



**PORTSMOUTH WATER LIMITED**

**RISK AND COMPLIANCE STATEMENT - JUNE 2015**

---

**CONTENTS**

<b>Executive Summary .....</b>	<b>1</b>
<b>Statement of Board Assurance .....</b>	<b>6</b>
<b>Risk and Compliance Statement.....</b>	<b>9</b>
<b>Chapter 1 - Company Strategy .....</b>	<b>10</b>
1.1 <b>Mission Statement .....</b>	<b>10</b>
1.2 <b>Changes in Methodology and Approach.....</b>	<b>11</b>
<b>Chapter 2 - Key Performance Indicators, Outputs and Service Delivery .....</b>	<b>13</b>
2.1 <b>Service Incentive Mechanism (SIM).....</b>	<b>15</b>
2.2 <b>Water Service Delivery .....</b>	<b>17</b>
2.3 <b>Delivery against Supply/Demand Outputs .....</b>	<b>21</b>
2.4 <b>Drinking Water Quality Enhancements .....</b>	<b>27</b>
2.5 <b>Health and Safety.....</b>	<b>28</b>
2.6 <b>Carbon Accounting.....</b>	<b>29</b>
2.7 <b>Key Supporting Information.....</b>	<b>30</b>

---

**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 almost 160 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 Ml/d
- works with other suppliers within the South East to develop a regional strategy for Water Resources

For the reporting year 2014/15 Ofwat require the Company to publish a Risk and Compliance Statement. This 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 (KPIs) for 2014/15 and these are explained in detail in the report.

### Regulatory Compliance KPIs

Key Performance Indicator	Unit	2014/15	Company -Target
Service Incentive Mechanism Quantitative – No. of complaints and unwanted contacts etc. Qualitative – Customer experience survey	Quantitative	38.5	> 80 (Total Score is out of 100)
	Qualitative	43.5	
	Total Score	82.0	
Water Supply Interruptions	Minutes per total properties served	8 Mins 44 Secs	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	28.9	30.0 MI/d (From FD)
Security of Supply Index	Index Score	100	100 (From FD)
Green House Gas Emissions	ktCO2e	11,669	<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	%	4.5	>5.6 (From FD)
Gearing (Long term debt compared to capital)	%	80.0	<84.0
Interest Cover		1.85	>1.6
Mean Zonal Compliance (No. of samples meeting quality standards) *	%	99.97	99.96
Reportable Accidents *	Nr	2	Nil

\* Calendar year 2014

Over the past year we have been in discussion with Ofwat about its review of prices for 2015-2020. Whilst not achieving enhanced status for our business plan, it is clear from the feedback that we received that our plan was well constructed. Our plan built upon the high levels of service we continue to provide. We engaged extensively with our customers and worked with our Customer Challenge Group who were supportive of our plan and the decisions the Company has taken in light of the Final Determination.

In January 2014 Ofwat 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.

For 2014/15 the Company was ranked 1<sup>st</sup> overall and individually for billing and operational matters out of 18 companies in a qualitative survey of customers conducted by Ofwat to assess how well the Company handled all types of customer contact. In 2014/15 Ofwat trialled a new approach where all contacts are included in the survey, not only those that are concluded and resolved. Our quantitative score has also remained high with a score of 38.3 in 2013/14 and 38.5 in the current year with our aggregate SIM performance at 82.0.

The number of written complaints increased, particularly in the first half of the year, to 10.9 per 10,000 connections compared to 7.6 in 2013/14, although the level is similar to that recorded in 2012/13. There was no one group of factors contributing to this and the Company continue to review all complaints at a senior level to learn lessons. Despite the increase, it is likely that the level of complaints will remain the lowest in the industry. In 2013/14 the next lowest company had 12.4 complaints per 10,000 customers and the industry average was 39.8 per 10,000 customers.

Portsmouth Water's customers experienced an average interruption to their supply of 8 minutes and 44 seconds per total properties served, an increase from 5 minutes and 16 seconds in the previous year, as a result of greater interruptions due to planned work. This arose due to an increase in the amount of slip lining and pipe bursting in our mains renewal programme. Whilst this is less intrusive in terms of disruption to road users and the local environment it does result in individual customers being without water for a greater time period.

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

The leakage recovery programme has made good progress and for the year 2014/15 average leakage is calculated (post MLE) at 28.9 MI/d (2013/14 – 29.5 MI/d). This is below the leakage target agreed with Ofwat. We continue to improve our data and review our methodology of calculating leakage.

Gross capital investment during the year was £9.5m (2013/14 - £10.7m) and included £4.5m (2013/14 - £5.4m) on infrastructure renewals. After receiving capital contributions and infrastructure charges of £1.3m, net capital expenditure was £8.2m (2013/14 - £9.6m). During the year the Company renewed 15km of mains at a cost of £4.5m. This programme included one large mains renewal scheme at the Roman Palace, Fishbourne

All Environmental KPIs are green and in accordance with the commitments made by the Company at the last price review, PR09.

Water quality compliance has remained at 99.97% for calendar year 2014. This is better than the industry average of 99.95%.

Current cost operating profit on a like for like basis was £4.9m compared to £4.8m in 2013/14. Turnover increased by 3.1% reflecting a tariff increase of 2.5% and increased income from developers for connecting new properties and diverting mains. However this was offset by higher operating costs including the impact of a one off calculation change on the provision for bad debt of £0.4m and the increased costs of generating the income from developers of £0.4m. 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 PR09 determination before tax adjustment is £10.1m, and after tax adjustment is £7.6m.

The shortfall in revenue by year is:

	<b>2010/11</b>	<b>2011/12</b>	<b>2012/13</b>	<b>2013/14</b>	<b>2014/15</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Shortfall pre-tax adjustment	1.565	2.002	2.183	2.245	2.063
Tax adjustment	(0.438)	(0.520)	(0.524)	(0.516)	(0.438)
Net shortfall in Tariff basket revenue	1.127	1.481	1.659	1.729	1.630

This shortfall against the determination is primarily the result of fewer new properties being connected and lower consumption by metered customers than allowed for.

The Company has managed to maintain its key financial performance indicators as a result of the operating efficiencies and lower dividend and interest payments than anticipated at PR09. The Company has also invested in IT infrastructure, to improve service to customers. This expenditure was not recognised in the Final Determination, PR09.

The Company has received the President's Award from the Royal Society for the Prevention of Accidents (RoSPA) in recognition of ten consecutive years of Gold Awards. The health and safety of employees is our number one priority and the Company is proud of this achievement which is testimony to the efforts of everyone in the Company.

**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 against the strategies that we set.

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 when fully constituted comprises a non-executive Chairman, three executive Directors and two other non-executive Directors. The Finance Director resigned in January 2015. A replacement has been appointed and will join the Board in November 2015. 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 January 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, with the Ofwat guidelines.

The Ofwat principles suggest that independent non-executives should constitute the largest segment of Directors. The Board of Portsmouth Water when fully constituted 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 two 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.

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.

During the year our Chairman Mr T. M. Lazenby retired with Mr M. P. Kirk taking on this role. We therefore recruited a new non-executive Director onto the Board, Mr M.P Johnson.

The Audit Committee comprises the three non-executive Directors. It is chaired by Mrs H. V. Benjamin and 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, Mr M. P. Johnson (Chair of the Remuneration Committee), Mrs H. V. Benjamin 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. M. P. Kirk (Chairman), 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. This includes all the recommendations by the financial auditor and technical Reporter, as well as those issues identified internally. 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 a quarterly 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 appointed W S Atkins to audit non-financial data and to report back to the Board on their findings. For 2014/15 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:

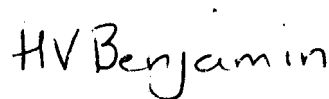
- considers it has a full understanding of, and is meeting, its obligations and has taken steps to understand and meet customer expectations
- has satisfied itself that it has sufficient processes and internal systems of control to fully meet its obligations
- has appropriate systems and processes in 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 2015**



**H BENJAMIN  
NON-EXECUTIVE DIRECTOR  
Chair 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 continue to 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.

### 1.1 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



## 1.2 Changes in Methodology and Approach

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

WS Atkins have considered the documentation, data and evidence which are reported in the 2015 KPIs 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 WS 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.

For the purpose of this Risk & Compliance Statement two issues were raised as amber, customer contacts to operations and unplanned maintenance activity. Both have Action Plans in place to address the issues raised.

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

The table over details the Regulatory Compliance Key Performance Indicators (KPIs) for the Company. This includes all the KPIs 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

Both of these are reported on a calendar year basis, 2014.

The KPIs have been audited by the Company Reporter. These KPIs are commented on below:

## Regulatory Compliance KPIs

Key Performance Indicator	Unit	2014/15	Company -Target
Service Incentive Mechanism (SIM) Quantitative – No. of complaints and unwanted contacts etc. Qualitative – Customer experience survey	Quantitative	38.5	> 80 (Total Score is out of 100)
	Qualitative	43.5	
	Total Score	82.0	
Water Supply Interruptions	Minutes per total properties served	8 Mins 44 Secs	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	28.9	30.0 MI/d (From FD)
Security of Supply Index	Index Score	100	100 (From FD)
Green House Gas Emissions	ktCO2e	11,669	<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	%	4.5	>5.6 (From FD)
Gearing (Long term debt compared to capital)	%	80.0	<84.0
Cash Interest Cover		1.85	>1.6
Mean Zonal Compliance (No. of samples meeting quality standards)	%	99.97	99.96
Reportable Accidents	Nr	2	Nil



## 2.1 Ofwat Service Incentive Mechanism (SIM) - Results for 2014/15

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 2014/15.

**Table 2.1.1**

<b>SIM scores</b>			
<b>Quantitative Measure</b>	<b>Number</b>	<b>Multiplier</b>	<b>Total</b>
All Lines Busy	6,455	1	6,455
Calls Abandoned	8,541	1	8,541
Unwanted Phone Contacts	23,400	1	23,400
Written Complaints	308	5	1,540
Escalated Written Complaints	31	100	3100
CC Water Investigated	0	1,000	0
			<b>43,036</b>
Connected Properties at year end			312,838
<b>Quantitative SIM Score</b>			<b>38.5</b>
<b>Qualitative Measure</b>	<b>4.48</b>		<b>43.5</b>
<b>Total SIM Score</b>			<b>82.0</b>

The overall Quantitative assessment score of 38.5 is slightly better than the previous year of 38.3.

We have seen a reduction in the number of calls abandoned from 11,686 to 8,541.

All Lines Busy at 6,455 is an increase on the previous year. This is largely due to a single event in July 2014 when a pressure release valve fault resulted in a large number of customers temporarily receiving either low pressure or no water. During this incident 5,079 customers received the engaged tone. Subsequently we have increased our number of telephone lines to reduce the impact of an incident of this nature in the future.

We have seen an improvement on the number of unwanted contacts recorded. 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 2014/15 the Company was ranked 1st of the 18 companies with 4.48 points out of 5.0. The Company's overall Qualitative score was 43.5 and the Quantitative score was 38.5.

This therefore, gives Portsmouth Water a total score of 82.0 compared to 82.8 last year. A change in the qualitative survey this year means that no direct year on year comparison can be made.

For 2014/15, Portsmouth Water had 10.9 complaints per 10,000 customers. This is an increase on last years 7.8 and a return to 2012/13 levels.

### **Water Supply Interruptions**

Portsmouth Water's customers experienced an average interruption to their supply of 8 minutes and 44 seconds per total properties served, an increase from 5 minutes and 16 seconds in the previous year, as a result of greater interruptions due to planned work. This arose due to an increase in the amount of slip lining and pipe bursting in our mains renewal programme.

Whilst this is less intrusive in terms of disruption to road users and the local environment it does result in individual customers being without water for a greater time period.

In the year, there was one unplanned event where customers experienced an interruption of more than 12 hours. This affected 8 properties.

## 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 for the five year performance.

**Table 2.2 - Infrastructure Performance Levels**

Serviceability Indicator	Unit	2010/11	2011/12	2012/13	2013/14	2014/15	AMP5 Reference Level
Total bursts	Nr	328	290	267	226	294	342
Bursts per 1,000km		100	89	81	69	89	104
Props with interruption >12 hrs	Nr	0	332	0	0	8	50
Iron non-compliance*	%	0.77	0.56	0	0.09	0	0
Customer contacts – discolouration *	Nr/1,000 population	0.04	0.04	0.08	0.04	0.11	0.06
Distribution Index TIM *	%	0.26	0.19	0	0.03	0	0

\*Calendar year

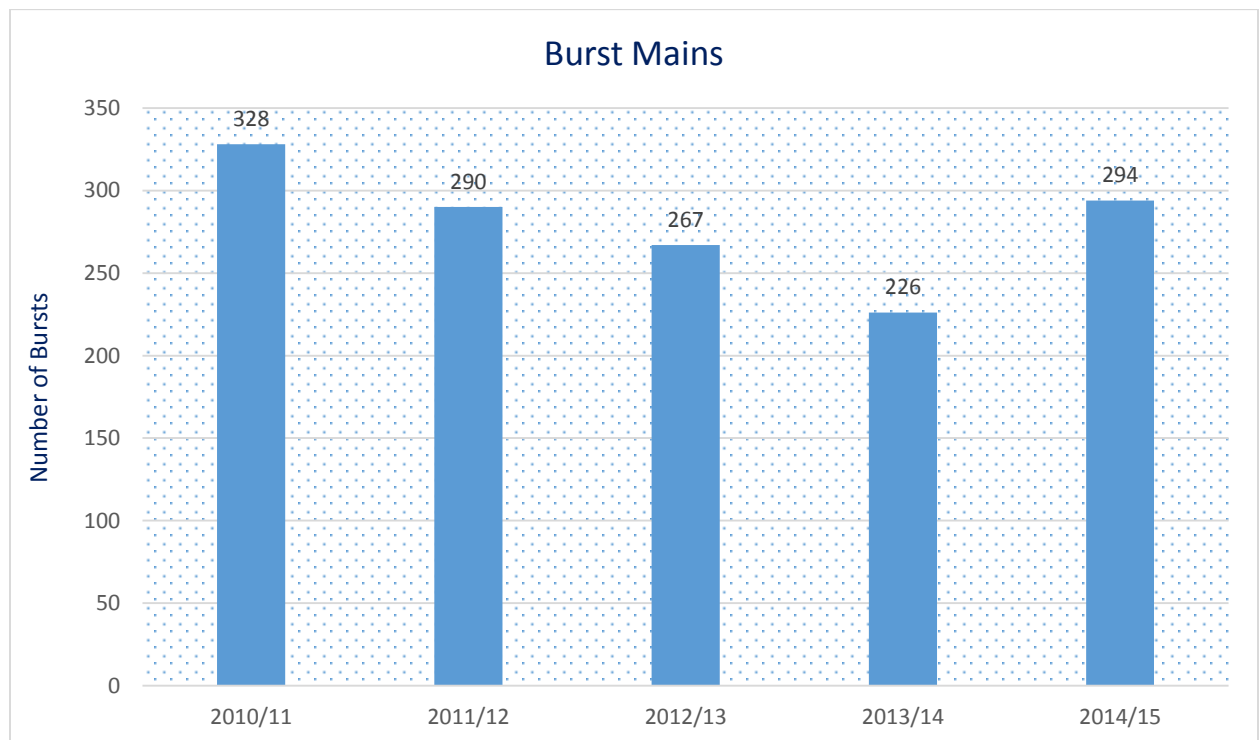
For 2014/15 all KPIs except for customer contacts for discoloration are in line with or better than the AMP5 reference levels

The total number of contacts for appearance of water (discoloured plus particles plus air contacts) has increased this year from 147 in 2013 to 308 in 2014. The Company monitors customer contacts relating to water quality to understand if there are any specific issues underlying the contacts. The increase this year does not reflect any specific water quality issues.

### **2.2.2 Burst Mains**

The number of burst mains experienced in 2014/15 was 294, compared to 226 that occurred in 2013/14. 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 which was the case in the last year compared to lower numbers experienced in the 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.



The Company confirms that serviceability of its infrastructure assets remains stable as illustrated by the indicators discussed.

**2.2.3 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***

<b>Serviceability Indication</b>	<b>Unit</b>	<b>2010/11</b>	<b>2011/12</b>	<b>2012/13</b>	<b>2013/14</b>	<b>2014/15</b>	<b>AMP 5 Reference Level</b>
Water Treatment Works Coliforms Non-compliance	%	0	0.04	0	0	0	0.03
Service Reservoirs Coliforms Non-compliance	%	0	0	0	0	0.06	0
Turbidity	Nr	0	0	0	1	0	0
Enforcement	Nr	0	0	0	0	0	0
Unplanned Maintenance Jobs	Nr	914	937	767	740	722	831

For 2014/15 all KPIs except for coliforms at service reservoirs are in line with or better than the AMP5 reference levels

There was one sample failure at a service reservoir in the year and therefore the Company believes the overall serviceability for non-infrastructure remains stable and is supported by the results of compliance testing in accordance with the Water Quality Regulations.

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 2014 the Company carried out a total of 39,504 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 2014 (99.97% in 2013).

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 2014 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 2014 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 2014 99.94% of the samples taken were compliant. There was one failure at one reservoir of the coliform which then confirmed as an E. Coli. The investigation into this failure found that they were most likely due to an analytical problem which suggested that the water was not implicated.

Finally 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 Final Determination 2009 reference level be revised. Ofwat agreed to revise the reference level to 831. For the year 2014/15 the number of unplanned maintenance jobs totalled 722 and was therefore below the revised reference level and above the lower band limit.

The Company confirms that serviceability of its non-infrastructure assets remains stable as illustrated by the indicators discussed.

#### **2.2.4 Key Supporting Activities**

**Table 2.4**

Activity	2010/11	2011/12	2012/13	2013/14	2014/15	Expected Activity 2010-2015
Mains Renewal Km	18	23	19	25	15	116
Mains Relined Km	0	0	0	0	0	0
Household Meters renewed	183	171	228	2,799	5,924	15,000

During the year the Company renewed 14.5km of mains (2013/14 – 24.1km) at a cost of £4.5m (£5.4m – 2013/14). The programme included a major scheme renewing and relocating a sensitive main close to Fishbourne Roman Palace.

A programme for household meter replacements was initiated in 2013/14 which replaces all meters over 12 years old. This programme replaced 5,924 meters in the year.

## 2.3 Delivery against Supply/Demand Outputs

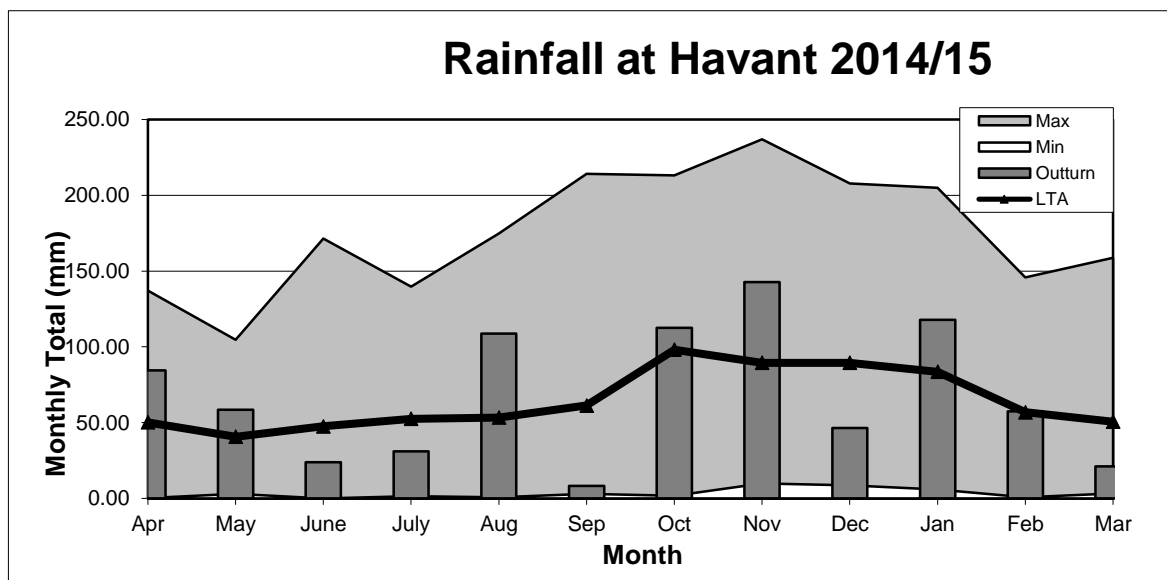
**Table 2.5 - Security of Supply Performance against target**

	Performance					
	2010/11	2011/12	2012/13	2013/14	2014/15	FD Target
SOSI dry year average	100	100	100	100	100	100
SOSI critical / peak	100	100	100	100	100	100
Leakage MI/d	29.6	30.0	34.1	29.5	28.9	30.0
Water Efficiency MI/d	0.25	0.36	0.35	0.32	0.24	0.29 pa
New Properties connected	1,522	1,793	1,508	1,693	2,444	2,500 pa
Metering - Optional Meters	3,604	4,046	4,857	4,873	3,544	5,000 pa

### 2.3.1 Rainfall

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

Annual total rainfall was 813mm and compares with the long term average of 774mm.



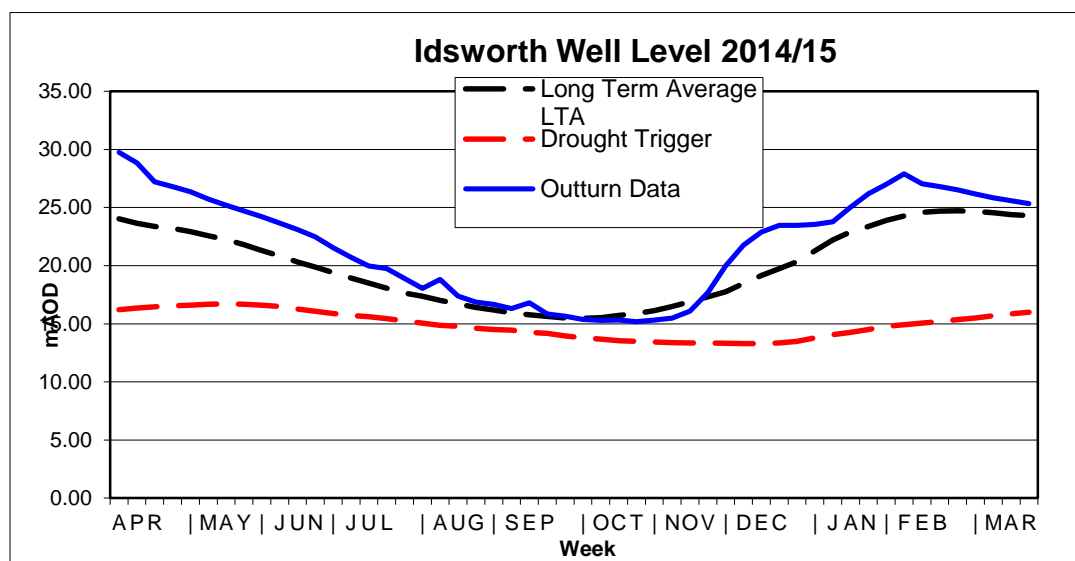
### 2.3.2 Groundwater Levels

Groundwater levels are an indication of the weather conditions for the year and the relationship to the drought trigger. Levels were close to average for most of 2014/15.

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.

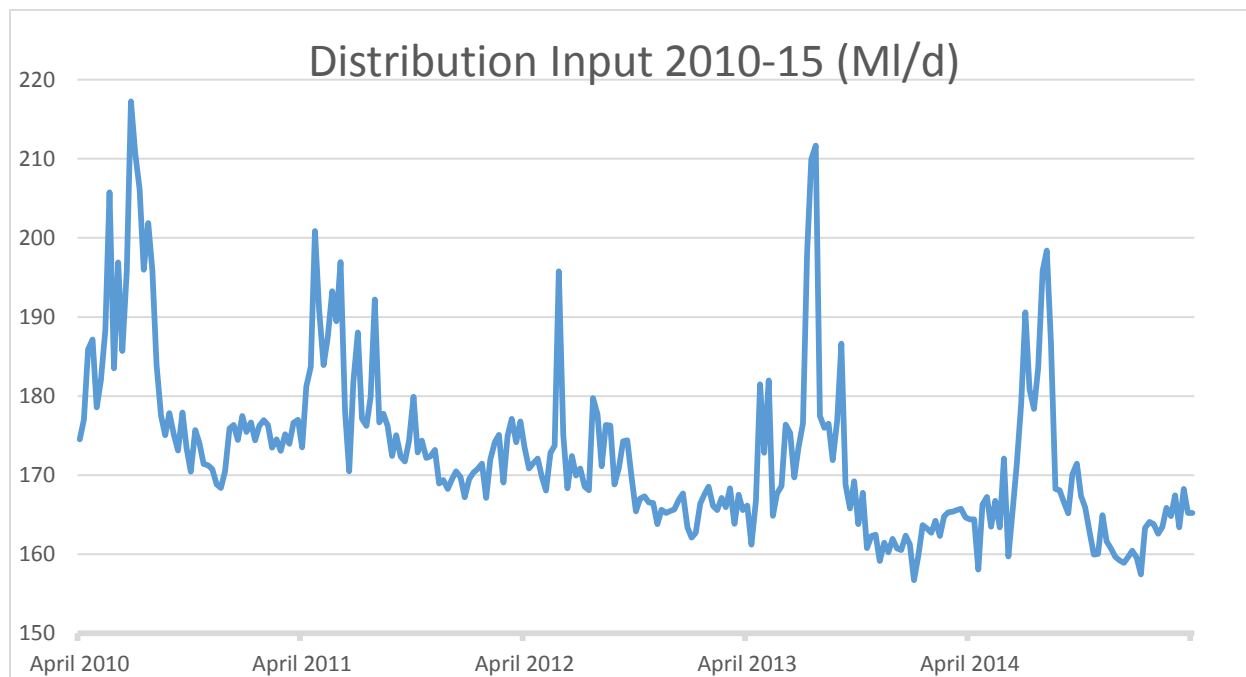
Groundwater in the local aquifer normally fluctuates approximately 9.5m between maximum and minimum annual levels. Groundwater levels in the autumn of 2014 were slightly lower than average due to lower than average rainfall in the preceding months. June and July.

The graph below shows the change in groundwater level over the last 12 months compared to the Long Term Average (last 30 years).





### 2.3.3 Abstraction



The annual average distribution input dropped from 171.5 MI/d in 2013/14 to 168.8 MI/d to 2014/15. The volume of water distributed is influenced by many things, including the weather. The peak week of 202.0 MI/d occurred in July with warm weather and low rainfall.

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

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.

Abstraction from the Company's various sources in 2014/15 was as shown in the table below.

Source	Annual Abstraction - MI/Yr					
	Source Licence	Source Actual 2014/15	Group Licence	Group Actual 2014/15		
Northbrook	7,487	5,915	7,487	5,947		
Lower Upham	640	32				
West Street	3,328	3,244				
West Meon	166	29				
River Itchen	15,916	5,022				
Maindell	2,491	382				
Soberton	3,294	742	3,294	888		
Newtown	695	147				
Worlds End	8,296	3,695				
Lovedean	4,148	1,568				
Havant & Bedhampton	35,770	19,269				
Walderton	9,955	8,129	23,740	17,390		
Woodmancote	1,364	42				
Fishbourne	3,741	966				
Funtington	2,920	2,193				
Lavant	9,950	6,061				
Brickkiln						
Eastergate		2,475	10,358	5,828		
Westergate		424				
Slindon		701				
Aldingbourne		2,228				
Totals	110,161	63,261	44,879	30,054		

The Company confirms that its abstraction in 2014/15 is in accordance with its licences.

**2.3.4 Leakage**

The leakage recovery programme has made good progress and for the year 2014/15 average leakage is calculated (post MLE) at 28.9 MI/d (2013/14 – 29.5 MI/d). This is below the leakage target agreed with Ofwat. We continue to improve our data and review our methodology of calculating leakage.

**2.3.5 Base Service Water Efficiency**

In 2010 Ofwat set the Company an annual target of achieving water savings, through water efficiency, equivalent to 1 litre per property per annum. This equated to an overall five year target of 1.45 MI/d.

The Company has exceeded the target over the five years with overall savings of 1.52 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.

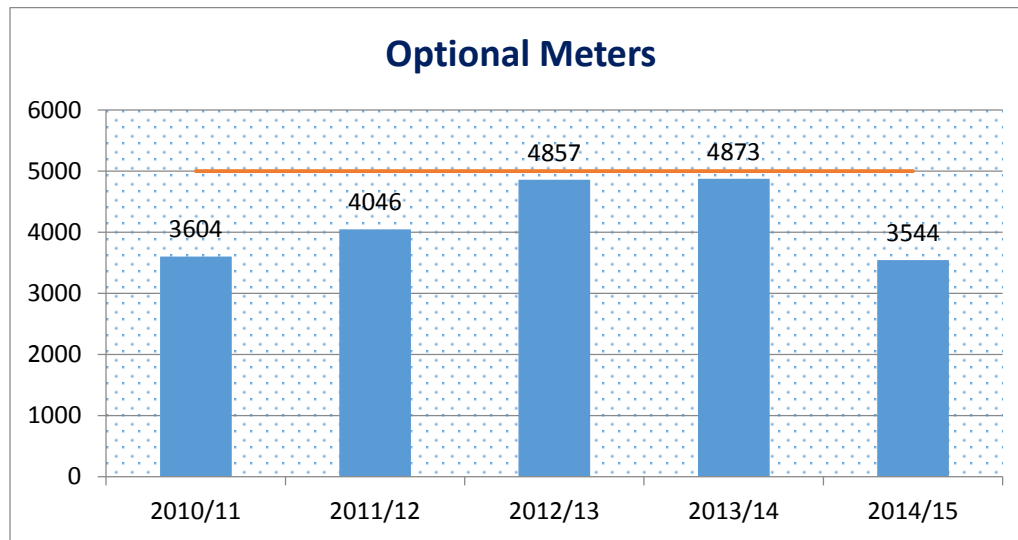
**2.3.6 New Properties Connected**

The housing market is finally showing signs of recovery with 2,229 new households and 215 non-households connected in 2014/15. This compares with a Business Plan forecast of 2,500 household properties per year.

**2.3.7 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 unmetered 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).



In the Final Determination the Company was given an allowance of 5,000 domestic meter options per year, and in 2014/15, 3,544 customers chose to switch to a measured supply.

At March 2015, domestic meter penetration for the Company was 25% of household customers.

We are taking action to increase this activity in the future given our Business Plan Commitment of 5,500 per annum.

## **2.4 Drinking Water Quality Enhancements**

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

During this AMP period the required security improvements consisted of 5 distinct projects. Four have been completed, and one scheme has been deferred, with the agreement of CPNi.

### **2.4.2 Environmental Obligations**

During this AMP period, 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 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.

Expenditure was included in our Business Plan and these schemes are now underway with the Company committed to complete these schemes by 31 March 2018.

### **2.4.3 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.

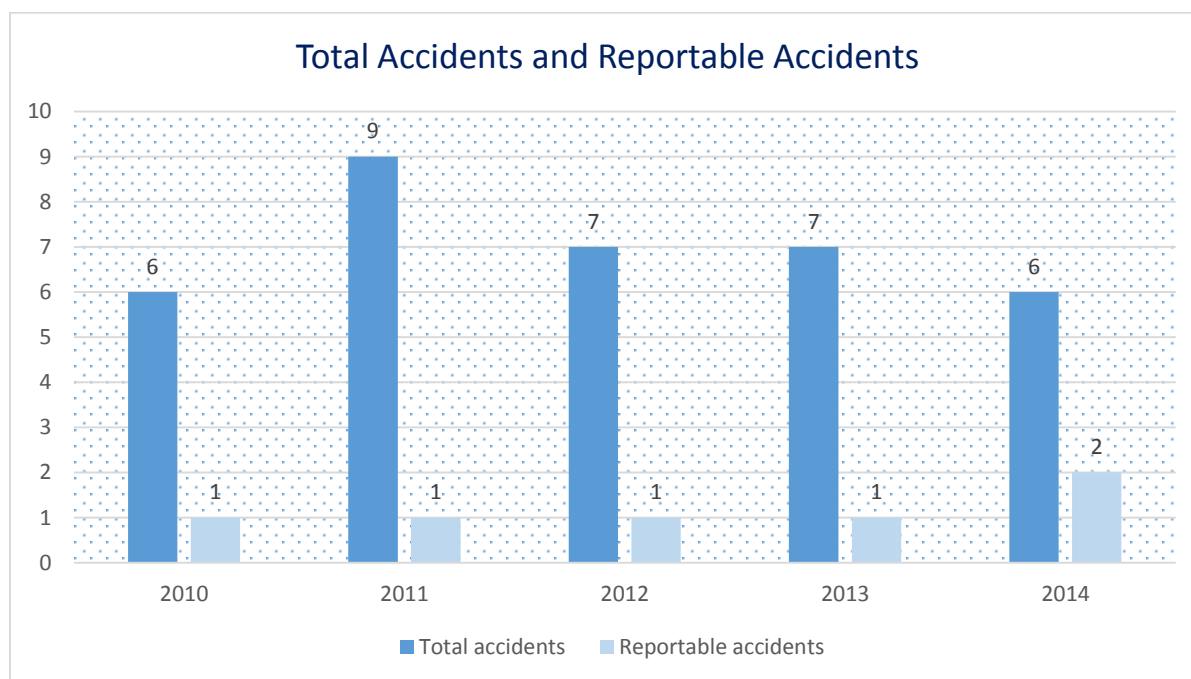
Again a Catchment Management programme has been included in our wholesale business plan for 2015-2020.

## 2.5 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 2014 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

The Company has received the President's Award from the Royal Society for the Prevention of Accidents (RoSPA) in recognition of ten consecutive years of Gold Awards. The health and safety of employees is our number one priority and the Company is proud of this achievement which is testimony to the efforts of everyone in the Company.



## 2.6 Carbon Accounting

Portsmouth Water's total carbon emissions for the reporting year were 11,669 tCO<sub>2</sub>e based on version 9 of the UKWIR methodology for estimating Operational Green House Gases (October 2014).

There is an increase from the value of 11,389 tCO<sub>2</sub>e reported for 2013/14 but this reflects in large part due to a change in the updated conversion factors which are applied in the calculation.

If we calculate our 2014/15 value based on the prior year methodology we establish an amount of 11,404 tCO<sub>2</sub>e, similar to 2013/14.

There has been a slight reduction in the amount of energy per mega litre of water produced in the year, from 367 kWh/MI to 364 kWh/MI.

The Company has reported a green status for this KPI, with emissions within the 10% tolerance of our rebased annual target for the AMP period of 11,501 tCO<sub>2</sub>e.

Portsmouth Water based its carbon target on its final Business Plan for the 2009 price review, adjusted to take into account of schemes not recognised in the Final Determination.

## 2.7 Key Supporting Information

**Table 2.6**

	<b>2010/11</b>	<b>2011/12</b>	<b>2012/13</b>	<b>2013/14</b>	<b>2014/15</b>
Distribution Input Ml/d	179.4	175.8	173.0	171.5	168.8
Water Delivered Ml/d	157.8	153.8	146.9	150.0	148.0
Households metered %	17.0	19.0	21.4	23.4	25.3
Average billed properties	298,486	298,719	300,785	300,067	302,035

Distribution input is lower than 2013/14 reflecting the weather conditions in particular and a general decline in the amount put into supply. Water delivered to customers reflects this movement the same pattern.

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

The average number of billed properties has increased reflecting the new connections in the year.