

25 January 2021



Competition and Markets Authority

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Dear Sir/Madam

CMA Consultation
Portsmouth Water response to CMA enhanced leakage discussion document
Submission date 25 January 2021

Thank you for the invitation to comment on your recent paper on the funding of the enhanced leakage programme at PR19. We have followed the discussion carefully and welcome the opportunity to contribute to the discussion.

Firstly we wanted to note that we believe the principles discussed in the paper, and applied by the CMA at the draft representation, should similarly be applied to other service level enhancement programmes where there is an expectation of a step change improvement in service.

We acknowledge the high profile leakage has with our customers and stakeholders. We do not concur with Ofwat's starting position that there has been *no* progress on leakage performance in recent years. Every five years each water company prepares the long term water resources management plan (WRMP) which considers the components of demand, including leakage, and proposes leakage targets as a result.

Leakage reduction is one option that water companies have to ensure sufficient supply is available to meet expected demand over the longer term. Companies who are fortunate to have *sufficient supply* will not have needed to spend additional customer money on driving leakage down. Conversely those who do not have sufficient supply will have looked at the cost benefit of each option it has - broadly metering, resource development or leakage - and determined their leakage target accordingly. In short companies have historically made decisions on leakage targets relative to other options on a cost beneficial basis consistent with the principles of the regulatory framework. This means that there is a range of starting points across the industry for leakage levels depending upon each company's circumstances. For example our neighbours Southern have made significant progress on leakage and metering given their resource situation, whereas we have not had the same economic case. (Please note we are now working jointly on a number of initiatives, including Havant Thicket, to share more water with them).

The regulatory policy position at PR19 imposed a 15% reduction target on the industry with no recognition of where companies were starting from. Each company starts from a different position and as such the cost of achieving the 15% reduction will vary too. Economically, the marginal cost of further reductions are very likely to be higher for companies with low existing leakage rates.

We therefore welcome the approach taken by the CMA on this issue, that the additional costs of any significant step change in level of service should be recognised by Ofwat at any price determination.

Finally, we note the comments made in the consultation about the reduction in reported leakage in 2019-20. While the 7% year-on-year reduction in the industry total leakage was positive and welcome, we would caution against over-reading the implications for future years. Leakage performance is strongly affected by weather conditions; the winter of 2019-20 was relatively mild, providing relatively favourable operating conditions. This was certainly true for us at Portsmouth Water.

Yours faithfully

HELEN ORTON
Finance and Regulation Director