deliver Improved Customer Service Without An Increase In Bills Above Inflation

Value for Money and Affordability

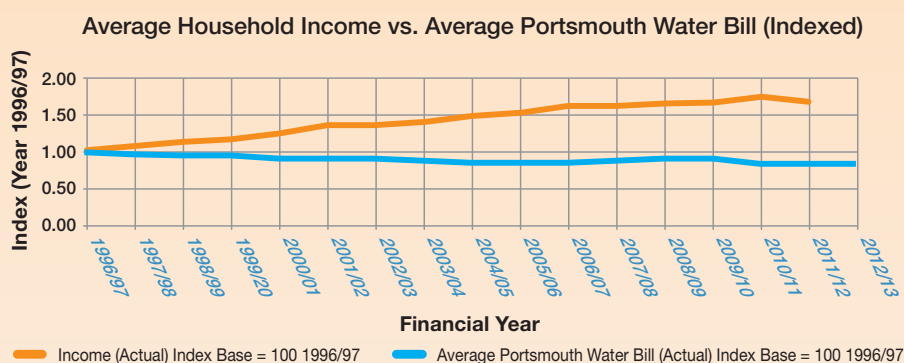
- Prices will not increase beyond the rate of inflation.
- Our average household bill will be less than 0.5% of average household income in the UK.
- We will maintain our position as the lowest cost provider of water services for both domestic and business customers.
- We will develop a debt and affordability strategy and have agreed to work with Southern Water (the sewerage provider for the vast majority of our customers) in consideration of a social tariff to help the most vulnerable.

Service

- We will continue to place customer needs at the heart of the business by having telephone calls handled locally and directly by our staff.
- We will improve the customer experience by:
 - Developing web and electronic interaction to make it easier for customers to contact us and do business with us.

- Providing longer opening hours
- Greater first time resolution of customer issues
- We will minimize the impact of bursts mains upon our customers by effective targeting of mains renewals. Our customers will continue to have among the lowest level of interruptions to supply in the country
- We will actively work with our business customers to further shape our business proposition to them.
- Water hardness is an issue for a high proportion of our customers. It would be possible to soften the water supply but the cost would be in excess of what customers have said they would be willing to pay and there are operational consequences e.g. increased corrosion of pipework and dissolution of lead from lead pipes. Our proposal is to have no additional treatment to soften the supply but to provide greater information to customers in order that they can evaluate the benefit of water softening and understand the maintenance requirements to ensure water quality is not impacted.

These proposals are set out in more detail in our Retail Plan



Our Commitments

4 An improved environment supporting biodiversity, public amenities and recreation

Our Obligations

Our obligations for the Environment were set out in the Statement of Obligations produced by Defra. We have shared our plans with the Environment Agency and held discussions. We have received a letter from them including the following words from the director of the Environment Agency - South East.

“From the information you have provided, we understand that you are planning to meet your statutory environmental requirements set out in Defra's Statement of Obligations. We welcome the commitment you have made to meeting them.”

What customers have told us:

- Protecting the environment is important to our customers.
- They are willing to see a small increase on bills in order to:
 - Reduce the impact of our abstraction at several important environmental areas
 - Reduce our carbon footprint
- We should promote metering for those customers who can benefit financially. There was no mandate for compulsory metering
- They would like more information on water efficiency
- Key stakeholders through our Customer Challenge Group have told us that they would like to see us contribute to public amenities and recreation.

Current Record

- We have been undertaking a study to identify the impact of an abstraction on certain important rivers and harbours sites (5 in total). This is partly to allow the UK to comply with the EU Water Framework Directive. The studies have concluded that at two sites no further action is needed, but that further studies are needed at three rivers, the Hamble and Wallington in Hampshire and the Ems in West Sussex.
- We have reduced our abstraction licences by 30 million litres per day over recent years making water available to protect the environment earlier than required to do so. The most recent being at our River Itchen abstraction in 2011.
- We are the only Water Company in the South East whose catchments are not classified as under serious water stress. This means that we are not allowed to compulsory meter customers, but we do have an obligation to install a meter where customers chose to pay by this means.
- Carbon generated per litre of water produced is the lowest in the Industry
- Our water efficiency campaign has focussed on protecting the environment. Through our activities, our customers have made savings of one million litres of water every day, thereby taking less water out of the environment.
- In 2011/12 the Company Environmental and Biodiversity Specialist reviewed a significant number of projects in order to identify any potential environmental and ecological impacts, and advise on how any impacts could be minimised.
- We have taken opportunities to support the community by using the land we own. We provide facilities for disabled anglers at our Head Office site and provide access to our land for a local observatory club. We also make land available for use as allotments and proposed a number of footpaths around our sites to promote greater access to our land where appropriate.
- We have increased the level of resource dedicated to environmental and biodiversity activities. This has resulted in improving one Site of Special Scientific Interest (SSSI) from unfavourable to improving.



Our Proposals

- We will deliver solutions at the three sites where our abstraction is deemed to have an environmental impact and will impact the ability of the UK to comply with the EU Water Framework Directive. This will be agreed with the Environment Agency and achieved earlier than required.
- Undertake a study to consider the impact on our abstraction on eels in the River Itchen. This is to help the Government meet the European Directive on Eels.
- We will continue to promote water efficiency and our Water Resources Management Plan predicts personal consumption will fall.
- We will increase by 10% the proportion of electricity we use from renewable sources.
- Promoting meters for those customers who will benefit financially.
- Increase our activity in biodiversity by:
 - Looking for further opportunities to enhance and optimise wildlife habitats on our sites.
 - Work with partners in the community to look for further opportunities to promote and enhance biodiversity.
 - Support the community through the use of our land and facilities where appropriate.
- We will invest £3m to reduce the impact of our discharges on the local environment.

Cost of Delivering Commitment

The total cost of delivering this commitment is £17.5m.

Delivering this commitment accounts for 7.4% of a customer's bill..

Our Measure of Success

Rewards and Penalties

(Outcome Delivering Incentives)

- We will deliver compliance with environmental legislation at the three sites impacted by our abstraction in advance of the time that we were obliged to act. We wish to target to remain at the forefront of developments in this area as it is a priority for our customers. There will be a financial reward and penalty for this measure.
- To be on target to reduce average annual personal consumption to 135 litres per head per day by 2040. See chart below. By 2020 we expect this to be 144.
Current Performance: 148 litres/per head/day
- We will increase by 10% the amount of electricity we use from renewable sources, thereby reducing our carbon footprint.
- Biodiversity – Deliver improved biodiversity by completing the actions detailed in our Biodiversity Action Plan.

See Wholesale Plan for details.



Our Commitments

5 Supporting the community we serve by taking opportunities to support the local economy

Our Responsibility

We are an integral part of the local community.

What Stakeholders have told us:

- Property developers have expressed a desire to see an improvement in the service provided by water companies who have to provide services to new houses.
- Our local activities are valued by the community.
- A previously planned winter storage reservoir at Havant Thicket is seen as a key piece of infrastructure in the local area to provide environmental and recreational benefits.

Current Record

- We are proud of our close ties with the community we serve, having supplied drinking water for over 150 years.
- We play our part in the local economy; most of our employees and 45% of our purchases are from the local area.
- We have a partnership with a local Country Park, contributing to an education centre which introduces children to the importance of fresh water, how it is delivered and why we must use it wisely. To date, approximately 10,000 children have visited the centre.
- We have been actively involved in schools and have attended and sponsored local science fairs for many years.
- We participate in a local annual Water Festival, which receives thousands of visitors each year at which we encourage the efficient use of water using fun activities for children and their parents.
- A number of Community Talks are given each year by staff members which allows us to show what we do, encourage water efficiency and provide people with information on such topics as optional metering.
- We provide water bottles to schools at subsidised rates to encourage pupils to keep hydrated during the day.
- The Company participates in PUSH, The Partnership for Urban South Hampshire, which seeks to encourage local development in a sustainable manner.

Challenges

Suppliers to the water industry have long campaigned for smoother investment programmes. Historically investment in the water industry has had peaks and troughs which follow the 5 year price review cycle. This is disruptive for suppliers and makes them less efficient.



Our Proposals

- We will support the local community by procuring goods and employing staff from the area we serve where appropriate. We will maintain the percentage of procurement for local supplies where appropriate.
- We will support the local community, encourage the efficient use of water and contribute to the education of local school children.
- We will provide more information to our customers and review how we provide it to make it more effective.
- We will aim to ensure our investment cycle is spread more evenly across the Planning period to help our suppliers.
- We will improve the levels of service provided to developers, to improve lead times and provide the information they need. In this way we can help sustainable development in the local area. We will measure our success in an annual survey in which we will target 70% satisfaction.
- We will provide assistance to business customers to help them improve their water efficiency.
- The construction of Havant Thicket reservoir is seen as a key piece of infrastructure for the area and it might well play a part in a solution to water scarcity issues across the whole of the South East. However we do not have a need for it from our own water resource perspective and therefore it is not included in our proposals. Nonetheless we will continue to promote the social, environmental and re-generational benefits of Havant Thicket.
- Much of our work is completed in the public highway, we undertake this whilst protecting the safety of the public and our workforce minimising the disruption to road users and businesses.
- We will continue to play our part in the local community.

Our Measure of Success

Rewards and Penalties

(Outcome Delivering Incentives)

- **We will maintain the percentage of procurement for local supplies where appropriate.**
Currently 45% of services are from the local area
- **Customer Survey to be conducted by Portsmouth Water. We will target 70% satisfaction with Developers.**
No Survey is currently conducted

This incentive will be reputational - We will publish the results relating to the measures of success.

Cost of Delivering Commitment

The total cost of delivering this commitment is £0.8m.

Delivering this commitment accounts for 0.5% of a customer's bill.



Our Commitments

6 Proving attractive to investors by providing a long term financially sustainable business

Our Investors

Like all businesses we need to generate sufficient profits to provide a fair return to shareholders and meet the interest cost on borrowing.

The major shareholder in the Company is an Employee Benefit Trust which acts on behalf of our employees who receive payments as a result of this shareholding. The shareholder has told us that they want to see us maintain the current level of return provided to them (at 5% of the equity element of Regulatory Capital Value in 2015) and they expect a reasonable small annual increase in the level of dividends.

Our Plans

- The Board of Portsmouth Water recognise that our Plan should be delivering an adequate return to our shareholders.
- We will continue to provide sufficient returns to our shareholders and produce financial results that will ensure existing and potential investors and lenders have confidence in the business. This will allow the Company to secure finance on competitive terms.

The following assumptions have been included in the plans:

Household Retail Margin	1.5%
Non-Household Retail Margin	2.0%
Weighted Average Cost of Capital in Wholesale Plan	
Fully Post Tax	3.7%
Vanilla Post Tax	4.21%

What Stakeholders have told us:

- Our Plan should provide an acceptable return to Shareholders, which are consistent with them in the market for businesses with similar risks.
- Our Plan should be financially sustainable over the long term.
- Higher than expected returns should be shared with customers

Our main source of finance is a bank loan which has conditions which require a certain specified level of financial performance. The conditions also stipulate that the Company has to take all reasonable steps to maintain an Investment grade credit rating. This rating demonstrates to lenders that we can meet our interest payments and allow us to secure borrowing at reasonable interest rates.

Customer Representative bodies have challenged us to share outperformance with our customers.

- We will continue to focus on the core water business and will maintain our position as one of the most efficient companies in the sector.
- We will ensure that the financial structure of the business remains efficient in the long term and that we continue to maintain an investment grade credit rating.
- If our financial returns are higher than we assume in this plan we will share this outperformance with customers
- We recognise that in the current market, lower cost finance is available and we will pursue the possibility of reducing the cost of our existing debt

Cost of Delivering Commitment

Delivering this commitment accounts for 13.7% of a customer's bill.

Current Performance

- Dividends paid by Portsmouth Water have been at the level assumed by the regulator Ofwat at the last price review
- Financial performance has been in line with the conditions specified with the bank loan
- We are recognised as one of the most efficient companies in the Water Industry
- Most of our debt was secured in 2002 and unlike many of the water and sewerage companies we have not been able to take advantage of the historically very low cost of finance which is currently available. Refinancing our debt would be prohibitively expensive.

Our Measure of Success

Rewards and Penalties

(Outcome Delivering Incentives)

- **We will maintain an Investment grade credit rating**
- **We will maintain an adequate return to shareholders. This will be a dividend growth of 2% per annum higher than inflation.**

The Company will share outperformance above a certain level with customers, but any underperformance will be borne solely by the Company.

Our Commitments

7 Recognised by stakeholders as having a culture of health and safety through all our activities

Our Objective

One of our primary objectives is that our employees return to their families at the end of the day without injury and customers are safe when we are working near their homes or are near our sites.

Current Record

- Health and Safety has been a priority from the Board across all parts of the business for several years and we have received the Royal Society for the Prevention of Accident (RoSPA) Gold Award for the past eight years.
- In 2002 and 2003 the company recorded 51 and 30 accidents respectively with a reportable accident rate of 11 in each year.

Our Proposals

- We will continue to ensure that our employees work in the safest possible environment by providing and maintaining safe and healthy working conditions along with continually reviewing all our operational practices taking into account any changes in legislation and best working practices. This will include investing in equipment ensuring employees will always have the right tools for the job and always capturing lessons learned into the way we operate to ensure we always improve.
- Much of our work is conducted in the public highway, we undertake this whilst protecting the safety of the public and our own workforce minimising the disruption to road users and businesses.

The Board of Directors see Health and Safety as a key priority of the business and must be a commitment within our business plan. They will ensure:

- The safest possible environment for our employees, visitors and general public.
- Continual review of all our operational practices from a health and safety perspective.

It was decided that these statistics and the overall Health and Safety performance were not acceptable. Led by the Board, we focused heavily on improving our performance. In the last 5 years we have averaged 7 accidents and 1 reportable accident per annum.

- We carry out risk assessments for employee and public safety on every job we undertake.

Our Measure of Success

Rewards and Penalties

(Outcome Delivering Incentives)

- **No Reportable Accidents**
- **Achieving the RoSPA Gold Award for Health and Safety performance every year.**
Current Performance: Gold Award received for the last 7 years

Reputational - We will publish the result of our RoSPA application every year.



Cost of Delivering Commitment

The total cost of delivering this commitment is £0.8m. bill.

Delivering this commitment accounts for 0.4% of a customer's bill.



Our Costs to Implement the Plans

The objective of the Board was to produce a plan in which bills to customers were flat in real terms.

However, at the same time it was essential that we could ensure safe secure and reliable services for our customers into the future, with an equitable split of costs between current and future customers.

The Board have critically reviewed the level of maintenance we need to undertake, where improvement to our assets were required and the cost of delivering day to day services. The Board believe it was important not to store up problems for the future. We have assessed the risks we face, including the risk to the reliability of supplies of deferring maintenance and also the efficiency by which we operate.

The Board believes that the plan meets the objectives it set and achieves an appropriate balance for customers. The costs of delivering this plan by commitment are shown (right).

	Capital Investment £m	Operating Expenditure £m	Total Expenditure £m
Safe, secure and reliable water supplies	52.1	37.9	90.0
Less water lost through leakage	0.5	3.4	3.9
A high quality service and value for money	1.1	45.3	46.4
An improved environment supporting biodiversity, public amenities and recreation	4.2	13.3	17.5
Supporting the community we serve by taking opportunities to support the local economy	-	0.8	0.8
Recognised by Stakeholders as having a culture of health and safety through all our activities	0.2	0.7	0.9
TOTAL	58.1	101.4	159.5

The projected Capital Investment has increased from £47.8m in the period 2010-15 to £58.1m for 2015-2020.

The increase is due mainly to three items.

- to install ultra violet treatment to reduce the risk of cryptosporidium at two sources £5.1m
- Measures to reduce the impact of discharges into the harbour £3.5m
- The replacement of assets to maintain Water Quality £3.8m

We will achieve cost efficiencies throughout the period, some will be shared with customers and this is built into our proposals for bills and some will be used to improve services. Profits over a pre-determined level will be shared with customers at the price review.

Innovation

Portsmouth Water has committed to improving services to customers without putting up bills by greater than inflation until 2020. It will do this through efficiencies and utilising best practice and improved technology. We are the lowest cost provider of water services in England and Wales and have constantly been amongst the most efficient. This has been achieved as a small Company by being agile, flexible and avoiding bureaucracy.



We have a loyal and effective workforce who, through an Employee Benefit Trust, share in the success of the business. They are therefore incentivised to make efficiencies, but at the same time understand that providing a good service to customers is beneficial in the long term and creates value through the SIM. In an employee survey 99% of employees were proud to work for the Company.

We are implementing a new Works and Asset Management system which we believe will deliver improved service and a more efficient operation. We have challenged ourselves by including some of the efficiencies in the Business Plan.

Our sister company, Brockhampton Holdings, has installed solar power cells at several of the Company's sites, allowing cheaper electricity and a smaller carbon footprint.

We are undertaking a trial to recycle waste generated by our activities which, if successful, will avoid the cost of landfill and reduce the cost of new material.

In recent years, we have successfully undertaken work to reduce electricity costs through timing of pumping and monitoring of usage. We estimate in 2012/13 this amounted to a 5.6% reduction in costs. This work will continue into the future.

We are also collaborating with two other small water only companies to identify and share good practices and possibly identify any opportunities for joint procurement efficiencies. The process is being facilitated by a third party ensuring that any cost information shared is anonymised. The work involves benchmarking of processes and cost. Progress is already being made in the cost of materials.

We are also considering the use of social media and an advanced website to provide messages to customers in a more efficient manner. We believe this might be a more effective method of communicating in that people will actually read the messages which they often don't with leaflets put through the door.

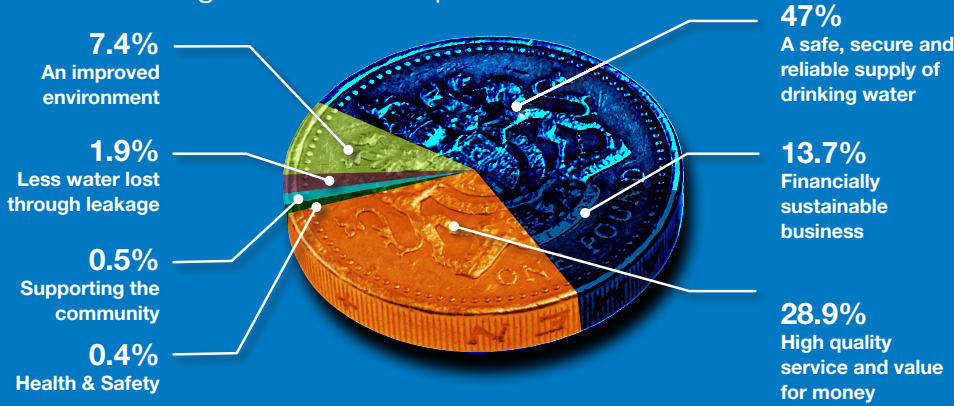
These are the things we are doing now and will add to this over the coming years, to ensure that we remain an agile and customer responsive organisation.

What will customers pay?

Currently the average household bill for our customers is £94.50 per year (2013/14 prices). This is the equivalent of 26p per day which is less than half of the average for the Industry and one third below the next cheapest in the country.

We will meet all of the Commitments outlined in this Plan with prices remaining flat in real terms – despite substantial real price decreases at the last price review.

How the average bill is made up



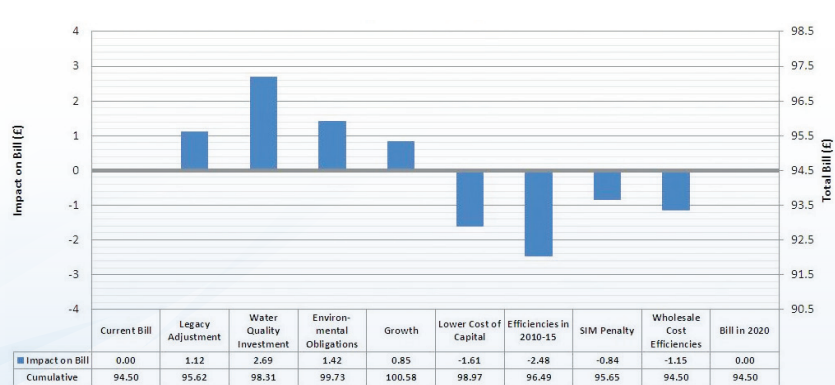
The chart shows how much of the average household bill is used to deliver the 7 commitments made in this plan.

Note that this excludes a charge for sewerage. Most customers will receive a separate bill from Southern Water for this.

We are conscious of the fact that many of our customers are struggling with their bills generally as a result of the economic climate and the fact that in recent years increases in the cost of living has outstripped increases in incomes. Therefore, in preparing our Business Plan, we had a clear objective of delivering a Plan which takes these considerations into account.

Our proposal for bills follows 5 years between 2010 to 2015 where increases in bills were less than inflation every year and were less than the average increase in household incomes.

In our Plan, some new requirements have put upward pressure on bills, but these have been offset by efficiencies achieved over the last few years. The chart above illustrates the key factors impacting bills between 2015 and 2020.



key factors impacting bills between 2015 and 2020

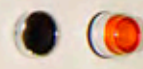
Customers' bills will on average increase by inflation each year and so will remain flat in real terms. We do not know what inflation will be, but based on the best forecasts available, bills are estimated to increase by an average of 3.2% per annum. However it could be higher or lower than this figure.

In our Plan we have penalties for non performance (i.e. where we fail to deliver a service which we have committed to) and, where we outperform, we will share the benefits of this with our customers.

In conclusion we have delivered a Plan which is affordable and provides an appropriate balance of risks for current and future customers, the environment and investors.



007422
COMBACH CONTROLS



Dräger
REGARD 1110

007421

OK

STOP

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DEL

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Portsmouth Water Ltd.

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