



PORTSMOUTH WATER LIMITED

Outcome Delivery Incentives 2015-2020

July 2017

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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 two years 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 apply as of 1 April 2020 and will impact subsequent customer bills.

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 how stakeholders can have, in particular, confidence in companies' published Performance Measures. We published our Final Assurance Plan for 2016/17 reporting in March 2017, following a wide consultation.

Our Data Assurance Summary is published in conjunction with this document. It explains our approach to Data Assurance and provides the Board's position on this issue.

This report is split into six sections:-

- Background, Assurance and Compliance Statement
- Report from the Customer Challenge Group
- Annual Performance and quantification of rewards and penalties on customer bills
- ODIs
- KPIs
- Atkins Assurance Report

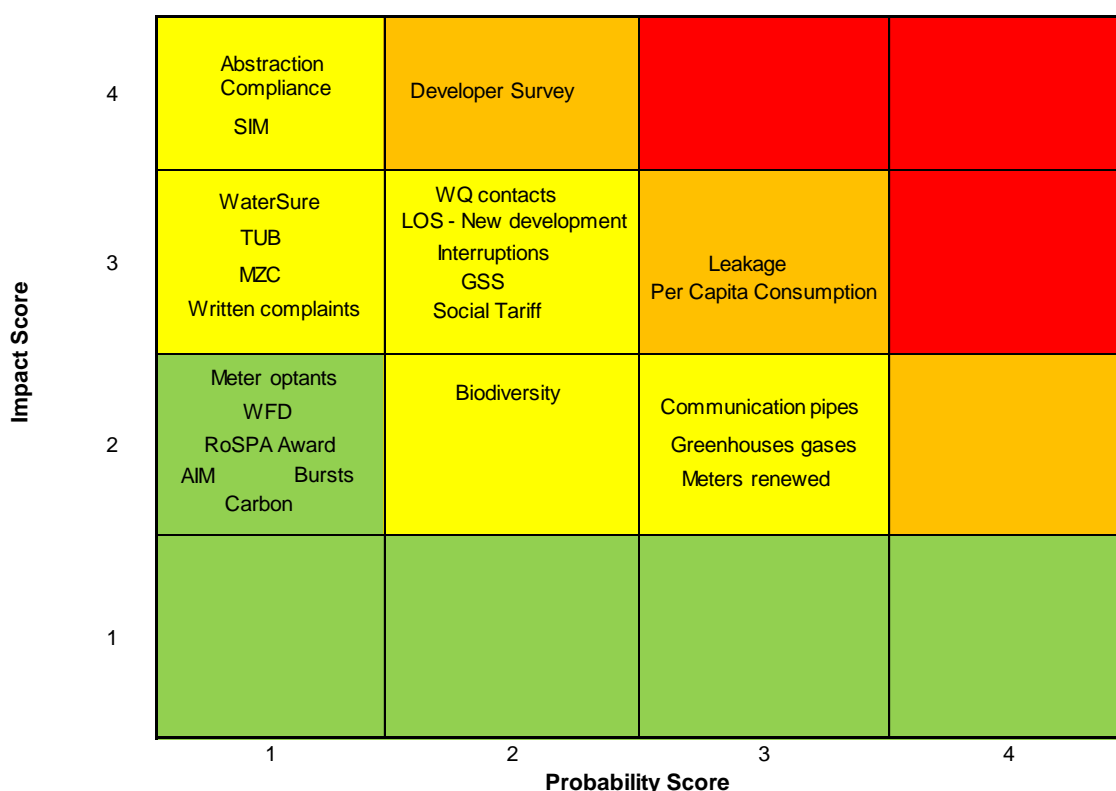
Assurance

Our Reporter from 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 41. He attended the Audit Committee in May 2017 to inform the members of the audit findings. Further on 27 June 2017 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.

Impact and Probability Risk Matrix



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 Atkins scope would include all ODIs (with the exception of mean zonal compliance) and other KPIs as shown in the table following.

Our ODIs and other KPIs 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 or associated illness.
Temporary Usage Bans (TUB)	A restriction on customer use (typically during a dry summer) in accordance with the Company approved Drought Plan
Leakage	An estimate 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 two 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 administered in part by Ofwat to establish customer satisfaction with the service they receive.
Per capita consumption (pcc)	An estimate of the volume of water used each day by our household customers.
Developer Survey	A new initiative, similar to the SIM survey, which establishes the developers' satisfaction with the service they receive from us.
Other metrics	
Abstraction Incentive Mechanism (AIM)	AIM identifies key rivers in the Company area and reposts 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 to customers for failures of service.
WaterSure	The number of customers on this support tariff
LOS - New development	The levels of service (LOS) we provide to developers.
Greenhouse Gas	A quantification, using approved Defra methodology, of the carbon impact of the operation of the business.
Written Complaints	The number of written complaints received by the Company
Social Tariff	The number of customers on this support tariff
Communication pipes	The number of communication pipes in the Company network
Meters renewed	The number of household and non-household meters renewed in the year.

Compliance Statement

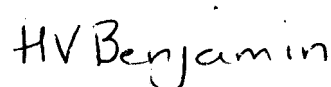
The Board has reviewed this Outcome Delivery Incentives Report and has approved the following statement:

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



H Benjamin
Non-Executive Director
Chair of the Audit Committee

12 July 2017

CCG Report on ODI performance 2016/17

The CCG provides independent challenge and assurance on the quality of the Company's customer engagement and the degree to which customer views shape business planning and activities. It also has a monitoring role to review the performance against the Outcomes (Outcome Delivery Incentives) agreed for the current regulatory period.

ODI Performance 2016/17

The Company has met its targets for 7 of the 9 Outcome Delivery Incentive (ODI) measures, detailed later in this report, it was disappointing to see that two measures were not met; leakage and water quality contacts (the latter was also not achieved in the prior period).

The Company has implemented plans to improve performance in both of these areas. The plans were presented to the CCG in June 2017 and include a detailed programme of works, investment in additional resources and equipment and process improvement. 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 leakage and will continue to monitor the progress of these plans as the company strives to achieve its ODI targets.

Leakage

The Company states that three separate rises in leakage during the second half of the year have resulted in failure against its target and suggests that the leakage increase was primarily as a result of external environmental factors including soil conditions and temperature.

The Company has proposed a recovery plan which has the following three key components; additional leakage detection resources, improved leakage repair efficiency and improved leakage detection efficiency. The Company has offered to share its progress on leakage with the CCG on a monthly basis.

Water Quality contacts

The Company states that, in light of more comprehensive reporting, the target it set for the period is extremely challenging. We note the improvement since 2014 and the fact that in 2015 for example the Company had the lowest number of water quality contacts in the industry.

The Company has proposed an action plan which focuses on the need to ensure the network is operated appropriately when dealing with leakage and bursts in particular. This is focused on reducing the number of contacts relating to the appearance of the water.

Further it has reviewed its customer information relating to water quality and taste in particular. The CCG will monitor performance over the coming year.

Environmental performance

The CCG notes that the Company has also made material progress on its Biodiversity, National Environment and Carbon programmes in the first two years of this AMP period.

Customer Engagement

During the year the Company established an overall plan for the development of its business submission (PR19) for the next 5 year regulatory period. The plan includes a detailed customer engagement component and the company has completed the important step of recruiting a Customer Advisory Panel (CAP) to provide advice on specific business issues.

As the customer engagement plan is further developed and implemented, we will work closely with the Company to provide oversight and challenge on the quality of the engagement and the extent to which it is reflected in the Business Plan.

Terms of Reference

Following publication of Water 2020 by Ofwat, the Terms of Reference of the CCG were 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 2017

Section 1 – Outcome Delivery Incentives (ODIs)

The table below details the ODIs for the Company and performance in 2016/17 against our commitment, or target. Further details on each ODI can be found in the pages below.

ODI Performance 2016/17

ODIs	Unit	Incentive Type	2016/17 Target	2016/17 Actual	2016/17 target met?
Bursts	Nr	Financial	342	298	✓
Mean Zonal Compliance *	%	Financial	99.98	99.99	✓
Water quality contacts *	Nr/1000 population	Financial	0.425	0.665	✗
Temporary Usage Bans	Nr	Reputational	0	0	✓
Leakage	MI/d	Financial	29.95	30.38	✗
Interruptions to supply	Minutes per properties served	Financial	6 Mins	4 Mins 9 Secs	✓
Biodiversity Action Plan	%	Financial	40	Progress as planned	n/a
Water Framework Directive	Completion date	Financial	No yearly target	Progress as planned	n/a
Carbon	% increase	Reputational	4	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	22.5	✓
	Qualitative			65.3	
	Total Score			87.7	
Reducing per capita consumption	l/h/d	Financial	146.6	145.1	✓
Survey of developers	%	Reputational	70	85	✓

* Calendar year 2016

The table below details the impact of our ODI performance in both 2015/16 and 2016/17 and quantifies the potential rewards and penalties that would apply at the start of the next price review period, 2020.

Rewards & Penalties

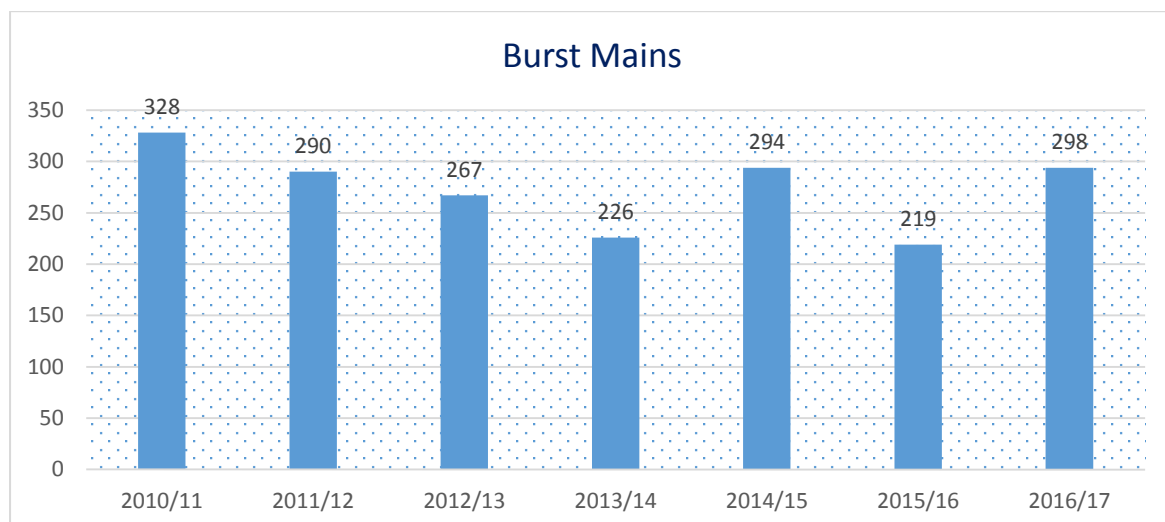
ODIs	Reward / Penalty or Reputational	2015/16	2016/17	Reward / penalty (£000s)	Impact on customer bills (£ pa)	Assumption
Bursts	Reward / Penalty	219	298	0	0	average of 259 is in deadband
Mean Zonal Compliance *	Penalty	99.94	99.99	-320	-0.20	no further performance below 99.95%
Water quality contacts *	Reward / Penalty	0.570	0.665	-1,903	-1.20	capped at 0.505
Temporary Usage Bans	Reputational	0	0	n/a	n/a	No TUB applied
Leakage	Reward / Penalty	28.23	30.38	42	+0.03	average of 29.22 MI/d
Interruptions to supply	Reward / Penalty	3 mins 30 secs	4 Mins 9 Secs	71	+0.04	average of 3 mins 50 secs
Biodiversity Action Plan	Penalty	Progress as planned	Progress as planned	0	0	Signed off by CCG year 5
Water Framework Directive	Reward / Penalty	Progress as planned	Progress as planned	0	0	Completed by March 2018
Use of renewable energy	Reputational	Over 95%	Over 95%	n/a	n/a	Target achieved in year one
RoSPA Accreditation*	Reputational	Awarded	Awarded	n/a	n/a	Target achieved each year
Service Incentive Mechanism	Reward / Penalty	89.5	87.7	800	+0.50	Top quartile
Reducing per capita consumption	Penalty	143.3	145.1	0	0	target of 143.9 l/h/d to be achieved in year 5
Survey of developers	Reputational	89	85	n/a	n/a	Target achieved each year
Total				-1,310	-0.83	

Applying the rewards and penalties to the assumed performance results in a reduction in revenue of £1.310m, spread over the five years from 2020. This equates to an 83 pence reduction per household in 2020.

Wholesale water outcome: Safe secure and reliable drinking water

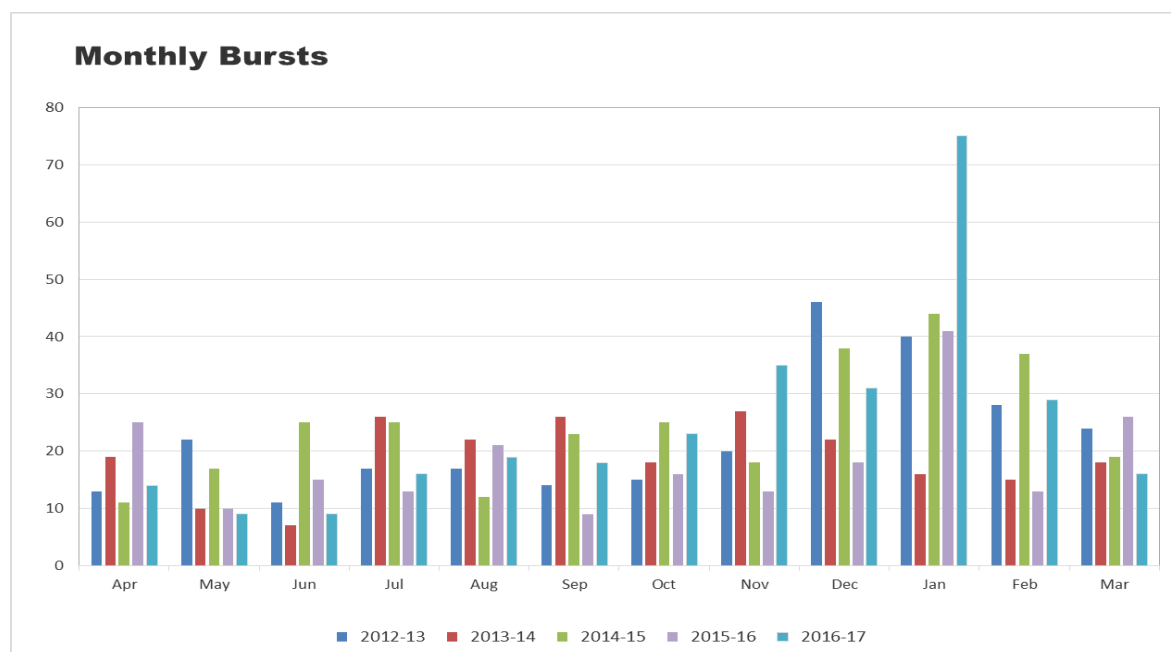
Performance commitment: Bursts

The number of burst mains experienced in 2016/17 was 298, compared to 219 that occurred in 2015/16 and our annual target of 342. It equates to 88 bursts per 1,000km in the reporting year.



Over 25% of the bursts experienced in the year occurred in January 2017 when there was a number of cold snaps resulting in rapid temperature changes. We noted that last year, that 2015/16 was a relatively benign winter.

The chart below shows the monthly number of bursts over the last five years.

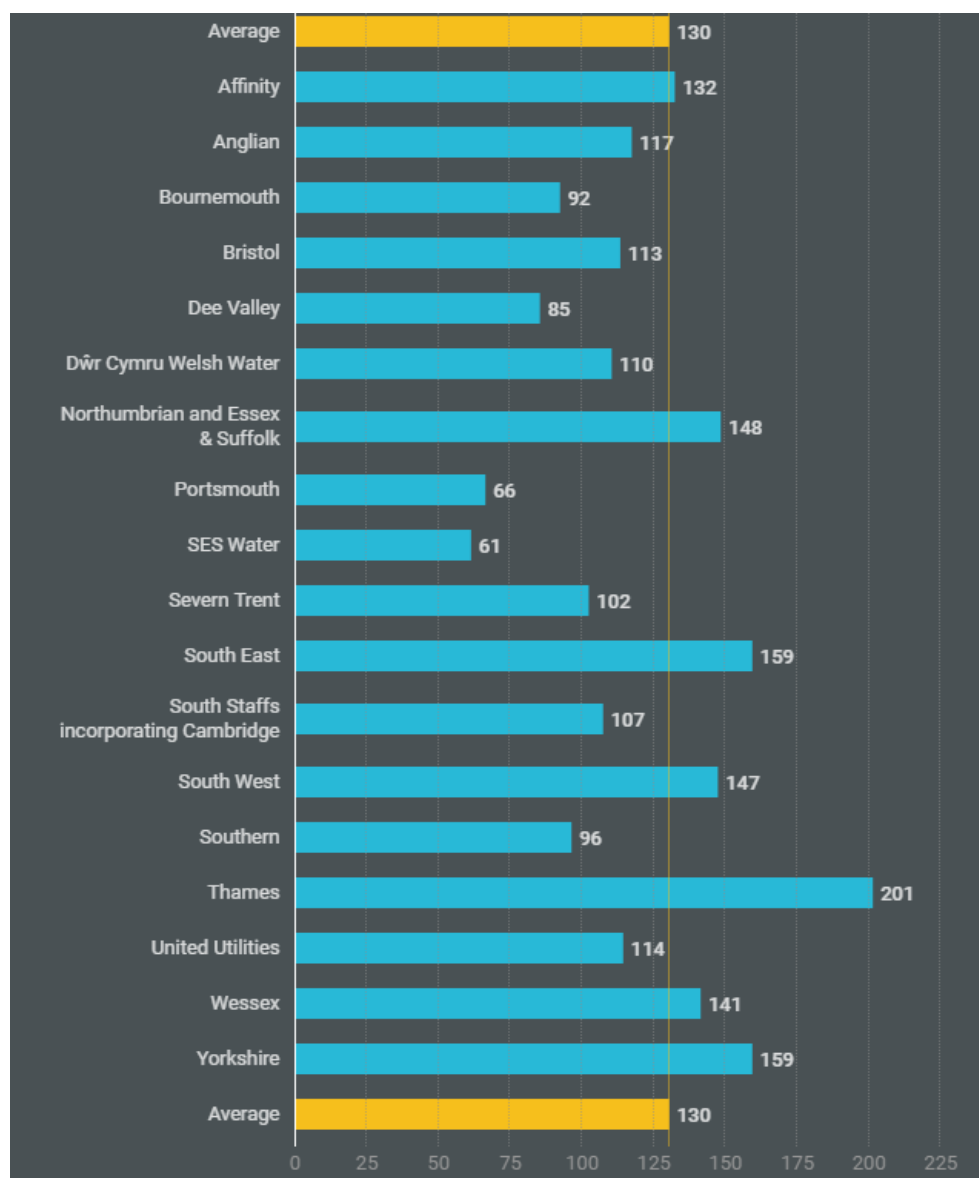


In the year 2016/17 the number of bursts was again significantly lower than the performance commitment of 342. As part of the Ofwat ODI scheme, rewards and penalties apply at the end of the current period and to the average number of bursts over the five year period. Based on the first two years of this AMP period no reward or penalty would apply as there is a deadband around the target where no rewards or penalties apply.

We continue to target mains for renewal based on the impact of bursts on customers.

The industry performance for burst is shown in the graph below. It is for the year 2015/16 and shows that relative to other companies our number of bursts per 1,000 km of main is second lowest in the industry and approximately half of the industry average of 130. Our performance rate of 88 for 2016/17 would remain in the upper quartile.

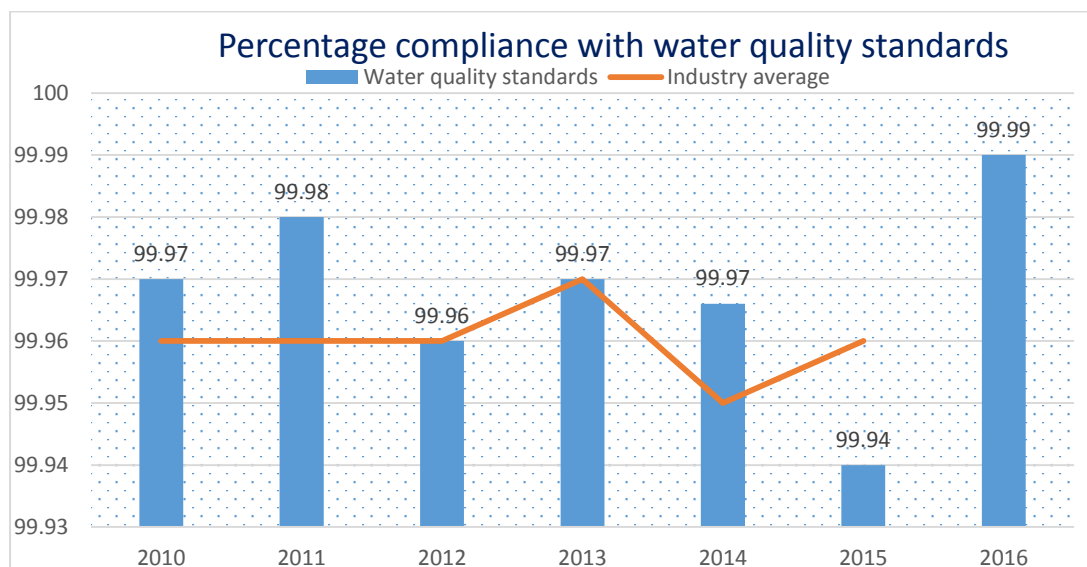
Industry burst performance, 2015/16 (number per 1,000km)



Wholesale water outcome: Safe secure and reliable drinking water

Performance commitment: Water quality standards

Our measure of water quality compliance is confirmed at 99.99% for 2016. 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 2016 will not be published until late July 2017.



During 2016 calendar year the company carried out a total of 15,454 determinations in samples taken at customer taps; 2 of these failed to meet the relevant standard. The first was a failure for taste and odour and was related to pipework owned by the customer, and not to the inherent quality of the water supplied. The second was a pesticide failure. We have increased monitoring as a result and have seen no further samples with this pesticide in the water. We will continue to undertake additional monitoring to confirm this is not an issue.

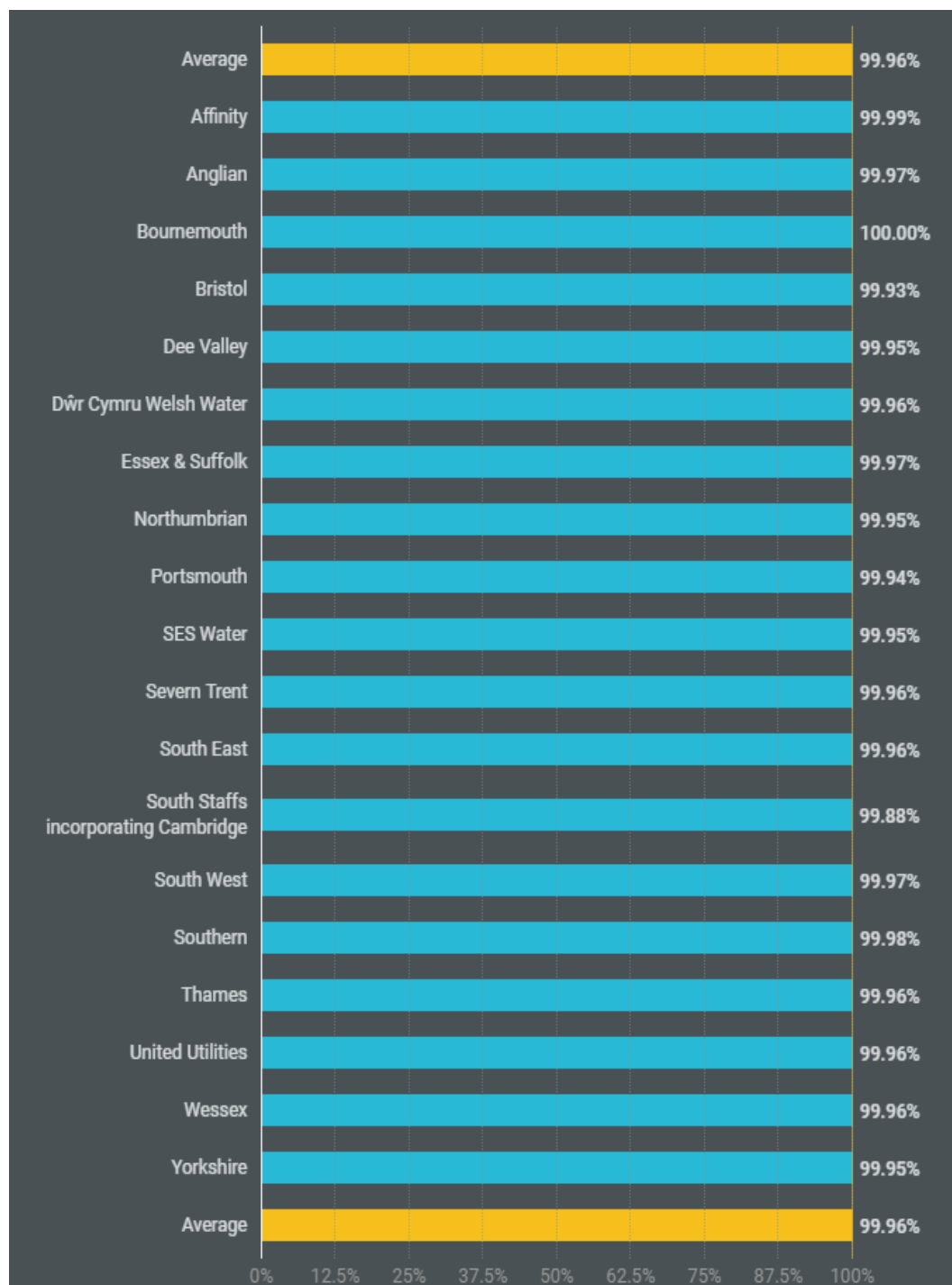
In 2015 our performance was 99.94% as a result of 4 sample failures. In each case the issue identified was related to pipework owned by the customer, and not for the inherent quality of the water supplied.

We have worked 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.

Penalties apply annually for any year that performance is below 99.95%. The ODI performance for 2016 does not result in penalty being applied. However the performance in 2015 will result in a financial penalty and revenue will be reduced by £320k 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 20 pence at 2020.

The industry performance on this metric is shown in the graph below. It is for the year 2015 as the data is not published for 2016 until late July 2017. It shows that our performance for 2016, at 99.99% is significantly higher than the industry average, albeit for 2015.

Industry performance - Mean Zonal Compliance 2015



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 2013 performance. However, as a result of introducing a new Customer Relationship Management System (CRM) in October 2012, we are now recording, more accurately, resulting in a greater number of contacts.

We therefore set ourselves an extremely challenging level of less than 0.425/1,000 population. Unfortunately, we reported 434 water quality contacts of this nature which equates to 0.665/1,000 population. Despite this value being above our ODI value it remains significantly below the 2015 industry average of 1.64/1,000 population.

	2013	2014	2015	2016	2016 Target
Appearance	147	308	180	262	
Taste & Odour	155	253	194	189	
Illness	5	22	24	17	
Total	307	583	398	434	299
Population (000s)	708	693	698	703	703
Rate per 1,000 population	0.43	0.84	0.57	0.67	0.425
Industry average	1.91	1.75	1.64	n/a	

The increase in the year reflected one water supply incident which resulted in an increase in the contacts associated with appearance.

Further, in the year we implemented a number of initiatives to further reduce the level of water quality contacts. These include:

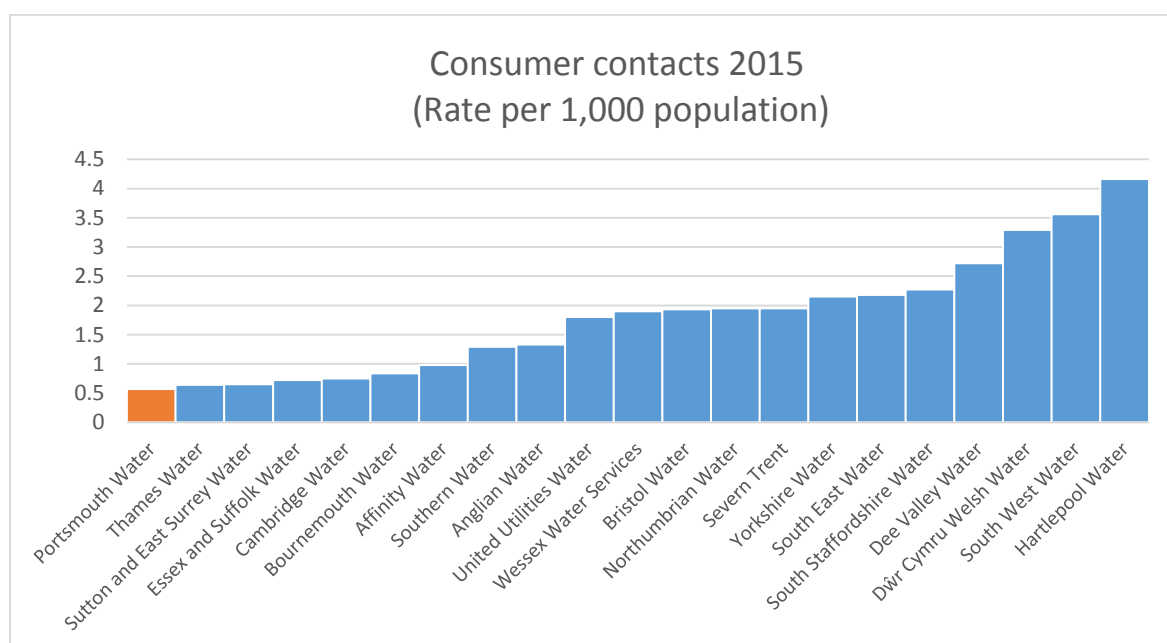
- The Company's website includes information on hardness, taste and odour of the water and cloudy water. The hardness section of the website has been updated recently to try and make it easier for customers to find the hardness value for their area. The data is now presented in a table format indicating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

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 three years of the current period until 2020 a financial penalty would be incurred and as a result allowed revenue will be reduced by £1.9million over the next price review period (2020-2025). This will mean a reduction of customer bills of £1.20 at 2020.

The industry performance on water quality contacts is shown in the graph below. It is for the year 2015 as the data is not published for 2016 until late July 2017. It shows that our performance for 2015 was the best in the industry and that for 2016 we are likely to remain upper quartile.



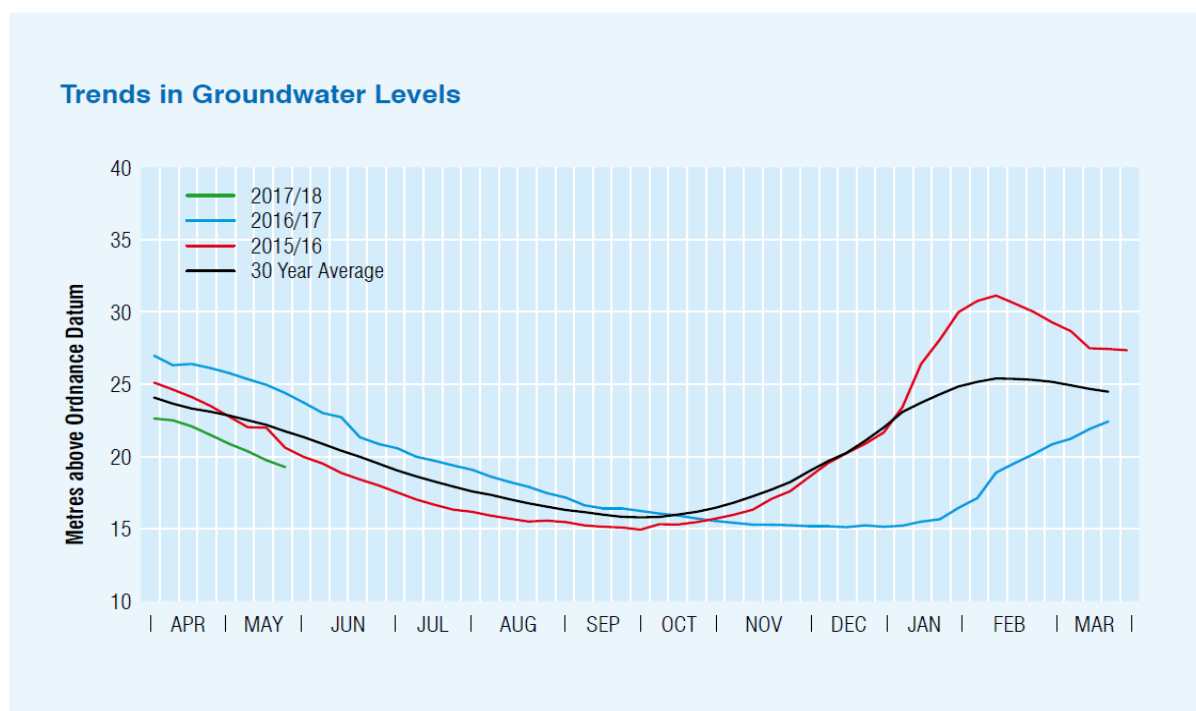
The Company has shared its action plan to reduce the number of Water Quality Contacts with the CCG, who will monitor in the course of 2017/18.

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.

88% 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.

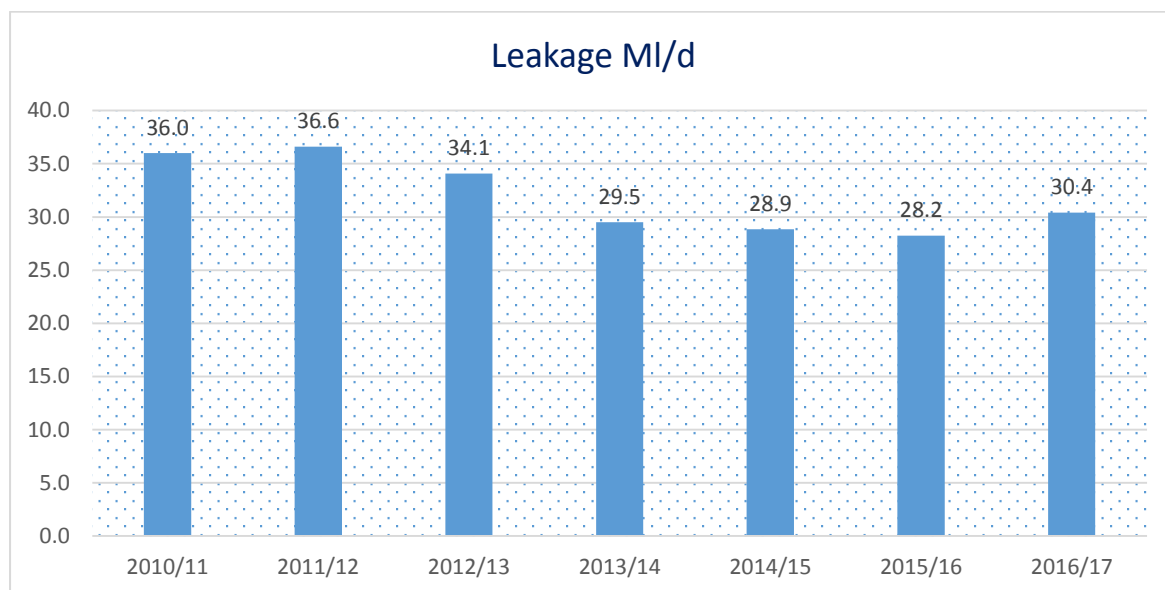
The Company has for many years monitored the groundwater levels at Idsworth Well, Rowlands Castle. The Company has not had to impose restrictions on our customers since 1976 and, whilst ground water levels are currently below long term average, it is unlikely to need to impose restrictions this summer (summer 2017).



Whilst ground water levels from October 2016 – March 2017 were lower than the 30 year average, it was not significant enough to require us to impose restrictions on usage in 2016/17.

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

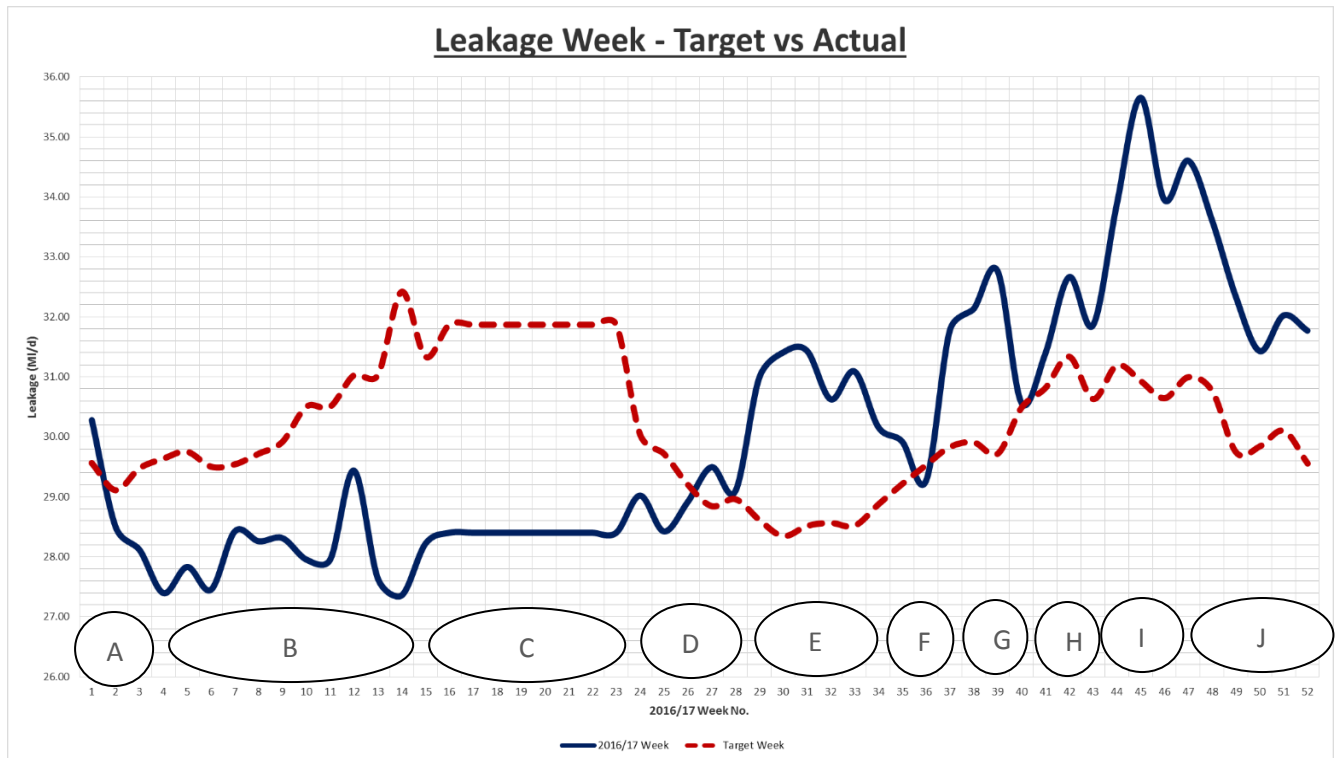
For the year 2016/17 average leakage is calculated (post Maximum Likelihood Estimate (MLE)) at 30.37 MI/d. This is a failure against the target of 29.95 MI/d. The graph below shows the long term trend in leakage performance.



Three separate rises in leakage during the second half of the financial year have resulted in this outcome. This leakage pattern was also seen by other water companies within the South East this year. This suggests that the leakage increase was primarily as a result of external environmental factors including soil conditions and temperature.

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 the average of the two years 2015/16 and 2016/17 for the three years of the current period until 2020 a financial reward would be gained and as a result allowed revenue will be increased by £42,000 over the next price review period (2020-2025). This will mean an increase in customer bills of 3 pence at 2020.

Performance throughout the year 2016/17 is shown in the graph below with further explanation.



The leakage figure began the year above target at 30.3 MI/d. This was as a result of a late winter peak in 2015/16 (A). Leakage was quickly reduced through repairs, leaving leakage below target from April to early July (B) with a low of 27.4 MI/d. Late July and August are excluded from the leakage calculation due to summer demand and therefore appear as a flat line on this graph (C).

In early September leakage was at target (D), however lower than average rainfall from July through to October caused dry soils. This resulted in an increase in leakage through September and October (E), peaking at 31.4 MI/d. A 20% increase in leakage detection resource led to a leakage reduction during November (F) back to target.

The unseasonably cold snaps in late November, combined with further low rainfall, resulted in an early first 'Winter Event' of the year (G). This subsequently increased leakage to 32.8 MI/d by mid-December. A continuation of the additional resources helped to reduce leakage once again (H), however further cold snaps though January, which caused rapid temperature changes, led to a sharp rise in bursts, as noted earlier in this report. Despite continued additional resource, leakage rose significantly throughout this period (I), peaking at 35.6 MI/d in early February. Benign conditions through late winter allowed leakage to recover (J), finishing the year at 31.8 MI/d.

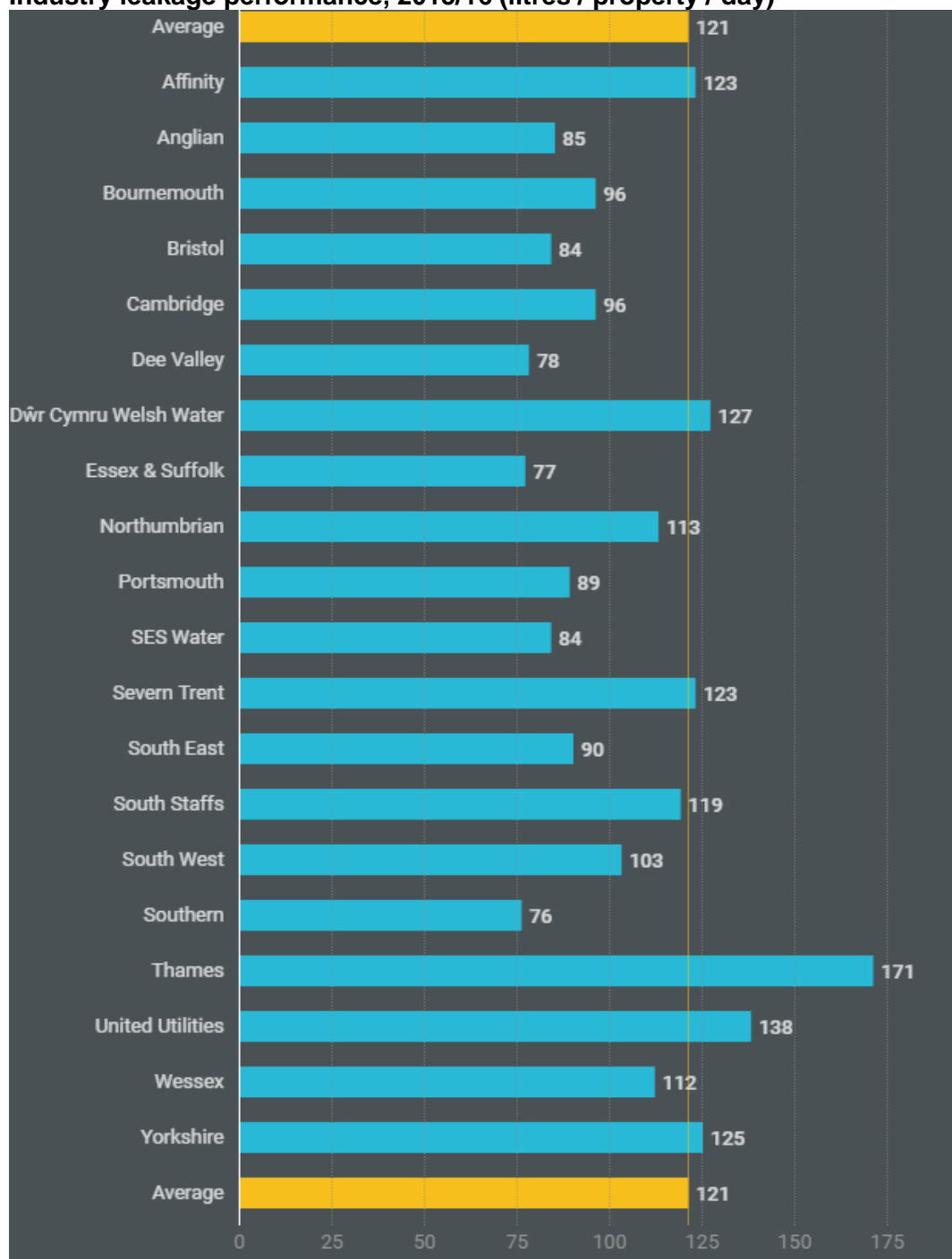
The final pre-MLE leakage figure is 30.37 MI/d compared to a target of 29.95 MI/d.

The Company has implemented a leakage recovery plan which combines additional leakage detection resource, improved repair times and additional analytical work supporting enhanced leak detection. The progress against this plan is being monitored by the Board monthly.

The Company has shared its action plan to reduce Leakage with the CCG, who will monitor in the course of 2017/18.

The industry performance for leakage is shown in the graph below. It is for the year 2015/16 as the data is not published for 2016/17. It shows that our leakage performance for 2016/17 at 96 litres per property per day would remain better than the industry average.

Industry leakage performance, 2015/16 (litres / property / day)



Wholesale water outcome: High quality service

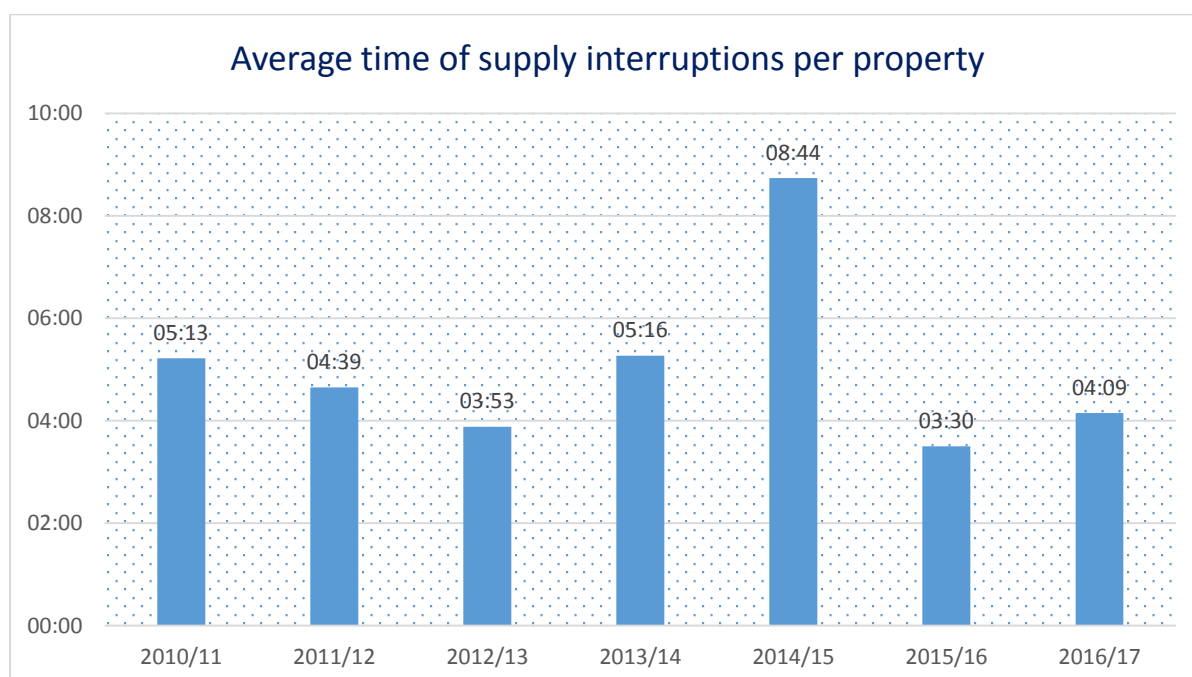
Performance commitment: Interruptions to supply

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

Portsmouth Water's customers experienced an average interruption to their supply of 4 minutes and 9 seconds per total properties served, a slight increase from 3 minutes and 30 seconds in the previous year

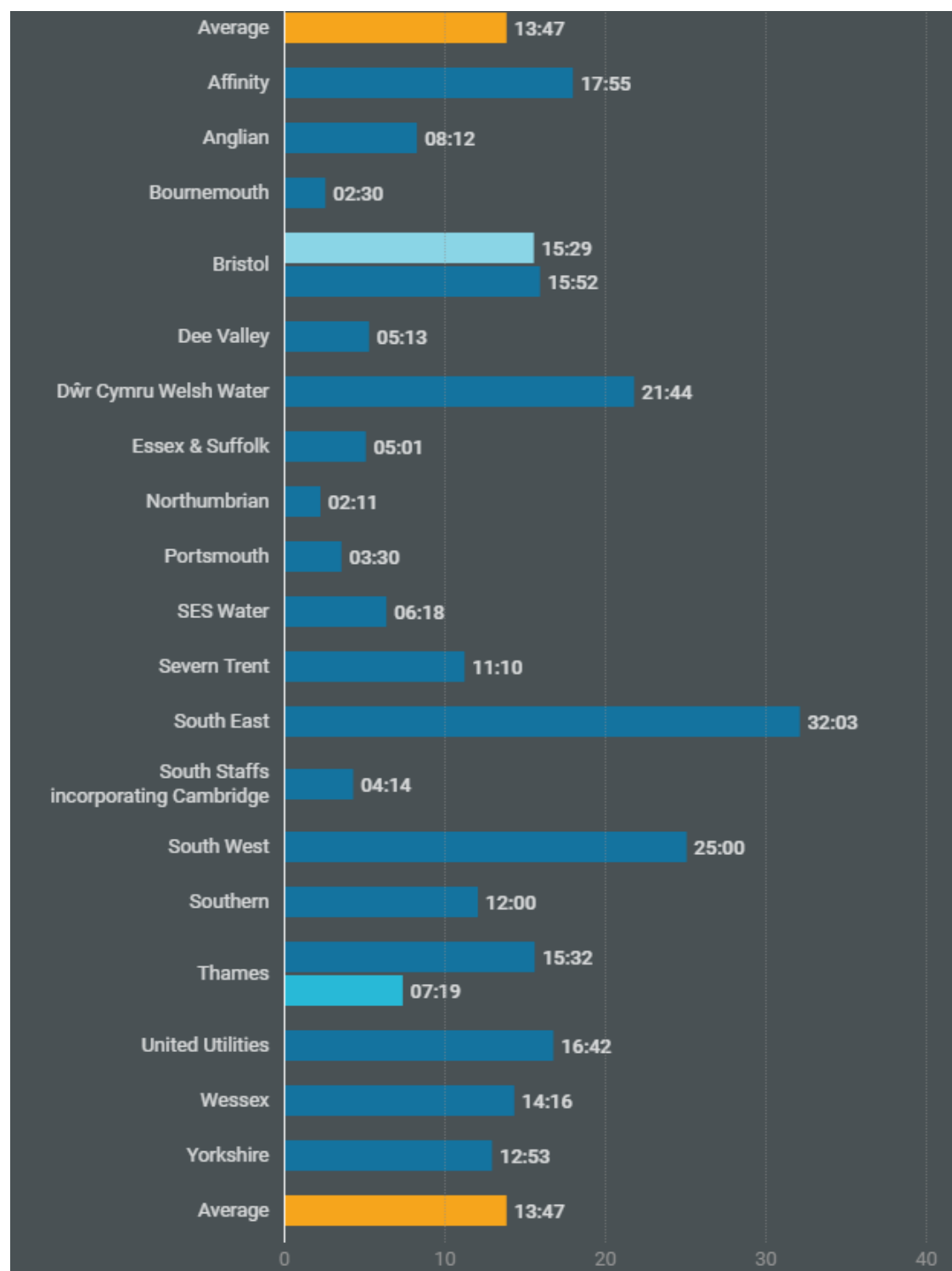
The primary reason for improvement in performance since 2014/15 is due to better management of planned interruptions. The increase relative to 2015/16 reflects an increase in planned interruptions figure from 1 minute 57 seconds to 2 min 30 seconds as we increased the length of renewals activity from 11.6km in 2015/16 to 21.5 km in 2016/17.

The level of unplanned interruptions was close to the long term average in 2016/17, at 1 min 30 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 a slight increase compared to the past few years.



In the year the performance commitment of 6 minutes per property has been met. If interruptions remained at the average of the first two years of the period, a financial reward would be gained and as a result allowed revenue will be increased by £71,000 over the next price review period (2020-2025). This will mean an increase in customer bills of 4 pence in 2020.

The industry performance on this interruptions is shown in the graph below. It is for the year 2015/16 as the data is not yet published for 2016/17. It shows that our interruptions performance for 2015/16 when scaled per property served, is second lowest in the industry average and that our performance in 2016/17 would retain that position.



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

The Company has made a commitment 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.

In summer 2015 we appointed a specialist consultant to complete an ecological survey of 52 of our sites. A key objective of the surveys was to identify potential biodiversity enhancement projects. In 2016 the recommendations were collated and prioritised for action into a 4 year programme. The biodiversity action plan programme was then agreed with Natural England and the Customer Challenge Group.

The following prioritised conservation tasks have been completed in 2016/17:-

- Employed specialist consultants to complete invertebrate surveys at 4 high conservation value sites, a water vole survey at Fishbourne WTW and a bat survey at Madehurst Reservoir.
- Employed a botanist to carry out a detailed vegetation survey and map priority habitat at 3 sites.
- Ongoing work to restore chalk grassland at Farlington WTW, Nore Hill and Fort Southwick.
- Converted a small building at Northbrook WTW into a bat roost.
- Cleared trees and scrub from around the old pond at Westergate WTW to allow more light in to the pond.
- Thinned the woodland and removed non-native species at Whiteways Lodge Reservoir.
- Removed invasive willow from the old and new lagoon at Itchen WTW to diversify and enhance these wetland habitats.
- Thinning of woodland to remove invasive blackthorn and other species, let in more light and plant with native species trees to diversify the woodland.
- Removed trees and scrub at Madehurst Reservoir to restore grassland habitat and create a sheltered clearing within the woodland for the benefit of insects and bats.
- Removed Buddleia to restore a woodland clearing at Lovedean Reservoir.

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. We plan to achieve our commitment on biodiversity and would not expect a penalty to apply.

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.

The Company was 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 EA have signed off this scheme as completed.

We were also asked to improve the River Hamble for fish and invertebrates. This has been done by implementing improvements at two farms which has reduced the level of silt in the water.

At Ford Farm a large arable field drained, via an access track, into the River Hamble. With heavy rainfall sediment from the field washed into the river and created poor water quality. Portsmouth Water, in association with the Rivers Trust, has provided a 'Silt Trap' and modifications to the access track to divert flows at critical times.

At Tangier Farm the existing cattle crossings caused sediment to enter the river and the structures were an impediment to fish migration at times of low water flows. Portsmouth Water and the Rivers Trust replaced three crossings with hard surfaced structures with graded banks and approach ramps.

We plan to do further work on the River Hamble in 2017/18. This will include the removal of barriers to fish migration and potentially a length of bankside fencing. The fencing is designed to reduce 'Cattle Poaching' where animals break down the river bank and sediment enters the water. All of these measures are designed to make the upper section of the River Hamble more resilient to low water flows. Improved water quality and improved fish migration will help to enhance the ecology of the river.

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). We plan to complete our second scheme in 2017/18 and would not expect a reward or penalty to apply.

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

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 2016/17 was a 4% 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 2017 relating to 2016/17 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 second 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**

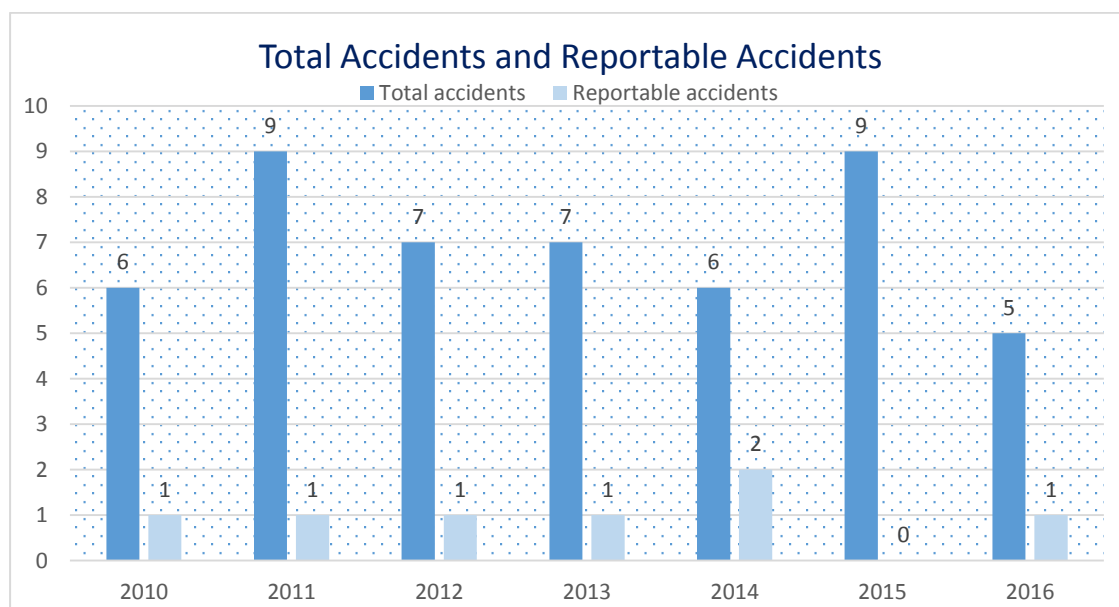
Health and Safety has been a priority within the Company for many years and this focus has driven a very low number of employee accidents with only one serious “reportable” accident in the year. Reportable accidents are those which result in more than 7 days off work.

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. Much of our historic approach to H&S had 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.

2017 saw us become the holder of the RoSPA President’s Award for Health and Safety for the third 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 13 years, winning 11 gold level awards and an Industry Sector award.

The performance commitment is to be awarded RoSPA annually, which we have again achieved.



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 to household customers only. 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 2017.

The table below compares performance for 2016/17 with 2015/16.

SIM Scores		2015/16		2016/17	
Quantitative Measure	Multiplier	Number	Score	Number	Score
Unwanted Phone Contacts	1	11609	11609	11,031	11,031
Written Complaints	5	260	1300	380	1900
Escalated Written Complaints	100	14	1400	22	2,200
CCWater Investigated	1,000	0	0	0	0
			14,309		15,131
Connected Properties year end			297,308		299,251
Quantitative SIM Score			22.6		22.5
Qualitative Measure		4.57	66.9	4.48	65.2
Total SIM Score			89.5		87.7

We continue to see 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.

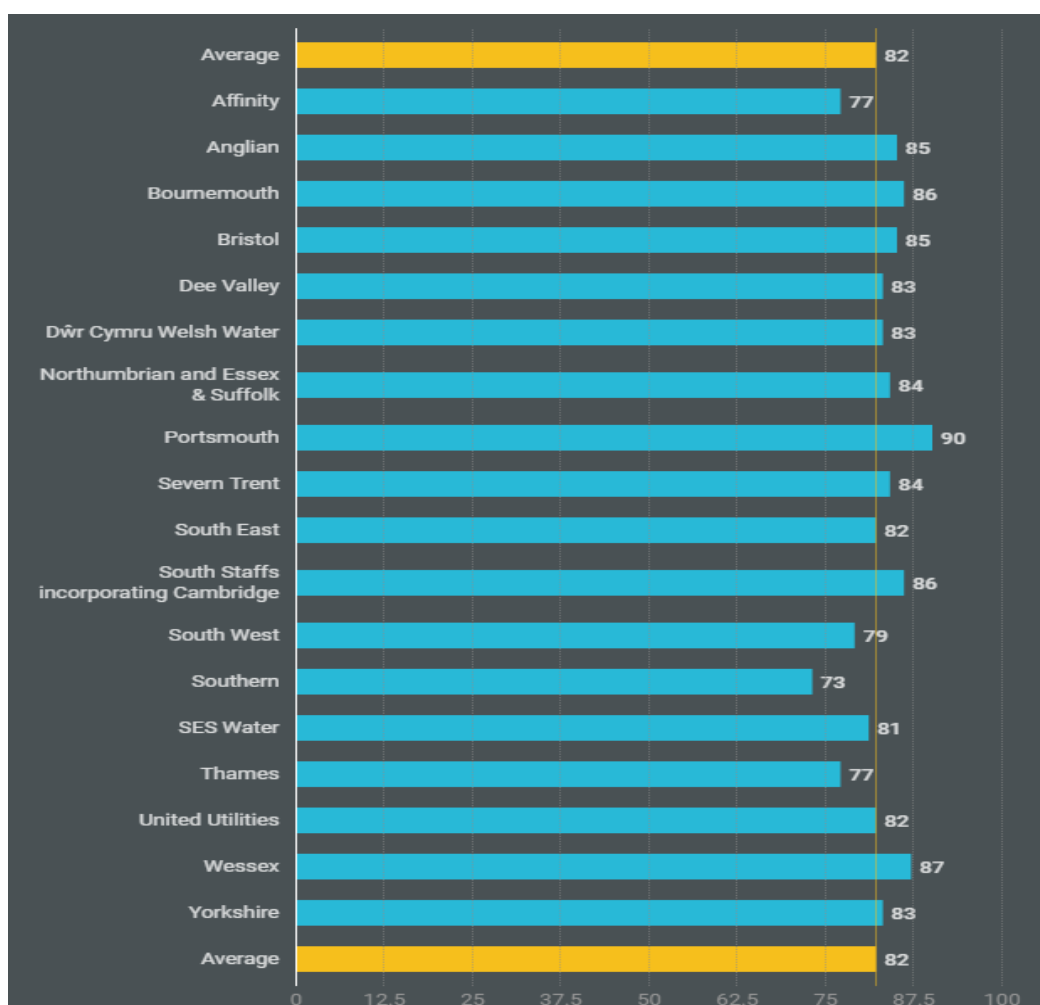
For 2016/17, Portsmouth Water had 12.7 complaints per 10,000 customers. This is an increase on last year's 8.6 and reflects in part greater operational activity, particularly relating to mains renewals. The qualitative score is therefore 22.5 out of 25.

In the Qualitative assessment for the four quarters in 2016/17 the Company was ranked 3rd of the 18 companies with 4.48 points out of 5.0. The Company's Qualitative score was 65.2 out of 75.

This therefore, gives Portsmouth Water a total score of 87.7 a reduction from 89.5 last year, when we were ranked first in the industry.

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, however have assumed we will continue to remain upper quartile – resulting in a reward of £800,000 or a 50 pence increase in customer bills at 2020.

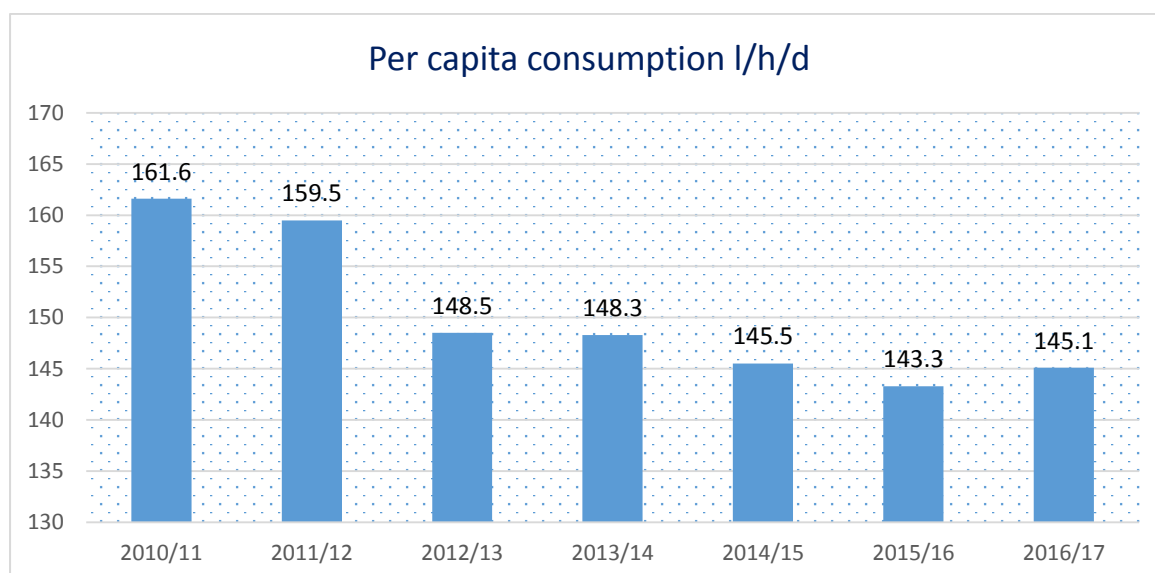
The industry performance on SIM is shown in the graph below. It is for the year 2015/16 and where we were ranked first. Our performance in 2016/17 is likely to ensure we retain upper quartile status.



Outcome: An improved environment supporting biodiversity

Performance commitment: Reducing per capita consumption

Per capita consumption was 145.1 l/h/d which is an increase from 143.3 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 goods 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 and autumn of 2016 were relatively dry with a corresponding increase in usage.

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 we know performance in 2019/20.

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

During the year we have again 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

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

In the year we increased the survey from 9 in 2015/16 to 13 developers. These are a representative sample of active developers that Portsmouth Water dealt with in 2016/17.

There was an 85% satisfaction rate with 11 out of 13 developers reporting to be 'satisfied' or 'very satisfied' with their overall dealings with Portsmouth Water. This is a small % reduction from 2015/16, where 8 out of 9 developers, (89%) were at least satisfied.

This is a reputational ODI with no financial incentives.

Section 2 - Other Metrics

In response to requests from stakeholders we report our performance against various other KPIs. The Reporter also provided assurance on these items; see pages 41.

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 AIM compliments 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, Walderton and Northbrook, were collected for the business plan and a table published with results for six years from 2007/08 to 2012/13.

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.

In April 2016 the Company completed its river restoration scheme on the River Ems. Further, in dry conditions the company now pumps water into the River Ems to support ecology. We therefore do not include this on the AIM register. In 2016/17 we augmented the river with 278 MI.

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 River Restoration Scheme discussed on page 24 of this report. When completed in 2017/18 it will also be removed from the AIM register.

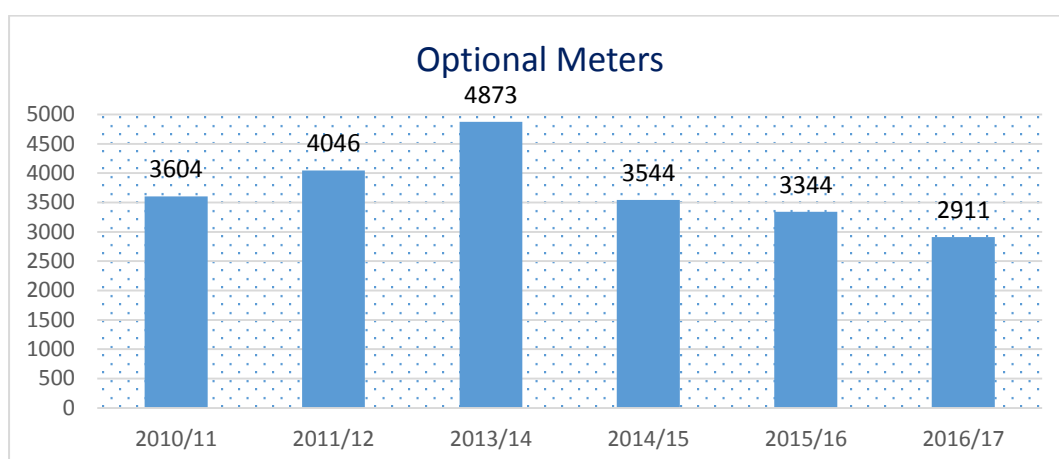
Meter Optants

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 wastewater provider, Southern Water. Our publicity highlighted the savings that customers are able to make through switching to a measured supply, focussing on the customers with higher than average unmeasured charges due to the size of their property.

This was in addition to the usual advertising that we carry out to promote meter optants; on our website, in our annual newsletter and on our charges leaflet (which is included with all unmeasured bills).

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 2016/17, 2,911 customers chose to switch to a measured supply as part of the optional metering.



Initiatives planned for 2017/18 to increase meter penetration, include the following:-

- Promote metering over the phone to those customers that would benefit financially
- Installing loggers on meters for customers before they switch, to identify usage patterns
- Send out leaflets via email to unmeasured customers in specific areas and socio-economic groups 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 2017, domestic meter penetration for the Company was 29% 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 increased from 166.8 MI/d in 2015/16 to 170.1 MI/d in 2016/17. The volume of water distributed is influenced by many things, including the weather. We have experienced a very dry period in the autumn in particular, which has resulted in increased demand. The peak week of 190 MI/d occurred in late July 2016.

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 2016/17 was as shown in the table below.

Source	Annual Abstraction - MI/Yr					
	Source Licence	Source Actual 2016/17	Group Licence	Group Actual 2016/17		
Northbrook	7,487	6,568	7,487	6,568		
Lower Upham	640	0				
West Street	3,328	3				
West Meon	166	27				
River Itchen	15,916	7,745				
Maindell	2,040	566				
Soberton	3,294	2,406	3,294	2,408		
Newtown	695	2				
Worlds End	8,296	3,854				
Lovedean	4,148	1,407				
Havant & Bedhampton	35,770	18,211				
Walderton	9,955	7,610	23,740	18,043		
Woodmancote	1,103	278				
Fishbourne	3,741	2,089				
Funtington	2,920	1,849				
Lavant	9,950	6,217				
Brickkiln						
Eastergate	10358*	1,645	10,358	5,763		
Westergate		1,134				
Slindon		592				
Aldingbourne		2,392				
Total	116,066	64,595	44,879	32,782		

* The Eastergate group (Eastergate, Westergate, Slindon and Aldingbourne) operates within a group licence – with specific constraints on each site.

The Company complied with its annual licence constraints in 2016/17.

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. 1 customers received a GSS payment in 2016/17 for this reason. We also increase the compensation payment amounts beyond what is required in the GSS standards to £30 for domestic customers.

In the year 2016/17 the company made 243 GSS payments which is an increase from 110 in 2015/16, primarily due to two incidents in June and October 2016 which impacted on customers with an interruption greater than advised.

Detail is shown in the table below:-

	2015/16	2016/17
Making and keeping of appointments with customers	27	26
Responding to account queries	10	22
Responding to complaints	4	3
Dealing with interruptions to the water supply (planned and unplanned)	63	191
Levels of water pressure	0	0
Meters not read	6	1
Total	110	243

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

Social Tariffs and affordability support

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.

We introduced our 'Helping Hand' Social Tariff in July 2016. This tariff caps customers' bills at our minimum charge, £75.28, for those customers whose household income excluding certain benefits, is less than the Government's low income threshold of £16,105. Working with Southern Water, the wastewater provider, we have over 2,800 customers on this tariff since its launch.

Customers can also apply to be placed on the WaterSure Tariff. This tariff is for metered customers who are in receipt of certain benefits and have a medical condition that requires an individual to use more water or has 3 children under the age of 19 resident in the property. These customers have their measured bills capped at our average bill value. The number of customers has dropped marginally to 234, as customers switch to our Helping Hand social tariff.

Our Arrears Assist Scheme started in May 2014. Through this scheme we encourage customers back into making regular payments by matching the payments we receive £ for £. 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 currently have 218 customers on this scheme.

We also operate a scheme called Water Direct. 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. There has been a reduction in the number of customers on this scheme because, in part, when talking to customers we have encouraged them to switch to direct debit.

Finally we have an in-house Customer Support Officer whose role is to engage with hard to reach customers, and the organisations that support them.

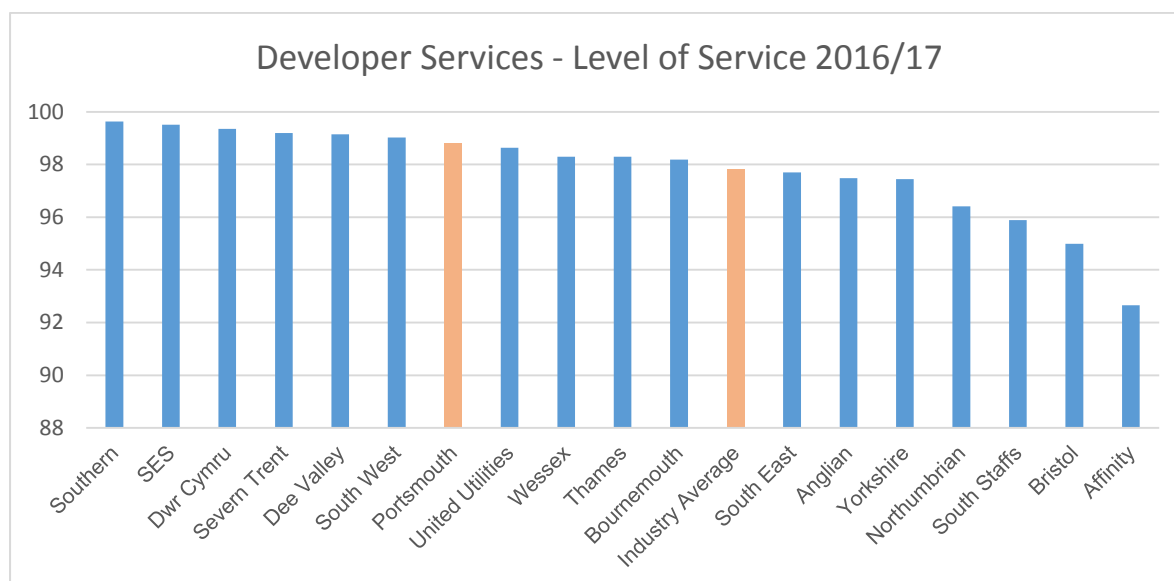
Detail of the number of customers as at 31 March 2016 and 2017 is shown in the table below.

	2015/16	2016/17
Social Tariff	n/a	2806
Watersure tariff	255	234
Arrears Assist	240	218
Water Direct	1277	687
Special Assistance	205	225

Levels of Service for Developers

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

At 98.79%, our performance remains above the industry average of 97.81% for 2016/17 as shown below.



Source: WaterUK

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

This KPI should be read in conjunction with our developer survey shown on page 30. 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 11,813 tCO₂e to 11,079 tCO₂e in the year.

The table below shows how this has been achieved.

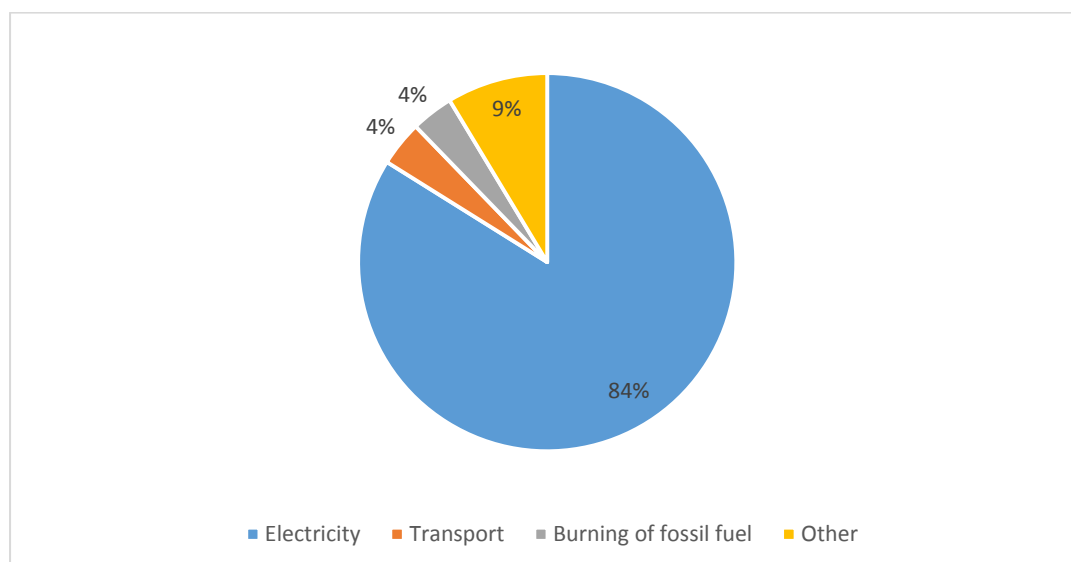
Our analysis has been prepared in accordance with the UKWIR methodology and reflects advice from Defra on the appropriate conversion factors for many items to establish the units which relate to carbon dioxide.

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

Component	2015/16 tCO ₂ e	2016/17 tCO ₂ e
Burning of fossil fuel	444	400
Transport for operational staff	412	426
Electricity	10,025	9,292
Business travel	47	2
Outsourced activities	58	117
Transmission and Distribution associated with electricity	828	840
	11,813	11,079

Our GHG intensity ratio has reduced from 179.2kg CO₂e / MI in 2015/16 to 178.5 kg CO₂e / MI to for 2016/17.

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.

Written Complaints

The number of written complaints has increased in the year 2016/17.

Our written complaints have increased from 271 in 2015/16 to 423 in 2016/17. We noted last year that the absolute number of written complaints was low, reflecting - in part - significantly less operational activity in that year which has increased from 70 to 168 in the year

In addition to more normal levels of operational activity - we have switched contractors and introduced a new works management system. The early period of both changes saw an increase in complaints.

Further, for NHH customers, the switch in billing agent to Castle Water has seen an increase in the absolute number of complaints. We continue to monitor every written complaint to ensure our activities remain of the highest quality.

Categories of written complaints	2014/15	2015/16	2016/17
Charging and billing	222	195	241
Household	215	184	210
Non-household	7	11	31
Water service	100	70	168
Household	95	67	158
Non-household	5	3	10
Metering	10	3	3
Household	10	3	2
Non-household	0	0	1
Other service issues	7	3	11
Household	7	3	10
Non-household	0	0	1
Total	339	271	423
Household	327	257	380
Non-household	12	14	43

The number of written complaints per property remains very favourable compared to the industry. The graph below shows that our performance in 2015/16 was ranked first, and would be second assuming all other companies perform as in prior year.

Water Company		Complaints Per 10,000 Connections					Year on Year Trend
		2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	
Water and Sewerage Companies	Anglian	60.8	57.3	44.5	44.5	42.4	
	Dŵr Cymru	30.4	26.0	26.4	21.4	45.8	
	Northumbrian	39.6	38.1	35.1	27.0	29.4	
	Severn Trent	48.8	41.9	43.8	33.8	24.2	
	Southern	64.5	113.3	81.1	70.4	77.1	
	South West	56.8	53.1	55.6	49.7	49.0	
	Thames	60.7	56.5	38.2	35.5	27.1	
	United Utilities	81.5	49.4	40.8	34.2	38.5	
	Wessex	22.5	20.4	17.1	16.2	13.0	
	Yorkshire	36.1	45.0	37.8	30.2	33.5	
Water Only Companies	Affinity	16.6	15.0	17.4	20.1	36.3	
	Bournemouth	23.0	18.5	18.0	16.7	31.7	
	Bristol	23.2	22.3	20.3	18.6	14.1	
	Cambridge	24.5	20.6	12.4	10.3	10.1	
	Dee Valley	50.4	35.8	29.6	20.9	18.1	
	Essex & Suffolk	41.3	34.6	28.7	27.4	31.9	
	Hartlepool	30.1	26.1	18.5	27.1	27.5	
	Portsmouth	8.1	10.4	7.6	10.8	8.7	
	South East	147.1	98.0	69.4	35.5	21.9	
	South Staffordshire	43.4	28.7	22.9	21.0	14.1	
	Sutton & East Surrey	19.7	17.8	16.4	15.9	20.2	
	Industry Average	53.2	49.0	39.8	34.2	33.7	

Key

Complaints per 10,000 connections best performers



Complaints per 10,000 connections reasonable performers



Complaints per 10,000 connections worst performers



Communication pipes

The Company has over 280,000 communication pipes. We continue to improve our data systems to accurately record this asset, following a data request from Ofwat.

Meters Renewed

The Company renewed 594 household meters in the year and 218 non-household meters in the year. This is part of an on-going programme. This data is being provided following a request from Ofwat.

Atkins Assurance Report

1. Introduction and Scope of work

This report reflects our findings from the assurance activities that we have carried out for Portsmouth Water for the report year 2016/17. 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.

Our audit activities are designed to support Portsmouth Water's Final Assurance Plan, which they published in March 2017, to demonstrate its approach to assurance across the full range of regulatory outputs that they have to report. For 2016/17 we incorporated the following activities:

- Assurance relating to the Outcome Delivery Incentive reporting. Our scope includes all ODIs.
- Assurance relating to the Compliance Statement, with a focus on Guaranteed Standards of Service (GSS) and Developer Services.
- Other matters. These included a review of the management of the Helping Hands social tariff.

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 2017 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 our audits have covered metrics that we have reviewed in previous years. Where that is the case 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.

Based upon our activities and information collated to date we continue to be able to state 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

As with previous years, for matters relating to the ODI report, we have classified the 'exceptions' that we identified into 'red', 'amber' and 'green' categories. These are categorised according 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.

3.1. Comments on ODI Reporting

For the first time, this year we did not encounter any 'red' or 'amber' issues during our audits of the ODI reporting processes. All issues and exceptions therefore related to ongoing improvements or monitoring/awareness of potential issues, rather than notable risks to the reported figures.

We identified continuous improvement type issues for both customer contacts for water quality (DWI and ODI) and unwanted telephone calls (part of SIM), although we do not believe they materially impact on the reporting. In the case of customer contacts for water quality, written complaints were not being captured in the reported number of customer contacts, and an

incorrect assumption was made to exclude all internal contacts, which initially led to some under-reporting. Both issues were addressed prior to submission, but there may be a need to back-correct reported figures for the final AMP6 ODI calculation, but only if Portsmouth is able to bring the total figures for the AMP below the upper limit penalty cap, as there is no risk to rewards or penalty if reported figures are higher than this cap.

For unwanted telephone contacts, the Customer Service team has followed up on our previous recommendation to put in place comprehensive checks which identify and highlight these failures so there is good visibility in the Company. Some management action is still required to act on the findings of the checks, but progress is good and reported figures acceptably accurate in this area.

We continue to note that the ODI for leakage relies on a very simple reporting process, but confirm that reporting is still well managed and is entirely consistent with the way that the Sustainable Level of Leakage was calculated for PR14, and hence the ODI target was set.

For the Per Capita Consumption figure we continue to note that there are some significant, un-evidenced assumptions that are used to modify the raw data that underpins the unmeasured component of the analysis. However, the ODI reporting process is now clearly stated and we are confident that the reporting method is entirely consistent with the method that was used to set the ODI. We reviewed the sensitivity to this assumption and are confident that the degree of bias compared with the 'true' unmeasured figures is only in the order of +5% (in addition to the inherent uncertainty of +/-10%). We have therefore removed this issue from the 'amber' classification used in last year's report.

3.2. *Statutory and Regulatory Obligations.*

Overall, we formed the view that the recording of potential GSS events and making payments where it applies is robust and effective. In relation specifically to appointments, there is a robust audit trail with checks and controls built in for those that are managed directly by the Company. We have made the observation in the past that this is not the case for contractors and we made similar findings again this year, but this remains a relatively minor issue.

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

3.3. *Other Matters*

We confirmed that the Helping Hands social tariff is being administered in accordance with company policy.