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The Environment Agency's representation on Portsmouth Water's draft water resources management plan.

26 November 2010

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Environment Agency's executive summary

Water resource management plans set out for each water company how it plans to manage the pressures on water resources and the environment to ensure a sustainable balance between supply and demand for its customers until 2035.

A plan should have the flexibility to cope with the numerous risks and uncertainties we face over the next 25 years, while providing secure supply for customers and proper protection for the environment. The plan should clearly outline and justify the supply demand balance. It should be based on the latest information, research and best practice and should be aligned with Government policies and objectives.

We have found that Portsmouth Water's updated plan will provide a secure public water supply without risk to the environment in the short term but we have reservations about its appropriateness to cope with future pressures in the longer term. The company has used simple approaches to demand forecasting and options appraisal that do not adequately explore future demands or the potential for managing those to resolve any deficits in the supply-demand balance. We believe that the inclusion of Havant Thicket reservoir at the end of the planning period to meet a minor peak supply deficit is not justified.

We believe the company should follow our recommendations identified in this representation to make its final plan more robust. These changes would improve the ability of the company to meet future challenges, especially as the company is within an area of serious water stress. The company should state clearly what further work it intends to undertake before the next round of plans.

Our main recommendations for changes to be incorporated into the final water resources management plan are:

- **Havant Thicket reservoir** – The company should seriously consider whether the Havant Thicket reservoir option is an appropriate solution to the forecast peak supply-demand deficit, given that the updated plan shows that less than 1 per cent of the reservoir's 30 MI/d output is required in 2034/5 and only in the peak week demand scenario.
- **Sensitivity to key assumptions** – The company should present the sensitivity of the updated plan to key assumptions such as those for growth and demand.
- **Options appraisal and selection** – The company should amend the text of the plan to give greater emphasis to the company's commitment

to further work on options appraisal and selection, which is set out in Appendix 30 of the updated plan.

- **Demand forecasting** – The company should amend the text of the plan to give an equal commitment to further work on demand forecasting, which should include better use of evidence for both base year and forecast demands with particular consideration of peak demand and its management. The company needs to complete this work, alongside the further work on options appraisal and selection, to determine whether its Havant Thicket reservoir option is both needed and is the best solution to resolve any future deficit. We consider this is likely to be a matter for the next plan.

1.0 Introduction

This is the Environment Agency's review of Portsmouth Water's updated draft water resources management plan 2010 (the updated plan) that was published for consultation on 3 September 2010.

The Environment Agency has a statutory duty to manage water resources in England and Wales. We aim to make sure that there is enough water for people, with an improved water environment.

We have reviewed and reported to Ministers on water companies' voluntary water resources plans since 1999. The Water Act 2003 made it a legal requirement that all water companies had to produce a water resources management plan from April 2007. In this process we are statutory consultees and provide technical advice to Government about the robustness of the plans.

Portsmouth Water consulted on a draft water resources management plan in April 2008 and we made representation on that plan in July 2008. The Secretary of State initially advised in a letter dated 3 August 2009 that a public hearing would be held into the plan. This was subsequently changed to an inquiry. However Portsmouth Water then decided to consult fully on an updated plan and the inquiry was cancelled.

In carrying out this review, we have carefully assessed all of the information submitted by Portsmouth Water. We are looking for a clear plan that shows how the company will maintain a secure public water supply as well as protecting the environment.

This is our response to Portsmouth Water and we expect the company to follow our recommendations.

2.0 Our view of water resources management plans

The Environment Agency has a duty to secure the proper and efficient use of water resources in England and Wales, set out in the Environment Act 1995 as amended by the Water Act 2003. We meet this duty through a variety of operational and regulatory functions – including our role as licensing authority for water abstraction – and through our role in the strategic planning process for water resources. In this process our objective is to secure robust water resources management plans to ensure the security and sustainability of future water supplies, balancing the needs of water users and the environment.

A water resources management plan should set out how a water company intends to supply water over the next 25 years to its customers. In doing so, the plan should take into account future pressures on supply and demand including housing and population growth, per capita use of water, climate change and actions needed to protect the environment.

We have analysed Portsmouth Water's updated plan to assess whether the company has used good practice and to ensure that the company has followed the water resources planning guideline¹ and Government policies.

In this representation we have outlined our recommendations.

¹ Environment Agency - Water resources planning guidelines, 2007

3.0 Recommendations

Portsmouth Water's updated plan does not pose a risk to security of supply or the environment within the next five years. However, we have significant concerns about the long term position Portsmouth Water has outlined in its updated plan and we recommend that Portsmouth Water makes the following changes to its final plan:

- **Havant Thicket reservoir** – The company should seriously consider whether the Havant Thicket reservoir option is an appropriate solution to the forecast peak supply-demand deficit, given that the updated plan shows that less than 1 per cent of the reservoir's 30 MI/d output is required in 2034/5 and only in the peak week demand scenario.
- **Sensitivity to key assumptions** – The company should present the sensitivity of the updated plan to key assumptions such as those for growth and demand.
- **Options appraisal and selection** – The company should amend the text of the plan to give greater emphasis to the company's commitment to further work on options appraisal and selection, which is set out in Appendix 30 of the updated plan.

In addition to the above, we recommend Portsmouth Water extends its commitment to further long term work to be completed between now and the commencement of consultation on Portsmouth Water's next draft water resources management plan, which may be required to be submitted in early 2013. As well as the further work on options appraisal and selection, we recommend the company amends the text of the plan to give an equal commitment to the following, to improve its plan from 2015 onwards:

- Improving its evidence base for demand forecasting, including data from its domestic consumption monitor and use of its measured property database.
- Revising and improving its baseline demand forecast and recalculating its base year demand. This should include peak demands.
- Using guidance that is currently being developed, assessing the impact of climate change on deployable output and demand.
- Reviewing its consideration of risk and uncertainty, both in terms of how these should be represented within the plan and how these are considered in devising the preferred solution.
- Revising its strategic environmental assessment in parallel with further work on options appraisal and selection.

Our recommendations are set out in more detail below.

3.1 Water supply

3.1.1 Deployable output

We recommend Portsmouth Water reviews all its source deployable output figures by March 2013 and provide updates within the annual review process.

The company has provided a review of its deployable outputs in its updated plan but the overall level of information we've seen from Portsmouth Water on existing sources and their deployable outputs remains well below that provided by other companies. We consider that the company should gather, assess and present fuller data on all of its existing sources before it seeks to make a large investment in a new resource.

3.1.2 Climate change

The Environment Agency is working with the water industry to develop guidance on how to use the latest UKCP09 climate projections to estimate impacts on water resources. We expect Portsmouth Water to revise its assessment of the impacts of climate change on its plan, when this guidance is available, in time for the next round of plans in 2013.

Portsmouth Water has included an allowance for the impact of climate change on surface water supplies. The company did not include any assessment for groundwater supplies, because the method that the company used to apply the UKCP02 scenarios did not produce meaningful results. We are supportive of the company's decision to include only the surface water allowance, which was based on the best available information at the time of preparing the previous draft plan.

Without any allowance for the impact of climate change on groundwater sources, which make up 85 per cent of the company's supplies, we recognise that the risks from climate change may not be fully represented in Portsmouth Water's updated plan. However, we are concerned that Portsmouth Water is advancing the Havant Thicket reservoir option on the basis that it will provide "a resilient response to climate change effects", when this is an assumption which the company has not investigated in any detail or yet been able to quantify.

3.2 Demand for water

3.2.1 Base year demand

We recommend Portsmouth Water revises its base year demand figures by March 2013. The approach the company has followed in its updated plan is not in line with the water resources planning guideline, which recommends that base year demand is derived from analysis and normalisation of outturn

data. The company should demonstrate full use of consumption monitor data and billing data from measured households in deriving its base year demand.

We would like the company to address this by March 2013. Improving the evidence base for the company's demand forecast may be a longer term area of work and the company should give regular updates on progress through the annual review process.

3.2.2 Baseline demand forecast

We recommend Portsmouth Water revises its household demand forecast by March 2013, using a recommended method and a more evidence-based approach. The company has followed a basic trend based approach which does not demonstrate that its forecast is based on thorough analysis of current demands for water and latest knowledge of factors likely to influence future water use.

The company has illustrated the changes in water use which it expects will drive increases in household consumption, but has been explicit in stating that the forecast itself is based on simple trends rather than the microcomponents, i.e. the microcomponents have been reconciled to the forecast. Achieving this reconciliation has required the adoption of some water use data that are not consistent with current national thinking on trends in ownership, frequency of use and volume of water use appliances. The company has also presented little evidence to support its assumptions relating to future garden use. Hence we do not accept that the microcomponent analysis provides justification for the baseline demand forecast.

When revising its demand forecast Portsmouth Water should:

- make transparent use of data from its consumption monitors and billing data for measured households and demonstrate consideration of how advances in technology, changes in society and the role of regulation will influence growth or decline in water use over the next 25 years.
- in its baseline forecast, include consideration of the extent to which the company can take account of Defra's expectations for increased water efficiency and plan towards the aspiration (Future Water 2008) that normal year annual average per capita consumption can be reduced to 130 litres per head per day by 2030.

3.2.3 Peak demand

In Portsmouth Water's updated plan it is the critical period planning scenario, based on 'peak week demand' which is driving the need for investment. We recommend Portsmouth Water further explores the fundamental reasons for 'peak week demand' being the company's critical period. The company has provided a limited description of the underlying causes of this critical period but has said it is not currently able to provide any more quantified breakdown

of it. The updated plan shows that the company's forecast growth in household external use is a primary underlying factor.

We recommend Portsmouth Water gives further consideration to other potential 'critical periods' for the company. We would like to see the company establish a more detailed and quantified understanding of all the underlying factors influencing its critical period, on the demand side and the supply side.

The company should use information about its critical period scenario to help target and improve its options appraisal (see section 3.3).

We recommend that the company revisits its peaking factor assumptions when it revises its baseline demand forecast. The company has constructed its critical period (peak week demand) forecast by applying peaking factors to its dry year annual average forecast. While the company has derived its overall peaking factor in accordance with accepted guidance it has demonstrated only limited consideration of how peak demands are likely to change in future.

In the baseline forecast, the company has assumed the same peaking factor for unmeasured and measured households (including new properties). We consider that the company's approach may be leading the company to over-estimate peak household demand. The company should demonstrate consideration of available evidence on the impact of metering on peak demand.

3.2.4 Population and properties

We are concerned that Portsmouth Water may have overestimated its population and property forecast.

The water resources planning guideline recommends that a company's population and property projections should be policy-based, to enable the plan to be as consistent as possible with the Regional Spatial Strategy (the South East Plan).

However, the Government has signalled its intention to revoke Regional Spatial Strategies (through the Localism Bill) and stated that this intention should be treated as a material consideration by Local Planning Authorities. Hence the degree of uncertainty associated with population and property projections has grown significantly since Portsmouth Water's previous draft plan.

Portsmouth Water has relied on consultants, Experian, to advise the company on the population and property projections it should include in its updated plan. Portsmouth Water has adopted Experian's 'most likely' housing projection, in excess of the housing numbers stated in Policy H1 of the South East Plan. This has a significant impact on the demand forecast: in 2019/20,

Portsmouth Water has planned for an additional 5 Ml/d of peak demand to accommodate growth which exceeds the figures set out in the South East Plan by more than 30 per cent (including 11,000 houses and more than 23,000 people). This impact increases to the end of the planning period.

We understand that Portsmouth Water is planning to conduct a sensitivity analysis showing the impact upon its final planning solution of selecting the 'most likely' rather than the 'policy-based' projection for population and property growth. The company should present the results of this analysis in the final plan.

Given the current uncertainty with Regional Strategies, and that the figures used by Portsmouth Water do not trigger significant investment in the first five years of the updated plan and do not present a risk to security of supply, we expect the company to keep its population and property figures under regular review and report any changes that occur.

3.2.5 Water efficiency and consumption

We recommend Portsmouth Water provides a detailed breakdown of the water efficiency policies it has included in the baseline forecast, and the measures the company intends to implement to achieve these policies when it revises its household demand forecast, by March 2013.

The water resources planning guideline indicates that the baseline forecast should show how demands are expected to change, assuming existing water efficiency policies continue. We understand that the company has accommodated Ofwat's Base Service Water Efficiency target in its baseline forecast, through simple adjustment of the trend the company has assumed will govern future growth in per capita consumption. However, this does not explain what the company's water efficiency policies are, or what savings they are expected to deliver. This also means that the company is unable to demonstrate a satisfactory options appraisal with demand management options.

3.2.6 Leakage

Portsmouth Water intends to reduce leakage over the planning period by 3 Ml/d. We expect the company to keep to these forecast figures and would encourage the company to explore opportunities for further reducing leakage in its options appraisal.

Portsmouth Water has included its current economic level of leakage in its baseline forecast. We recommend that the company reviews its economic level of leakage, including its assumptions relating to the marginal cost of water, and works towards establishing a sustainable economic level of leakage. We welcome the commitment Portsmouth Water has given to carrying out this work, which we expect the company to complete by the next round of planning in 2013.

We recommend the company also considers the impact on underground supply pipe leakage when testing the sensitivity of its updated plan to different population and property forecasts (see section 3.2.4).

3.2.7 Metering

Baseline metering assumptions

We recommend that Portsmouth Water revisits its baseline metering assumptions and how it applies them in the baseline forecast when the company revises its household demand forecast, by March 2013 (see also sections 3.2.2 and 3.2.3). The company has assumed measured household per capita consumption is 10 per cent less than unmeasured per capita consumption in a normal year. To derive dry year annual average per capita consumption the company then adds a fixed 9 litres per head per day to the normal year figure. This means that in the dry year annual average planning scenario, the saving from metering is slightly less than 10 per cent.

Impact of metering on demand

Portsmouth Water has assumed that metering, with a uniform tariff, will achieve savings of 10% at both average and peak demand. We agree that the evidence supports a 10% saving at average demand, but national studies² show that savings at peak demand are typically in the range of 15 to 30 per cent (with a uniform tariff). Portsmouth Water suggests that Automatic Meter Reading (AMR), that will facilitate the use of a seasonal tariff and adopted for the final planning forecast, is necessary for savings of 15 per cent at peak to be achieved. The company appears to be underestimating the impact that metering can have on peak demand with and without AMR. We recommend Portsmouth Water does further work by March 2013 to establish whether its chosen metering programme is optimal, taking into consideration the pace and scale of programme as well as the demand savings it is expected to achieve. The savings assumed need to be supported by national studies or company level evidence (see section 3.3.1 below).

Final planning forecast and assumed metering savings

Portsmouth Water should also clearly set out in its final plan how it has applied the assumed savings from metering to its final planning forecast. We find that the company's method of applying peaking factors is not consistent between the baseline and final planning forecast. This makes it difficult to identify how the measures in the final planning solution are influencing household demand. We recommend that Portsmouth Water tests the sensitivity of its final planning forecast to assumptions in its method for applying the metering savings within the final plan.

² Herrington for WWF – Waste Not Want Not, 2007

3.3 Options appraisal and options selection

We recommend Portsmouth Water undertakes a full reappraisal of options and further improves its options selection process. We welcome the commitment the company has given to carrying out this further work by March 2013. We recommend the company references and explains its commitment in the Executive Summary and introductory sections of its final plan. We expect the company to commence the further work urgently and conduct it in clear stages, consistent with the guidelines.

Options selection approach

Portsmouth Water has improved its options *selection* approach since its previous draft plan in 2008. However, we remain concerned that the company's overall approach is still unlikely to produce the best solution to any forecast, and the proposed Havant Thicket reservoir option features in the preferred solution largely by default, because the company has not included sufficient alternative options in its final options selection.

Havant Thicket reservoir

Less than 0.3 Ml/d of the Havant Thicket reservoir's assumed 30 Ml/d peak output capacity is required to balance the critical period (peak week demand) supply-demand balance scenario in year 2034/35 and none of its annual average deployable output is needed. Havant Thicket reservoir is an expensive option which may not be the right response to a small critical period deficit at the end of the planning period. The company should seriously consider whether the Havant Thicket reservoir option is an appropriate solution to the forecast peak supply-demand deficit.

Feasible options

In carrying out the further work, we expect the company to ensure that its feasible options list includes a sufficient number of options, with a wide range of option types and scales represented. The company should also update its options selection process to ensure an optimum solution is derived.

Options costs and benefits

We recommend that the company reviews its approach to estimating costs and benefits of options, including environmental impacts, energy use and carbon emissions by March 2013. This should include consideration of the wider benefits of demand management options, for example, demand management can reduce carbon emissions associated with hot water use and reduce the pollutant load in wastewater effluent discharges, creating capacity for growth within environmental limits.

Our water resources planning guideline requires a full breakdown of the costs of each option to be provided. The company has broadly followed this part of the guidance but there remains scope for improvement in the level, consistency and clarity of this information. For example, in some cases environmental benefits appear to have been treated very favourably, while costs of environmental impacts have been down-played or ignored. This is

apparent in the environmental and social benefit that has been calculated for the Havant Thicket reservoir option where, in recognition of its Green Infrastructure benefit, a generous monetary benefit has been assigned by consideration of recreational and amenity value. However, the loss of existing habitat appears poorly considered.

Critical period scenario

We recommend that the company applies improved understanding of its critical period scenario (see section 3.2.3) to help target its options appraisal and selection process. The company should demonstrate appropriate consideration of the particular nature, scale and timing of any potential supply-demand balance deficit that it identifies and look for an optimum solution which is flexible to the range of risks and uncertainties identified.

Types of options

When carrying out the full reappraisal of options recommended above, we expect the company to give particular consideration to the types of options outlined in the following sections.

3.3.1 Further demand management options

Portsmouth Water should take Defra's aspirations for increased water efficiency into account and plan towards the aspiration that normal year annual average per capita consumption can be reduced to 130 litres per head per day by the year 2030. Overall the company believes it must take a cautious view of the likelihood of demand management options being successful because it considers evidence is lacking or is currently to the contrary. We recommend the company plans to address these knowledge gaps in time for its next plan, working individually and collaboratively with other companies and organisations to pool data and taking into account any new government policies and initiatives as they emerge.

We recommend that the company further explores the measures it could take to reduce demand, focussing on measures to reduce household external use of potable water, as well as other household and commercial use at peak periods. Since the previous draft water resources management plan in 2008, Portsmouth Water has introduced a new 'Automatic Meter Reading' metering option which the company expects to deliver demand savings of 15 per cent during peak demand periods. This is a positive step but we have concerns that the demand savings could be underestimated (see section 3.2.7).

We recommend Portsmouth Water develops its programme of water efficiency with household and non-household users by March 2013. The company should aim to establish a stronger evidence base for its water efficiency activities and planning assumptions.

3.3.2 Small scale supply improvements

We recommend the company presents an assessment of potential options with its existing sources to identify whether small improvements are possible within existing licences or by small variations of the existing abstraction licences. To implement licence variations, the Environment Agency will require any identified source output improvements to be acceptable relative to any concerns about the impact of those abstractions on the environment. It will not be easy to find acceptable variations but we do not rule out that small improvements may be possible.

3.3.3 Conjunctive use benefits.

We encourage the company to further consider opportunities to increase deployable outputs through more sophisticated conjunctive use of its existing sources. The company has indicated that it has little opportunity to refine its patterns of abstraction because it has limited surface water storage and is dependent on groundwater sources with outputs that tend to a minimum each autumn and are vulnerable to dry winters. We understand that opportunities may be limited but we would like to see more evidence that the company has fully explored potential for conjunctive use benefits before assuming that more expensive options are required.

3.3.4 Impact of planned level of service

Portsmouth Water has altered its levels of service, reducing it from the previous company policy of hosepipe restrictions not more than once in 50 years, to a new planned intention of hosepipe restrictions not more than once in 20 years. This is a welcome reflection of the response received by the company from its customers to the company's 'willingness to pay' survey.

The company has used this change in policy to reduce the peaking factor used within its critical period (peak week) demand forecast and so forecast lower peak week demand. We welcome the company's inclusion of a quantified impact on the water resources planning supply-demand balance scenario.

The company has not estimated any impact on deployable outputs from its change in level of service. In theory deployable outputs could increase, but it is not straightforward to calculate this with confidence for groundwater sources. We intend to work with water companies nationally to review methods of estimating deployable output, including approaches to quantifying impacts of difference levels of service policies. We will expect the company to apply any new national guidance published as a result of this review.

3.3.5 Using strategic shared resources

Portsmouth Water has indicated that potential for its Havant Thicket reservoir option to contribute to regional resource adds justification for its inclusion in

the company preferred solution. However the updated plan makes no specific case for regional use of the reservoir resource, stating that neither Southern Water Services nor South East Water have expressed an interest in receiving additional bulk supplies from Portsmouth Water. The regional modelling work carried out by the Water Resources in the South East group between 2007 and 2010 concluded that this option was only selected in the most extreme supply-demand balance scenarios³, although it noted that further work could yet develop a role for it. Until a specific role is identified we can not accept that the Havant Thicket option is justified for inclusion in the company preferred solution.

Portsmouth Water remains actively engaged in the Water Resources in the South East group. The group is now planning another round of regional work, including further exploration of resource sharing options and option selection modelling. Outputs are expected in 2012, in time to incorporate them in preparation of the next round of water company plans. We recommend Portsmouth Water continues to work with neighbouring companies and actively seeks to identify opportunities for sharing resources for its next plan.

3.4 Target headroom, uncertainty and risk

We are concerned that uncertainty and risk are not treated as visibly within the updated plan as the guidelines intend.

Portsmouth Water's updated plan includes a much lower target headroom allowance than the previous draft plan produced in 2008. It is now one of the lowest target headroom allowances of any company. One of the reasons Portsmouth Water's target headroom is low is because the company recognises that it has made conservative assumptions in relation to its demand forecast and the benefits of demand management. These assumptions are material to the updated plan and provide a significant factor of safety outside the target headroom allowance. We recommend the company adopts a treatment of risk and uncertainty that is more in line with the guidelines in future water resources planning work, alongside reviewing its central demand forecast and assumptions for savings from demand management.

A water resources management plan needs to minimise risks to security of supply while also guarding against unnecessary investment or inefficient use of scarce resources. In preparing for the next planning round, we will expect Portsmouth Water to demonstrate that it has achieved the right balance of risks, and produced a plan which is sufficiently flexible to a range of uncertainties.

³ WRSE Joint Report, 2010

3.5 Environment

We recognise that Portsmouth Water is committed to implementing the abstraction licence changes we asked it to as part of the PR09 national environment programme.

We encourage Portsmouth Water to continue to work with Southern Water and ourselves to ensure implementation of the cost-effective solution, for customers and the environment, to the River Itchen sustainability reductions.

We recommend that Portsmouth Water revises its Strategic Environmental Assessment (SEA) for its next water resources management plan. These revisions should be conducted in an integrated way with the further work the company must do on options appraisal and selection. We find the current SEA (produced for the March 2008 draft plan) does not comply with the regulations sufficiently and has not been used adequately in the development of the updated plan. We provided a separate response to the company on 24 July 2008 giving our view of its SEA.

We are satisfied that the company, as the competent authority, has explicitly acknowledged the risks associated with its decision not to undertake a Habitats Regulations Assessment on its water resources management plan.

3.6 Supply-demand balance tables

The supply-demand balance tables which accompany a water company's water resources management plan provide key supporting information which is necessary to help consultees understand and appraise the plan. We have found errors and inconsistencies in the way Portsmouth Water's supply-demand balance tables have been filled in, which have made it difficult to appraise some aspects of the company's updated plan. Through technical discussion we have reached an understanding of how the company has completed the tables. However, in future we recommend the company reviews its approach to completing the tables and quality assuring the data presented in them.

3.7 Defra Directions

Defra has issued specific directions that each water company must follow. The water resources planning guideline states clearly that if a company has any questions with regard to directions, it should seek clarification from its own legal representatives or from Defra.

The final interpretation of directions and decisions relating to whether a company has complied with them is a matter for Defra.

We believe that Portsmouth Water has met all the Defra directions to the extent practical with the information that the company currently holds.

4.0 Our view of the public consultation

Portsmouth Water has published its updated plan on its website with a clear link from its homepage and contact details for consultation responses.

The page clearly explains that the previous plan was called to a public hearing that was subsequently changed to a public inquiry. This was cancelled, in order that this updated plan could be taken through a full consultation.

Information has been available on the water company website throughout this process and the company has met with a number of local stakeholders to explain the changes to its plan.