



Portsmouth Water Limited

# **Business Plan**

2020 - 2025



**Delivering excellence**  
for our customers,  
our people and our  
environment

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**The Institute of  
Customer Service**

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## 1. Background

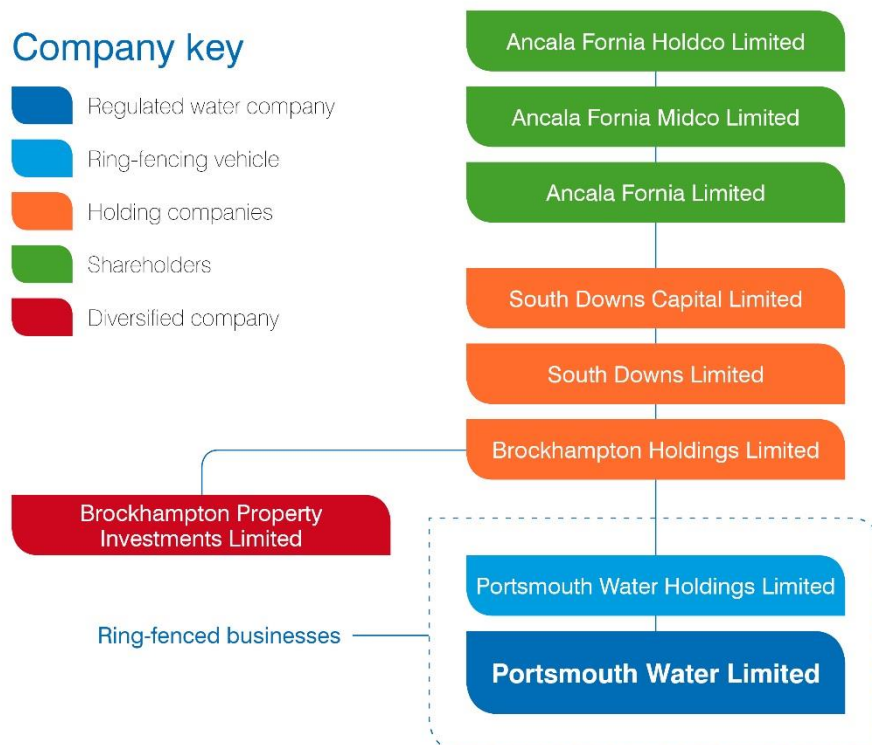
### 1.1 Company pen pic

Portsmouth Water Limited is a water only company located in Portsmouth, Hampshire.

On 16 March 2018 the whole of the issued share capital of South Downs Capital was disposed of by South Downs Trustees Limited (73%) and individual shareholders (27%) to funds managed by Ancala Partners LLP.

The group is now ultimately owned by funds managed by Ancala Partners LLP ("Ancala") (as set out in the group structure below). Ancala Partners LLP ("Ancala") is a UK based infrastructure fund manager. Its investors are primarily UK corporate and local authority pension plans. The ultimate and intermediate holding companies are incorporated in the UK. The investors in Ancala Fornia Holdco Limited comprise a number of investment vehicles, all focused primarily on UK long-term infrastructure investment and managed by Ancala Partners LLP.

Prior to this the group was majority owned by an Employee Benefit Trust – South Downs Trustees Limited.



## 1.2 List of attendees

Mike Kirk – Independent Non-Executive Chairman of Portsmouth Water Limited

Neville Smith – Managing Director of Portsmouth Water Limited

Helen Orton – Finance and Regulation Director of Portsmouth Water Limited

Roderic Porteous – Engineering Director of Portsmouth Water Limited

Lakh Jemmett – Chair of our Customer Challenge Group

## 2. Key business plan metrics

### PR19 key themes

Our plan is built on customer engagement and insight. Great customer service, affordability and resilience are all customer priorities, as well as Ofwat themes, so our engagement and triangulation covered these areas in detail. Our customers also want value for money and modernisation of our service offering. Best value can only be delivered if innovation is embedded within a business's culture, so drives much of our business change.

Our approach was to engage and triangulate to produce a package of proposals that customers found highly acceptable.

**Innovation.** We have devoted a chapter of our plan to explain how our culture drives innovation, our track record and examples of how innovation will play a part in delivering our PR19 plan. Our CCG challenged us on innovation in a number of areas, shaping our final plan.

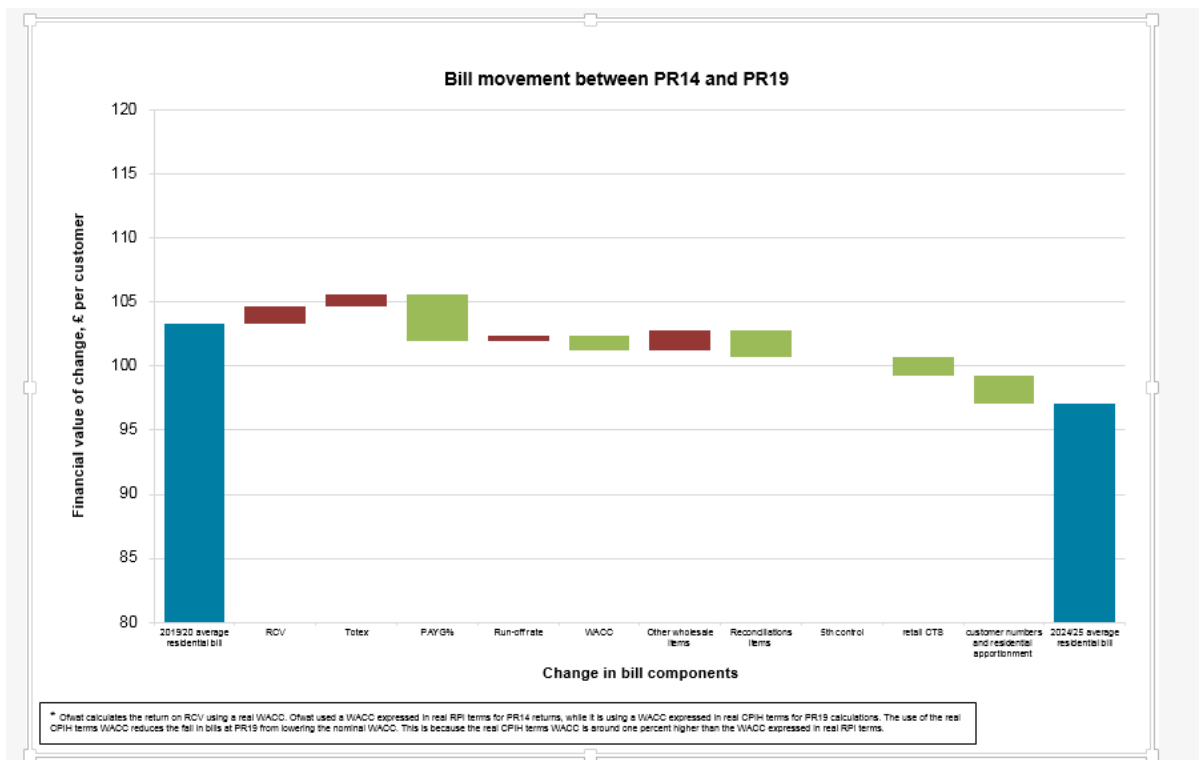
**Great customer service.** We have reviewed our performance and ambition, based on wide ranging evidence, both within and outside the industry. Our engagement has looked at levels of service, the service attributes that matter most to customers and the improvements that they expect to see.

**Affordability.** We engaged to understand views on affordability for all, and for those that may need extra help, both now and in the longer term. We have sought views specifically from those with arrears. We have turned this insight into specific pledges on affordability for both our Social Tariff and in respect of average bills.

**Resilience.** Resilience is not a new theme for us, it is fundamentally embedded within our culture. We have engaged on resilience, especially in terms of water resources, where customers supported our ambition to develop the £62.2m Havant Thicket reservoir, which will deliver resilience for the wider region. Customers also helped us prioritise resilience schemes and their valuations formed part of our cost benefit analysis.

Table 2.1: Waterfall chart

The below graph is the bill waterfall chart without the impact of Havant Thicket Winter Storage Reservoir. This reservoir scheme is unusual in that all of the costs will be recovered through revenue generated from a Bulk Supply, and not recovered through our customer's bills. Although this movement is covered in totality in the OFWAT model it generates large gross bill movements which makes interpretation of the underlying bill drivers impossible. Hence the model below excludes the impact of this scheme.



The average bill at PR19 has fallen to just £97. The Bill waterfall bridges from the PR14 FD bill average of £103 which compares to an actual PR14 bill outturn of £101.

Modest growth in bills due to RCV and Totex growth and a small 0.45% increase in RCV run off rate, totalling £2.72 have been offset by a number of reductions.

This is a significant £3.69 reduction in average PAYG from 75.7% to 51.8%. This fall is net of the £1.86 impact from financeability PAYG adjustments used in the notional capital structure. In addition further reductions totalling £3.46 are driven by a lower retail CTS and increased customer numbers.

Overall reductions due to legacy items of £2.06 are offset by other wholesale movements of £1.55.

## Bill components without the impact of HTWSR

Inputs	£ per customer
Changes between 2019/20 and 2024/25	
2019/20 average residential bill	103.33
RCV	1.29
Totex	0.98
PAYG%	(3.69)
Run-off rate	0.45
WACC	(1.15)
Other wholesale items	1.55
Reconciliations items	(2.06)
5th control	-
Retail CTS	(1.46)
Customer numbers and residential apportionment	(2.16)
<b>2024-25 Bill</b>	<b>97.10</b>

## Customer Expectations

Principally, our customers expect, and value most, a safe, secure and reliable supply of water.

They expect us to do our job well, with penalties for failure, but rewards only when we truly add value, especially in improving the environment.

Leakage is seen as a problem, but will be resolved with ambitious targets. Water saving messages are judged to lack credibility if leakage is high. However, customers want better water efficiency advice and to hear more about environmental improvements.

Customers expect great service and are happy with our service. They want stretching, but realistic targets.

Metering is contentious, with most preferring choice. However, those with a specific interest in the environment support compulsory metering.

Supporting the wider region, by building a new reservoir is considered a good thing, providing those that benefit pay for it.

Customers appreciate our bills are low and consider low bills for everyone to be the best way to manage affordability. A Social Tariff, for those that genuinely need it, is supported given the overall bill impacts are not significant. Bills should be stable in the long term, rather than fluctuate. Even those struggling with affordability issues, find our bills acceptable.

Customers perceive additional value from a high performing local company and support a Company Specific Premium. They want modernisation of service, with more self-serve options, but retaining a personal service.

We are expected to be a good citizen, engaging with the local community and supporting the vulnerable. They expect us to be ambitious in our targets in dealing with vulnerability.

Opinions amongst customer groups vary. Younger and future customers favour environmental improvements, businesses value continuity of supply and developers appreciate responsiveness and flexibility.

Our PR19 package is highly acceptable, with 80% finding our plan, including inflationary impacts, either acceptable or very acceptable.



Table 2.2: Key business plan metrics

Metric	PR14 (2019-20) 31 March 2020 estimate	PR19 (2024-25) 31 March 2025 estimate	2019-20 to 2024- 25 % change (leakage and PCC)
Number of residential water only customers (000s)	299.194	308.703	
Number of residential wastewater only customers (000s)	Nil	Nil	
Number of residential water and wastewater customers (000s)	299.194	308.703	
Total leakage (MI per day) Based on PR19 definition, annual average	34.9	29.6	(15%)
Leakage (cubic metres per km of main per day) Based on PR19 definition, annual average	10.4	8.7	(16%)
Leakage (litres per property per day) Based on PR19 definition, annual average	108.1	89.3	(17%)
Per Capita Consumption (PCC) Based on PR19 definition, annual average	141.7	135.0	(5%)
ODI RoRE range	-2.1% to 0.5%+	-1.5% to 1.1%+	
Appointee WACC (real RPI)	3.89%	2.52%	
Appointee WACC (real CPIH)	4.89%	3.52%	
Credit rating – actual financial structure	Baa1	Baa2	
Metric	PR14 (2015-2020 Average)	PR19 (2020-25 Average)	
Adjusted interest cover notional	1.58 times	1.58 times	
FFO net debt notional	9.20 times	8.68 times	
Metric	2017-18 Actual	PR19 (2020-25 Average)	
Actual gearing	63.59%	56.65%	
Adjusted interest cover actual	1.69 times	1.48 times	
FFO net debt actual	9%	9%	

### Commitment to financial resilience

The Board is committed to maintaining long term financial resilience. We have undertaken financial resilience modelling which supports our ability to withstand operational and financial shocks. Our analysis also indicates our ability to maintain an investment grade credit rating. We plan to retain the balanced and sustainable approach to levels of dividend and executive pay that we have followed in previous AMPs.

We understand well the challenges to financial resilience and, together with our investors Ancala, will put into place a market led financing package to support the growth in capital schemes. In particular with an injection of £61m of new capital supporting the development of HTWSR and reducing gearing levels to an average of 60% over the AMP.

Table 2.3: RCV

Control	1 April 2020 (£m) Opening RCV 2017-18 FYA (CPIH deflated)	30 March 2025 (£m) Closing RCV 2017-18 FYA (CPIH deflated)	% growth
Water resources RCV	4.482	66.404	1,381.6% *
Water network Plus RCV	141.828	154.302	8.8%
Wastewater network Plus RCV	Nil	Nil	Nil
Bioresources RCV	Nil	Nil	Nil

\*The growth in Water resources RCV is driven by the £62.2m Havant Thicket reservoir project.

Table 2.4: Dividends

Metric £m	2015-16	2016-17	2017-18		
Outturn (nominal prices)					
Dividends (based on PR14 actual company structure)	2.343	2.415	2.275		
Outturn (nominal prices)	2020-21	2021-22	2022-23	2023-24	2024-25
Dividends (based on PR19 actual company structure)	2.213	3.554	4.048	4.827	4.879

### Dividend Policy

The Board is committed to maintaining a fair, sustainable and transparent dividend policy which is reflective of the business performance and our delivery for customers. The dividend policy for PR19 has been developed to take account of all relevant factors – particularly performance against our promises to customers, long-term resilience, financeability, our wider obligations and responsibilities to stakeholders.

Our dividend will be calculated each year based upon the following relevant factors;

- For the appointed business a base level of dividend calculated using a 5% dividend yield on regulatory equity value.
- Base dividend will be adjusted to reflect wider performance factors such as performance in relation to service levels and ODI measures.

### 3. Appendices

Appendix 1: Company presentation attendee biographies



**Mike Kirk – Independent Non-Executive Chairman of Portsmouth Water**

Mike is a Chemical and Nuclear Engineer with extensive experience of long-life infrastructure design and project economics. He then moved into investment banking and had extensive experience advising water, power and gas utilities through several periodic reviews.



**Neville Smith – Managing Director of Portsmouth Water**

Neville was appointed to the Board of Portsmouth Water as Finance and Regulation Director in 1998. He became Managing Director in 2011. Neville is a Fellow of the Chartered Institute of Management Accountants and previously had 15 years' experience in the electronics manufacturing sector in finance positions at GEC, Smiths Industries Aerospace and Roxspur plc.



**Helen Orton – Finance and Regulation Director of Portsmouth Water**

A Chartered Accountant and previously a Director with PricewaterhouseCoopers LLP. Helen has a broad range of commercial experience working with a wide range of listed and large companies. She has particular experience working with businesses in the Water Industry and other regulated industries. Helen joined the Company and was appointed to the Board in October 2015.



**Roderic Porteous – Engineering Director of Portsmouth Water**

Rod has a broad Water Engineering background with extensive operational, engineering design, asset maintenance, capital planning and customer service experience, gained previously with S E Water (SAUR Water Services) and other water companies and consultants including overseas appointments. He joined Portsmouth Water in 1999 holding Senior Manager positions across a range of functions and appointed to the Board in May 2012.



**Lakh Jemmett – Chair of the Customer Challenge Group**

A customer focused and commercially astute senior executive (CEO, Chairman, NED) with Board Level experience in the FTSE main market, multiple European jurisdictions and Private Equity firms, coupled with a solid record of delivering results in complex stakeholder environments.

Experience of leading International Technology & Telecommunications Businesses for the past 30 years, launching and scaling new market entrants in multiple countries ; Developing and executing turnaround strategies for complex international businesses, delivering growth and transformative digital change programmes.

Extensive Governance experience , P&L management and Stakeholder engagement in both regulated (Water, Telecoms, NHS) and unregulated environments.

## Appendix 2: Business plan executive summary

The Business plan executive summary is contained within the following embedded document;



Executive Summary  
Final 030918.docx

### Appendix 3: CCG report executive summary

The CCG report executive summary is contained within the following embedded document;



Appendix 3 CCG  
report executive sumr



#### Appendix 4: Current operational performance

Table 4.1: PR14 Performance Commitments

The following table details the Performance commitment targets, those reached are coloured in green and those not met are red.

No.	Target	Performance commitment	2015-16 PCL met? <sup>1</sup>	2016-17 PCL met?	2017-18 PCL met?	2018-19 PCL met? (forecast)	2019-20 PCL met? (forecast)	Cumulative ODI (outperformance payments or underperformance penalties) £m to 4 decimal places 2012-13 prices, net of tax	
								15/16-17/18 Actual	18/19-19/20 Forecast
1	342	Bursts (number)	219 Yes	298 Yes	347 Yes	342 Yes	342 Yes	Nil	Nil
2	100.0%	Mean Zonal Compliance * (%)	99.94 No	99.99 Yes	99.93 No	99.97 Yes	99.97 Yes	(0.6400)	Nil
3	0.421	Water quality contacts * (per 1000 pop)	0.570 No	0.665 No	0.549 No	0.550 No	0.550 No	(1.1400)	(0.7600)
4	0	Temporary Use Bans	0 Yes	0 Yes	0 Yes	0 Yes	0 Yes	Not applicable	Not applicable
5	29.90	Leakage (Ml/d)	28.23 Yes	30.38 No	32.87 No	30.0 Yes	28.0 Yes	Nil	Nil

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No.	Target	Performance commitment	2015-16 PCL met? <sup>1</sup>	2016-17 PCL met?	2017-18 PCL met?	2018-19 PCL met? (forecast)	2019-20 PCL met? (forecast)	Cumulative ODI (outperformance payments or underperformance penalties) £m to 4 decimal places 2012-13 prices, net of tax	
								15/16-17/18 Actual	18/19-19/20 Forecast
6	6 mins	Interruptions to supply (mins per property)	3 mins 30 secs Yes	4 Mins 9 Secs Yes	4 Mins 17 Secs Yes	4 Mins Yes	4 Mins Yes	0.0210	0.0140
7	90% of agreed actions	Biodiversity Action Plan	as planned Yes	as planned Yes	as planned Yes	as planned Yes	Completed Yes	Nil	Nil
8	Complete by end 2017/18	Water Framework Directive	as planned Yes	as planned Yes	signed off Yes	n/a Yes	n/a Yes	Nil	Nil
9	10% of energy from renewables	Use of renewable energy	≥ 95% Yes	≥ 95% Yes	≥ 95% Yes	≥95% Yes	≥ 95% Yes	Not applicable	Not applicable
10	Achieve RoSPA accreditation	RoSPA Accreditation*	Awarded Yes	Awarded Yes	Awarded Yes	Awarded Yes	Awarded Yes	Not applicable	Not applicable
11	2019/20 target of 143.3	Reducing per capita consumption	143.3 Yes	145.1 Yes	147.6 Yes	144.6 Yes	143.9 Yes	Nil	Nil
12	70% satisfaction	Survey of developers	89% Yes	85% Yes	91% Yes	80% Yes	80% Yes	Not applicable	Not applicable
Total cumulative financial ODI								(1.7590)	(0.7460)

Table 4.2: PR14 Service Incentive Mechanism (SIM) Performance

<b>SIM Performance</b>	<b>2015-16</b>	<b>2016-17</b>	<b>2017-18</b>
Total annual SIM score (out of 100) – target upper quartile	89.5 Yes	87.7 Yes	87.9 Yes

Appendix 5: PR19 proposed performance commitments

Table 5.1: Common Performance Commitments

No.	Common performance commitment <sup>2</sup>	ID (eg W-A1)	2019-20 forecast performance level (where relevant)	2024-25 proposed performance commitment level	ODI type	In period / end of period ODI	2019-20 to 2024-25 % change (leakage and PCC PCs)
1	<b>Water quality compliance</b> – the DWI's Compliance Risk Index (CRI), a score greater than or equal to zero, where zero is least risk	PRT-NP-01	UQ	UQ	Financial – penalty only	In period	
2	<b>Water supply interruptions</b> – average supply interruption greater than 3 hours (minutes per property)	PRT-NP-02	4 mins	3 mins	Financial – reward and penalty enhanced	In period	
3	<b>Mains bursts</b> – number of water mains bursts per 1,000 kilometres of total length of mains	PRT-NP-03	70	67	Financial – reward and penalty enhanced	In period	
4	<b>Unplanned outage</b> – proportion of unplanned outage of the total company production capacity (%)	PRT-NP-04	6.95%	3.0%	Reputational	Not applicable	
5	<b>Leakage</b> – megalitres per day (Ml/d), three-year average	PRT-NP-07	34.9Ml/d	29.6 Ml/d	Financial – reward and penalty enhanced	In period	(0.15%)

<sup>2</sup> This table includes all PR19 common performance commitments with the exception of C-Mex and D-Mex, as the design of these is different.

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**Portsmouth Water Limited**

No.	Common performance commitment <sup>2</sup>	ID (eg W-A1)	2019-20 forecast performance level (where relevant)	2024-25 proposed performance commitment level	ODI type	In period / end of period ODI	2019-20 to 2024-25 % change (leakage and PCC PCs)
6	<b>Per capita consumption</b> – average amount of water used by each person that lives in a household property (litres per person per day), three-year average	PRT-WR-03	142 l/h/d	135l/h/d	Financial – reward and penalty enhanced	In period	(0.05%)
7	<b>Risk of severe restrictions in a drought</b> – percentage of the population the company serves that would experience severe supply restrictions (e.g. standpipes or rota cuts) in a 1-in-200 year drought	PRT-WR-04	Not restrictions required	Not restrictions required	Reputational	Not applicable	
8	<b>Treatment works compliance</b> – % compliance with environmental permits at water and wastewater treatment works (EA's Environmental Performance Assessment definition)	n/a	Not applicable	Not applicable	Not applicable	Not applicable	
9	<b>Internal sewer flooding</b> – number of incidents per year (sewerage companies only)	n/a	Not applicable	Not applicable	Not applicable	Not applicable	
10	<b>Sewer collapses</b> – number per 1,000 kilometres of sewer (sewerage companies only)	n/a	Not applicable	Not applicable	Not applicable	Not applicable	
11	<b>Pollution incidents</b> – category 1-3 pollution incidents per 1,000km of sewerage network, as reported to the Environment Agency and Natural Resources Wales (sewerage companies only)	n/a	Not applicable	Not applicable	Not applicable	Not applicable	
12	<b>Risk of sewer flooding in a storm</b> – percentage of population at risk of sewer flooding in a 1-in-50 year storm (sewerage companies only)	n/a	Not applicable	Not applicable	Not applicable	Not applicable	

## Appendix 6: Expenditure

Table 6.1: Totex

<b>Total expenditure</b>	<b>Price Base</b>	<b>PR14 final determination 2015-2020</b>	<b>Proposed for PR19 2020-2025</b>
Water network plus (£m)	2017-18 FYA (CPIH deflated)	140.703	91.219
Water resources (£m)	2017-18 FYA (CPIH deflated)		132.725
Wastewater network plus (£m)	2017-18 FYA (CPIH deflated)	Nil	Nil
Bio resources (£m)	2017-18 FYA (CPIH deflated)		Nil
Residential retail costs – total cost to serve	Outturn (nominal prices)	21.951	23.391

Table 6.2: Direct Procurement for Customers (DPC) proposals

<b>No.</b>	<b>Project name</b>	<b>Total project cost (£m) 2019-20 to 2049-50</b> 2017-18 FYA (CPIH deflated)
	No schemes for Direct Procurement	Nil

#### Appendix 7: Trust, confidence and assurance

The full board, led by an Independent Chairman, two further Independent Non-Executive Directors, an Investor Director and three Executive Directors, is responsible for the strategic development and oversight with clear delegated authorities and matters reserved for the board.

A board review of strategy in 2016 crystallised new goals focused on ensuring that customers were always at the heart of everything we do. This fed into the formal Business Plan Process which included.:

- Full board involvement throughout;
- Continual review of customer engagement plans and tracking of progress to ensure outcomes were mapped accurately into the Plan;
- An assurance process with an appropriate hierarchy of review, including formal external audit, was demonstrated to be in place and effective – including presentations from and questioning of the external auditors by the full board.

This has ensured resilience in the round through:

- A thorough review conducted by the Board of the risks faced by the company and its resilience to those risks. This included an assessment of financial viability against a range of downside scenarios.
- Having the people, processes & systems, assets, plans and financing to enable the delivery of the Plan and longer-term business objectives under a wide variety of adverse scenarios, and;
- Regular monitoring by the board of performance against our Plans, to enable prompt action to mitigate any adverse trends.

We run our business as though all our customers had a choice of their water supplier and this is fundamental to retaining and further building the high level of trust and confidence that our customers have in our business.

- Members of the Institute of Customer Services since 2015
- 2017 ICS Survey confirmed we have the highest satisfaction score of any water company and the second highest score of any utility.
- Have always had a simple corporate structure and will continue with our transparent approach to dividends and executive pay that are linked to clear delivery of customer priorities throughout the Plan period.
- Owners will be injecting significant capital into the business to support our ambitious Plan.

Deep involvement of the board throughout the process has ensured the board has complete ownership of the Business Plan, as involved participants in the process

This has enabled the full board to give assurance that its Business Plan will further build the trust and confidence of our customers and fully meet the requirements of Ofwat's proposals relating to "putting the sector back in balance".