

# **PR19 Business Plan Presentation Pro-forma**

## **South West Water**

## Contents

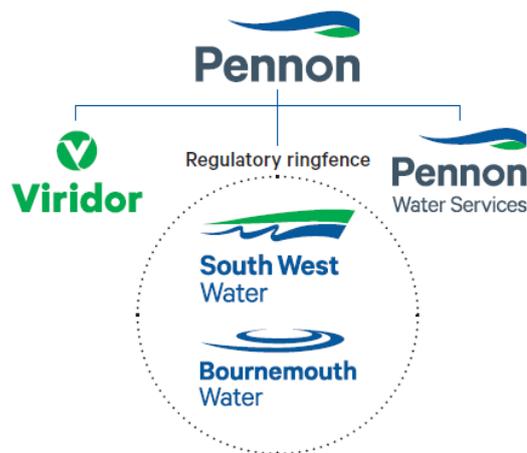
Contents	2
1. Background	4
1.1 Company pen pic	3
1.2 List of attendees	4
2. Key business plan metrics	5
3. Appendices	10
Appendix 1: Attendee biographies	11
Appendix 2: Business plan executive summary	12
Appendix 3: CCG report executive summary	13
Appendix 4: Current operational performance	14
Appendix 5: PR19 proposed performance commitments	17
Appendix 6: Expenditure	19
Appendix 7: Trust, Confidence and Assurance	20

## 1. Background

### 1.1 Company pen pic

South West Water (SWW) is a water and wastewater company provider serving Devon, Cornwall as well as parts of Somerset and Dorset. Since 1 April 2016 and the integration of Bournemouth Water, SWW also serves other parts of Dorset, Hampshire and Wiltshire.

SWW Limited is a 100% owned subsidiary of Pennon Group plc (immediate and ultimate parent company), a FTSE 250 company, whose principal trading subsidiaries are shown below. Other than the integration of Bournemouth Water with SWW there have been no changes to the ownership structure of the group.



The SWW Board of Directors comprises the Chairman, (a Non-Executive Director), three Executive Directors; Managing Director, Finance Director and the Pennon Group Chief Executive Officer, and six Non-Executive Directors.

Susan Davy, Pennon Group Chief Financial Officer also attends the SWW Board.

The Board considers the Non-Executive Directors to be independent in accordance with the UK Corporate Governance Code.

## 1.2 List of attendees

The names and job titles of the attendees for the business plan presentation meeting are provided below. Further detail on each attendee can be found in Appendix 1.

**Sir John Parker**, Chairman, South West Water

**Nick Buckland OBE**, Independent Chair of the WaterFuture Customer Panel

**Lord Matthew Taylor**, Senior Independent Director, South West Water

**Chris Loughlin**, Chief Executive Officer, Pennon Group

**Susan Davy**, Chief Financial Officer, Pennon Group

**Stephen Bird**, Managing Director, South West Water

**Iain Vosper**, Regulatory Director, South West Water

**Louise Rowe**, Finance Director, South West Water

## 2. Key business plan metrics

This plan is built on our most extensive consultation yet, engaging with c.1m customers with c.27k providing direct feedback on plans, co-creating the plan alongside challenge from the independent WaterFuture Customer Panel.

The Board has led the plan development, challenging management throughout. The result is a plan grounded in what matters most to customers, aligned to key PR19 themes.

### *Innovation*

- **Customer engagement** including latest advances in survey techniques and behavioural science
- Customer **empowerment** through customer share ownership offer. A first for the UK, building on our innovative **Watershare framework**
- **Evolving debt sharing mechanism** within **Watershare+**
- **Innovation Centre** for water, waste and environmental resilience
- Proposed DPC scheme to transfer surplus water to Southern Water and our **internal markets** approach

### *Great customer service*

- Board driven customer focused culture, overseen by WaterShare Panel since 2014 ensures service delivery
- Ambitious customer service and environment commitments post 2020
  - 15% reduction in leakage
  - Targeting lowest pollution incidents ever seen in the industry
  - Region-wide deployment of innovative demand side behavioural change initiatives – water efficiency and sewer blockages

### *Affordability*

- An efficient, balanced plan
- Frontier efficiency, driving synergy benefits from Bournemouth integration, keeping resulting in 11% real reduction in bills.

- Customer bills lower in 2025 than they are today and SWW bills lower in 2025 than 2010
- Innovative affordability package and commitment to address water poverty – improving access (WaterCare app) and dual billing all unmeasured customers

### ***Resilience***

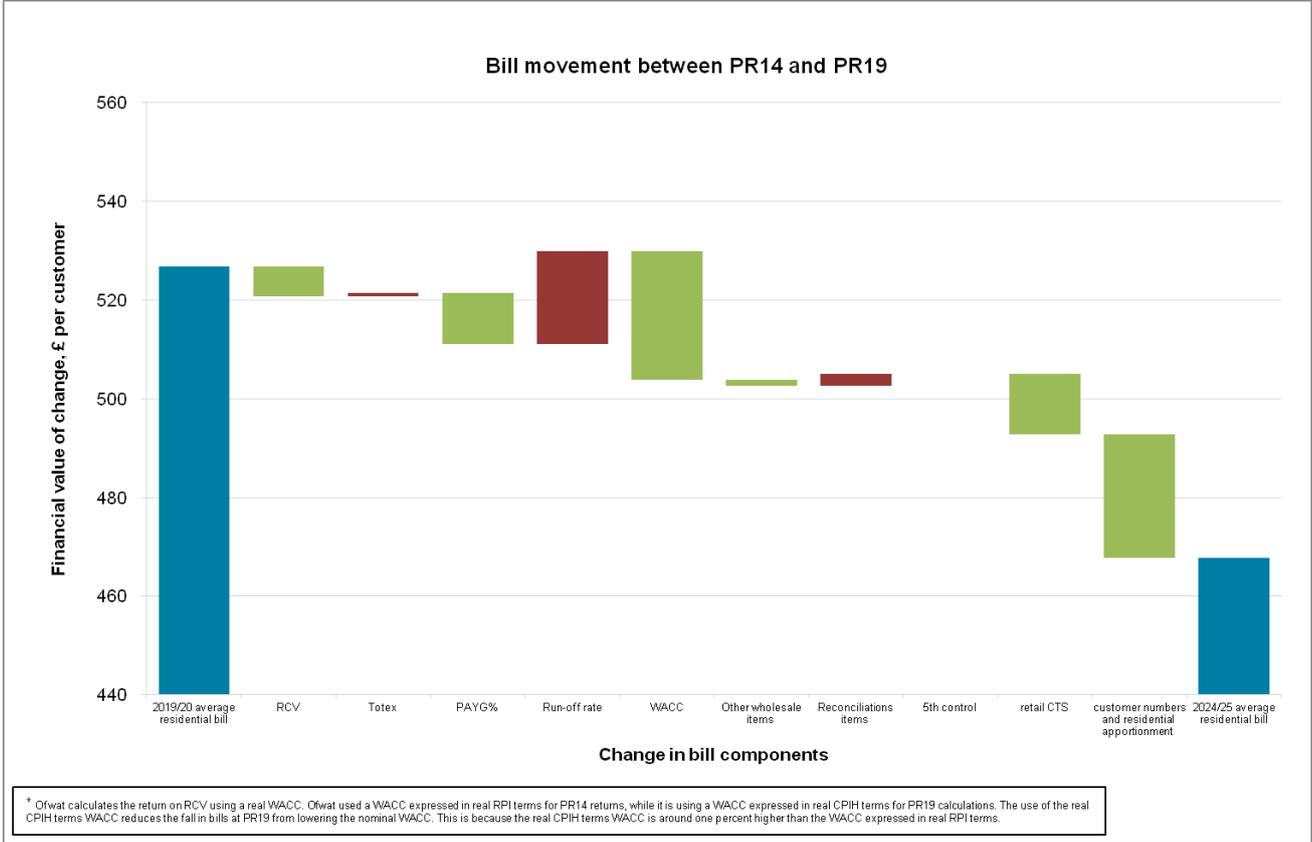
A resilient business with a **successful track record** - evidenced by extreme weather impacts

- **Continuous improvement** from reviews and post event customer surveys
- Comprehensive **independent expert review**
- **Targeted community based improvement** plans through our RSI programme
- **Financially resilient**, pioneering a sustainable financing framework
- Strong corporate governance and transparent processes.

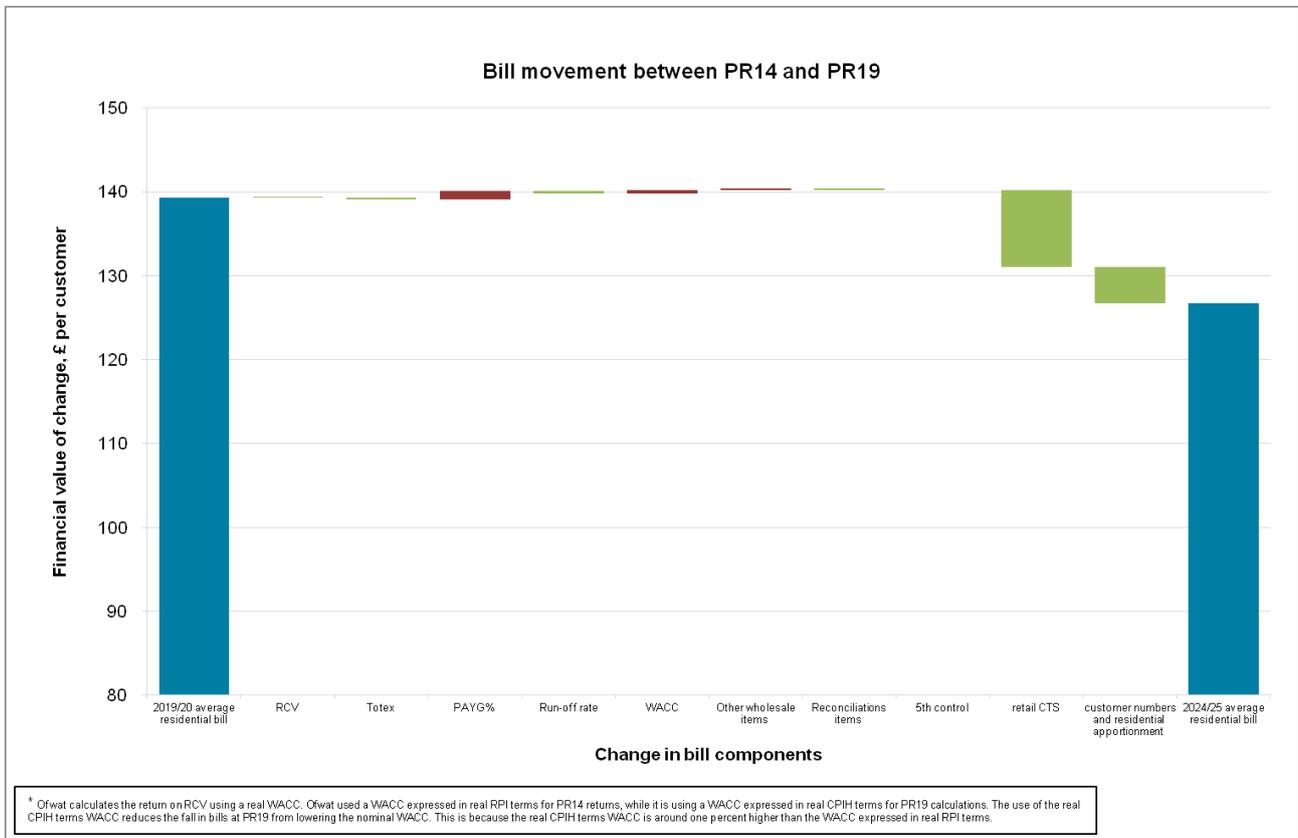
**Table 2.1: Waterfall chart**

<b>Bill movement chart</b>		
<b>Inputs</b>	<b>SWW £ per customer</b>	<b>BW £ per customer</b>
<b>2019-20 Bill</b>	<b>527</b>	<b>139</b>
Changes between 2019/20 and 2024/25		
Change in RCV	-6	0
Change in RCV run-off	19	0
Change in WACC	-26	0
Change in customer numbers	-25	-4
Change in totex	0	0
Change in PAYG rate	-10	1
Change in other wholesale items	-1	0
Change in retail CTS	-12	-9
Change in reconciliation items	2	0
<b>2024-25 Bill</b>	<b>468</b>	<b>127</b>

**South West Water**



**Bournemouth Water**



**Explanation of movement in customers' bills**

As the financial information within our PR19 financial model and business plan tables are combined, we have derived the bill movements in the chart based on the appropriate driver estimated with reference to the 2014 Final Determination.

- Small RCV reduction noted in South West Water relating to wastewater
- RCV run-off rates are slightly ahead of PR14, but reflect the underlying asset lives, condition and performance
- Reduction in WACC reflecting the lower cost of capital, aligned with Ofwat's guidance
- Customer numbers are higher at 2020 than assumed in FD14 and are expected to grow by c.50,000 to 2025
- PAYG rates have been based on the natural profile of expenditure, broadly consistent with the average over PR14 – specific savings noted in bills reflect lower PAYG in 2024/25 than the 2019/20 comparative.

- Significant savings within the residential retail cost base, from Bournemouth Water merger, substantially reducing the bad and doubtful debt charge
- There are no reconciliation items in 2025 for legacy adjustments.

### Customer Expectations

We are confident we understand our customers. This confidence is grounded in a changed relationship with our customers, through our WaterShare governance framework introduced in 2013.

We have drawn on a wide range of information and techniques, adopting modern technologies, collaborating with third parties, going deeper into our own datasources and adjusting our approach and materials to resonate with customers. We have brought this evidence together in a systematic and transparent way.

Our approach to customer engagement has been closely scrutinised by our Board and independent panels. Playback sessions are undertaken with customers to check they recognise results. The final validation is the achievement of the highest ever customer acceptance of our plans at 88% and 92%.

Customers consistently say what matters most is a resilient and reliable service that is fair and affordable.

Customers value our services more highly now than ever, particularly activities to reduce pollution and improve water quality.

They expect us to adopt a pragmatic approach to resilience, not to protect against 'all risks' but focus on getting the day to day right.

Affordable bills are important but customers do not want lower bills if this means a worse service. They want to see gradual changes in bills over time, with each generation paying their fair share. If investment is required or it's a high customer priority, they do not want us to delay as this unfairly burdens future generations.

Our customers are more supportive today of help for those who need support. Younger generations hold similar views, though they put greater emphasis on the environment.

Households and businesses hold similar views, households prioritising reducing internal sewer flooding whilst businesses place more emphasis on supply interruptions.

**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)	261.861	272.916	
Number of residential wastewater only customers (000s)	4.891	5.035	
Number of residential water and wastewater customers (000s)	693.761	731.813	
Total leakage (MI per day) Based on PR19 definition, annual average	117.84	100.16	-15.00
Leakage (cubic metres per km of main per day) Based on PR19 definition, annual average	6.3	5.4	-14.3
Leakage (litres per property per day) Based on PR19 definition, annual average	109.2	90.3	-17.3
Per Capita Consumption (PCC) Based on PR19 definition, annual average	137.20	128.70	-6.20
ODI RoRE range	-1.8% to +1.5%	-1.6% to +1.6%	
Appointee WACC (real RPI)	3.84%	2.40%	
Appointee WACC (real CPIH)	4.65%	3.40%	
Credit rating – actual financial structure	NA	NA	
Metric	PR14 (2015-2020 Average)	PR19 (2020-25 Average)	
Adjusted interest cover notional <sup>1</sup>	1.47	1.45	
FFO net debt notional	0.10	0.11	
Metric	2017-18 Actual	PR19 (2020-25 Average)	
Actual gearing	60.36%	63.01%	
Adjusted interest cover actual	3.11	1.53	
FFO net debt actual	0.12	0.11	

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<sup>1</sup>The adjusted interest cover above includes the cash impact of maintenance expenditure within the FFO to better reflect the operational funds flows rather than the accounting approach which does not change the cash position.

2017/18 actual interest cover compared to the determination was impacted by revenue recovery due to customer demand and pension deficit payment advanced into prior years.

South West Water is not required to have a credit rating as part of its licence. However, on an annual basis the Board is required to confirm that in its opinion the company would be able to meet an investment grade credit rating. This assessment was recently confirmed for the 2017/18 Annual Performance Report, based on external independent advice.

## Commitment to financial resilience

### Financially, we believe we are a resilient water company.

Our WaterShare sharing ethos and our commitment to cost efficiency, including finance costs, means our customer's bills are kept as low as possible.

The Board assesses financial viability annually and believe the plan is financeable on both a notional and actual basis. Our financial viability is monitored closely and 'stress tested' with modelled scenarios across a number of risk dimensions with the outcomes reported transparently through annual financial reports and viability statements.

We have successfully tested the financial robustness of our plan through a number of scenarios – this has been externally assured and validated.

We have sought to ensure priorities are reflected in our financing approach and have implemented a sustainable financing framework to ensure we deliver an efficient and resilient financing structure.

**Table 2.3: RCV**

<b>Control</b>	<b>1 April 2020 (£m)</b> <b>Opening RCV</b> 2017-18 FYA (CPIH deflated)	<b>30 March 2025 (£m)</b> <b>Closing RCV</b> 2017-18 FYA (CPIH deflated)	<b>% growth</b>
Water resources RCV	134.437	135.904	1
Water network Plus RCV	1383.280	1391.688	1
Wastewater network Plus RCV	1659.444	1605.002	-3
Bioresources RCV	81.268	75.229	-7

**Table 2.4: Dividends**

Metric £m	2015-16	2016-17	2017-18		
Outturn (nominal prices)					
Dividends (based on PR14 actual company structure)	74.900	213.100	120.300		
Outturn (nominal prices)	2020-21	2021-22	2022-23	2023-24	2024-25
Dividends (based on PR19 actual company structure)	97.636	56.706	58.437	60.216	62.059

### Dividend Policy

Summary principles of our dividend distributions discussed with our WaterFuture Customer Panel are explained below.

**‘Base’ dividends** are derived from the price determination and are made with reference to Ofwat’s assessment of a notional balance sheet - using notional gearing assumptions.

**‘Outperformance’ dividends** - are linked to business performance and outcomes delivered ahead of business plan.

- Designed to ensure that **key financial ratios are not prejudiced**
- Ability of the appointed business to **finance its business is not impaired**
- **Dividend policy is clearly and transparently articulated** in our business plan, and endorsed by the Regulator.
- We demonstrate financial resilience based on the notional structure to support dividend distributions
- **Regulator engagement** in our dividend implementation.

### 3. Appendices

## Appendix 1: Company presentation attendee biographies

### **Sir John Parker**, Chairman, South West Water



Sir John was appointed to the South West Water Board on 31 July 2015. He became Chairman of South West Water and Pennon Group Boards on 1 August 2015. He is a highly experienced and independent chairman and brings a wealth of leadership knowledge from across industry. He won a lifetime achievement award at The Sunday Times 2015 Non-Executive Director Awards and is widely recognised for his policy work on corporate governance, including the value of diversity in the boardroom.

### **Nick Buckland OBE**, Independent Chair of the WaterFuture Customer Panel



Nick Buckland OBE was appointed as the independent Chair of the WaterFuture Customer Panel in 2016 following an extensive recruitment process. Nick lives in Cornwall where he owns and operates an organic livestock farm with his wife. He is an acknowledged expert in strategic planning, audit, governance, review processes and quality. He has worked closely with many boards and board committees, and holds a number of private sector executive and non-executive directorships.

### **Lord Matthew Taylor**, Senior Independent Director, South West Water



Matthew was appointed to the South West Water Board on 1 March 2010 and was appointed as Senior Independent Director on 28 March 2018.

He was MP for Truro and St Austell for 23 years from 1987, until he stood down at the 2010 general election. Matthew also has expertise in planning for sustainable communities.

**Chris Loughlin**, Chief Executive Officer, Pennon Group



Chris was appointed to the Board on 1 August 2006 as Chief Executive of South West Water, becoming the Pennon Group Chief Executive Officer on 1 January 2016. He has extensive experience of the regulated business environment and management of major engineering and infrastructure services. Chris has a comprehensive understanding of the water industry. He was previously a Board member (and, for a period, president) of the Institute of Water, and between April 2008 and March 2012, Chairman of Water UK.

**Susan Davy**, Chief Financial Officer, Pennon Group



Susan is a member of the Pennon Board and attends the South West Water Board. She is a graduate qualified chartered accountant with 20 years experience in the utility sector. Prior to her current appointment, Susan was Finance Director at South West Water between 2007 and 2015, during which time she was responsible for the company's Business Plan to 2020. Susan's knowledge of the industry, coupled with her financial and regulatory expertise, has supported the development of the group's strategy and her input has been invaluable to the Board in its deliberations.

**Stephen Bird**, Managing Director, South West Water



Stephen was appointed to the Board on 1 March 2000, and as Managing Director of South West Water on 1 January 2016. Prior to joining South West Water, Stephen held posts in the Welsh Water Authority, National Rivers Authority and Wallace Evans Consultants as an environmental consultant. He is a Fellow of the Chartered Institute of Water and Environmental Management, Fellow of the Institute of Directors and holds an MBA.

**Iain Vosper**, Regulatory Director, South West Water



Iain is a graduate qualified Chartered Accountant who joined South West Water in 2008 following both audit and senior financial roles. He has held a range of financial and operational managerial roles within South West Water. He was Programme Manager for the 2014 price review. In his role as Regulatory Director he is responsible for compliance with regulatory and environmental obligations, asset management strategy and has overall responsibility for PR19.

**Louise Rowe**, Finance Director, South West Water



Louise is a Physics graduate and Chartered Accountant. She was appointed to the South West Water Board as Finance Director in February 2015 following a range of managerial roles within the Finance Directorate and has worked with the company for over nine years.

## Appendix 2: Business plan executive summary

This business plan is about empowering customers and giving them a new deal. Customers have helped inform this plan and will be able to share in our success and have more control in our business.



We have built on our continuous engagement ever since the PR14 business plan was submitted. During that time we have reached out to all our customers and consulted on our aims and ambitions for the period to 2025 and beyond.

This has been our most extensive research yet, engaging with c. 1 million customers with c. 27,000 customers directly providing feedback to our proposals, alongside significant challenge from the independent WaterFuture Customer Panel (WFCP). The priorities we have built our plan around, are what our customers have told us matters most to them:

- **A resilient and reliable service**
- **A fair and affordable bill.**

In short, we have listened to our customers. This plan is for the customers and communities we serve. Our customers want excellent service and to be empowered to hold us to account on our commitments. This business plan is about empowering our customers and setting out a 'new deal' for them.

### So what's the new deal?

We are empowering our customers by:

- Offering them a **tangible financial stake in the business**
- Giving them **more power to hold us to account**
- **Addressing water poverty by 2025**
- Reflecting a **strong service and cost focus** in our culture, targeting stretching performance commitments.

We know from customer feedback that they want to see the benefits of success of the business fairly shared, which is why we have already pioneered the innovative WaterShare framework. We also know that customers want this framework to evolve. [Customers want a real stake in the business, comparable with investors.](#)

We will offer customers a stake and a say. As investors benefit from share ownership, we propose to extend WaterShare to mirror their benefits, dividends and capital. We are calling this WaterShare+ and in 2020 we will offer customers the option of a stake through the issuing of a 'WaterShare' share. We will commit to holding a customer Annual General Meeting where customers can vote and have their say. We will refine and finalise the scheme following feedback on our proposal.

We know that customers also want affordable bills and to ensure we are tackling water poverty.

Building on the successful integration of Bournemouth Water, [delivering a better comparator for the sector](#), our plan to 2025 proposes further improvement in services. We are also targeting further significant efficiency across the whole business to keep bills as low as they can be. As a result, [South West Water customer bills are proposed to be lower in 2025 than they were fifteen years earlier, and lower than they are today.](#)

We are also planning to ensure all our customers have the option of receiving a measured bill by [metering all remaining unmeasured properties by 2025](#). We want to make sure those who would benefit from having a meter get the option of having a lower bill, by providing them with a dual bill. It is then their choice.

We plan to deliver further challenging service commitments from a position of confidence, built on our strong track record of delivery. [All of our stretching PR14 commitments to 2020 are on track to be delivered.](#)

However, we know there are areas where we have more to do. Our impact on the environment from pollution incidents is a particular area of focus. Our plans have the necessary ambition to achieve and sustain a high level of environmental performance. This includes a partnership with the University of Exeter to deliver a new [Innovation Centre for Water, Waste and Environmental Resilience](#), providing benefit not only for our customers but also the wider sector.

[We want to reflect the high expectations our customers have in the way we do business. Our values set the tone for the way we do business and are embedded in our way of operating.](#)

Our Board is focused on strong financial control, sound administration and good governance. We know our customers feel strongly about our financial contribution to the community, society and the broader environment. Our culture is customer driven, which is why we have:

- Pioneered our WaterShare framework of sharing gains with customers
- A responsible approach to corporation tax and a sustainable financing framework
- A transparent and clear policy for dividends and Executive pay.

This is a balanced, well evidenced plan that reflects our customers' priorities and enhances the communities we serve.

The Board has pledged to deliver this step change in our relationship with our customers, a new deal which will leave them **empowered**.

Our Board pledges to 2025

### **We will deliver efficiency, keeping bills as low as possible and address water poverty**

- Target zero customers in water poverty by 2025
- In real terms average customer bills are forecast to fall by 11% (South West Water) and 9% (Bournemouth Water) by 2025
- South West Water customer bills are forecast to be lower in 2025 than they were 15 years earlier and lower than they are today
- Continue to focus on cost control and the use of innovation and markets to drive efficiency.

### **We will provide outstanding customer service**

- Target excellent service performance across all areas and sector leading CMex performance
- Meet stretching service performance commitments in the areas which matter most to customers
- Continue to provide a resilient service for now and the long term, regardless of any challenges faced
- Deliver major drinking water quality enhancement programme to deliver wide scale benefits for customers.

### **We will deliver environmental leadership**

- 100% wastewater compliance
- Strive to eliminate harmful pollutions to the environment and reduce minor pollutions to record lows in the industry
- Upstream Thinking programme in 80% of our catchments
- Targeting industry leading leakage, delivering 15% reduction from 2020
- Our largest environmental improvement plan for 15 years to deliver region wide benefits for the environment and economy
- Deliver our 2050 environment plan
- Future new water transfer to promote resilience and efficiency.

### **We will empower our customers by giving them a stake and more say in our business**

- Share the benefits of success with customers fairly and transparently, developing our transformational WaterShare+ framework

- Establish a new sharing mechanism for customers to benefit from financing gains arising from embedded debt
- Receive oversight from the independent WaterShare+ panel
- Introduce a first of its kind customer share ownership scheme from 2020
- Hold customer annual general meetings where customers can vote
- Hold quarterly public customer meetings chaired by independent WaterShare+ panel.

**We will deliver our promises, supporting the regional economy and our communities**

- Invest over £1bn in the region to enhance the communities and environment we serve
- Deliver key projects to protect rivers, bathing and shellfish waters for our customers, tourists and businesses who depend on them
- Invest in two new water treatment works in the Bournemouth region
- Extend our area of operation to include the Isles of Scilly
- Provide new employment opportunities through our regional investments
- Use our regional supply chain to support regional economic growth
- Invest in people, skills and personal development, including our apprenticeship programme.

## Appendix 3: CCG report executive summary

### Purpose of this report

This report by the Water Future Customer Panel (WFCP) for South West Water (SWW or “the company”) provides independent assurance to Ofwat on the quality of SWW’s customer engagement, and the extent to which the results of this engagement have driven the company’s decision-making and are reflected in the business plan for 2020 – 2025.

### Background

SWW’s Customer Challenge Group (CCG) for PR19, the Water Future Customer Panel (WFCP or “the Panel”), was established in 2016 to provide independent challenge and scrutiny to the company on the development of its business plan for PR19, in line with the expectations set out by Ofwat<sup>2</sup>, focused on assuring:

- The quality of SWW’s customer engagement, and
- The extent to which the results of this engagement have driven decision-making and are reflected in the company’s PR19 business plan.

In undertaking its work, the Panel was required to review and challenge the company on all issues that can genuinely be influenced by customer engagement. This included the setting of outcomes, performance commitments and outcome delivery incentives, the company’s approach to affordability, vulnerability and resilience, along with balancing investment in improving services in line with customer priorities and the impact on customer bills. The Panel was required to consider how the plan meets the needs of all customers, both present and future, and any trade-offs that the company proposed. The Panel has also been required to challenge the company to consider a range of options in producing its business plans. The Panel has not been expected to ‘sign off’ on the plan as a whole.

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<sup>2</sup> The WFCP also has a role in monitoring the company’s performance and administering WaterShare, SWW’s mechanism for sharing outperformance with customers. This role is separate from that of PR19 assurance.

## Governance

The Panel was constituted via formal Terms of Reference (ToR), with a focus on ensuring independence, relevant expertise and transparency in its composition and activities.

## Composition

The Panel is independently chaired by Nick Buckland OBE, who was appointed following a robust and transparent recruitment process, led by SWW's Non-Executive Directors. The Panel included members drawn from regulatory bodies and members representing the environment, local charities, business and the community. The WFCP Chair worked with the company to ensure that the individuals selected for the Panel brought a broad range of skills and experience in relevant fields, such as the environment and affordability and a familiarity with local issues.

To focus expertise and activities, the Panel established two sub-groups. The research, engagement and vulnerability sub-group (REAV), and the legislative, resilience, and environmental investment sub-group (LREI).

- The REAV sub-group, chaired by Steve Meakin, a former Chair of the Institute of Money Advisers, focused on advising and challenging the company on all matters relating to research and engagement, vulnerability and affordability.
- The LREI sub-group, chaired by Harry Barton, Chief Executive Officer of Devon Wildlife Trust, focused on providing guidance and scrutiny on the company's investment proposals ensuring they were ambitious, legally compliant and affordable, whilst increasing the resilience of the company and delivering for the environment.

The Chairs of the sub-groups each provided a written report to the Panel confirming that the company responded sufficiently to all challenges and providing their assurance to the WFCP that the results from the customer research and engagement could be relied upon.

## Board engagement

The SWW Board has been engaged in the work of the Panel from the outset, from receiving updates from the Panel Chair at Board meetings through to the company Chairman<sup>3</sup> and Non-

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<sup>3</sup> Notwithstanding Sir John Parker's chairmanship of Pennon, the South West Water Board believes that he continues to demonstrate independence of character and judgment when leading the SWW Board.

Executive Directors holding independent sessions with the Panel, and the company Chief Executive Officer and Managing Director attending the majority of formal WFCP meetings. The Panel is satisfied that the Board has effectively led the development of the business plan, and that the Panel has been provided with the opportunity to directly input into Board deliberations on this matter.

The Panel noted that there were no areas of material concern raised by either the Panel or the Board regarding the process of Board engagement.

### **Processes and work undertaken by the Panel**

Since the PR19 business planning process began in 2016, the Panel and its sub-groups have met at 49 formal meetings, along with multiple workshops and teaching sessions providing in-depth insight into key areas, such as customer valuations and the development of ODIs, through to one-to-one meetings and teleconferences. The Panel has undertaken all activities within the guidelines of its role, as documented in the ToR. Alongside the formal meetings, the Panel was invited by SWW to attend customer focus groups and stakeholder workshops to experience some of the company's engagement activities first hand.

Agendas were developed by the WFCP Chair together with SWW, to ensure a focus on the issues relevant to the WFCP's assurance role and the sharing of relevant analyses and evidence. At each WFCP meeting, the sub-group Chairs provided an update on the discussions and content of previously conducted sub-group meetings. The sub-group Chairs also provided a final report to the Panel detailing their assurance process and findings.

SWW provided comprehensive data and documentation throughout, including reports, presentations, published articles and responses to consultations, ahead of meetings for review. The company was responsive to requests from the Panel for further explanation and additional detail, as detailed within the action matrix and which was reviewed at Panel meetings.

At each meeting, specific updates were provided by the members drawn from regulatory bodies on aspects central to the development of all company plans, including the Water Industry National Environment Programme (WINEP) by the Environment Agency and Natural England, statutory obligations from the Drinking Water Inspectorate (DWI) on water quality, and guidance from CCWater.

In examining the company's plans and mounting challenges, the Panel drew on the expertise of its members along with those providing technical assurance to SWW on certain aspects of its plan, from customer engagement to investment proposals. A challenge log was maintained and published on the SWW website, and reviewed by the

Panel at the start of each meeting and is available in Appendix IX. The table below sets out the key challenges made by the Panel, along with the company’s response; additional detail on these and other challenges is included in the body of the report.

Topic	Key challenge	Company response
Pollutions performance	<p>The Panel challenged the company on its pollutions performance, specifically stating that polluting the environment is an illegal activity, and reiterating that the government has made it clear that it expects zero serious pollutions.</p> <p>The company was challenged on whether the pollutions improvement plan would get the company to where it wanted to be based on the industry’s direction as a whole, and whether it was targeting upper quartile performance or if there was a risk of SWW being a laggard in this area.</p>	<p>The company acknowledged the challenge from the Panel, confirming that it would continue to focus considerable effort in this area as improving pollutions performance is of paramount importance to the company.</p> <p>The company is committed to reducing the overall number of pollutions that cause harm to the environment in the South West. SWW wanted to continue to ensure the quality of the environment is kept to the high standards customers want to see.</p> <p>The company confirmed that the pollutions reduction strategy, shared with and challenged by the Panel on multiple occasions, was delivering positive results and reiterated that the company was targeting the lowest absolute number of pollutions in the industry by 2020.</p> <p>SWW highlighted to the Panel its view on the impact that the normalisation measure (incidents per 10,000km of sewer) may have on the way that pollutions performance is reported, in line with its feedback to the Environment Agency when this framework was first introduced. The company also shared that not all companies bear the designated bathing water risk equally, which it felt was important for the Panel to recognise.</p>

Topic	Key challenge	Company response
		<p>However, regardless of these aspects, the company confirmed that its focus was on driving down the number of pollutions and also provided evidence to the Panel that it has put forward the best programme to deliver its legislative obligations.</p>
<p>£50 government contribution and affordability of customer bills</p>	<p>The Panel challenged the company with regards to whether customers understood that there was no guarantee the current £50 government contribution would continue, highlighting that if this was removed this could have a significant impact on customer affordability.</p> <p>The Panel wanted SWW to demonstrate how it intended to bridge the affordability gap should the contribution be ceased.</p>	<p>The company reiterated to the Panel that the decision whether or not to continue the £50 government contribution would be made by Defra in 2019, after the company's business plan had been submitted to Ofwat.</p> <p>SWW advised the Panel that awareness of the payment had been constantly increasing since it was introduced, with around 70% of customers currently aware of its existence.</p> <p>SWW also shared that its research had identified that c. 32k (approximately 7%) customers would fall into water poverty should the payment be removed.</p> <p>SWW committed to the Panel from the outset that regardless of the decision on the continuation of the payment, SWW would ensure that its bills were affordable for all customers through the range of measures included within its package of affordability support.</p> <p>Customer acceptability results were noted as strong (77%) with or without the £50 government contribution included post 2020.</p>

Topic	Key challenge	Company response
Statutory obligations	The Panel challenged the company that statutory requirements should not be subject to customer preference, and therefore should not be presented alongside non-statutory requirements for prioritisation and preference purposes.	<p>SWW confirmed that research on pollutions was used to inform the company's approach to reducing Category 3 Pollutions in AMP7 and beyond, and that SWW did not apply the research to Category 1 and 2 Pollutions as it planned for zero. The research was used to help inform economic values.</p> <p>The company shared that its research techniques were based on industry best practice, and it employed an independent review of this approach, in particular, to provide further reassurance to the Panel. The review, carried out by an expert in this field, supported the company's approach, highlighting that one of the advantages of undertaking such a valuation was to examine the economic case for going beyond the statutory requirements.</p> <p>The company confirmed that it would use this research only to inform Category 3 pollutions in AMP7 and beyond (as the company is planning for zero Category 1 and 2 pollutions).</p> <p>SWW reiterated that it was confident in its approach and was aware of other companies' approaches being consistent with SWW (in respect of statutory obligations), and that the research would be used to help inform some economic values to set ODI rates.</p> <p>The company also delivered a specific ODI workshop whereby the approach was further disseminated for the Panel and the Panel praised the company on</p>

Topic	Key challenge	Company response
		<p>its transparency, commenting that the level of customer consultation was clear, and that the Panel now understood the requirement to include pollutions as part of the willingness to pay research.</p>
<p>Triangulation and willingness to pay (WTP) valuations</p>	<p>The Panel challenged SWW regarding the customer research if customers were aware of their current service levels in real terms and the relative cost benefit of an increased or decreased level of service for WTP research.</p> <p>The Panel also challenged whether the revealed preference and stated preference studies were used in the triangulation process.</p>	<p>SWW confirmed that the levels of service were clearly represented during the research (with comparative data used throughout) and customers were clearly able to differentiate between the relative benefits and drawbacks.</p> <p>SWW confirmed that a range of evidence was brought together for triangulation, sourcing values from multiple studies, resulting in over 900 data points being utilised, to ensure robust understanding.</p> <p>SWW explained, through three specific valuation and willingness to pay workshops for the Panel, that in understanding how customers value services, the evidence used included:</p> <ul style="list-style-type: none"> <li>• Stated preference – main stage and second stage studies</li> <li>• Revealed preference research, including averted behaviour and the specific bathing water study</li> <li>• Value transfer and market data literature research</li> <li>• Customer playback sessions</li> </ul> <p>The company shared the five step approach to triangulation, developed in line with Ofwat and CCWater guidance, and SWW's own valuation strategy.</p>

Topic	Key challenge	Company response
Bournemouth Water (BW) customers	<p>The Panel challenged the company on ensuring that the plan provided fair consideration to both SWW and BW customers.</p> <p>The Panel also challenged the company on how the differences in the willingness to pay between BW and SWW customers would be accounted for, and whether there were any differences between SWW and BW customer views, and specifically whether they were significant as a result of the different demographics.</p>	<p>SWW confirmed that the plan would fairly reflect the views of both SWW and BW customers, and that bill levels were weighted to account for the variance in BW bill levels. The company also noted the Chair and the Vice Chair of the Bournemouth Water Customer View Group (CVG) were members of the WaterFuture Customer Panel and the Research, Engagement and Vulnerability sub-group, thus ensuring that throughout the entire process, Bournemouth customers were consistently represented.</p> <p>SWW stated that the views of both sets of customers were very similar, even when drilled down to elements such as affordability and age, and that there was also consistency around the measures that customers did not like, which the research validated.</p>

The Panel is satisfied that, with the exception of the Environment Agency’s challenge to the company on the Bathing Waters ODI, which is discussed further in Section 5, all challenges have been effectively responded to.

The Panel has focused throughout on maintaining its independence from the company, for instance, by:

- Holding sessions exclusive of SWW representation;
- Meeting independently with SWW Non-Executive Directors;
- Appointing Deloitte LLP as an independent report writer;
- Ensuring comprehensive minutes and actions captured were accurate, approved by the Panel and the Chair and published on the SWW website; and
- Maintaining and frequently reviewing a detailed Challenge Log for each Panel and sub-group, again approved by the Panel and the respective Chairs.

The Panel is satisfied that these governance arrangements have been robust, and that the Panel has maintained its independence from SWW throughout the process. The Panel is confident that the processes followed and responses to challenges raised by the Panel coupled with the transparency of information from SWW, and the extent of the work undertaken by SWW and the involvement of its Board have enabled it to provide robust and independent assurance to Ofwat through this report.

### **South West Water's engagement with customers**

The Panel has worked with SWW to review all aspects of its engagement in relation to both its Vision to 2050 and the business plan from 2020-2025, scrutinising the programme of engagement with customers from design through to execution and interpretation.

The REAV sub-group challenged and influenced the development of the research, for instance ensuring that the samples and surveys were representative of all customers, including those in vulnerable circumstances, and those served by BW, and were aligned with best practice. The REAV sub-group also held a number of sessions with SWW's technical consultants and an academic peer reviewer to question and explore approaches adopted where it specifically felt its expertise did not stretch to accommodate effective scrutiny.

The Panel is confident that the company has a genuine understanding of customer priorities, needs and requirements, based on extensive engagement with customers. It is the Panel's view that SWW's engagement was comprehensive on all relevant issues; drew both on SWW's experience of well-established techniques and adopted innovative, value adding approaches; and covered all customers, including current and future customers and the vulnerable, appropriately. The engagement was creatively and effectively designed to enable customers to interact in a two way process, to understand current performance and to provide views on a range of options.

### **Comprehensive approach with well targeted inclusion of innovative techniques**

The Panel noted that SWW's approach to customer engagement had developed significantly since PR14, with the company adopting many innovative new elements that have enabled a better understanding of customer preferences, which the Panel welcomed and encouraged.

The company focused throughout on ensuring its engagement brought issues to life for all customers by using animation, engaging stimulus and wide reaching communications, such as social media with SWW's #getintowater campaign, through to specific 'friendship group' focus groups for future customers. It is the Panel's view that the mixture of techniques adopted by SWW was well targeted and proportionate.

The Panel was also impressed by the introduction of an interactive personalised video that launched in September 2017. This was tailored to localities, educating and engaging customers on medium and long term water resources issues, with the resulting customer views on the business strategy and timescales having influenced SWW's plan.

### **Interactive and two-way engagement process**

The Panel noted that the phasing and complementarity of engagement exercises facilitated cross checks, and ensured a two way process with customers to gauge their views and obtain customers' ideas for options. As an example, with regards to leakage, a specific area on which the Panel challenged the company, customers were employed directly in co-creating a new process, and provided their views for further improvement.

Playback sessions were held to ensure consistency in messaging across all customer feedback garnered, with areas of inconsistency and variance discussed with customers to understand these views in more detail. In addition to this, customers across the region were invited to share their views based on the company's proposals and choices document, which shared with customers the key themes and proposed investment.

The Panel was supportive of the company using comparative data in its engagement with customers to ensure that customers understood the context in which their choices were being made. The Panel recognised this as one of the many key step changes in engagement from PR14 to PR19.

The Panel also noted that the views and priorities of both South West Water and Bournemouth Water customers were aligned and that, as both sets of customers began to understand more about the company through the background and information provided at the outset of engagement activities, their views broadened as their knowledge base expanded.

### **Comprehensive coverage of issues**

The company ensured that through four distinct phases of customer research, it was able to obtain a robust understanding of customer views, highlighting any specific areas of consistency or inconsistency. Within each phase, multiple approaches were employed to gauge customer preference, from long term tracking research, social media sentiment, consultations and workshops and online surveys, through to stated and revealed preference studies and consistent playback sessions.

Triangulation was a key area of focus for the Panel and each of sub-groups with dedicated workshops held to ensure a thorough understanding to enable effective challenge in this area. Overall, the company employed over 900 data points to triangulate customer values to ensure accuracy prior to being used in setting investment scenarios and supporting the development of performance commitments and ODIs. Using multiple

evidence sources and triangulating each step provided further confidence in the values obtained from all customer groups, which were then used to inform the development of the plan. The company's approach to triangulation was carefully considered and confirmed to be in line with guidance from Ofwat and CCWater. This represented an effective response to this new challenge for the PR19 methodology and was found to be robust when peer reviewed.

### **Comprehensive coverage of customers**

SWW's coverage of all customer groups was comprehensive, including current and future customers, vulnerable customers, business customers and water retailers, informed by a robust sampling strategy developed at the outset in collaboration with the REAV.

The Panel was satisfied that the company ensured that vulnerable customers were represented at each focus group, along with holding dedicated focus groups specifically for vulnerable customers. The company also did not operate a rigid definition of vulnerability, a view supported and encouraged by the Chair of the REAV, that the broader the definition the more inclusive the approach, as vulnerability is unique to the circumstance of each household.

The company's approach considered both current and future customers, categorising future customers as those between the ages of 16-30, who were engaged through a range of methods including friendship groups, focus groups and interactive online surveys, to ensure that the plan fairly balances the views of all customers.

The Panel is confident in its view that the quality of engagement carried out by the company was of the highest quality, and was built on a proportionate and accurate evidence base, considering the needs of all current and future customers.

The Panel is also satisfied that the engagement process has been an on-going, transparent process that customers have been provided with information, and have been provided with extensive opportunity to provide feedback throughout.

### **Enabled good understanding of what affordability means for customers**

Throughout the process the company has demonstrated an understanding of how customers perceive affordability, drawing on its long term tracking of water and sewerage affordability which has been in place since 2012, alongside research specifically undertaken for PR19. This specifically included the additional of an 'affordable bill' question within each quantitative survey allowing it to analyse how customers' different circumstances impact results.

The Panel fully supported SWW's commitment to addressing water poverty for all SWW customers, but challenged the company on how this would be delivered in practice. The company shared with the Panel its multifaceted approach to tackling affordability which

incorporated a broad range of elements such as water efficiency, income maximisation and metering alongside more traditional tariff and fund based support. The Panel also understood that SWW worked with third parties and it intended to extend and build further on this network in delivering its PR19 plan. The uncertainty regarding the continuation of the £50 government contribution was an area of extensive discussion and challenge, with the Panel seeking confirmation from SWW on how the potential removal of this contribution would be addressed by the company. SWW conducted acceptability testing both with and without the government contribution applied, which demonstrated that regardless of the bill level, customers found the removal of this payment unacceptable, a theme that was reflected across all customer groups. However, following the extent of the testing undertaken by the company and the variables applied, the Panel was satisfied that regardless of the outcome of this government decision the company was fully committed to ensuring that bills remained affordable for all customers through its comprehensive affordability package.

### **Ensured that customers' views were obtained on a range of realistic options**

The company tested a range of options in relation to all elements of its plans, which included options that were realistic but also pushed boundaries. This ensured that the company could cross check customer valuations and order customer preferences. To achieve this, the company had to ensure valuations were sought for all aspects of the plan, including statutory obligations, which was an area of extensive challenge from the Panel. The Panel challenged why statutory obligations on pollutions as a legal requirement were incorporated into the customer valuations survey. The company worked with the Panel to explain the reasoning behind the inclusion of these obligations, which was ultimately to demonstrate just how far customer appetite for improvements in this area went so that the plan could take this into account. This challenge remained unresolved for a number of months with the view of the company differing from the view of the Environment Agency. During this period the company sought an independent review to provide further assurance. Ultimately, the company was able to effectively demonstrate the importance of its inclusion through a detailed review illustrating how incentives are applied, the methods in which this information is gathered from customers and its use in shaping outperformance payments/penalty rates. Following on from this the Panel explicitly commented that the company's reasons for incorporating statutory obligations within the testing were both clear, and also supported by independent research and the Panel.

### **The influence of customer engagement on the Business Plan**

The WFCP is confident that the Business Plan is appropriately reflective of and driven by the results of the customer engagement, and truly seeks to deliver for, and empower all customers. The Panel's view is further supported by the final results of customer

acceptability testing, with 88% of SWW customers, and 92% of BW customers finding the company's plan acceptable, in real terms.

The company has demonstrated that its investment proposals deliver the improvements that customers want to see across the business, that is, critically at a price that customers are willing to pay. The Panel is assured that the company has taken on board the feedback from customers in delivering improvements in a more cost efficient way to protect from bill increases, with the company reducing the size of its investment programme as a result, but maintaining the stretching commitments that customers want to see.

## **Conclusion**

The Panel is satisfied that South West Water's business plan is built on a foundation of innovative, extensive and high quality customer engagement, and that the plan has the priorities and interests of current and future customers at its heart.

The Panel has confidence that the proposals within the plan have been effectively challenged and scrutinised and represent the best interests of customers whilst delivering on all legislative obligations and improving performance. The Panel is also satisfied that the company has produced a plan that whilst delivering for customers, will also deliver real benefits for the environment, wider community and customers, with a robust investment programme set out that has the support of customers, as illustrated by the results of the company's acceptability testing for both SWW and BW customers.

The Panel believes that the company has fully embraced the views and feedback of all customers, and has taken on board the challenges and input from the Panel to produce a robust plan that includes innovative solutions to some of the key issues it faces.

Although it is not the role of the WFCP to endorse the overall company's plan, the WFCP feels confident in the process the company has followed in developing the plan, believing that the approach and proposed investments represent well the priorities of both South West Water and Bournemouth Water customers.



**"We believe this plan reflects the expectations of customers, delivering more of what matters to them and including a truly radical approach to empowering customers through the WaterShare share scheme. At every stage of the process the Panel has challenged and tested South West Water's customer engagement and proposals. We are pleased that the company has responded by delivering an ambitious and progressive plan which will bring multiple benefits to people, communities, business, and the environment of the unique regions the company serves."**

Nick Buckland, Chair – WaterFuture Customer Panel



**"The voice of customers in the Bournemouth region has been clearly heard throughout the engagement process. I am confident that this plan has been built with the views of both Bournemouth Water and South West Water customers at its heart, and I welcome the benefits that the proposals within the plan will deliver to all customers."**

Richard Lacey, Chair – Bournemouth Water Customer View Group

## Appendix 4: Current operational performance

**Table 4.1: PR14 Performance Commitments**

Please indicate in the table below which PR14 performance commitments have been met and which have not been met over the PR14 period. This table is not for Service Incentive Mechanism (SIM) data, for which table 4.2 has been provided. For financial ODIs please also indicate total forecast outperformance payment or underperformance penalty for the PR14 period.

No.	ID (e.g. W-A1)	Performance commitment	2015-16 PCL met? <sup>4</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

<sup>4</sup> **PCL met?** - if the performance commitment level (PCL) for the reporting year was met, or is forecast to be met, enter 'Yes'. If the PCL for the reporting year was not met, or is forecast not to be met, enter 'No'. If a PCL has not been set for the reporting year enter "-" (hyphen).

Business plan briefing  
**South West Water**

No.	ID (e.g. W-A1)	Performance commitment	2015-16	2016-17	2017-18	2018-19	2019-20	Cumulative ODI (outperformance payments or underperformance penalties) £m to 4 decimal places 2012-13 prices, net of tax	
			PCL met? <sup>4</sup>	PCL met?	PCL met?	PCL met? (forecast)	PCL met? (forecast)		
1	W-A1	W-A1: Compliance with water quality standard	No	No	No	No	Yes		
2	W-A2	W-A2: Taste, smell and colour contacts	Yes	Yes	Yes	Yes	Yes		0.4720
3	W-A3	W-A3: Asset reliability (pipes)	Yes	Yes	Yes	Yes	Yes		
4	W-A4	W-A4: Asset reliability (process)	Yes	Yes	Yes	Yes	Yes		
5	W-A5	W-A5: Duration of interruptions in supply (hours/property)	No	Yes	No	Yes	Yes	-1.7016	0.4032
6	W-B1	W-B1: Water restrictions placed on customers (number)	Yes	Yes	Yes	Yes	Yes	4.8720	3.2480

Business plan briefing  
**South West Water**

No.	ID (e.g. W-A1)	Performance commitment	2015-16	2016-17	2017-18	2018-19	2019-20	Cumulative ODI (outperformance payments or underperformance penalties) £m to 4 decimal places 2012-13 prices, net of tax	
			PCL met? <sup>4</sup>	PCL met?	PCL met?	PCL met? (forecast)	PCL met? (forecast)		
7	W-B2	W-B2: Ability to move water around the network	N/A	N/A	N/A	N/A	N/A		
8	W-B3	W-B3: Leakage levels (megalitres a day, MI/d)	Yes	Yes	Yes	Yes	Yes	1.2090	
9	W-B4	W-B4: Time taken to fix significant leaks (days)	N/A	N/A	N/A	N/A	Yes		
10	W-B5	W-B5: Security of supply index (SoSI)	N/A	N/A	N/A	N/A	Yes		
11	W-C1	W-C1: Supplies interrupted due to flooded South West Water sites	N/A	N/A	N/A	N/A	Yes		
12	W-D1	W-D1: Operational customer contacts resolved first time (%)	Yes	Yes	Yes	Yes	Yes	0.4468	0.1806

Business plan briefing  
**South West Water**

No.	ID (e.g. W-A1)	Performance commitment	2015-16	2016-17	2017-18	2018-19	2019-20	Cumulative ODI (outperformance payments or underperformance penalties) £m to 4 decimal places 2012-13 prices, net of tax	
			PCL met? <sup>4</sup>	PCL met?	PCL met?	PCL met? (forecast)	PCL met? (forecast)		
13	W-E1	W-E1: Sustainable abstractions (EA/WFD classification)	N/A	N/A	N/A	N/A	Yes		
14	W-E2	W-E2: Sustainable abstractions (Environment Agency water stress status)	Yes	Yes	Yes	Yes	Yes		
15	W-E3a	W-E3a: Catchment management (number of acres)	N/A	N/A	N/A	N/A	Yes		
16	W-E3b	W-E3b: Catchment management (number of farms)	N/A	N/A	N/A	N/A	Yes		
17	W-E4	W-E4: Pollution incidents (category 1 and 2)	Yes	Yes	Yes	Yes	Yes		

Business plan briefing  
**South West Water**

No.	ID (e.g. W-A1)	Performance commitment	2015-16	2016-17	2017-18	2018-19	2019-20	Cumulative ODI (outperformance payments or underperformance penalties) £m to 4 decimal places 2012-13 prices, net of tax	
			PCL met? <sup>4</sup>	PCL met?	PCL met?	PCL met? (forecast)	PCL met? (forecast)		
18	W-E5	W-E5: Pollution incidents (category 3 and 4)	No	No	No	No	Yes	-0.0660	-0.0220
19	W-E6	W-E6: Operational carbon emissions (ktCO2e)	N/A	N/A	N/A	N/A	Yes		
20	W-E7	W-E7: Energy from renewable sources (%)	N/A	N/A	N/A	N/A	Yes		
21	W-F1	W-F1: Customers paying a metered bill	No	No	No	No	Yes	-0.2140	
22	S-A1	S-A1: Internal sewer flooding incidents	No	No	Yes	Yes	Yes	0.2040	
23	S-A2	S-A2: External sewer flooding incidents	No	No	Yes	Yes	Yes	-0.2500	0.1380

Business plan briefing  
**South West Water**

No.	ID (e.g. W-A1)	Performance commitment	2015-16	2016-17	2017-18	2018-19	2019-20	Cumulative ODI (outperformance payments or underperformance penalties) £m to 4 decimal places 2012-13 prices, net of tax	
			PCL met? <sup>4</sup>	PCL met?	PCL met?	PCL met? (forecast)	PCL met? (forecast)		
24	S-A3	S-A3: Odour contacts (wastewater treatment works)	Yes	Yes	Yes	Yes	Yes	0.7660	0.3168
25	S-A4	S-A4: Asset reliability (pipes)	Yes	Yes	Yes	Yes	Yes		
26	S-A5	S-A5: Asset reliability (process)	Yes	Yes	Yes	Yes	Yes		
27	S-A6	S-A6: Compliance with sludge standard (%)	No	Yes	Yes	Yes	Yes		
28	S-B1	S-B1: Operational customer contacts resolved first time (%)	No	No	No	No	Yes	-0.3214	0.0108
29	S-C1	S-C1: Wastewater treatment numeric compliance (%)	N/A	N/A	N/A	N/A	Yes		

Business plan briefing  
**South West Water**

No.	ID <small>(e.g. W-A1)</small>	Performance commitment	2015-16	2016-17	2017-18	2018-19	2019-20	Cumulative ODI <small>(outperformance payments or underperformance penalties) £m to 4 decimal places 2012-13 prices, net of tax</small>	
			PCL met? <sup>4</sup>	PCL met?	PCL met?	PCL met? <small>(forecast)</small>	PCL met? <small>(forecast)</small>		
30	S-C2	S-C2: Wastewater population equivalent sanitary compliance (%)	N/A	N/A	N/A	N/A	Yes		
31	S-C3	S-C3: Wastewater descriptive works permit compliance (%)	No	No	Yes	Yes	Yes		
32	S-C4	S-C4: Pollution incidents (category 1 and 2)	No	No	No	No	Yes	-2.7680	
33	S-C5	S-C5: Pollution incidents (category 3 and 4)	Yes	No	No	Yes	Yes	-0.7939	
34	S-C6	S-C6: Operational carbon emissions (ktCO2e)	N/A	N/A	N/A	N/A	Yes		
35	S-C7	S-C7: Energy from renewable sources (%)	N/A	N/A	N/A	N/A	Yes		

Business plan briefing  
**South West Water**

No.	ID (e.g. W-A1)	Performance commitment	2015-16	2016-17	2017-18	2018-19	2019-20	Cumulative ODI (outperformance payments or underperformance penalties) £m to 4 decimal places 2012-13 prices, net of tax	
			PCL met? <sup>4</sup>	PCL met?	PCL met?	PCL met? (forecast)	PCL met? (forecast)		
36	S-D1	S-D1: Bathing water quality	Yes	Yes	Yes	Yes	Yes	6.7230	0.7470
37	S-D2	S-D2: Combined sewer overflow spills (number)	N/A	N/A	N/A	N/A	N/A		
38	S-D3	S-D3: River water quality improved (km)	N/A	N/A	N/A	N/A	Yes		
39	R-A1	R-A1: Customer overall satisfaction (%)	N/A	N/A	N/A	N/A	Yes		
40	R-A2	R-A2: Service incentive mechanism (SIM)	N/A	N/A	N/A	N/A	Yes		
41	R-A3	R-A3: Customer satisfaction with value for money	N/A	N/A	N/A	N/A	No		

Business plan briefing  
**South West Water**

No.	ID (e.g. W-A1)	Performance commitment	2015-16	2016-17	2017-18	2018-19	2019-20	Cumulative ODI (outperformance payments or underperformance penalties) £m to 4 decimal places 2012-13 prices, net of tax	
			PCL met? <sup>4</sup>	PCL met?	PCL met?	PCL met? (forecast)	PCL met? (forecast)		
42	R-B1	R-B1: Customers assisted by water poverty initiatives	N/A	N/A	N/A	N/A	Yes		
43	A1	A1: Customer contacts: taste and appearance (water quality contacts)	Yes	Yes	Yes	Yes	Yes		
44	A2	A2: WS (WQ) regulation compliance - mean zonal compliance (compliance with DWI regulations)	Yes	Yes	Yes	No	Yes		
45	B1	B1: Reduce leakage (to less than or equal to 20.00 MI/d by 2020)	N/A	N/A	N/A	N/A	Yes		0.3492
46	B2	B2: Large scale interruptions (minimise risk of large scale interruption to 12,000 properties)	N/A	N/A	N/A	N/A	Yes		0.9265

Business plan briefing  
**South West Water**

No.	ID <small>(e.g. W-A1)</small>	Performance commitment	2015-16	2016-17	2017-18	2018-19	2019-20	Cumulative ODI <small>(outperformance payments or underperformance penalties) £m to 4 decimal places 2012-13 prices, net of tax</small>	
			PCL met? <sup>4</sup>	PCL met?	PCL met?	PCL met? <small>(forecast)</small>	PCL met? <small>(forecast)</small>		
47	B3	B3: Decreasing average interruptions >3 hours	Yes	Yes	Yes	Yes	Yes		
48	B4	B4: Maintain serviceable assets	Yes	Yes	Yes	Yes	Yes		
49	B5	B5: Metering - continue current strategy	N/A	N/A	N/A	N/A	Yes		
50	B6	B6: Reduce per capita consumption (PCC) to 136 litres/head/day by March 2020	N/A	N/A	N/A	N/A	Yes		
51	C1	C1: Repair visible leaks	N/A	N/A	N/A	N/A	Yes		

Business plan briefing  
**South West Water**

No.	ID <small>(e.g. W-A1)</small>	Performance commitment	2015-16	2016-17	2017-18	2018-19	2019-20	Cumulative ODI <small>(outperformance payments or underperformance penalties) £m to 4 decimal places 2012-13 prices, net of tax</small>	
			PCL met? <sup>4</sup>	PCL met?	PCL met?	PCL met? <small>(forecast)</small>	PCL met? <small>(forecast)</small>		
52	D1	D1: Reduce energy used in water delivery	N/A	N/A	N/A	N/A	Yes		
53	D2	D2: Help support a natural healthy water environment (in addition to NEP statutory obligation work)	N/A	N/A	N/A	N/A	Yes		
54	E1	E1: Contribute to our community (increase educational visits to schools, and working days for volunteer and charity work)	N/A	N/A	N/A	N/A	No		
55	A1	A1: Service incentive mechanism (SIM)	N/A	N/A	N/A	N/A	Yes		0.2300
56	A2	A2: New customer relationship management (CRM) system	N/A	N/A	N/A	N/A	Yes		

Business plan briefing  
**South West Water**

No.	ID (e.g. W-A1)	Performance commitment	2015-16	2016-17	2017-18	2018-19	2019-20	Cumulative ODI (outperformance payments or underperformance penalties) £m to 4 decimal places 2012-13 prices, net of tax	
			PCL met? <sup>4</sup>	PCL met?	PCL met?	PCL met? (forecast)	PCL met? (forecast)		
57	B1	B1: Fair customer bills (efficient debt management: % of average bill)	N/A	N/A	N/A	N/A	Yes		
<b>Total cumulative financial ODI</b>								8.1059	7.0001

**Table 4.2: PR14 Service Incentive Mechanism (SIM) Performance**

SIM Performance	2015-16	2016-17	2017-18
Total annual SIM score (out of 100) – South West Water	85	86	87
Total annual SIM score (out of 100) – Bournemouth Water	88	88	89

## Appendix 5: PR19 proposed performance commitments

Table 5.1: Common Performance Commitments

No.	Common performance commitment <sup>5</sup>	ID (e.g. 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	PR19SWB_PC A1	3.21	0.00	Under	In-period	
2	<b>Water supply interruptions</b> – average supply interruption greater than 3 hours (minutes per property)	PR19SWB_PC A2	00:07:43	00:04:41	Out & under	In-period	

<sup>5</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.

Business plan briefing  
South West Water

No.	Common performance commitment <sup>5</sup>	ID (e.g. W-A1)	2019-20 forecast performance level <small>(where relevant)</small>	2024-25 proposed performance commitment level	ODI type	In period / end of period ODI	2019-20 to 2024-25 % change <small>(leakage and PCC PCs)</small>
3	<b>Mains bursts</b> – number of water mains bursts per 1,000 kilometres of total length of mains	PR19SWB_PC A3	144	129	Out & under	In-period	
4	<b>Unplanned outage</b> – proportion of unplanned outage of the total company production capacity (%)	PR19SWB_PC A4	1.04	1.04	Out & under	In-period	
5	<b>Leakage</b> – megalitres per day (Ml/d), three-year average	PR19SWB_PC C2	117.8	100.2	Out & under	In-period	-0.149405772
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	PR19SWB_PC C3	137.2	128.7	Out & under	In-period	-0.061953353
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	PR19SWB_PC D1	0	0	NFI		

Business plan briefing  
South West Water

No.	Common performance commitment <sup>5</sup>	ID (e.g. 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)
8	<b>Treatment works compliance</b> – % compliance with environmental permits at water and wastewater treatment works (EA's Environmental Performance Assessment definition)	PR19SWB_PC B6	100	100	Under	In-period	
9	<b>Internal sewer flooding</b> – number of incidents per year (sewerage companies only)	PR19SWB_PC B1	135	109	Out & under	In-period	
10	<b>Sewer collapses</b> – number per 1,000 kilometres of sewer (sewerage companies only)	PR19SWB_PC B3	19.42	13.99	Out & under	In-period	
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)	PR19SWB_PC F1	46	19	Under	In-period	
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)	PR19SWB_PC D2	31.7	28.3	NFI		

## Appendix 6: Expenditure

**Table 6.1: Totex**

Total expenditure	Price Base	PR14 final determination 2015-2020	Proposed for PR19 2020-2025
Water network plus (£m)	2017-18 FYA (CPIH deflated)	929.438	814.114
Water resources (£m)	2017-18 FYA (CPIH deflated)		80.138
Wastewater network plus (£m)	2017-18 FYA (CPIH deflated)	1005.461	848.336
Bio resources (£m)	2017-18 FYA (CPIH deflated)		102.752
Residential retail costs	Outturn (nominal prices)	175.098	153.490

**Table 6.2: Direct Procurement for Customers (DPC) proposals**

No.	Project name	Total project cost (£m) 2019-20 to 2049-50 2017-18 FYA (CPIH deflated)
	Bournemouth Water to Southern Water Transfer (possible future DPC) <sup>6</sup>	0.00

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<sup>6</sup> No costs are in South West Water's plan for this transfer – they are included within Southern Water's plan.

## Appendix 7: Trust, confidence and assurance

### *Resilience*

Our approach to resilience is **built on a consistent methodology, regular stress testing and independent and transparent assurance. The framework covers all risks, financial, operational and corporate** and is embedded in the company.

**Risk factors are visible to our Board, ensuring that they are cognisant of the short, medium and long term risks** and able to guide our investment and mitigation strategies.

For PR19, they have drawn on comprehensive, up to date independent expert reviews of our resilience status. This identified areas for improvement and key findings are reported in our business plan.

We have a clear **road map and strategy for securing a resilient service to customers over the long term**, including an overarching Resilience Service Improvement (RSI) programme. We are working with communities through an innovative behavioural change incentive programme aimed at reducing water consumption and sewer blockages.

Customers have been engaged throughout to ensure that the risks to service, options, cost and benefits of improvements are understood and their views and preferences are expressed. The Board has also provided ongoing review and challenge to the approach.

### *Trust and Confidence*

Our Board believes that **trust and confidence is underpinned first and foremost by our track record of delivering all of the commitments and pledges** made at PR14.

The operation of WaterShare has changed our customer relationship through greater involvement in the business and discussion about benefits sharing.

WaterShare provides **greater transparency and has enhanced the process of building the plan**, subjecting it to independent challenge from customers, the

WFCP and experts. This has been strengthened by external assurance, Board governance and strong NED involvement.

**Customers have helped co-create the plan**, ensuring the targeted delivery of high quality services including the sharing of outperformance.

Over 900 customer validation data sets have been triangulated with customer contact data, providing a clear link between customers' views and the plan. Customers have a full say on all important issues and the **WFCP oversight and scrutiny has provided an additional layer of challenge**, helping to ensure that customers have driven plan development.

The plan includes strong **incentives, aligned to ambitious service levels** across all areas valued by customers. Delivery will be overseen by our Board and integrated governance framework. The WaterShare+ panel will also monitor, review and scrutinise performance. Customers who take up the share ownership scheme will have the opportunity to attend an AGM and vote, holding us to account.