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By email

Secretary of State for Environment,
Food & Rural Affairs

21 February 2023

Dear Secretary of State,

Portsmouth Water – draft water resources management plan 2024 consultation response

Long term water resources planning is a key business planning activity and essential for the efficient delivery of resilient water services for customers and protecting and enhancing the water environment. Ofwat has a key role to play in enabling this by funding through the 2024 price review (PR24). Therefore, it is vitally important that we consider whether water companies are identifying the best value approaches and delivering these, to ensure the best outcomes in terms of targeted investment to address challenges. The water resource management planning process is essential to helping Ofwat and water companies get this right. As a statutory consultee, we welcome the opportunity to comment on Portsmouth Water's draft water resource management plan (WRMP), which it published in November 2022. This letter should be read alongside our letter setting out the wider context of our review and the general approach to the assessment of companies' draft WRMPs.

Portsmouth Water supplies water to a population of approximately 0.78 million across Hampshire and West Sussex in the South of England. Its water resources are planned on the basis of one water resource zone (WRZ), which it predicts will be in deficit by 2050 without additional action to reduce demand or provide additional supplies. This means Portsmouth Water would have insufficient water to maintain supply to customers in some severe drought conditions. The scale of the challenge and complexity of the issues means that effective action is needed to meet the needs of customers and the environment.

Overall, there are some areas of Portsmouth Water's plan that are in line with our expectations for this stage of a draft WRMP. In particular, Portsmouth Water's draft plan delivers on expectations of:

- setting out the drivers behind the water resource challenges faced across the planning horizon;
- undertaking a best value assessment that links across to strategies in regional plans

However, there are several material areas we have identified from our assessment where the plan does not yet provide sufficient and convincing evidence that it delivers the best value,

low regret plan in the interest of customers and the environment. The annex to this letter provides detail on the specific areas of the company plan that we consider need further work and evidence. In particular, in its final WRMP Portsmouth Water should:

- demonstrate it has stepped up its efforts on WRMP19 delivery and is meeting PR19 commitments ahead of WRMP24. The benefits of funded PR19 activities should be appropriately factored in to the draft WRMP24 baseline supply-demand balance and delays to options that have been funded or part funded at PR19 should be addressed;
- review approaches and evidence used for baseline deployable output and utilisation assessments and ensure they align with the water resource planning guidelines (WRPG) and link through to the 1 in 500 year level of drought resilience. Provide more detailed evidence on utilisation, justifying the investment need for the schemes proposed, including considering modularity and scalability to manage low utilisation;
- demonstrate how its demand reduction strategy is optimised, and how this has influenced its decision-making process. This includes meeting the 20% reduction in distribution input per head by 2037, and the 110 litres per head per day (l/h/d) dry year per capita consumption (PCC) scenario by 2050;
- provide sufficient and convincing evidence that the number and range of options is appropriate to the scale of the challenge, including at a zonal level. This is important because, where a company doesn't have enough options to choose between, we cannot be confident that the plan presented is the best value plan available;
- improve adaptive planning by presenting a core pathway in line with the WRPG definition, developing a monitoring plan for all decision points and completing sensitivity analysis of the timing of adaptive plan branches. Where investment is needed beyond least cost the value of the additional benefit should be presented within the WRMP planning tables; and
- provide robust and clear supporting evidence. We are concerned about the level of detail and accuracy applied to the WRMP data tables. The tables had missing, incomplete, and resubmitted data. This led to some difficulties in our assessment.

We thank Portsmouth Water for its hard work and effort in producing a detailed draft WRMP and responding to queries throughout the consultation process. Portsmouth Water should now focus on delivering the expected outcomes of the current plan (WRMP19 funded via PR19) and considering all the responses to this draft consultation in its final plan. We look forward to continuing to work together as final WRMPs are prepared, to protect water resources now and in the future.

Yours sincerely

[redacted]

Aileen Armstrong
Senior Director, Company performance and price reviews

Annex

In this annex we outline further details on the points raised in our main letter alongside more detailed comments on different areas of the draft plan. Our points reflect our assessment approach focusing on:

- **Demand management ambition and outcomes** – alignment with government targets and statutory requirements for water demand.
- **Assessment of water needs** – including key drivers for WRMP24 and the supply demand balance forecast and the need for enhancement investment.
- **Options to meet water needs** – the approach taken to identifying and screening options for both supply and demand, review of demand management and supply side proposals including sensitivity testing for key areas, sufficiency of options and option utilisation under normal and peak scenarios, including scalability and modularity.
- **Decision making and prioritisation** – best value decision making for customers and the environment, how the company has approached strategic planning frameworks and alignment with Ofwat long-term delivery strategies and common reference scenarios[1].
- **Long term best value programme** – cost efficiency, bill impact and affordability of the plan.
- **Customer and stakeholder engagement** – the type and quality of interaction with customers and stakeholders and the impact this has had on the draft plan formulation and proposals.
- **Board assurance** – company assurance and governance processes, including Board engagement and sign-off.

Demand management ambition and outcomes

The government's strategic priorities for Ofwat states reducing demand for water can relieve pressures on water supply and increase our resilience to extreme drought. Water companies must act to reduce demand for water in a way that represents value for money in the long-term. We expect all companies to use their WRMPs to show how they will meet long term water demand targets including:

- halving leakage across the industry by 2050, in comparison to 2017-18 levels[2];
- reducing per capita consumption (PCC) to 110 litres per head per day (l/h/d) by 2050[3].

[1] Ofwat, PR24 and beyond: Final guidance on long-term delivery strategies, April 2022
[2] For example, February 2022: The government's strategic priorities for Ofwat - GOV.UK (www.gov.uk)
[3] For example, February 2022: The government's strategic priorities for Ofwat - GOV.UK (www.gov.uk)

A further target is now set in the Environmental Targets (Water) (England) Regulations 2023[4] for the reduction of potable water supplied by water undertakers in England to people in England. This is that the volume supplied per day per head of population is at least 20% lower than the 2019-20 baseline by 31 March 2038. We expect companies to demonstrate how they will deliver against this target in their final WRMP.

We welcome that Portsmouth Water plans to reduce leakage by 50% by 2050. The company also indicates it plans to meet the per capita consumption (PCC) target of 110 l/h/d by 2050 but it should ensure its final WRMP reflects this ambition. The company should also test a scenario of meeting the target under the dry year scenario for its final WRMP.

The company does not reference the 20% reduction in distribution input per head population by 2037-38 based on the 2019-20 baseline. This reduction should be delivered through a combination of reductions in leakage losses, household consumption and non-household consumption. The company should clearly define how it plans to deliver this reduction in its final WRMP and the contributions of each component of demand.

Demand reduction strategy development

The company has looked at a relatively wide range of demand management options, however, it is unclear how the company has optimised its demand management strategy. The company states that its preferred plan has been developed and proposed through participation in the regional planning process, and that one of the combined demand reduction strategies, known as the 'High Plus' Demand Basket, was selected in the regional investment modelling. However, beyond saying that this is consistent with other companies in the south-east, the plan does not articulate how the preferred plan was optimised to form the selected strategy. We expect the company to explain, and provide sufficient and convincing evidence on, how the strategies were devised and how the preferred strategy selected through regional planning represents the best value approach to meet a supply-demand balance. We also expect the company to provide disaggregated costs and benefits of its water efficiency, metering and leakage options in its final WRMP.

Delivery of PR19 performance commitments and WRMP19 targets

We are concerned that, based on the draft WRMP data tables, the company does not forecast to deliver its PR19 performance commitment levels for leakage and PCC by 2024-25. The company has separately confirmed that it expects to achieve its performance commitment level for leakage. The company has also confirmed that it is in the process of reworking its

[4] Defra, Environment Act 2021: environmental targets December 2021

PCC forecast and this will be presented as part of its final WRMP24 once reviewed and assured.

We expect the company to deliver its PR19 and WRMP19 targets. Companies should not expect additional customer funding to address deficits resulting from under delivery in the current or previous periods. We expect the company to review its proposals in these areas for its final WRMP.

Leakage

We welcome that Portsmouth Water has set out its plans to reduce leakage by 50% from 2017-18 levels by 2050. However, although the company tests other scenarios it is not clear what other targets were specifically tested nor how the testing has influenced the selected target presented in the draft WRMP. The company is proposing a three-year average leakage reduction of 3.4%[5] across the 2025-30 period which is a lower level than the 15.2% it plans to deliver for the 2020-25 period. We expect the company to provide sufficient and convincing evidence of target testing, an explanation of its decision-making process, and a justification for the selected leakage reduction in its final WRMP.

Portsmouth Water discussed its baseline policy on customer supply pipe leakage but did not consider any changes to it. We are encouraging companies to evaluate the benefits of a common industry approach to addressing leakage on customers own pipes. We expect companies to provide a view on the benefits of a common industry approach in their statements of response and final WRMPs. We will support companies in the development of a common approach but expect the industry to lead on the development. The Water UK leakage routemap to 2050[6] committed to an informed debate on customer supply pipe strategy by December 2022.

Per capita consumption (PCC)

Portsmouth Water plans to meet the PCC target of 110 l/h/d by 2050. However, this is under the normal year scenario. The company should test a scenario of meeting the target under the dry year scenario for its final WRMP. The company should revise its planning tables in its final WRMP.

The company also proposes a three-year average PCC (normal year) reduction of 4.2%[7] across the 2025-30 period which is a lower level of ambition than the 6.3% it is delivering for the

[5] From 2019-20 three-year average baseline.
[6] Water UK, 'A Leakage Routemap To 2050', March 2022.
[7] From 2019-20 three-year average baseline.

2020-25 period. We expect the company to justify its reduced rate of reduction for 2025-30 in comparison to 2020-25 in its final WRMP.

Business demand

Portsmouth Water's draft WRMP presents a 2029-30 business demand (non-household consumption) level that is 4.2% lower than the 2019-20 baseline level[8]. However, the company's plan also indicates an increasing business demand across the 2025-30 period. We have previously highlighted the opportunity for companies to deliver business demand reductions and our expectations for WRMPs that deliver significantly improved levels of water efficiency in the business sector[9]. We expect the company to clearly justify an ambitious strategy for non-household demand reduction in its final WRMP to inform its PR24 business plan.

Metering

The company proposes that a universal metering programme to install 206,000 smart household meters will be delivered within 10 years and that existing basic meters reaching the end of their life will be replaced with smart meters. This results in an overall 15 year deployment period after which all meters will be smart. The company states that this will bring its supply area in line with the metering penetration across the rest of the south-east of England. The company should explain in its final WRMP what type of meter technology is being proposed and how it was selected as optimal, as well as provide sufficient and convincing evidence that this rate of metering is optimal over the long-term including how this interacts with the selection of other demand management options.

Assessment of water needs

A robust assessment of current and future water needs is critical as it drives the gap between supply and demand and therefore drives the scale of investment required for the 2025-30 period and beyond.

The company's supply demand balance starting point for the draft WRMP24 is lower than its forecast for the same point in the final WRMP19. The company has provided limited high-level information regarding the reasons and appropriateness of the changes to components of the supply-demand balance. This means that there are some concerns that the overall outcome

[8] Combining measured and unmeasured non-household consumption figures, business demand is expressed as a three year average. The average of the reporting year and the two previous years.
[9]Ofwat, Environment Agency, 'Delivering greater water efficiency in the business sector', March 2020 and 'Delivering greater water efficiency in the business sector', February 2021.

of the WRMP19 as funded at PR19 has not been delivered in the round. The company should fully quantify and justify the reasoning for changes between WRMP19 and the starting point for WRMP24 at a supply-demand balance component level with sufficient and convincing evidence.

It is important that Portsmouth Water accelerates its progress on WRMP19 supply and demand side options delivery, and in meeting PR19 commitments ahead of WRMP24. We expect the company to make substantial efforts on demand reduction for the rest of the price control period 2020-25, to ensure that WRMP19 forecast, and PR19 performance commitment targets are met annually, and to set firm foundations for delivering WRMP24.

There is limited evidence provided that the benefits of funded PR19 activities have been appropriately factored in to the draft WRMP24 baseline supply-demand balance. The company should provide granular details of the benefits of funded schemes, and how and when these have benefitted the baseline supply-demand balance. Where a step change in supply-demand balance between WRMP19 and WRMP24 is not sufficiently justified by scenario drivers, and may instead be as a result of non-delivery or underperformance, this will be taken into account at PR24 in the assessment of enhancement funding.[10]

Portsmouth Water has used methods and data that align with planning guidelines and are appropriate to the scale and complexity of the problem presented in its problem characterisation. The key changes to the planning problem are clearly described. Growth, climate change and reducing abstraction from chalk streams are key drivers of investment for this plan. Changes across the supply demand balance components are also described. The draft WRMP aligns with the Water Resources South East (WRSE) regional plan.

We welcome Portsmouth Water's chosen 50 year planning horizon, which exceeds minimum planning requirements. The company should clearly explain in its final WRMP the rationale for the chosen planning horizon.

Portsmouth Water should ensure that abstraction reductions are not double counted if licence changes are needed ahead of delivering environmental destination scenarios. This will give greater confidence in plan drivers in the final WRMP and in investment levels in business plans.

[10] Ofwat, PR24 final methodology: Appendix 9 – Setting expenditure allowances, December 2022, pp86-87.

We are pleased to see that Portsmouth Water has used the WRSE investment model to explore achieving 1 in 500 year drought resilience by 2035, 2040, 2045 and 2050.

Portsmouth Water plan to use 2021-22 as its base year for the final WRMP to provide an improved understanding of a 'new normal' using recent actual data. The company will also update its headroom assessment from the allowance made for Covid in the draft plan which used 2019-20 as the base year.

The company should review its baseline deployable output (DO) to ensure that it is consistent with the WRPG (5.3). Baseline DO should be based on 1 in 500 year drought resilience from the base year to the end of the planning period and therefore be flat, with level of service adjustments added to the final planning scenario as an option.

Options to meet water needs

We have concerns about the volume, extent, and breadth of feasible options considered by Portsmouth Water. Portsmouth Water's feasible option list included around 113% of its 2050 supply demand balance. There are only 30 options and five option types considered in the feasible option list: demand management savings (58%), reservoir (12%), drought permit to abstract from environment (1%), conjunctive use benefit (12%) and change in level of service to enhance water availability (17%). We do not think this is a sufficient range of feasible supply and demand options given water needs and forecast deficit. We have concerns that if this is reflected in Portsmouth Water's business plan, it could lead to queries in the PR24 process as to whether the options presented have been sufficiently justified as being best value.

Portsmouth Water says it has worked with third parties to find external options but no third party came forward with any supply opportunities and there is no mention in the options appraisal annex of third party options. We expect sufficient and convincing evidence in the final WRMP that all parts of the guidance have been appropriately followed in relation to third party options and that the lack of third-party options in the company preferred plan is low regret best value.

Portsmouth Water's ongoing Havant Thicket Reservoir scheme is well referenced and its relative impact on the supply demand balance has been acknowledged in the planning tables. However, in relation to the ‘Hampshire Water Transfer and Water Recycling’ solution, it has been acknowledged that the deployable output for this solution is not consistent between the RAPID programme, the WRSE regional plan, and company WRMPs. Portsmouth Water must work closely with Southern Water and WRSE to ensure that the deployable output for this scheme, and other associated option data, is correct within its final WRMP, regional plan and the RAPID gate submissions.

The final preferred plan, which follows a twin track approach, selects enough options to achieve a balance or surplus from 2025 to 2075. These options achieve a change in emergency drought order level of service from 1 in 200 to 1 in 500 year drought resilience by 2040 as shown by the modelled level of service in the planning tables. However, Portsmouth Water should clarify why the minimum level of service stated within the planning tables is at 1 in 200 throughout the planning horizon without the step up to 1 in 500.

Portsmouth Water has explained its options screening process, however the unconstrained and feasible lists are not clearly set out. For the final WRMP, Portsmouth should provide screening justification including how tests have been applied consistently.

Portsmouth Water has not provided sufficient information regarding option utilisation in its draft plan. Extra information was provided to Ofwat on utilisation after querying. We expect to see more robust evidence on utilisation in the final WRMP, in line with feedback in our pre-consultation feedback letters, to fully explain and justify the utilisation rates given and to provide evidence that modularity and scalability in optioneering has been fully considered and explored to manage low utilisation situations. The company should provide sufficient and convincing evidence in its final WRMP that operational interventions have been considered and will be implemented where appropriate if this is the best value solution. Portsmouth Water's single supply option appears to be highly utilised. However, as with other WRSE companies, it is not clear if by optimising its strategies to reduce demand or leakage it could delay the need for some schemes or increase utilisation.

Decision making and prioritisation

Notwithstanding our concerns above on the identification and selection of options, the preferred programme decision making approach has been clearly explained and is appropriate for the problem characterisation output. The plan references regional methods and approaches and states that this has resulted in fewer appendices than were required for previous plans. However, for the final WRMP, Portsmouth Water should describe the regional methods to make sure the company plan is fully standalone.

Portsmouth Water has adopted a regional best value adaptive planning approach using regional decision making tools, including a complex risk-based approach (integrated multi-metric and multi-future investment regional model with regional supply capability assessed using a regional system simulation model). A clear explanation is provided of the optimisation process across nine adaptive pathways used to derive the preferred programme. Output comparison has also been provided and appears to be robust.

Portsmouth Water is using an adaptive planning approach and a thorough explanation of the approach to uncertainty and adaptive planning has been included in the draft plan. There is a baseline deficit under the different scenarios until 2029/30 and the complexity of the planning problem justifies the need for adaptive planning. The plan provides an explanation

of methods to combine individual scenarios. The adaptive plan addresses known issues and future uncertainties tested against a suitable range of scenarios. The company has identified constraints it has imposed on its decision-making process and thorough scenario analysis to test the preferred and alternative programmes has been presented including 1 in 500 year drought resilience timing.

However, we note that sensitivity analysis has not been carried out on the timing of adaptive plan branches to explore the trade-offs and justify the timings and this should be completed for the final WRMP. Portsmouth Water should further demonstrate in its final WRMP that decision making has not been influenced by artificial constraints and that constraints are appropriate. Currently they appear to be driven by the 5-year planning and investment cycle, rather than the lead-in time for specific enhancements. This undertaking also includes presenting the implications of sensitivity testing on different glide paths on water efficiency and leakage.

Noting that Portsmouth Water has set out a monitoring plan for some measurable metrics such as population growth, it should also develop a monitoring plan for all trigger points and clearly explain the conditions that would cause one pathway to be adopted over another using clear observable metrics.

Identification and consideration of best value metrics have a line of sight to the plan objectives however it would further be beneficial to maintain a line of sight to sub-metrics and to the outcomes, to structure and justify the preferred plan selected. In the best value analysis, the company has fully considered a wide range of economic, social and environmental benefits that the options can deliver. Portsmouth Water has not referred to Ofwat's public value principles, although the plan adheres to most of the principles. We would like Portsmouth Water to reference Ofwat's public value principles within their best value planning process in its final plan and provide narrative on how the principles have been used to inform preferred plan decision making. In combination assessments have been included for environment but not for deployable output at the programme level as part of best value plan assessment and these should be completed for final WRMP.

The draft plan would benefit from more comparison of alternative plans rather than signposting to the regional plan. This comparison should be added into the final plan as further justification for the preferred plan selected. The costs and benefits of the least cost plan should be compared against the preferred and other alternative plans. In the final WRMP, where investment is needed beyond least cost, the value of the additional benefit needs to be presented within the WRMP planning tables. The robustness of this valuation data is important where companies are requesting significant areas of investment.

Portsmouth Water proposes to invest £0.7 million in interconnecting its network in the 2025-30 period. The company should ensure the benefits it has identified for these schemes are

sufficiently evidenced in its final WRMP. Additionally, the company may have schemes where interconnectors are necessary to deliver new supplies to areas of demand. In such cases the schemes should be evaluated by combining the costs of developing the new supply with the interconnector costs as a single option to produce an optimised best value plan. We also reiterate our pre-consultation feedback, which aligns with the WRMP guidelines, that sub zonal schemes (not impacting on zonal water available for use (WAFU)) can be discussed within the narrative of the WRMP to provide context but they need to be presented and justified with sufficient and convincing evidence in PR24 business plans rather than the WRMP. When presenting these enhancement schemes, companies should clearly identify how they have assessed the degree of overlap with activities they are funded to deliver through base expenditure[11]. Companies should not expect additional customer funding to address risks resulting from under delivery in the current or previous periods.

While the South East Strategic Reservoir Option (SESRO) is currently selected consistently in the draft regional plan, the size of SESRO selected is sensitive to the size of the 'Hampshire Water Transfer and Water Recycling' selected. The water recycling plant was sized at 15 Ml/d within the RAPID accelerated gate two submission and has since been increased to 60 Ml/d following WRSE investment model outputs selecting this option. Such an increase in size raises deliverability risks that Southern Water working with WRSE needs to consider. To understand the impact of the 60 Ml/d water recycling plant not being deliverable we understand that WRSE is in the process of running sensitivity analysis to explore sizes <60Ml/d and modular options. Portsmouth Water should include this analysis and consideration of these risks in its final plan.

We expect to see a clear line of sight between long-term WRMPs and the requested investment at PR24. Portsmouth Water acknowledges that the PR24 business plan is a mechanism to set out investment needs in order to deliver the outcomes specified in its WRMP. The company demonstrates clearly that this WRMP forms part of a larger planning framework at a company, regional, national scale, including previous price reviews, drought plans and a plan for delivering net zero.

The company has used target headroom calculation and adaptive planning to manage uncertainty in its plan. There is a good explanation of the interaction between the two

[11] Ofwat, ' Creating tomorrow, together: Our final methodology for PR24 Appendix 9 – Setting expenditure allowances', Annex A1.

approaches so that risks and uncertainties are not double counted. The company clearly explains how its approach to calculating target headroom has changed since WRMP19.

Portsmouth Water adopts the WRSE approach for adaptive planning. The plan selects nine alternative pathways which diverge in 2030 and 2035 based on decision points around population and environmental destination/climate change, respectively. The method combines the Ofwat common reference scenarios with a wider range of climate and demand scenarios to explore a range of futures. It combines multiple scenarios, for example, high climate and high environmental improvement, then optimises the option selection in 2025-30 to ensure a surplus under all future pathways.

Portsmouth Water presents the Ofwat 'reported core pathway' as largely covered by its 'situation 4'. However, this does not align with the WRPG definition of a core pathway because it only includes investment required to meet a single future scenario. We also have concerns that there is a risk of over-investment in 2025-30. This is because the options are chosen based on scenarios that are more severe than the Ofwat common reference scenarios and have been combined. Since the Ofwat common reference scenarios represent 'plausible extremes', combining them risks producing a very low probability scenario. This means Portsmouth Water may be investing in some options that have a very low chance of being needed or could have low rates of utilisation. Furthermore, it is unclear which options would be selected in the different pathways, and when they would first be utilised.

For its final WRMP Portsmouth Water should present a core pathway in line with the WRPG definition that includes low-regret investment to meet future uncertainties and additional option value to allow further flexibility in the future. We expect the company to demonstrate that plausible scenarios have been used to optimise the timing and selection of low-regret investment.

In its final WRMP, we expect Portsmouth water to clearly set out the impact of the Ofwat common reference scenarios compared to the 'most likely' scenarios on which the preferred plan is based. This should include quantifying the impact on demand of the low and high scenarios for climate change, demand, and abstraction reductions across the planning period. The company should also quantify the estimated impact on the expenditure requirement of:

- planning based on the high scenarios for climate change, demand, and abstraction reductions, and the slower scenario for technology; and
- planning based on the low scenarios for climate change, demand, and abstraction reductions, and the faster scenario for technology.

This will improve understanding of the drivers of investment, the sensitivity of the plan to future scenarios and confidence in the investments being proposed. We expect Portsmouth

water to use the results of this testing to identify and justify, with sufficient and convincing evidence, low regret investments rather than just investments that meet both high and low planning needs in a non-adaptive way.

The timing and need for decision points and trigger points is well explained in the main report. Portsmouth Water sets out a monitoring plan including some measurable metrics such as population growth. For the final WRMP, Portsmouth Water should develop a monitoring plan for all trigger points and clearly explain the conditions that would cause one pathway to be adopted over another using clear observable metrics. We would also like to see some sensitivity testing of the timing of these points. Currently they appear to be driven by the 5-year planning and investment cycle, rather than the lead-in time for specific enhancements.

The plan goes some way to linking the WRMP work to the PR24 business plan. Table 8 is filled out with preferred best value, least cost and Ofwat core plan, however the difference between these plans is not explained in the main report. Differences in approaches compared to WRMP19 are explained to some extent (including use of WRSE approaches) and the inclusion of Havant Thicket, which was in WRMP19, is included in the WRMP24 baseline.

Over the whole life of the plan, Portsmouth Water has proposed £395m of investment on preferred options. The company generally perform well when compared against other companies on unit costs, but they have selected two 'Metering other selective' solutions as preferred, which have very high unit costs for both net present cost (NPC) and average incremental cost (AIC). Portsmouth Water should clearly set out in its final WRMP why these solutions have been selected in place of other lower unit cost metering solutions.

We are pleased to see that third party technical assurance been carried out on the decision making analysis.

Long term best value programme

The company has identified £44 million of enhancement expenditure relating to the delivery of its WRMP24 in the period 2025-30. Over the 2025-50 period, the company has identified £240 million of enhancement expenditure.

Portsmouth Water plans to deliver around 44 Ml/d of supply demand benefit (excluding interconnectors) in 2025-30. During this period, the company proposes to deliver the total supply demand balance benefits at a lower cost in comparison to other companies[12]. This is

[12] Based on the data submitted by companies in their draft plans and comparison against the industry median

driven by benefits relating to supply side and demand side (water efficiency) improvements being delivered at a low cost. While part of the investment also relates to strategic schemes and interconnectors that deliver benefits over a longer timeframe, the company presents that approximately 79% of the 2025-30 enhancement investment will be on metering. The company proposes to deliver metering improvements at a unit rate of approximately 7.6 £m/Ml/d in the 2025-30 period, slightly higher than the industry median of 6.7 £m/Ml/d. This is indicative of the comparatively high costs for fairly limited benefits assumed for metering improvements across the plan.

The company should provide sufficient and convincing evidence that the preferred options being selected, across all areas of its plan, are best value in its final WRMP24 and ensure costs are reliable, efficient and appropriately allocated.

Customer and stakeholder engagement

Engagement with the WRSE regional group and with neighbouring water companies has been carried out and is well described. Portsmouth Water has collaborated with other water companies and with the WRSE regional group to undertake extensive customer and stakeholder engagement. Engagement with the WRSE regional group and with neighbouring water companies has been carried out and is well described. Engagement with regulators has been undertaken in the development of the draft WRMP.

Stakeholder engagement on the best value decision making process has been undertaken through the WRSE emerging regional plan consultation and refined for Portsmouth Water's draft. Key topics have been identified, including future supply and demand management, and customer views have been sought on these areas. However, it is not clear how these views have influenced the best value decision making. The final WRMP should explain clearly how customer preferences have informed best value decision making. The views of retailers were sought in stakeholder consultations and through WRSE stakeholder engagement. Portsmouth Water should provide further evidence in its final WRMP how the views of the retailers have been considered, as well as further views around bill impacts, which have been estimated.

Delivery of the Havant Thicket reservoir has been identified as an opportunity for co-funding and co-delivery. Further investigation of where there may be additional partnership opportunities for co-funding and co-delivery with stakeholders should be undertaken, and should be explained in the final WRMP, as well as considering commercial models to deliver.

Assurance

A Board assurance statement and a statement setting out Board Approval have been provided, confirming that the Board were provided with assurance reports and are satisfied

with the draft WRMP, although there is some lack of detail on some financial assumptions for instance WACC and depreciation factor, we would recommend that this is clearly set out.

Information on the technical decision making is given, and information on the steering group used in developing the plan is described.