



PORTSMOUTH WATER LIMITED

Outcome Delivery Incentives 2015-2020

July 2016

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Background

The regulatory framework introduced at the last Price Review, PR14, introduced the concept of outcomes, performance commitments and outcome delivery incentives (ODIs). The framework includes rewards for service outperformance and penalties for underperformance. We worked with our customers and stakeholders to develop our outcomes, performance commitments and ODIs for the five year period 2015-2020 (AMP6) and these are set out in our PR14 Final Determination.

Portsmouth Water has committed to delivering outcomes that meet the expectations of our customers. These are supported by 13 associated performance commitments that identify the company's committed level of performance under each outcome. For 9 of these performance commitments the Company is subject to associated financial impacts whereby it will incur a penalty for performance below its commitments, but for some can earn a reward for performance better than its commitments.

We have now completed the first year of this AMP period. This report will enable stakeholders to assess how we have performed against those measures of success that are regarded by our customers as being the most important factors.

Further we are in a position to quantify the financial impact on customer bills, so called rewards and penalties. These adjustments to bills apply as of 1 April 2020.

The Company recognises the importance of providing information to customers and other stakeholders that is; customer-led, relevant, clear, useful, complete, accurate and timely. Our ongoing objective is to make information available that is easy to understand and which enables stakeholders to see how we are performing. We believe that this helps to build trust and confidence in the business.

In 2015 Ofwat published "The Company Monitoring Framework" which formalises the process through which they will oversee that stakeholders can have, in particular, confidence in companies' published Performance Measures. We published our Final Assurance Plan in March 2016, following a wide consultation.

Assurance

Our Reporter from WS Atkins, has provided third party assurance on our ODIs and other KPIs. The audits are undertaken in accordance with our Final Assurance Plan. The Reporter examines the source of data, checks calculations and assesses the accuracy and compliance to the data requirements of the reported data. The Reporter has produced a report on each audit carried out and his key findings from the audit process are shown on page 36. He attended the Audit Committee in May 2016 to inform the members of the audit findings. Further on 30 June he presented his report to our Customer Challenge Group.

As part of the Company Monitoring Framework we undertook an exercise to identify any risks, strengths and weaknesses of our data and or processes. The summary results from the risk assessment are shown in the matrix below. All of the data items shown were all included in the Reporter's scope.

The matrix assesses each item of data relative to the reliability, accuracy and complexity of its derivation. Those that score relatively higher on this assessment are ranked in the north east quadrants of the diagram, and warrant greater attention from the Reporter. Definitions of each of these items is given on the next page.

	4	Abstraction Compliance SIM	Developer Survey		
Impact Score	3	WaterSure TUB MZC	WQ contacts LOS - New development Interruptions GSS	Leakage	
	2	Meter optants WFD RoSPA Award AIM Bursts Carbon	Biodiversity pcc	Greenhouses gases	
	1				
		1	2	3	4
		Probability Score			

As part of this process we engaged with our Customer Challenge Group (CCG) in particular to determine which data audits our Reporter would conduct. From discussions with the CCG it was agreed that WS Atkins scope would include all ODIs (with the exception of mean zonal compliance) and other KPIs as shown in the table following.

Our ODIs are described as follows.

Wholesale ODIs	
Number of bursts	The number of bursts on the network which result in a loss of supply to our customers.
Mean Zonal Compliance (MZC)	Published annually by the Drinking Water Inspectorate – it is the primary measure of water quality compliance in England & Wales. It covers 39 parameters, such as iron, lead and aluminium which are tested to establish the quality of water received by customers.
Water quality contacts	The number of customer contacts we receive relating to the appearance, taste or odour of the water provided.
Temporary Usage Bans (TUB)	A restriction on customer use (typically during a dry summer) in accordance with the Company approved Drought Plan
Leakage	A measure of the volume of water which is extracted and treated by the Company that is not delivered to the customer – it is the volume lost in transport.
Total Interruptions to supply	The number of minutes that our customers are without water within our supply area (includes both planned and unplanned activities by the Company).
Biodiversity	An agreed programme with our stakeholders to enhance the biodiversity of the sites we own and operate upon and other appropriate sites in the area.
Water Framework Directive (WFD)	Obligations under the Water Framework Directive which are required to be completed by 2021. We have three schemes under this requirement.
Carbon commitment	An increase in the amount of electricity sourced by renewables.
RoSPA Accreditation	Keeping our colleagues and customers safe. The Company will apply for RoSPA accreditation annually.
Retail ODIs	
Service Incentive Mechanism (SIM)	SIM is a measure introduced by Ofwat to establish customer satisfaction with the service they receive.
Per capita consumption (pcc)	The volume of water used each day by our household customers.
Developer Survey	A new initiative, similar to SIM above, which will establish the developers' satisfaction with the service they receive.
Other metrics	
AIM - Abstraction Incentive Mechanism	A new initiative promoted by Ofwat. AIM identifies key rivers in the Company area and reports our abstraction in the catchment area relative to the flow in the river.
Meter optants	The number of unmeasured household customers who choose to have a meter installed.
Abstraction compliance	A regulatory requirement for the Environment Agency to report our actual abstraction of water for the year is relative to our licences.
Guaranteed Standards of Service (GSS)	A legal requirement to providing compensation for failures of service.
WaterSure	The number of customers on this support tariff
LOS - New development	A new Industry initiative – to publish the levels of service we provide to developers.
Greenhouse Gas	A quantification, using approved Defra methodology, of the carbon impact of the operation of the business.

Compliance Statement

The Board has reviewed this Outcome Delivery Incentives Report and has approved the following statement:

The Board of Portsmouth Water hereby confirms, in connection with the ODI, 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



H Orton
Finance and Regulation Director

12 July 2016



H Benjamin
Non-Executive Director
Chair of the Audit Committee

Annual Report by the Portsmouth Water Customer Challenge Group

The role of the Customer Challenge Group since April 2015 has been to review the performance against each of the Company's commitments and Outcome Delivery Incentives in its Business Plan and advise on and monitor the effectiveness of Portsmouth Water's ongoing engagement with its customers in each community.

The board and key executives have engaged in an open and transparent manner with the CCG and have provided both quantitative and qualitative information when requested, to support ODI and other key performance measurements within the business plan.

In addition the Company has consulted on and developed a Monitoring Framework, as per Ofwat guidance, to provide greater assurance on accuracy, relevance and quality of published Performance Measures.

ODI Performance 2015/16

The Company has met its targets for 6 of the 8 Outcome Delivery Incentive (ODI) measures, detailed later in this report, and the CCG is comfortable with the trends, industry relative performance and remedial actions taken or planned with regard to the failures to achieve target for Water Quality Standards, as measured by Mean Zonal Compliance and Water Quality Contacts. The CCG are also pleased to note the progress with the project based ODIs.

Water Quality Standards

The CCG notes the reduction in the Mean Zonal Compliance rate for 2015 to 99.94%, relative to historic trends and the significant impact the score has to two failures relating to lead in particular.

As a result of the failure to meet the lead standard, the Company is undertaking a programme to develop a communication strategy in liaison with local authorities, health professionals and other organisations to make customers more aware of the risks of lead. Customer subsidies are offered towards replacing lead pipework.

The industry average for MZC for 2015 is 99.96%.

Water Quality contacts

The CCG welcomes the significant improvement in the reduction in the number of contacts from customers relating to water quality, but notes it remains above the target the Company has set itself. A number of initiatives to further reduce the level of water quality contacts are currently in place.

The Company's website includes information on hardness, taste and odour of the water and cloudy water. The hardness section of the website has been updated recently to try and make it easier for customers to find the hardness value for their area. The data is now presented in a

table format indicating whether the water is 'soft', 'moderately hard' 'hard' etc. It is hoped that this will reduce contacts of this nature. Further updates are planned in relation to lead and taste contacts.

Information videos will be available in late 2016 on the Company's website to try and reduce the number of contacts in the future. This will include a video on 'air in water' and will show how customers can identify air.

At 0.57, the Company performance remains significantly better than the industry average of 1.6 contacts per 1000 population.

Environmental performance

The CCG notes that the Company has also made material progress on its Biodiversity, National Environment and Carbon programmes.

The Company commissioned new ecological surveys across its sites, which enabled it to undertake a number of high priority conservation projects during 2015/16 including:

- Restoration of chalk grassland by the removal of invasive non-native scrub.
- Replacement of fences and removal of scrub to facilitate sheep grazing to restore the chalk grassland habitat.
- Working with the National Trust and a local bat specialist, an abandoned underground reservoir was opened to establish whether it may be suitable for a bat roost/hibernation site.

As part of the National Environment Programme the Company improved the River Ems for fish and invertebrates. This was done by a combination of river channel improvements and a variation of an existing abstraction licence.

The carbon target for the year 2015/16 was a 2% increase in the amount of electricity that the Company uses from renewable sources. In 2015 the Company switched electricity supplier. Now over 95% of all electricity used is from renewable sources.

Customer Engagement

The Company has a number of touch points with its customers and continues to evolve its plans. The CCG has contributed to this dialogue and awaits the publication of a documented customer engagement strategy with specific actions, targets and timetables over the coming months.

The CCG believe the use of metering will provide significantly greater understanding of the usage patterns of customers and has the potential to improve the utilization and reduce waste, however at the current time the take-up of metering has been disappointing (30%). The CCG encourages the Company to redouble its efforts in this area.

To increase meter penetration, in 2016/17 the Company will:-

- Promote metering over the phone to those customers that would benefit financially
- Send out leaflets via email to unmeasured customers promoting metering
- Put metering messages on our contractor vans
- Update the back of Portsmouth Water envelopes to promote metering
- Promote metering at events in the local area.

Terms of Reference

Following publication of Water 2020 by Ofwat, the Terms of Reference of the CCG will be expanded to include participation and review of the PR19 plan, with specific emphasis on customer-impacting areas such as Tariffs, Vulnerability and sustainability.



Lakh Jemmett
Chair of Customer Challenge Group
12 July 2016

Section 1 – Outcome Delivery Incentives (ODIs)

The table below details the ODIs for the Company and performance in 2015/16 against our commitment, or target. Further details on each ODI can be found in the pages below.

ODI Performance 2015/16

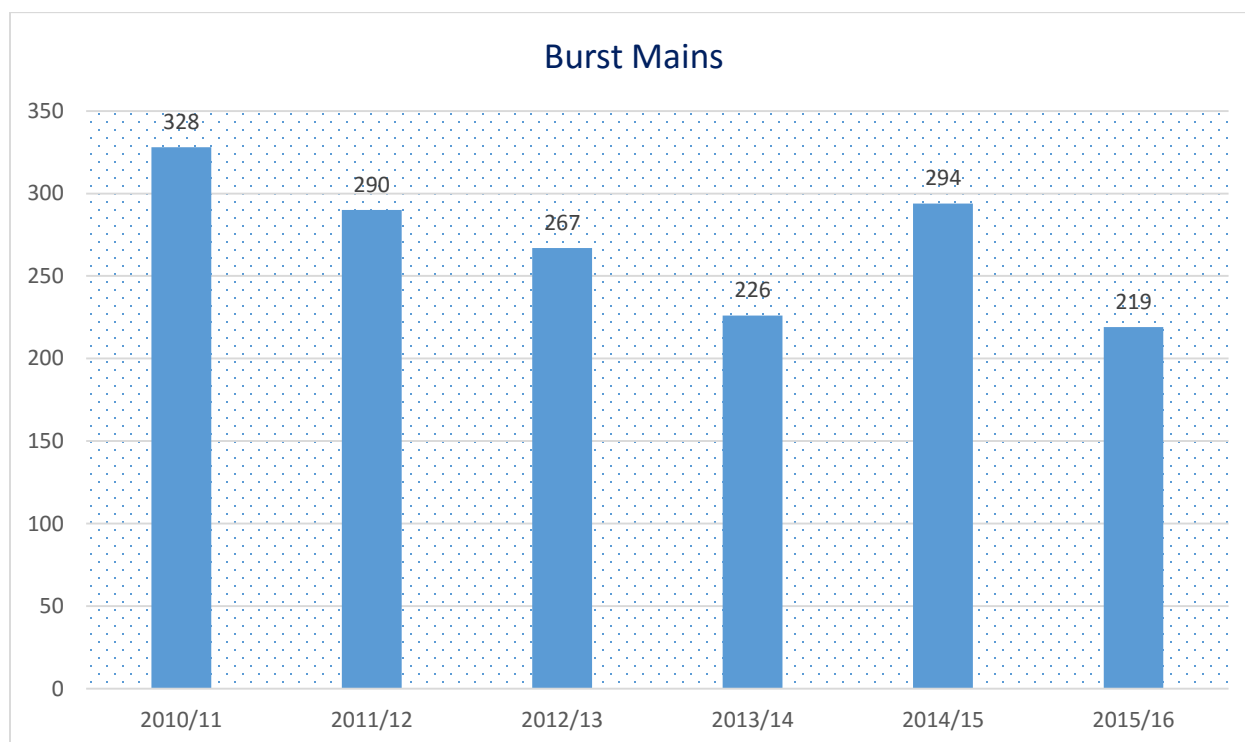
ODIs	Unit	Incentive Type	2015/16 Target	2015/16	2015/16 target met?
Bursts	Nr	Financial	342	219	✓
Mean Zonal Compliance *	%	Financial	99.98	99.94	✗
Water quality contacts *	Nr/1000 population	Financial	0.429	0.570	✗
Temporary Usage Bans	Nr	Reputational	0	0	✓
Leakage	MI/d	Financial	30.00	28.06	✓
Interruptions to supply	Minutes per total properties served	Financial	5 Mins	3 Mins 30 Secs	✓
Biodiversity Action Plan	%	Financial	0	Progress as planned	n/a
Water Framework Directive	Completion date	Financial	No yearly target	Progress as planned	n/a
Carbon	% increase	Reputational	2	Over 95% of electricity used is from renewable sources	✓
RoSPA Accreditation*	Accreditation awarded	Reputational	Awarded	Awarded	✓
Service Incentive Mechanism Quantitative – No. of complaints and unwanted contacts etc. Qualitative – Customer experience survey	Quantitative	Financial	Upper quartile	22.6	✓
	Qualitative		Upper quartile	66.9	
	Total Score		Upper quartile	89.5	
Reducing per capita consumption	l/h/d	Financial	146.63	143.29	✓
Survey of developers	%	Reputational	70	89	✓

* Calendar year 2015

Wholesale water outcome: Safe secure and reliable drinking water**Performance commitment: Bursts**

The number of burst mains experienced in 2015/16 was 219, compared to 294 that occurred in 2014/15. This equates to 66 bursts per 1,000km in the reporting year. 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 typically increases during the winter however with mild conditions, lower numbers were experienced in the winter of 2015/16. A similar level of performance was achieved in 2013/14 and this again was a relatively benign winter. 2014/15 was a higher number of bursts driven in particular by the weather.

We continue to target mains for renewal based on the impact of bursts on customers. The graph below indicates the general reduction in bursts as a result of our approach to renewing our mains.



In the year 2015/16 the number of bursts was significantly lower than the performance commitment of 342. As part of the Ofwat ODI scheme, rewards and penalties apply at the end of the current period and to the average number of bursts over the five year period. If bursts remained at similar levels to the current year over the remaining four years until 2020 a financial reward would be gained. As a result allowed revenue will be increased by £51,000 over the next price review period (2020-2025). This will mean an increase in customer bills of £0.03 per annum from 2020.

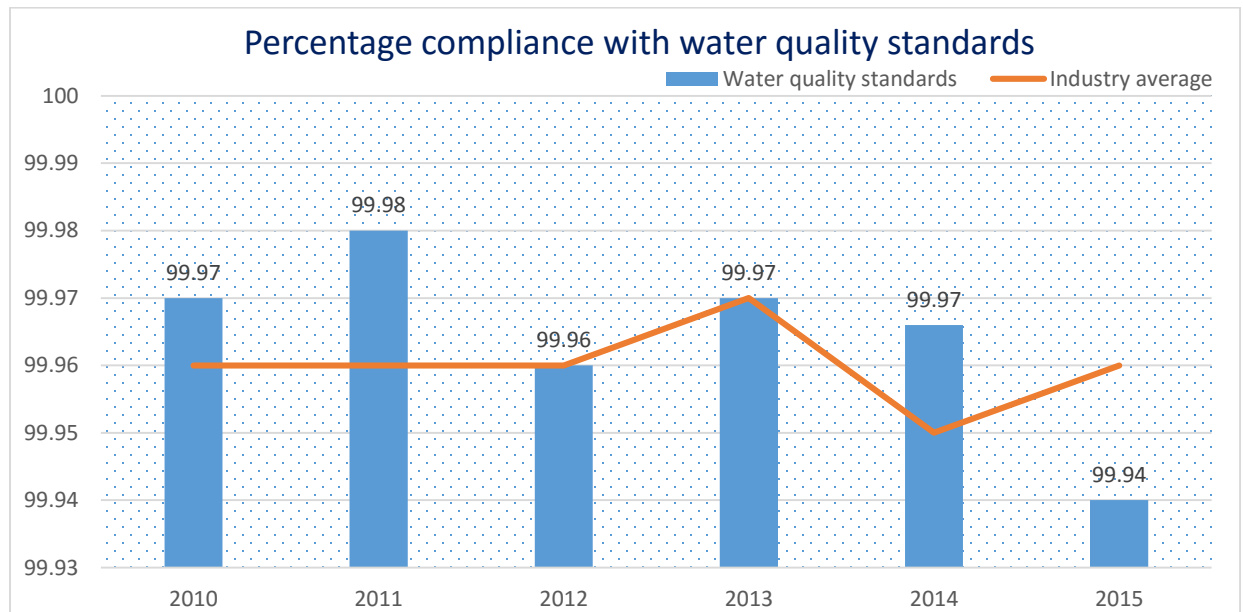
Wholesale water outcome: Safe secure and reliable drinking water**Performance commitment: Water quality standards**

We did not achieve our Water Quality KPI “Mean Zonal Compliance” of 99.95% by a margin of 0.01%. The mean zonal compliance (MZC), which is the representation of overall drinking water quality in customers’ properties is reported to the Drinking Water Inspectorate (DWI) on an annual (calendar) basis. The industry average for 2015 was 99.96%.

During 2015 calendar year the company carried out a total of 15,190 determinations in samples taken at customer taps; four of these failed to meet the relevant standard (1 taste, 1 odour & 2 lead). In each case the issue identified was related to pipework owned by the customer, and not for the inherent quality of the water supplied. The results were disappointingly impacted by failures to meet the lead standards.

In one case the failure was the result of a lead solder joint in a customer’s internal pipework in an area that otherwise had no lead pipes supplying the property. This one failure brought the overall results down from just under 99.97% to 99.94%. The Company is undertaking a programme which is included in our PR14 Business Plan to develop a communication strategy in liaison with local authorities, health professionals and other organisations to make customers more aware of the risks of lead. We also offer customers subsidies towards replacing lead pipework, but these are rarely taken up.

Further we work with an industry group to promote good plumbing workmanship which plumbers can be accredited to giving customers confidence that their work will not impact on water quality.



This ODI failure results in a financial penalty as part of the Ofwat ODI scheme and as a result allowed revenue will be reduced by £319,420 over the next price review period (2020-2025). Penalties apply annually for any year that performance is below 99.95%. This will mean a reduction of customer bills of £0.21 per annum from 2020.

Wholesale water outcome: Safe secure and reliable drinking water**Performance commitment: Water quality contacts**

This measure reflects the number of contacts we receive from customers with dissatisfaction in the taste, odour, or colour of their water. This is calculated as the number of contacts per 1,000 population and is reported annually (for the calendar year) to the Drinking Water Inspectorate.

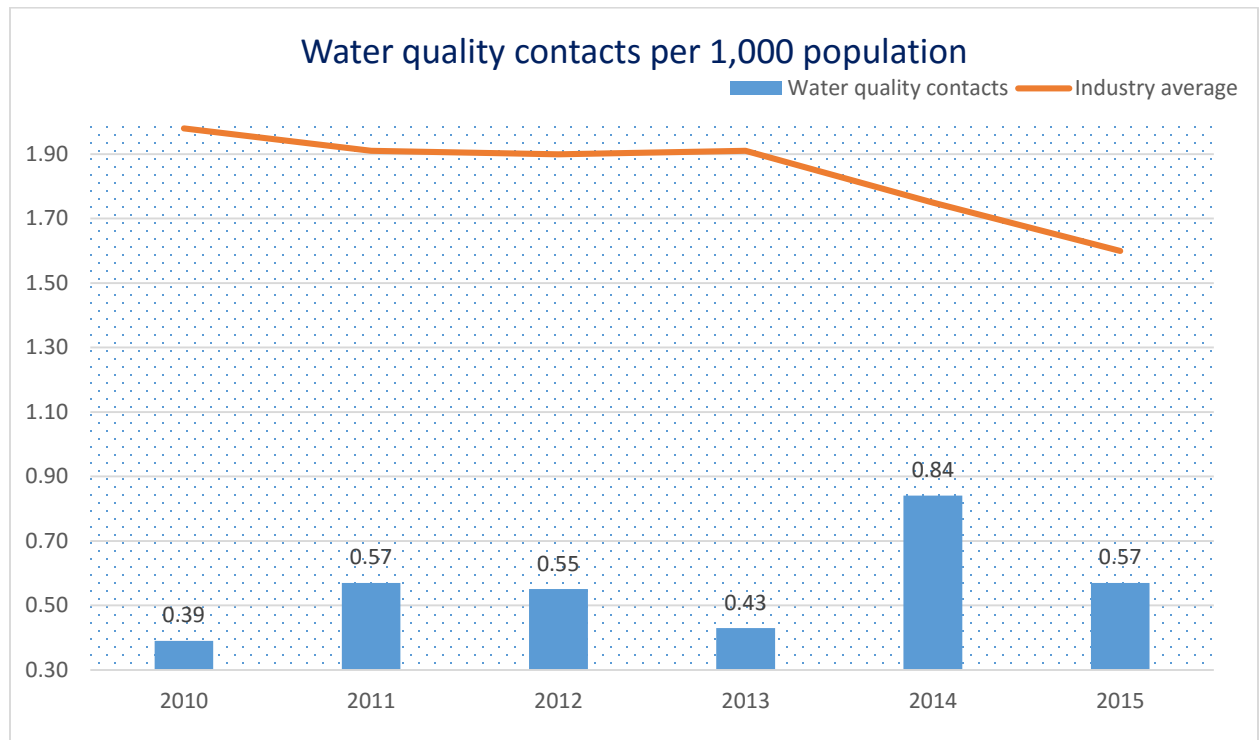
Our target for this period was based on 2012 and 2013 performance. However, as a result of introducing a new Customer Relationship Management System (CRM) we are now recording a greater number of contacts recorded.

We set ourselves a challenging level of less than 0.429/1,000 population. Unfortunately, we reported 398 water quality contacts of this nature which equates to 0.570/1,000 population. Despite this value being above our ODI value it remains significantly below the industry average of 1.6/1,000 population.

We currently have implemented a number of initiatives to further reduce the level of water quality contacts. These include:

- The Company's website includes information on hardness, taste and odour of the water and cloudy water. The hardness section of the website has been updated recently to try and make it easier for customers to find the hardness value for their area. The data is now presented in a table format indicating whether the water is 'soft', 'moderately hard' 'hard' etc. It is hoped that this will reduce contacts of this nature. Further updates are planned in relation to lead and taste contacts.
- Information videos will be available on the Company's website to try and reduce the number of contacts in the future. This will include a video on 'air in water' and will show how customers can identify air.
- Water quality contact data is shared with the Distribution department to analyse if there is any correlation between distribution activities and water quality contacts. This will help in the preparation for "Calm network training" for inspectors on valve operations on the network. This aims to minimise water surges and their associated problems. We are plotting the air in water contacts and analysing the network to evaluate the possibility of any network modifications that may improve air control. A programme of air valve maintenance is also planned once the plotting of complaints is completed.
- Water quality contacts from 2015 have been plotted spatially. Data for 2016 onwards will continue to be included on the maps to enable us to review trends.

The current trend shows that levels are falling on average and we continue to focus on improving performance in this area.



As part of the Ofwat ODI scheme, rewards and penalties apply at the end of the current period and to the average contact rate over the five year period. If contacts remained at this level over the remaining four years of the current period until 2020 a financial penalty would be incurred and as a result allowed revenue will be reduced by £1.7million over the next price review period (2020-2025). This will mean a reduction of customer bills of £1.14 per annum from 2020.

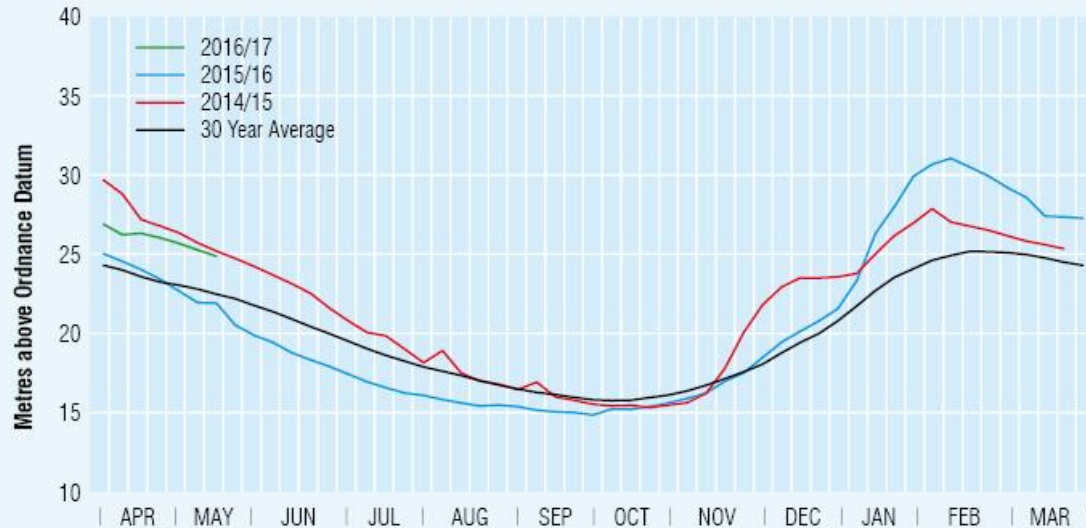
Wholesale water outcome: Safe secure and reliable drinking water**Performance commitment: Temporary usage bans**

This is defined as the introduction of water restrictions on customer usage in the period in accordance with the company's approved drought plan. This is a reputational ODI with no financial incentives.

92% of water supplied to customers is from groundwater springs and boreholes which abstract from the underground chalk of the South Downs. Groundwater levels are, therefore, critical to maintaining supplies to customers.

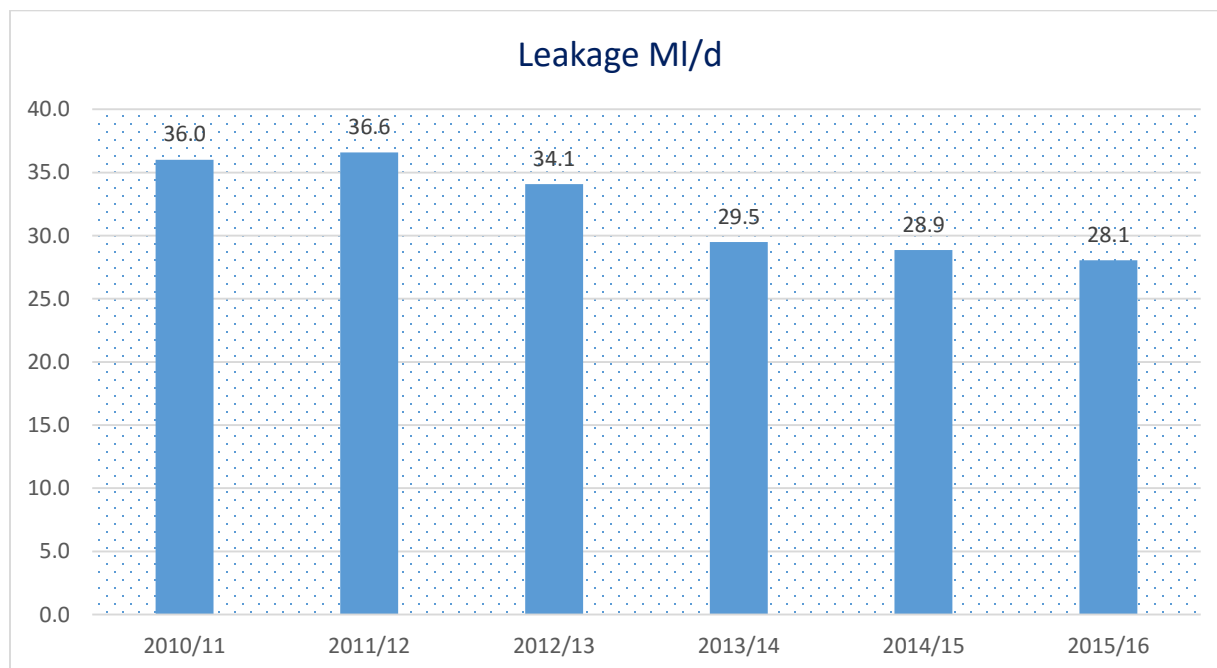
The Company has for many years monitored the groundwater levels at Idsworth Well, Rowlands Castle. The Company has not had to impose restrictions on our customers since 1976 and, as a result of the current groundwater level, it is unlikely to do so this summer (summer 2016). Groundwater levels at the end of April 2016, were above the long term average as outlined on the graph below, which includes the thirty year average at the end of March 2016.

Trends in Groundwater Levels



Wholesale water outcome: Less water lost through leakage**Performance commitment: Leakage**

For the year 2015/16 average leakage is calculated post Maximum Likelihood Estimate (MLE) at 28.1 MI/d. This is an improvement on last year and is better than the performance commitment of 30.0 MI/d.



There was not one single reason for out-performance of this ODI, but instead the low figure was as a result of number of factors which each had an impact. We began the year in a healthy position. At the start of April, leakage was at 27.9 MI/d and this was as a result of additional resource targeted at increasing leakage detection during the previous winter.

Leakage then remained steady, and significantly below target, throughout the summer and autumn (with the exception of a short summer peak). By the end of autumn, leakage had dropped as low as 26.0 MI/d. An uncharacteristically warm December and subsequent late winter also helped to ensure that the traditional winter peak was not as high as normal. Leakage only began to rise in mid-January and only then reached a high of 31.3 MI/d in comparison to a winter peak of 33.5 MI/d in the previous year.

As part of the Ofwat ODI scheme, rewards and penalties apply at the end of the current period and to average leakage over the five year period. If leakage remained at this level over the remaining four years of the current period until 2020 a financial reward would be gained and as a result allowed revenue will be increased by £118,000 over the next price review period (2020-2025). This will mean an increase in customer bills of £0.08 per annum from 2020.

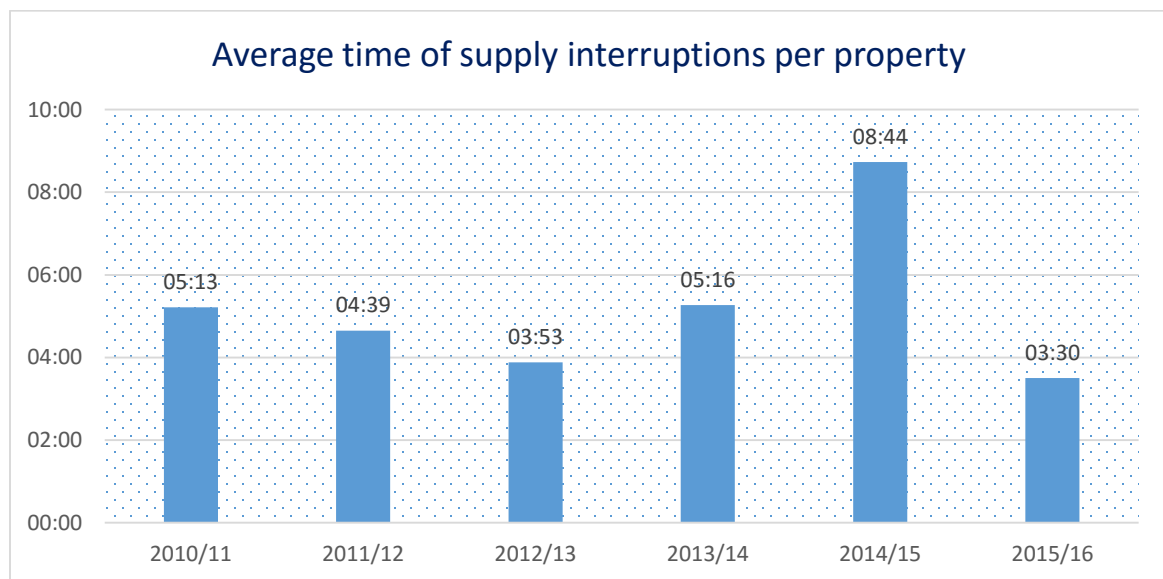
Wholesale water outcome: High quality service**Performance commitment: Interruptions to supply**

This is defined as the average time of supply interruption per property within the Portsmouth supply area (includes both planned and unplanned interruptions).

Portsmouth Water's customers experienced an average interruption to their supply of 3 minutes and 30 seconds per total properties served, a reduction from 8 minutes and 44 seconds in the previous year as a result of less planned renewals than forecast.

The primary reason for the performance is due to better management of planned interruptions, leading to the lowest planned interruptions figure in recent years at 1 min 57 seconds from 7 minutes 39 seconds in the previous year. This also reflects a lower level of activity. In 2015/16 we renewed 11.63km of mains compared to 14.51km in 2014/15. We will increase mains renewal activity from 2016/17 onwards to ensure we meet our regulatory obligations.

However, the level of unplanned interruptions was close to the long term average in 2015/16, at 1 min 32 seconds. Despite a similar number of interruptions over 3 hours to previous years, an increase in the number of properties affected per interruption has led to an increase compared to the past few years.



In the year the performance commitment of 5 minutes per property has been met. If interruptions remained at this level over the remaining four years of the current period until 2020 a financial reward would be gained and as a result allowed revenue will be increased by £91,000 over the next price review period (2020-2025). This will mean an increase in customer bills of £0.06 per annum from 2020. However, as the mains renewals schemes increase in future years, we note that the current year performance is not likely to be indicative of future performance.

Wholesale water outcome: An improved environment supporting biodiversity**Performance commitment: Biodiversity**

The Company has made a commitment, as part of our Outcomes, to support conservation and biodiversity. A Biodiversity Action Plan is to be agreed with relevant stakeholders including our CCG. As part of the Ofwat price determination we have increased our budget in this area in order to undertake more conservation and biodiversity projects.

During 2015/16 we used a specialist consultant to perform new ecological surveys across 52 of our sites. This has helped us to produce a priority list of biodiversity actions. During the winter of 2015/16, following consultation with Natural England and our CCG, we completed a number of high priority conservation projects.

- Restoration of chalk grassland on south facing slopes at our Farlington Water Treatment Works by the removal of invasive non-native scrub. This will be an ongoing project for a number of years to ensure any regenerating scrub is removed.
- Replacement of fences and removal of scrub at Nore Hill reservoir (which is no longer in operation) to facilitate sheep grazing. This will help us restore the chalk grassland habitat. The grazing will keep the grass short and inhibit scrub regeneration, which benefits wild flowers such as orchids and butterflies.
- Removal of scrub at the Fort Southwick Reservoir site to restore chalk grassland and provide sheltered bays for butterflies and other insects.
- Working with the National Trust and a local bat specialist, to open up the abandoned underground reservoir at Slindon to establish whether it may be suitable to house bats.

The commitment is to achieve 90% of the agreed plan by the end of 2020 and this will determine whether a penalty of £44,000 for each 10% of the plan not achieved should apply. If this is the outcome it would result in a reduction of customer bills of £0.03 per annum from 2020.

Wholesale water outcome: An improved environment supporting biodiversity**Performance commitment: Water Framework Directive**

Obligations under the Water Framework Directive are required to be complete by 2021. The Company commits to deliver by 31 March 2018, with a penalty for later delivery and a reward for earlier delivery.

The Company has two National Environment Programmes schemes, as part of the Water Framework Directive, to be completed by March 2018.

As part of the National Environment Programme Portsmouth Water were asked to improve the River Ems for fish and invertebrates. This has been done by a combination of river channel improvements and a variation of an existing abstraction licence.

The river channel at Deepsprings' was too wide and straight for a chalk stream. This reduced the ability of the river to remove silt and limited the development of plants such as Water Crowfoot.

In association with the Arun & Rother Rivers Trust, and the Wild Trout Trust, we re-modelled the river bank and created a series of pools and riffles. Fencing has also been provided to prevent cattle from trampling the new river banks.

In addition to our scheme additional river restoration work has been carried out downstream. This included weir removal, channel improvements and additional fencing. It is anticipated that a greater length of river will now be used by migratory fish such as Sea Trout and Salmon.

To support this restoration a licence variation is currently with the Environment Agency for approval and will provide an increased volume of augmentation water discharged further upstream. This water will flow through the 'Deepsprings' section of river and ensure that the improvements are sustainable under dry conditions.

The second scheme is on the River Hamble and will be principally undertaken during autumn 2016.

The commitment is to complete the programme, signed off by the Environment Agency, by 2017/18. A reward of £7,000 per year of earlier completion and a penalty of £10,000 per year for later completion will apply at the end of the period and will affect allowed revenue in the next price review period (2020-2025). Early completion will mean an increase in customer bills of £0.005 per annum from 2020. Late completion will mean a reduction of customer bills of £0.007 per annum from 2020.

Wholesale water outcome: An improved environment supporting biodiversity**Performance commitment: Carbon**

As part of our business plan we have committed to increasing the amount of electricity that we use from renewable sources by 10% by the end of the current five year period.

The target for the year 2015/16 was a 2% increase in the amount of electricity that it uses from renewable sources. In January 2015 the Company switched electricity supplier. Over 95% of all electricity we use is from renewable sources and thus we consider we have achieved this ODI.

Further we address carbon emissions in a number of different ways;

- Operate solar arrays at 5 of our water treatment works.
- In June 2016 relating to 2015/16 we completed our Energy Savings Opportunities Scheme (ESOS) in compliance with new legislation.

We will continue to investigate the feasibility of sustainable wind and solar energy projects and other renewable technologies where cost effective.

We continue to work towards further reductions in our power consumption including;

- Enhancing telemetry controls monitoring power consumption
- Targeting investment to optimise pump operation, reduce our base level power requirement and through life monitoring of pump efficiency.
- This is the first year we have also participated in National Grid's Demand Side Balancing Reserve (DSBR) where we switch off our pumps during times of peak demand, to assist the Grid in balancing supply and demand in the UK.

This is a reputational ODI with no financial incentives.

Wholesale water outcome: Health and safety culture**Performance commitment: RoSPA accreditation**

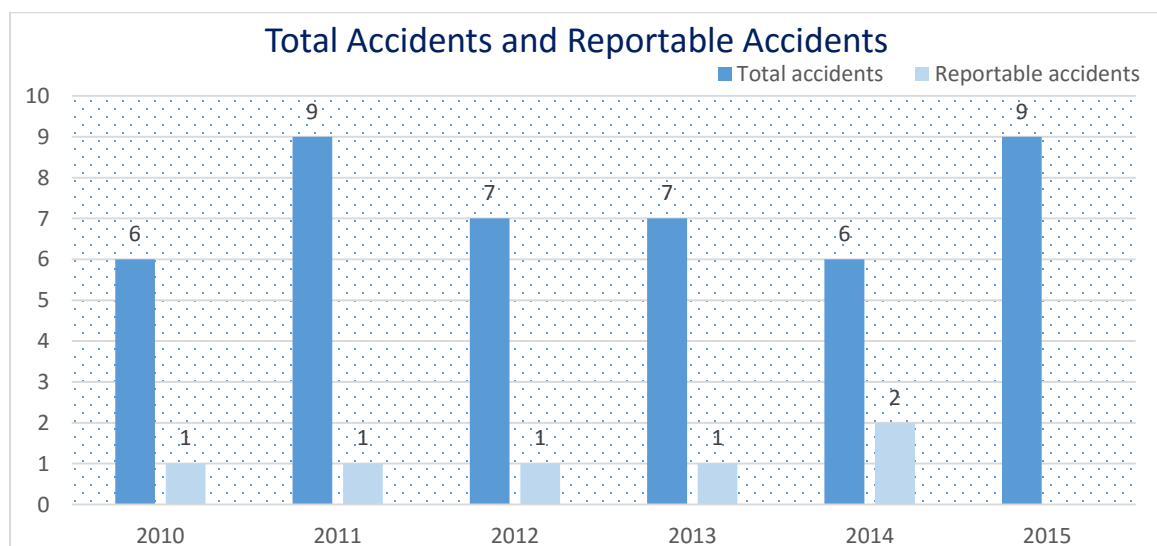
Health and Safety has been a priority within the Company for many years and this focus has driven a very low number of employee accidents with no serious “reportable” accidents in the year. Reportable accidents are those which result in more than 7 days off work.

We continually review our working practices, challenge ourselves and our colleagues to ensure we put safety first. We are proud of our safety record in recent years but we encourage a culture of continuous focus and improvement. We introduced a new approach to H&S during the year which we called “hearts and minds”. Much of our historic approach to H&S has been a top down prescriptive approach. During 2015 we introduced “hearts and minds” with the intention of driving a ‘bottom up’ engagement with H&S, where our operational staff drive both the culture, appropriate H&S activities and changes.

2016 saw us become the holder of the RoSPA President’s Award for Health and Safety for the second successive year. The President’s Award, is part of the RoSPA prestigious awards scheme and is given to organisations that have demonstrated excellence in the area of Health and Safety consistently for 10 years or more.

The President’s Award acknowledges our achievements in the previous 11 years, of winning 10 gold level awards and an Industry Sector award. The performance commitment is to be awarded RoSPA annually.

This is a reputational ODI with no financial incentives.



Retail outcome: High quality service**Performance commitment: Service incentive mechanism**

Ofwat use a methodology for measuring customer service known as the Service Incentive Mechanism (SIM). This seeks to measure the quality of service provided by companies. The SIM is divided into two elements:

Quantitative - measured by:

- The number of unwanted telephone contacts
- The total number of written complaints
- The number of escalated written complaints
- The number of CCWater investigations where a complaint was not resolved by a company

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.

The performance commitment is to achieve a score in the upper quartile within the industry and we will know this following publication of all data, on 15 July 2016.

The table below shows the performance for 2015/16.

SIM scores			
Quantitative Measure	Number	Multiplier	Total
Unwanted Phone Contacts	11,609	1	11,609
Written Complaints	260	5	1,300
Escalated Written Complaints	14	100	1,400
CCWater Investigated	0	1,000	0
			14,309
Connected Properties at year end			297,308
Quantitative SIM Score			22.6
Qualitative Measure	4.57		66.9
Total SIM Score			89.5

We have seen an improvement in the number of unwanted contacts recorded. With further training and process improvements we would expect to see this performance continuing to improve.

An unwanted contact is a phone contact received from customers that are 'unwanted' from the customer's point of view. This includes a contact about an event or action that has caused the customer unnecessary aggravation (however mild). It also includes repeat or chase calls by the customer to the company.

For 2015/16, Portsmouth Water had 8.8 complaints per 10,000 customers. This is a reduction on last year's 10.9.

In the Qualitative assessment for the four quarters in 2015/16 the Company was ranked 1st of the 18 companies with 4.57 points out of 5.0. The Company's overall Qualitative score was 22.6 and the Quantitative score was 66.9.

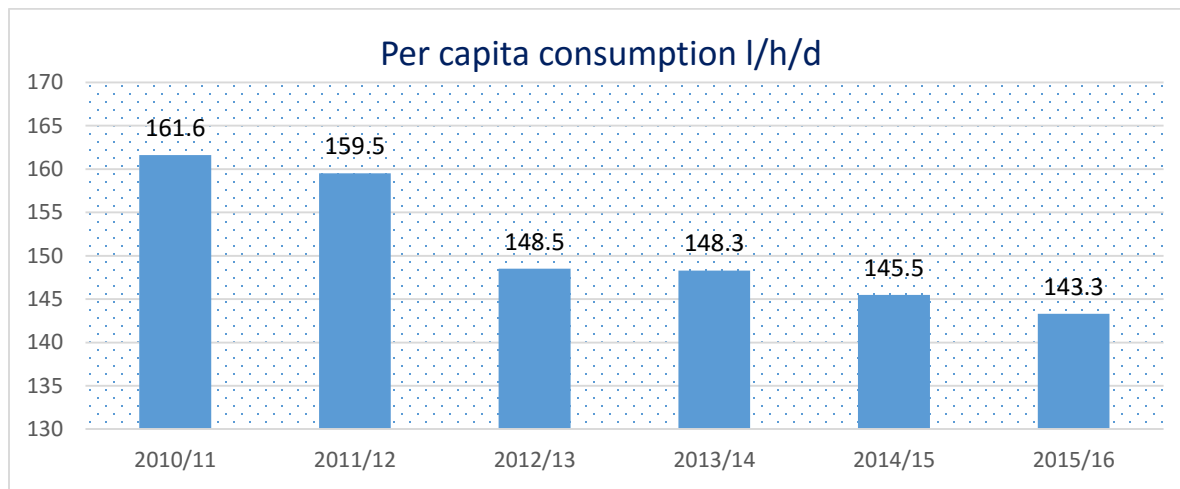
From April 2015 the SIM calculation was revised to include only household contacts. The weighting of the two elements of the score, quantitative and qualitative, was revised to 25 and 75 respectively out of a possible total of 100.

This therefore, gives Portsmouth Water a total score of 89.5. The changes to the calculation this year means that no direct year on year comparison can be made.

Rewards and penalties apply at the end of the current period in 2020. We do not know yet which position we will achieve in the industry performance ranking therefore are not able to calculate a predicted reward or penalty.

Outcome: An improved environment supporting biodiversity**Performance commitment: Reducing per capita consumption**

Per capita consumption was 143.3 l/h/d which is a fall from 145.5 l/h/d in the previous year.



We continue to monitor household usage of our customers to calculate this measure. There are two groups of household customers, those who are metered and we have an explicit volume of usage and those who are not metered. For this latter group we monitor usage of over 1,000 households with their consent. They provide information on occupancy rate and white good ownership. From this sample we estimate how much water all of our unmeasured customers use each day.

Household consumption is heavily influenced by the weather. We experience increases in demand during the summer primarily due to external use in the gardens. A 'wet' summer reduces this demand, and we note the summer of 2015 was not one where we saw significant increases in demand.

In addition to estimating how much water is used, there are also assumptions associated with the occupancy rate for any property. This is something we continue to review.

In this context, the Water Efficiency programme has distributed over 150,000 free water saving devices to our customers since 2010. The Company continues to promote the benefits of saving water to our customers. We are constantly looking for new ways to encourage water saving. We promote ways to reduce water consumption through our website, free devices, community and school events and this year a team was set up to promote the benefits, financial and environmental, of a customer switching to a water meter.

The ODI target is based on reaching a per capita usage figure of 143.9 l/h/d in 2019/20. No penalty will thus be applied until 2019/20.

Retail outcome: Supporting the community**Performance commitment: Survey of developers**

During the year we have undertaken extensive work with developers working with us in order to understand both their experience and expectations of working with us.

The results have indicated that the level of service we provide is good, our communication and quality of work meets their expectation. This is an important customer segment for the business and wider economy and during 2016/17 we will continue to review and refine how we support developers.

The commitment is to achieve a 70% satisfaction rate in the survey relating to the service delivered to developers.

In the year 9 developers participated in the survey which was a representative sample of active developers that Portsmouth Water dealt with in 2015/16.

There was an 89% satisfaction rate with 8 out of 9 developers reporting to be 'satisfied' or 'very satisfied' with their overall dealings with Portsmouth Water.

This is a reputational ODI.

Section 2 - Other KPIs

In response to requests from stakeholders we report our performance against various other KPIs. The Reporter also provided assurance on these items; see pages 36 - 40.

Abstraction Incentive Mechanism (AIM)

The AIM encourages water companies to reduce the environmental impact of abstracting water at environmentally sensitive sites where water is scarce. The IM complements the existing tools to reduce abstraction from sensitive sites, such as abstraction licence volume changes, or adding abstraction licence conditions which require abstractions to cease during periods of low flows.

Data for two sites were collected for the business plan and a table published with results for six years from 2007/08 to 2012/13.

AIM Data 2015/16

Abstraction Site	2015/16 AIM Performance MI	2015/16 AIM Performance Normalised	Cumulative AIM Performance	Cumulative Normalised AIM Performance
Northbrook	0	0	0	0
Walderton	-1.28	0.98	-1.28	0.98

Abstracting water from these sites has an impact on a river. The company has set a trigger point for the AIM on the rivers. The AIM is considered to be “switched on” when the flow rate of the river is at or below the trigger threshold.

The AIM performance is based on Q95 flows and recent actual abstraction. The Q95 flow is a significant low flow parameter particularly relevant in the assessment of river water quality consent conditions. It is measured by the flow in cubic metres per second which was equalled or exceeded for 95% of the flow record.

At Northbrook the flow trigger was not reached and the AIM performance was zero. This source affects the River Hamble which is the subject of a Portsmouth Water River Restoration Scheme. When completed in 2017/18 it may be possible to remove this site from the AIM register.

At Walderton the flow trigger was reached on four days but abstraction was less than the recent average. A negative volume is reported and this comes forward to the cumulative total. The normalised performance is less than 1.0 because the total abstraction was less than the recent average. This source affects the River Ems where a River Restoration Scheme has been completed.

In dry conditions the company pumps water into the River Ems to support ecology and has extended the length of river that benefits from river support upstream and we have recently varied the Walderton Licence to include a revised trigger flow. It is proposed to remove Walderton from the AIM register in 2016/17 where the river restoration scheme on the Ems is complete.

Meter Optants

All domestic customers are entitled to be charged in relation to the volume of water used. Thus those who currently pay in relation to the rateable value of their property or a fixed licence fee are normally able to have a meter installed free of charge.

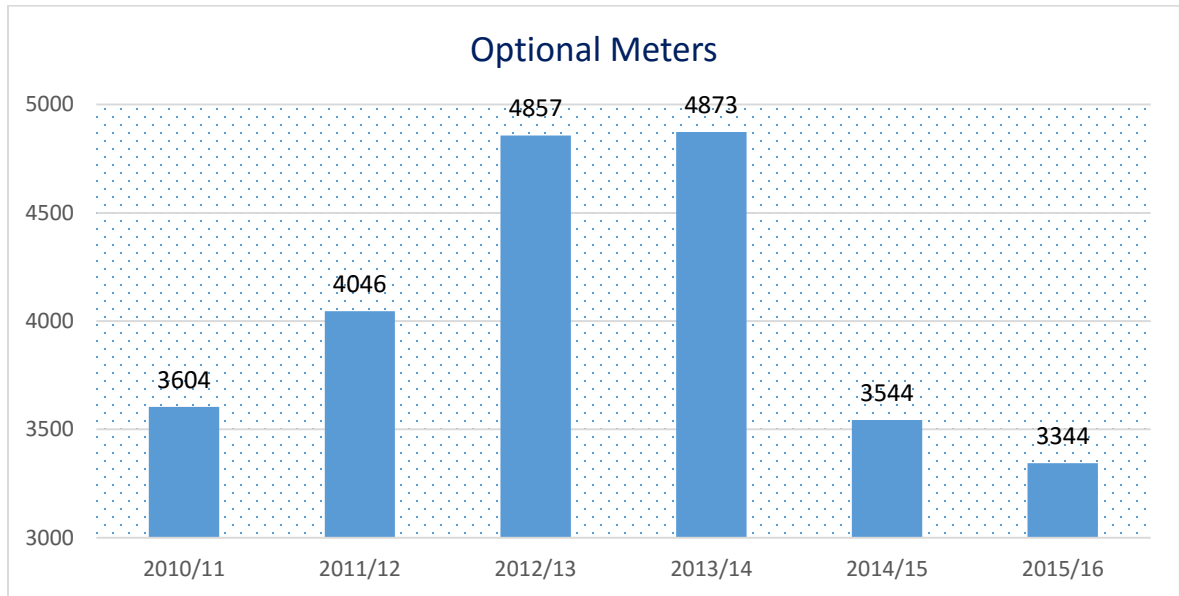
Following a drop off in the number of optional meters in 2010/11 the Company increased its publicity to promote switching to a meter. This coincided with a warm summer and bill increases by the sewerage provider, Southern Water. Our publicity highlighted the savings that some customers are able to make 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).

Our Business Plan commitment was to promote metering to customers who would benefit from a financial point of view. The Company proposed to install 5,500 domestic meter options per year, and in 2015/16, 3,344 customers chose to switch to a measured supply as part of the optional metering. Initiatives planned for 2016/17 to increase meter penetration, include the following:

- Promote metering over the phone to those customers that would benefit financially
- Send out leaflets via email to unmeasured customers promoting metering
- Put metering messages on our contractor vans
- Update the back of Portsmouth Water envelopes to promote metering
- Promote metering at local community events

At March 2016, domestic meter penetration for the Company was 27% of household customers, an increase of 2% from last year. The Water Resources Management Plan assumes that 70% metering penetration will be achieved by 2039/40.



Compliance with Annual Abstraction Licences

The annual average distribution input dropped from 168.8 MI/d in 2014/15 to 166.8 MI/d in 2015/16. The volume of water distributed is influenced by many things, including the weather. We experienced above average rainfall in August 2015 which suppressed demand. The peak week of 193 MI/d occurred in early July with warm weather and low rainfall.

Annual 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.

Abstraction from the Company's sources in 2015/16 was as shown in the table below.

Source	Annual Abstraction - MI/Yr					
	Source Licence	Source Actual 2015/16	Group Licence	Group Actual 2015/16		
Northbrook	7,487	6,423	7,487	6,423		
Lower Upham	640	0				
West Street	3,328	2,543				
West Meon	166	26				
River Itchen	15,916	4,979				
Maindell	2,491	391				
Soberton	3,294	1,230	3,294	1231		
Newtown	695	1				
Worlds End	8,296	3,785				
Lovedean	4,148	1,136				
Havant & Bedhampton	35,770	19,405				
Walderton	9,955	7,228	23,740	16,622		
Woodmancote	1,364	58				
Fishbourne	3,741	1,435				
Funtington	2,920	2,053				
Lavant	9,950	5,848				
Brickkiln						
Eastergate		2,481	10,358	6,069		
Westergate		580				
Slindon		607				
Aldingbourne		2,371				
Total	110,161	62,579	44,879	30,345		

Guaranteed Standards of Service

We operate a compensation scheme as part of our Customer Charter. This includes the service standards as set out in law, under the Guaranteed Standards Service (GSS) scheme. If we fail to meet any of the standards outlined in the GSS guidelines, customers are entitled to a compensation payment. The GSS standards cover the following areas;

- Making and keeping of appointments with customers
- Responding to account queries
- Responding to complaints
- Dealing with interruptions to the water supply (planned and unplanned)
- Levels of water pressure

Our company Customer Charter is enhanced beyond the GSS standards. In addition to the GSS standards we will pay compensation if the water meter is not read at least once within a 12 month period. 6 customers received a GSS payment in 2015/16 for this reason. We also increase the compensation payment amounts beyond what is required in the GSS standards from £20 to £30 for domestic and £50 for commercial customers.

In the year 2015/16 the company made 110 GSS payments which is a reduction from 139 in 2014/15.

Detail is shown in the table below:-

	2014/15	2015/16
Making and keeping of appointments with customers	25	27
Responding to account queries	10	10
Responding to complaints	3	4
Dealing with interruptions to the water supply (planned and unplanned)	91	63
Levels of water pressure	0	0
Meters not read	10	6
Total	139	110

The company is reviewing the appointment management procedures of smaller contractors in 2016/17 and is updating the internal methodology and code of practice to improve the appointment processes.

WaterSure and other affordability programmes

In recent years the country has seen increasing levels of household debt. Accordingly the Company pays close attention to how we support customers who may be struggling to pay their water bill. We have a number of options available to support these domestic customers.

Customers can apply to be placed on the WaterSure Tariff. This tariff is for measured vulnerable customers who are in receipt of certain benefits and have a medical condition that requires an individual to use more water or have 3 or more children under the age of 19 resident in the property. These customers have their measured bills capped at our average bill value.

At the end of 2015/16 there were 255 customers on the WaterSure tariff.

We introduced our Arrears Assist Scheme in May 2014. Through this scheme we encourage customers back into making regular payments by matching the payments we receive £ for £. We currently have about 250 customers on this scheme with nearly 100 having completed it. We have found the Arrears Assist Scheme has been successful in encouraging customers to engage with us about payment of their water accounts. It also enables us to better understand our customers' financial situation and the hardships they are facing.

We also operate a scheme called WaterDirect. Customers who receive certain benefits from the Department of Work and Pensions, and are in arrears on their bills, can request that water bill payments are deducted straight from their benefits.

Finally we have in house Visiting Officers whose role is to engage with hard to reach customers, and agree a repayment plan that fits a customer's financial situation. Our Visiting Officers will also discuss the repayment schemes above, water efficiency tips and may refer the customer to a Money Advice Centre if they believe this to be beneficial for the customer.

Extensive customer research was undertaken as part of our proposal to introduce a "Social Tariff" to support customers who find it difficult to pay. We are pleased to announce that our customers overwhelmingly supported a Social Tariff which will see a small general increment in customers' bills in order to support those in genuine difficulty. This tariff will be launched in July 2016 and will compliment a range of services we already offer to support those in society that need help. We have liaised with Southern Water over the application process alignment for the wastewater bill.

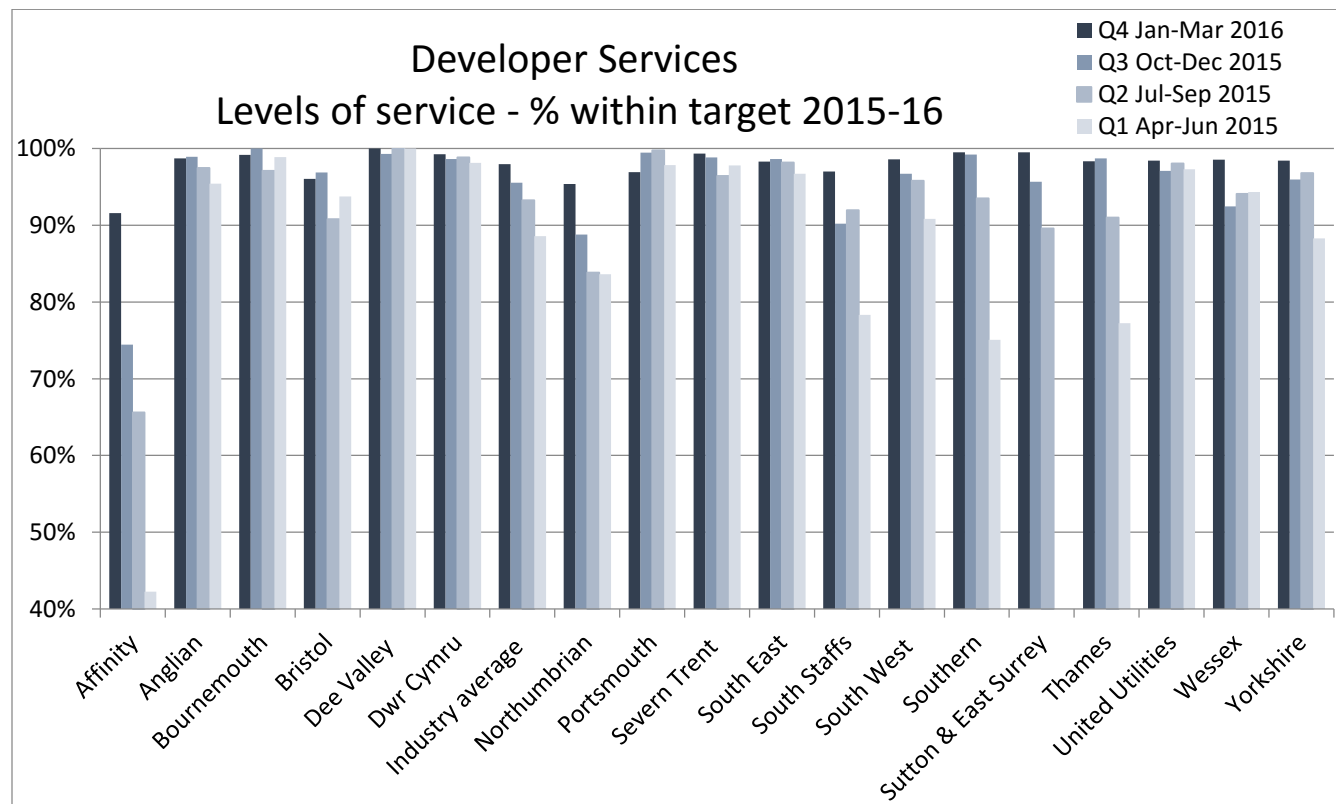
Levels of Service for New Development

During the year 2015/16 the industry published, for the first time, its performance relating to developers.

Further, there has been significant discussion between the water industry and trade bodies representing housebuilders in the year.

The level of service provided by the Company to this important class of customer is consistently close to 100% and one of the best in the industry.

This KPI should be read in conjunction with our developer survey shown on page 26. We believe the level of service demonstrated in this graph is consistent with the high degree of satisfaction achieved in the survey.



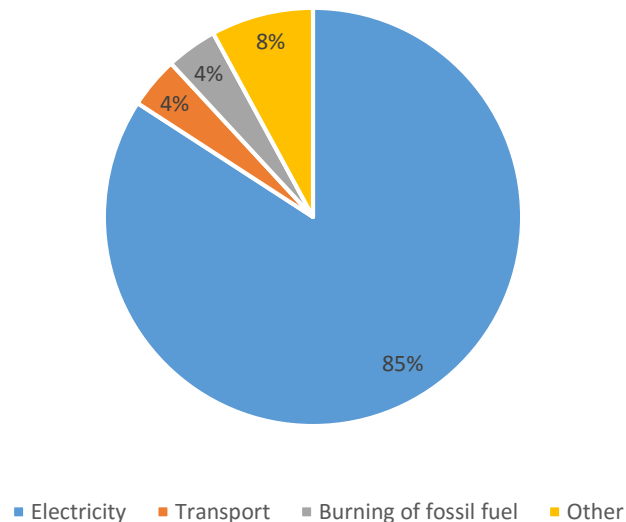
Greenhouse gases

Our Gross Operating Emissions has fallen from 12.5 tCO₂e to 11.8 tCO₂e in the year. The table below shows how this has been achieved. Our analysis has been prepared in accordance with the UKWIR methodology and reflects advice from Defra on the appropriate conversion factors for many items to establish the units which relate to carbon dioxide.

The classifications of activity, shown in the table below, are used in the assessment:-

Component	2014/15 tCO ₂ e	2015/16 tCO ₂ e
Burning of fossil fuel	181	444
Transport for operational staff	543	412
Electricity	10,553	10,025
Business travel	24	47
Outsourced activities	367	58
Transmission and Distribution associated with electricity	923	828
	12,592	11,813

Our GHG intensity ratio has reduced from 181.4kg CO₂e / MI in 2014/15 to 179.2 kg CO₂e / MI to for 2015/16. By far the largest component is electricity as shown in the diagram below. Our activities focus on reducing this requirement.



Note to chart: Other includes outsourced activities and transmission and distribution associated with electricity.

WS Atkins report**1. Introduction and Scope of work**

This report reflects our findings from the 2016 assurance activities that we have carried out for Portsmouth Water. Atkins are engaged by Portsmouth Water on an entirely independent basis, and the findings of the annual assurance process are delivered to the Audit Committee without influence or censor by Portsmouth Water's management team.

As a result of changes in the regulatory reporting environment for AMP6, specifically relating to the Outcome Delivery Incentives (ODIs) and the new expectations for company reporting set out within Ofwat letter IN 15/18, our scope of audit and assurance changed this year. Our audit activities are now designed to support Portsmouth Water's Final Assurance Plan, dated March 2016, which they submit to Ofwat to demonstrate assurance across the full range of regulatory outputs that they have to report. We incorporate the following activities:

- Assurance relating to the Annual Performance Report, and specifically the Outcome Delivery Incentive reporting contained within that report. Our scope includes all ODIs.
- Assurance relating to the Compliance Statement, with a focus on Guaranteed Standards of Service (GSS), Developer Services and compliance with abstraction licences.
- Other matters. These cover internal reporting processes that are likely to be required for future business planning activity and are not relevant to the annual reporting process. We have not therefore included them within this report.

We carry out our audits using a risk based approach, whereby we focus our attention on those parts of the reporting systems and ODIs that are most likely to be subject to assumptions, errors or inconsistency with the way that the ODIs were set in the PR14 Business Plan. We do this based on our experience of the systems and processes involved, combined with other sources of information such as Portsmouth Water's assurance risk assessment and our evaluation of the cost consequences of likely levels of uncertainty in the ODI reporting systems. We propose an audit schedule and audit meeting programme based on those considerations, and can confirm that Portsmouth Water agreed to all of our proposed audit activities for the 2016 audit.

Many of the items that we audit inherently contain an element of uncertainty, so it is not possible to assure their absolute accuracy. Our audits are therefore targeted towards evaluating whether the Company's reporting processes support the provision of reliable, accurate and complete data within the published reports, and specifically to establish 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 reporting obligations;
- the Company has sufficient processes and internal systems in place to identify, manage and review risks in the accuracy of reported data; and

- the Company's explanations of how it will manage and/or mitigate material or potentially material reporting risks are soundly based.

Although uncertainty exists, we note that the purpose of the ODI reporting within the Annual Performance Report is to monitor the progress of the Company against the targets that it set itself within its 2014 Business Plan. As a result our assurance includes an evaluation of the consistency of reported figures with the methods, calculations and key assumptions that were used to set the targets for the PR14 Business Plan. Where inconsistencies exist, we provide commentary on their significance.

Our scope is confined to the numerical reporting systems used to provide data relating to the areas of scope coverage described above. We are not responsible for assurance relating to financial reporting, Health & Safety reporting or compliance with legal requirements under the Water Industry Act.

2. General Comments on Governance, Processes and Reporting

The majority of ODIs are based on systems of data captured that were in place before the requirement for specific ODI reporting started in the current report year. We have therefore been able to review and compare the adequacy of systems and procedures in comparison to those that were used to set the baseline and report similar data in previous years. Overall we consider that Portsmouth Water continues to improve its reporting systems and controls, and we did not encounter any areas of reporting that we have previously reviewed where confidence in the reporting systems has deteriorated significantly.

We note that many of the reporting processes are still not fully covered by formal procedure documents. Whilst this is not a strict requirement, it represents accepted good practice for the control of reporting risks and provides a basis for company assurance. As companies are now required by Ofwat to set out their own assurance processes, we would recommend that a system of formal procedures is adopted to allow Portsmouth to provide clear evidence of the process systems, checks and quality assurance that we know it has in place.

Based upon our activities and information collated to date we can state that we believe that:

- We have been given free access to relevant staff and information on request.
- Except where noted below, the processes, procedures and data complied with the required assurance criteria as set out in our scope of works

3. Findings and Issues Raised During Data Audits

For matters relating to the Annual Performance Report, Risk and Compliance Statement and the discharge of statutory obligations, we classify the 'exceptions' that we identify into 'red', 'amber' and 'green' categories. In order to satisfy the changes in reporting requirements we have adapted these to the following definitions:

- 'Red'. These are material issues that mean that either we cannot provide assurance to that area, or there are issues that present a material reporting risk to the company, either in terms of inconsistency with the Business Plan ODIs, or in terms of the Company's ability to understand whether it has discharged its obligations.
- '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 are highlighted within the individual audit summaries that we provide for the Company.

Our key findings are provided below. For reasons of brevity we have not detailed 'green' issues within this report. We note that Portsmouth Water has a process of tracking and acting upon all of our audit recommendations, and confirm that all 'green' items raised during last year's audits have been addressed satisfactorily during the report year.

3.1. *Annual Performance Report and Risk and Compliance Statement*

We did not identify any 'red' issues within the processes and procedures used to report data for these key reports.

Following a process of challenge and response, we consider that there is no only one 'amber' issue that should needs to be highlighted within our audit report. This is described within Table 1 below. We note that this relates to an area of reporting (Per Capita Consumption and the associated water balance) that we have not audited previously. We did not identify any significant concerns with the reporting processes that underpin the other ODIs, although we note that uncertainties in the water balance do increase the uncertainty in the reported leakage figure. Leakage reporting is therefore specifically commented upon after Table 1.

Table 1: Summary of Significant Audit Findings for the 2016 Report

Reporting Area	Nature of Issue	Classification and Rationale
Per Capita Consumption (and the associated water balance)	Portsmouth's water balance calculation, which is used as the standard industry approach for checking on the reconciliation between leakage, customer use and the measured Distribution Input, is reasonable and underpinning assumptions are consistent with the methods used to set the leakage and PCC for the ODIs. However, whilst the Company uses industry best practice for its monitoring of unmeasured household consumption (1000+ individually meter properties within the monitor), there are some assumptions within the PCC model that is used to report from this data that mean the figure has a relatively high level of uncertainty. This is associated with complex issues such as household occupancy rates, and is necessary to maintain a reasonable water balance. It is also entirely consistent with the methods used to set the PCC ODI. However, it is important that the CCG understands that this results in an uncertainty range that could be high (at, or above, +/- 10%) and this will need to be considered when the achievement of performance commitments is being reported on in future years.	Amber – we carried out a detailed estimation of the various counter-balancing uncertainties in the water balance and consider that the reported PCC is likely to be a reasonable 'central estimate'. The risk therefore relates to uncertainty rather than any identified bias.

As Portsmouth Water is aware, the calculations that are used for the calculation of leakage are relatively simple compared with industry norms. This results in uncertainty rather than any identifiable error, and in general we found that the calculation process is closely quality assured and audit records are excellent. We understand that the Company has taken the decision to maintain the current reporting system to ensure that the reported leakage is consistent with the methodology that was used to set the ODI. In light of that we therefore concentrated on testing the process and assumptions for any potential deviation or inconsistencies with the 2013 method that was used to set the ODI, and we can confirm that we did not identify any material inconsistencies.

Where we have audited and commented upon the systems and procedures that underpin the other ODIs in previous years, we consider that Portsmouth Water has taken appropriate action to address those concerns. It should be noted that this includes the Water Quality Contacts ODI, which previously had a 'red' classification, and the unwanted telephone contacts element of the SIM previously had an 'amber' classification. This year our audits have only identified minor,

continuous improvement type issues for both reporting systems, so we have removed the risk categorisation for both items.

In the case of customer contacts for water quality there was some confusion about whether only telephone or all customer contacts should be included (the latter being the case) but this has now been corrected. For unwanted telephone contacts, the processes are generally robust and the audit trails are comprehensive. Although there is still room for further improvements, these are highly unlikely to materially impact the overall SIM score, especially as the quantitative element of the SIM has reduced from 50% of the total SIM score in AMP5, to 25% in AMP6. For the SIM survey, we note that the sample that Portsmouth Water provides to the market research company is reliable and accurate but still has at least one minor process issue to resolve before it can be considered to be entirely complete. However, in our opinion, these areas for improvement are too small to impact in any way on the actual score that Portsmouth Water receives from customers.

We understand that the Biodiversity programme has not yet been agreed, and hence the associated ODI cannot currently be reported against.

3.2. *Statutory and Regulatory Obligations.*

We did not identify any red or amber issues in relation to these items.

The Company's processes for making payments where GSS applies are robust and effective, and we consider that the processes used for identifying and recording potential GSS events is also robust and effective. That includes the recording of customer appointments that are managed directly by the Company, which is notable, as appointments are generally the most difficult area to monitor. As noted in previous years, we could not be provided with any robust audit trails relating to contractor (JTS, Brinn & Co. and Durkins) appointments, so we have no way of checking the reliability of their reporting. Whilst this is unlikely to be a material issue in light of the relative number of appointments involved, it is the one area where we cannot provide assurance that the Company is meeting its obligations.

In terms of meeting standards for Developer Services, whilst we found a few minor areas for improvement during our audits, we are generally satisfied that reporting processes are robust and adequate.

In terms of monitoring compliance with abstraction licence conditions, this is managed using the same system as is used for recording bulk distribution system input. We found robust evidence of meter validation and calibration, thorough quality assurance and audit trail record keeping, and do not therefore have any