

WaterShare+

Customer Advisory Panel

South West Water Independent Challenge Group

Report on the PR24 Business Plan

October 2023



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Executive Summary

The WaterShare+ Panel has had a material influence on the development and content of the South West Water Business Plan for 2025 to 2030 to the benefit of customers.

The WaterShare+ Panel was formed in 2020 in order to independently challenge and hold the company to account on behalf of its customers, as part of the 2020-25 Business Plan commitments to empower customers. We review the company's performance every quarter against its current regulatory commitments and targets set by Ofwat and the Environment Agency, and its response to issues that may arise such as the 2022 drought. We challenge the company's executive directors to improve performance if falling short of targets and to maintain performance where the company is doing well. We publish our findings annually.

As an independent Challenge Panel we comprise customer, business and community representatives. We have extensive experience in customer insight including behaviour, engagement and research, customer representation, customer vulnerability and social welfare. We are also skilled in utility business planning, engineering, and operations. Most of us have been through several water industry price reviews.

Our quarterly public meetings are unique in the industry. These meetings are normally held online, and customers join alongside the Panel with the same briefings and able to question senior executives including the CEO alongside the Panel on equal terms. Similar in format to Your Water, Your Say they enable customers to have a direct voice in holding accountable the operation and direction of the business. They also allow the company to hear directly customers' views, needs and concerns and respond to their questions. In July 2023 an additional public meeting was held in person in Bristol focused on the Price Review, but all meetings have tackled relevant issues including drought, pollutions, and water poverty.

The company regards our work and challenge as enduring and 'business as usual' and has committed to it continuing for the 2025 Business Plan and indeed for the foreseeable future. Like us, it sees the Panel as enabling the company to reflect and respond to the wishes and needs of its customers and holding it to account.



WaterShare+

In addition to our ongoing work we have undertaken an extensive process to review and challenge the development of the company's Business Plan for 2025-2030.

This included challenging the company throughout the development of its Plan to satisfy ourselves that its associated engagement with its customers has been appropriate, high quality and robust. We have also focused on how well the evidenced needs and priorities of customers have been addressed in the Plan.

We have held over 50 meetings with the company since 2020, all of which have been recorded in detailed minutes and kept a detailed challenge log. We have reviewed and confirmed that the company has taken account of the views of its customers across its regions, both on levels of service and the affordability of bills, in developing its Plan.

We have posed around 300 information requests, actions and challenges all of which have been documented along with the company's responses. No issues remain outstanding from these.

We have thus ensured and can confirm that the company has taken account of the views of its customers across its regions, both on levels of service and the affordability of bills, in developing its Plan.

We confirm the company has engaged with us openly and proactively throughout the process with, in our experience, unprecedented access to documents, company advisors, and the executive.

There is thus a clear line of sight evidenced between the company's high-quality customer engagement and its future plans.

To undertake this work, we established two Sub-Groups to scrutinise in detail the company's customer engagement and affordability activities (both routine and specific for the Business Plan), and the development of its investment plan for PR24. The Sub-Groups reported their findings to the Panel at each of its meetings.

The company assigned a dedicated resource to manage the response to our information requests and challenges. We had access to the company's executive directors and senior managers throughout the process, and to the evolving evidence base and plan documentation at every stage.

We helped to shape the company's engagement programme and instigated additional third-party review of certain elements of it as we saw appropriate and necessary.

The scrutiny and findings from our Customer and Affordability Engagement Sub-Group were:

Area	Evidence and scrutiny	Findings and conclusions
<p>Customer engagement</p>	<p>We reviewed:</p> <ul style="list-style-type: none"> • Research methodologies and materials • Research findings with third party experts • Research synthesis and the linkage to the Business Plan (jointly commissioned with the company at the Panel’s instigation and for its assurance) • The company’s affordability and vulnerability strategies • The rationale for and development of progressive charges <p>We have:</p> <ul style="list-style-type: none"> • Had input to the design of the research materials • Attended a sample of research events • Instructed the company to commission an academic peer review of the willingness to pay studies. The Panel reviewed the findings of this <p>We followed the Ofwat and CCW assurance guidance for challenge groups on the testing of customers’ views of the acceptability and affordability of PR24 business plans.</p> <p>We attended a sample of research events</p> <p>We received reports from and met directly with the company’s independent research teams.</p> <p>We also received the commissioned independent academic review and met with the auditors.</p>	<p>We are satisfied that the company has complied with the Ofwat/CCW prescribed research methodologies. In addition, it has undertaken and triangulated the results from more extensive acceptability and testing it has undertaken. We have supported this approach as it provides a wider and still more robust base of local customer evidence.</p> <p>The Panel has been assured by the company’s specialist third parties, and the peer review, that the company’s engagement and its synthesis meet Ofwat’s standards. This has included the company’s customer willingness to pay research and we are confident that this has provided a very robust evidence base.</p> <p>The Panel has satisfied itself through its review and experience that the engagement materials used by the company have been accessible and easily understood, within the methodologies prescribed by Ofwat and CCW where relevant.</p> <p>We are also satisfied that the company’s Business Plan:</p> <ul style="list-style-type: none"> • Provides sufficient and convincing evidence that its customer engagement activities more than meet Ofwat’s standards for research, challenge, and assurance • Explains how it has taken account of views on the affordability of its proposals for all customers, including for those who struggle, or at risk of struggling, to pay their bills • Demonstrates how its proposals are intended to be fair and affordable for both current and future customers. <p>We see that:</p> <ul style="list-style-type: none"> • There is clear evidence from the research that customers’ main priorities are a clean and safe water supply, prevention of pollution to seas and rivers. Safeguarding and improve bathing and shellfish water. Other priorities include reducing sewage

Area	Evidence and scrutiny	Findings and conclusions
		<p>flooding, enhancing biodiversity reducing leakage and increasing resilience to climate change</p> <ul style="list-style-type: none"> • The investment programme for 2025 to 2030 is consistent with, but dominated by, statutory requirements to improve drinking water quality and the environment. These requirements account for in excess of 90% of the expenditure planned in the period • While customers generally support the statutory requirements (as many align generally with their priorities), being nationally determined they can have little or no say in the scope and timing of the work required to meet them, or the resulting impacts on customer bills • We have therefore especially focused on the discretionary element. Where discretionary expenditure and decisions have been included, such as lead pipe and cast-iron pipe replacements, and the prioritisation of the storm overflow improvement programme for the benefit of beaches, we see clear evidence the company has reflected and accommodated the priorities and wishes of its customers • The company has done this recognising the need to balance investment across the plan as a whole and to make the plan as affordable to customers as possible, responding appropriately to customer priorities alongside Ofwat requirements and Defra phasing proposals.
<p>Affordability</p>	<p>We have considered the full implication of the 2025-30 Business Plan for customers (including social tariff assistance, voluntarily sharing outperformance, charging innovations).</p> <p>We have reviewed and challenged:</p> <ul style="list-style-type: none"> • The company’s affordability and vulnerability strategies • The rationale for and development of progressive charges • Research synthesis report • The line of sight document • The components of the investment plan 	<ul style="list-style-type: none"> • The Business Plan results in bill increases of around 21% from current levels – this will be a rise of up to £9 a month by 2030. • The Long-Term Delivery Strategy considers fairness between what existing customers will pay and what is paid for by future customers and that the balance reflects customer views. • Customer acceptability of the plan (including the current government contribution of £50) as shown by the Ofwat designed and mandated research format is 74% across the company’s three areas, significantly lower than the 88% recorded at the last price review for SWW five years ago. This is unsurprising given the financial

Area	Evidence and scrutiny	Findings and conclusions
	<ul style="list-style-type: none"> • The evolution of the investment plan and the consequential bill impacts • The profiling of bills • Business Plan narratives on engagement and affordability • The company’s dividend and remuneration policies (we review these annually as well as for the Business Plan) • The company’s affordability measures in relation to CCW best practice • The company’s long-term tracking surveys <p>To achieve a like for like comparison with the company’s PR19 affordability and acceptability research (regarded by Ofwat as industry leading) we sought from the company comparable research in addition to the Ofwat-mandated work.</p>	<p>pressure customers are currently facing and the lower sentiment towards the industry following recent and ongoing adverse publicity, a view reflected in the qualitative research.</p> <ul style="list-style-type: none"> • The like for like comparison with the company’s PR19 affordability and acceptability research showed slightly higher acceptability for the Business Plan (around 80%). We believe this usefully shows the change on a comparable basis is less than might otherwise appear, providing further reassurance that the Business Plan is acceptable to customers. • We see that customer willingness to pay for service improvements are slightly higher than at PR19 but that customers now have greater concerns over affordability. The qualitative research evidences that acceptability is lower than at PR19 not because customers more dislike the Plan, but they have greater concerns that the company will spend the money in the right way. In relation to this, we are satisfied that the company’s current and future dividend and remuneration policies are appropriate, with changes being made to align these more closely to delivering the key customer priorities. • Subject to the company addressing bill affordability and fairness (measures it plans to put in place and which we welcome), there is evidenced customer support for the Business Plan. However, were the Government’s £50 bill contribution be withdrawn or reduced, we believe all the research on customer concerns about affordability and the likely high-profile controversy around this would mean the acceptability of the company’s Business Plan would be much lower, especially so if the contribution was withdrawn in a single year. While this is a matter for Government and not the company or Ofwat, we feel it important to draw attention to the Panel’s concern as continued contribution is not confirmed.
Outcomes	We spent substantial time investigating and challenging the company’s departures from	<ul style="list-style-type: none"> • After a great deal of focused review and expert advice, we are satisfied that the

Area	Evidence and scrutiny	Findings and conclusions
	<p>Ofwat’s methodology on outcomes and incentives, including receiving independent advice on the quality of the research.</p> <p>We reviewed and challenged:</p> <ul style="list-style-type: none"> • The research synthesis report jointly commissioned with the company • The line of sight document • The company’s outcome and valuation research (compared to the Ofwat/CCW national approach) • Company-specific customer research to inform outcome delivery incentive rates • Business Plan narratives on Outcomes • Current regulatory performance and its relationship to the rest of the sector in England and Wales • The deliverability of commitments both currently and in the future. 	<p>company’s departures from the Ofwat's methodology are both in the best interests of customers and are rooted in customers evidenced preferences.</p> <ul style="list-style-type: none"> • The Panel prioritised understanding customer willingness to pay at a local level. As a customer-focused Panel we supported as essential the gathering and incorporation of clearly evidenced local customer priorities and willingness to pay into the Business Plan as much as possible. • We are satisfied that the company’s Strategy is based on sound customer engagement consisting of some 50 studies. It aligns with the well-evidenced preferences of customers across its regions (Devon and Cornwall, Bristol and Bournemouth) and the statutory obligations the company has to meet. • We therefore support the company’s inclusion of two bespoke performance commitments, one on embodied greenhouse gas emissions and the other associated with catchment management, as we see clear evidence that these reflect customer priorities and would appropriately best hold the company to account for delivering on these specifics. • We are satisfied that the company's approach to incentive rate setting has incorporated the findings from its customer research activities. These were designed to provide quantifiable customer preferences to inform the calculation of top-down incentives in line with the approach used by Ofwat in its top-down approach. We are clear that the company’s approach is in the best interests of customers and reflect their clearly evidenced preferences.

Our Technical and Environment Sub-Group’s scrutiny and findings were:

Area	Evidence and scrutiny	Findings and conclusions
<p>Long-Term Delivery Strategy</p>	<p>We were involved throughout the development of the Long-Term Delivery Strategy.</p> <p>We reviewed and challenged:</p> <ul style="list-style-type: none"> • The development of the Long-Term Delivery Strategy • Customer priorities and preferences • Fairness between current and future customers • The research synthesis report (jointly commissioned with the company) • The line of sight document. 	<p>The Panel’s scrutiny of the company’s performance period 2020 to the present day enabled it to understand the company’s 2025 baseline performance position and its future plans and ambitions.</p> <p>The Panel has confirmed that:</p> <ul style="list-style-type: none"> • The company’s Long-Term Delivery Strategy and associated are built on evidenced customer preferences and fairness between current and future customers • The Strategy therefore reflects customer priorities and statutory obligations • The Strategy has been developed in line with Ofwat’s guidance and has taken account of its feedback.
<p>Costs</p>	<p>We have reviewed and challenged:</p> <ul style="list-style-type: none"> • The company’s willingness to pay programme to assess valuations • The development of the company’s outcomes contained in its Business Plan and the investment programme for 2025-2030 • The overlap between base and enhancement expenditure in 2025-2030 • The basis of the company’s headline efficiency assumptions. 	<p>The Panel is satisfied that the company’s Business Plan clearly sets out the benefits of the company’s proposals, specifically:</p> <ul style="list-style-type: none"> • The performance levels delivered through base for all performance commitments • The impacts of enhancement expenditure both on performance commitments for 2025-2030 and the longer-term to 2050 • The primary benefits of its proposals. Where appropriate these are reflected in performance commitments and price control deliverables; and • The additional benefits of its proposals. Where appropriate these are reflected in performance commitments and price control deliverables. <p>We have understood the make-up of the proposed investment programme through its development and are satisfied that the company has challenged itself robustly to deliver its future investment efficiently in order to make bills more affordable. It significantly increased its efficiency challenge during the course of the Business Plan process, as encouraged by the Panel and regulators.</p>

Area	Evidence and scrutiny	Findings and conclusions
<p>Data, information and assurance</p>	<p>We reviewed and challenged:</p> <ul style="list-style-type: none"> • Versions of the company's Business Plan structure and narratives as they were developed and finalised • Third party technical assurance reports on the Water Resources Management Plan and the Drainage Water Management Plan • The company's annual reporting of its performance against its non-financial regulatory commitments • Technical audit reports on annual performance • The Frontier Economics research synthesis report and quality assessment. 	<p>The Panel is satisfied that:</p> <ul style="list-style-type: none"> • The Plan is accessible and follows a clear structure • The company's PR24 Business Plan is fully consistent with the Long-Term Delivery Strategy and the company presents a single adaptive strategy, rather than multiple alternate plans. • The company has obtained and shared with the Panel appropriate third-party assurance of its customer research, its annual performance against its non-financial regulatory commitments and the key drivers of its enhancement investment programme.

The company's proposed investment plan will increase expenditure in customer priorities significantly (doubling the 2020-2025 programme), but this, alongside cost increases, means it also increases customer bills significantly.

The independent research syntheses report, jointly commissioned with the company, states:

“While some customers are shocked at the scale of bill increases and clearly very worried about affordability, for many the question rests more on their willingness to pay for investments that they may not accept as opposed to their inability to pay, with customers nervous that the interests of shareholders are placed ahead of customers.”

Early iterations of the Business Plan saw a much larger bill increase forecast than the proposed 20%. We challenged the affordability of this. The company responded to our challenge, and we saw a significant reduction in the investment plan for 2025-2030 from £3.8bn to £2.8bn. We welcomed this reduction as it resulted in part from increased and very stretching efficiency challenges, as well as re-phasing of investment and a detailed programme review. Despite this, the company's customer research shows the perceived affordability of the Plan to be around 57%. We see this as unsurprising given the financial pressure customers are currently facing and the lower sentiment towards the industry following recent and ongoing adverse publicity. Therefore, addressing affordability and mitigating its impact on those customers who would otherwise struggle to pay has been a key area of focus and challenge by the Panel.

Reflecting the concern about affordability for significant sections of the community, we therefore strongly support the company's ongoing and unique Business Plan commitment to eliminating water poverty (as measured by CCW). Meeting this has involved industry leading support over 2019 to 2024 and has clearly helped to mitigate the cost-of-living crisis for customers. We strongly welcome the company decision to repeat this commitment in the new Business Plan – a greater challenge given the proposed bill increases.

We also support the company's view that progressive charging could and should introduce greater fairness for customers and other users of water and sewerage services in the company's region. This reflects views strongly expressed by customers about bill fairness. It also could and should promote and encourage the efficient use of water and support affordability and environmental objectives. We received clear evidence that this is also the view of customers and welcome the trial schemes for 2024, which will allow their roll out from 2025. This will further significantly mitigate the bill impacts of the investment plan, in addition to the support targeted on those least able to pay.

We consider there is a need to ensure bill increases not only have clear support for programme priorities of customers themselves but are affordable for all. The Business Plan in our view now best balances the need for investment against affordability and appropriately reflects customer views on both.

We are however, as a customer-focused Panel, deeply concerned that, in the event that the Government's £50 contribution were to be removed, bills will increase significantly further and faster. We as a customer panel emphasise our belief (evidenced in the qualitative research) that customers would strongly object to the support being withdrawn. While outside the terms of the Price Review, the Panel believes that it is vital this contribution is retained to reflect the ongoing bill impacts associated with the historic cost of 3% of UK population paying for 30% of the UK beach clean-up in the 1990s. Without this, the resulting significantly greater bill increases customers would actually pay in the SWW region are not to be acceptable.

As set out, and subject to the above, we conclude that the Business Plan reflects evidenced customer priorities for investment, properly mitigates bill impacts on those least able to afford them and has around three quarters evidenced customer acceptability for it. We can therefore confirm based on all the evidence that we consider it represents the best value investment for customers and the environment while remaining affordable through the proposed increases to the company's social tariff and support schemes, continued incentive outperformance sharing with customers and progressive charging innovations.

The Panel and its work

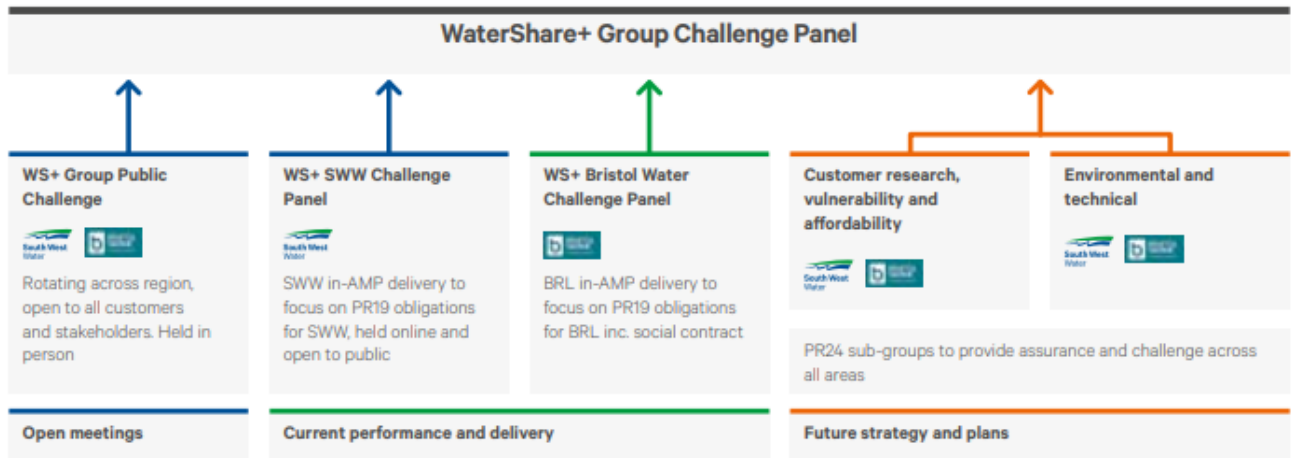
Objectives, membership and governance

- 1.1. The WaterShare+ (WS+) Customer Advisory Panel was formed in 2020 in order to independently challenge and hold the company to account on behalf of its customers. It reviews the company's performance every quarter against its current regulatory commitments and targets set by Ofwat and the Environment Agency. It challenges the company's executive directors to improve performance if falling short of targets and to maintain performance where the company is doing well. The Customer Advisory Panel publishes its findings annually. Bristol Water also has its own ongoing Challenge Panel under its 2020-2025 Business Plan commitments.
- 1.2. The WS+ Group Panel (the Panel) was formed at the start of 2023 through the integration of the South West Water (SWW) WS+ Customer Advisory Panel and the Bristol Water (BRL) Challenge Panel (BWCP) following the merger of the two companies. This wider Group Panel has focused solely on the new joint Business Plan process for 2025-30, whilst the existing Panel structures continued their scrutiny of the current plan deliveries. Prior to this Group Panel being established, earlier consideration of work towards PR24 had taken place within the two existing panels.
- 1.3. We are an independent group of customer, business and social representatives. It is regarded by Ofwat as the Independent Challenge Group (ICG) for South West Water and Bristol Water. The Panel members have extensive experience in customer insight including behaviour, engagement and research, customer representation, customer vulnerability and social welfare, business planning, both within the water industry and elsewhere, and water industry engineering and operations. Most of the Panel members have been through several water industry price reviews. Two members (including our Chair) have extensive market research experience in the political and local authority arenas.
- 1.4. The Panel is chaired by Lord Matthew Taylor, with Peaches Golding OBE (Chair of the BWCP) as Deputy Chair.
- 1.5. The membership of the Panel is strengthened with attendance by expert advisors from the Consumer Council for Water (CCW), Environment Agency (EA) and Natural England (NE). All provide specialist insight and assist our challenge to the company on behalf of the Panel and customers but are not formally panel members and are not responsible for the contents of our report.
- 1.6. A list of the Panel's members plus its expert advisors, including short biographies, is provided in Appendix 2.

1.7. The structure of the integrated Panel is shown below.

The WaterShare+ Group Panel

Integrated panel for to review the work of the sub-groups and respond to the single PR24 business plan



- 1.8. A more detailed description of the role of the Panel, together with its membership, terms of reference and the minutes of its meetings, can be found on the company’s website¹.
- 1.9. Currently the respective SWW and Bristol Panels continue their work championing customers in respect to the delivery of PR19 business plans and matters arising within that plan period.
- 1.10. The WaterShare+ Group Panel will take on this task from 2025 focusing on holding the company to account on the delivery of the PR24 commitments and directly involving customers alongside the panel from across the South West, Bristol, Bournemouth and the Isles of Scilly in the business.
- 1.11. We will do this through continuing to hold our quarterly online scrutiny sessions, adopting new quarterly ‘on site’ meetings across the company areas focusing on issues/locations of concern, and our annual ‘customer AGMs’.
- 1.12. Our quarterly public meetings are unique in the industry. These meetings are normally held online, and customers join alongside the Panel with the same briefings and able to question senior executives including the CEO alongside the Panel on equal terms. Similar in format to Ofwat’s Your Water Your Say event (described later in this Report), they enable customers to have an ongoing say in the operation and direction of the business and allow the company to hear to their views, needs and concerns and respond to their questions and challenges. In July 2023 an additional public meeting was held in person in Bristol focused on the Price Review, but all meetings have tackled relevant issues including drought, pollutions, and water poverty.

¹ <https://www.southwestwater.co.uk/about-us/watershareplus/panel/>

- 1.13. The company regards the Panel’s work and challenge as enduring and business as usual and has committed to it continuing. Like us, it sees the Panel as enabling it to reflect and respond to the wishes and needs of its customers and holding it to account.
- 1.14. We see that the company has been strong at reporting how it engages with customers. It is perhaps less strong on presenting evidence of how its weighing up the issues that matter to the public and could do more to detail how it is responding to the specific social and environmental challenges that matter to them. We have seen how it is striving to become a more a socially aware and responsible company and sees the Panel as a key part of this journey. We understand not all water companies have such an innovative arrangement for involving customers in the running of their businesses and would urge Ofwat to encourage all companies to adopt this as business as usual.
- 1.15. The new PR24 Business Plan covers the investment programmes and bill impacts for both South West Water and Bristol Water².
- 1.16. Our primary objectives for the PR24 Business Plan were to:
- Contribute to the development of the Plan by challenging the company’s proposals, particularly through the review and scrutiny of the associated customer engagement and the drivers of expenditure.
 - Ensure that the Plan fairly represents the views of the company’s customers and communities.

Sub-Groups

- 1.17. We established two Sub-Groups to scrutinise in detail the company’s customer engagement and affordability activities (both routine and specific for the forthcoming PR24 Business Plan), and the development of its investment plan for PR24.
- 1.18. Both the Customer and Affordability Sub-Group and the Technical and Environment Sub-Group were formed from and chaired by members of the Panel who have the appropriate expertise in these areas. The Expert Advisors from CCW, EA and NE also sit on the main Panel, and our Chair and Deputy Chair have a standing invitation to attend and contribute to any Sub-Group meetings, and usually do so. Both Sub-Groups reported their findings regularly to the Panel to keep it fully informed.

² The CMA Determination following the merger of South West Water and Bristol Water includes undertakings on Pennon to ensure both companies provide separate historical and forecast cost and cost driver information and any other reporting of information with respect to each of the South West Water Wholesale Water Activities and the Bristol Water Wholesale Water Activities. This was to allow for the maintenance of robust separate price controls with separate revenue controls and revenue limits and to be consistent with the requirements of Ofwat’s price review process and methodology.

- 1.19. The Technical and Environment Sub-Group also reviewed the company's responses to the ongoing drought and its water resource pressures in 2022 and 2023, both of which were relevant to the Panel's Business Plan work.
- 1.20. The two Sub-Groups were combined as the company's Business Plan came together from the beginning of August 2023 and meeting frequency increased to ensure their respective work and findings were integrated.

Meetings

- 1.21. We met initially on a quarterly basis and then monthly towards the latter stages of the process.
- 1.22. The Sub-Groups met monthly and, when combined, fortnightly.
- 1.23. We have held over 50 meetings with the company since 2020 and several in camera sessions, including with our advisors from the EA and CCW without the company present.
- 1.24. The South West Water WaterShare+ Customer Advisory Panel held quarterly meetings that were open to customers and stakeholders, usually online. Customers attending on the day are given the same materials as Panel members. As well as raising any questions they submitted in advance attendees can act as effective Panel members for the day. They can cross question the company CEO (who attends all the public meetings and all Panel meetings) and other senior executives and get the advice of the advisors alongside Panel members on an equal basis. This has enabled customers to have their say in the operation and direction of the business and allowed the company to hear to their views, needs and concerns and respond to all questions. Many of the reports presented and issues raised in these public meetings were relevant to the development of the company's Business Plan.
- 1.25. The meetings held and the topics discussed are listed in Appendix 3.
- 1.26. Our Chair and Deputy Chair between them attended four meetings of the company's PR24 Board Committee this year to present the work and findings of the Panel and to hear the Board's deliberations on the company's Business Plan. This included the three most recent Pennon Board PR24 sub-committee meetings, for which they received the same papers as the Board Members and were able to attend the meeting in full and raise points as appropriate. We welcomed this very high level of transparency.
- 1.27. The Chair and Deputy Chair, along with representatives from other companies' ICGs, participated in meetings of the CCW-led Challenge Coordination Group (COG) at which common areas of challenge and assurance practice were discussed.

Our review and challenge process

- 1.28. Our work has been undertaken through meetings and other engagement with the members of the company's Executive Team and company personnel. These staff were responsible for customer engagement, developing the investment plan and the affordability and vulnerability strategies. We also received advice and opinion on these from the company's third-party subject matter experts, often at the same time as the company did.
- 1.29. All the meetings of the Panel and its Sub-Groups were documented in detail by an independent report writer.
- 1.30. We have also maintained a record of actions and challenges on the company arising from our scrutiny, mainly through its meetings. The key questions and information requests made to the company and its responses are also recorded. The actions and challenges record enables the Panel to demonstrate its independence from the company and the level of engagement and scrutiny, and track responses. We are pleased to report that the company has engaged with this process in a constructive and proactive manner and all challenges have received a clear response. These challenges are additional to the detail briefings and discussions that took place through Panel and Sub-Group meetings themselves, all of which are minuted. In order to receive price sensitive information, given Pennon is a listed company, Panel members signed appropriate non-disclosure agreements.

1.31. A range of subjects was covered in the challenges as shown below:

Challenge area	Number of challenges
Customer research	28
Investment programme	12
Storm overflows	10
Performance commitments	8
Water resources	6
Performance	5
Affordability	5
Ambition	4
Environment	3
Water efficiency	3
Assurance	3
Reporting	3
Executive pay and dividends	3
Asset investment	2
Water quality	2

1.32. The company's responses to the challenges have been considered by the Panel, and all were dealt with satisfactorily. No areas of disagreement remain outstanding.

1.33. Our Challenge Log is provided in Appendix 4.

Assurance

- 1.34. The company commissioned third-party assurance from Frontier Economics on the customer research it used to develop the Business Plan. This assurance focused on
- 1.35. Ofwat's standards for high-quality research at PR24, namely that it should be:
 - Useful and contextualised
 - Fit for purpose
 - Continual
 - Neutrally designed
 - Inclusive
 - Ethical
 - Shared in full with others
 - Independently assured
- 1.36. Frontier Economics also undertook the synthesis of the research to inform each of the company's key investment areas in the Business Plan.
- 1.37. At our request, in addition the company had its Willingness to Pay studies reviewed by an expert academic, Professor Ken Willis, Emeritus Professor of Economics of the Environment at the University of Newcastle Upon Tyne. Professor Willis is an acknowledged international academic expert in the areas of environmental and stated preference valuation. He also has a long track record of applied stated preference research in the UK water sector.
- 1.38. ICS Consulting undertook a project for the company to document the line of sight demonstrating how customer views have shaped its plans.
- 1.39. As well as undertaking our own scrutiny, we have benefited from and sought assurance through the inputs of the company's third-party advisors to assess the quality of the research, its synthesis and its use in developing the Business Plan.
- 1.40. We also had the benefit of the input of the Panel's advisors from CCW, the Environment Agency and Natural England. This was obtained through their attendance at our meetings with the company and in direct meetings with the advisors to be briefed as appropriate without company executives present. We similarly arranged several meetings with the company without the advisors present so that the company was able to openly discuss any matters they might feel sensitive in front of their regulators. We also held a number of closed sessions for Panel members only.
- 1.41. Our conclusions are given in the relevant sections of this Report.

Customer engagement

Overview of engagement and research and the Panel's review

- 2.1. The company has engaged generally and specifically with its customers (including those in the Bristol Water and Bournemouth Water areas) on key aspects of its service both current and future. The evidence base included findings from its ongoing customer insight programme and commissioned specific pieces of qualitative and quantitative gap analysis research. The extensive engagement covered around 30,000 customers in total and has been carried out in four phases:
 - Establishing priorities
 - Understanding how to value services
 - Understanding how to balance, trade off and adapt plans
 - Ensuring delivery, fairness and protection for customers
- 2.2. Over 50 areas of company research have been specifically undertaken for the PR24 Business Plan including qualitative and quantitative studies.
- 2.3. A full list of research undertaken by the company for PR24 is given in Appendix 7 and summaries are available on the WaterShare+ website³.
- 2.4. Ofwat and CCW also conducted national research into indicative Outcome Delivery Incentive (ODI) rates and has recommended companies to use the results of this in its business planning. The company has concerns with these results in comparison with its own information as described later in this report, and we have explored this in detail with the company and its expert advisors, informing our conclusions.
- 2.5. Ofwat and CCW published guidance for water companies' testing of customers' views of the acceptability and affordability of the PR24 business plans. This included a requirement for ICGs to play a role in the assurance process for this testing. We have followed this guidance.
- 2.6. Our Customer and Affordability Sub-Group was provided with regular overviews of the research methodologies and results.
- 2.7. We have reviewed the key elements of customer research that have informed the Business Plan, how the results of these were collated, and how they impacted the decision-making process. We have held discussions with and reviewed reports from the company's external consultants who are recognised engagement and regulatory specialists.
- 2.8. We provided input to the design of the customer research materials which saw material revisions, attended engagement events, including the Your Water, Your Say session, and reviewed the research results. We reviewed the company's promotion of events and other opportunities for customers to engage.

³ <https://www.southwestwater.co.uk/about-us/what-we-do/improving-your-service/watershareplus>

- 2.9. At our instigation and for our assurance, we jointly commissioned with company an independent synthesis of its customer research findings for us in the Business Plan. This was undertaken by Frontier Economics and included an assessment of the quality of the research against Ofwat's standards.
- 2.10. We are assured by Frontier Economics' detailed assessment of the company's engagement for the Business Plan against Ofwat's standards for high quality research, and the peer review undertaken of the research by an expert academic (at our request). We were able to discuss Frontier Economics' views directly with them. We noted the Frontier Economics' draft assessment was positive, but we suggested changes to improve the clarity and meaning of the findings in a few cases, including the importance of clearly tying findings back to the relevant evidence to show the golden thread. We were pleased these suggestions were adopted.
- 2.11. We are satisfied that our critique on the company's engagement has been recorded accurately and acted upon satisfactorily.
- 2.12. From our expert review and scrutiny, our experience and the third-party assessments, we have satisfied ourselves that the engagement materials used by the company have been accessible and easily understood, within the methodologies prescribed by Ofwat and CCW where relevant.
- 2.13. We consider the company's engagement has been high quality, representative and sufficiently robust and appropriate to inform the PR24 Business Plan.
- 2.14. Our detailed comments to support this conclusion are given in the following sections.

Establishing Strategy and Customer Priorities

Strategy

- 2.15. The Panel confirmed that the company undertook research in order to establish its long-term strategy and to understand the priorities of its customers.
- 2.16. We were presented with the methodology for each piece of research, the findings from it and its use in the synthesis and triangulation of results for informing the Business Plan. We reviewed the research methodologies at a high level and had the opportunity to add input to their design (and did so in many cases). We assessed the results and the company's interpretation of them.

- 2.17. We noted that early on there were a large number of smaller sample surveys undertaken for PR24 compared to the fewer but larger ones used at PR19. We challenged if the smaller surveys had obtained sound results. The company also used a number of deliberative forums to talk to customers in detail about its Plan. We were assured by the company's third-party experts that they were robust and met the Market Research Society (MRS) standards, but in response the samples used for the later affordability and acceptability testing samples and the overall acceptability of the Business Plan were much larger. The company also used a number of deliberative forums to talk to customers in detail about its Plan.
- 2.18. We were also assured by the company's third-party experts (Frontier Economics) that the research met the standards for high-quality engagement required by Ofwat. Our own assessments and significant relevant Panel experience and scrutiny did not cause us to question this conclusion.
- 2.19. We noted the feedback given by Ofwat to the company in April 2023 on its emerging Long-Term Delivery Strategy (LTDS).
- 2.20. We were pleased to see that Ofwat felt the company's emerging LTDS demonstrated a good understanding of how to set its ambition, how it was formulating alternative pathways and how it was using the full range of common reference and wider scenarios to inform its strategy. Ofwat was encouraged that the company was considering long-term performance improvements from base expenditure and that customer engagement was informing its ambition. Ofwat also welcomed the approach to the selection and sequencing of key investments and the engagement of the Board and senior management in the development of the strategy.
- 2.21. However, Ofwat did not see sufficient and convincing evidence that the company was developing a core pathway in line with its definition. In the PR24 submission, Ofwat required the company to clearly explain how it has identified and prioritised low-regret investment in its core pathway. It also required the company to note it is essential that only plausible scenarios are used to develop the core and alternative pathways.
- 2.22. We were provided with the company's responses to the points raised by Ofwat which set out how it was addressing them. We welcomed this information as it allayed our concerns that the required methodology wasn't being followed in full, and we were able to scrutinise how the company delivered on these responses.

Customer priorities

- 2.23. We wished to fully understand the questions being asked in the research into customer priorities, why they were being asked in that way and how the responses would be used. The company's research company (ICS Consulting (with Verve)) took us through these. We raised questions and challenges on the proposed materials for the research into customer priorities and were pleased that the company considered these and reflected many in the final version.

- 2.24. We were satisfied that the research methodology and materials used were appropriate and that the research had been undertaken professionally.
- 2.25. In particular, the overall findings that emerged from the research showed that for both customers of South West Water and Bristol Water:
- Water services including the provision of safe, reliable, clean, and aesthetically acceptable drinking water are of high priority to customers. Safe water is the highest priority
 - Prevention of environmental pollution and the removal and treatment of waste are also priority areas
 - In particular, concerns over storm overflow performance, river water quality and leakage have increased among customers since PR19
- 2.26. The top ten customer priorities across the three regions are:
- A clean and safe water supply
 - Preventing of pollution to seas and rivers
 - Safeguarding and improving bathing and shellfish waters
 - Reducing sewage flooding to homes and businesses
 - Protecting and enhancing biodiversity
 - Reducing leakage
 - Ensuring resilience to climate change
 - Supporting the ecology of rivers
 - Reducing reliance on storm overflows in heavy rain
 - Providing an efficient and outstanding customer service
- 2.27. Within this, customers in the Bristol Water areas placed a higher priority on addressing low water pressure, taste and quality of tap water, leakage repairs and the offer of free repairs to SMEs and schools.
- 2.28. Bournemouth Water customers showed greater support for social tariffs.
- 2.29. We recognised these overall priorities from our ongoing work (both recently and at PR19) and from the feedback provided by customers to the company in our public meetings. Customers were particularly vociferous in these meetings on the resilience of water resources in the South West and the company's sewage discharges to the environment. The significant media coverage and public and political comment on sewage pollution from storm overflows has also raised public concerns generally. South West Water customers do not differentiate between 'pollutions' and permitted storm overflow discharges – seeing both as forms of 'pollution' especially if the discharge is to bathing beaches in the region.
- 2.30. We noted that customers highlighted additional areas where they would like to see improvements, for example supporting communities and dealing with short-term supply interruptions. We encouraged the company to include these in its Strategic Direction Statement and were pleased that it updated its document to fully reflect the priorities of customers and stakeholders and to map these to its future ambitions.

- 2.31. We note that customer priorities identified from CCW's research plus the planned national research by Ofwat do not in key areas reflect the issues of evidenced concern in the company's region, for example on bathing waters. When we discussed this with the company's independent research experts, the view was that this both reflects the nature of the Ofwat/CCW research wording emphasising immediate impacts on the household, and the particular importance of bathing beaches in the region.
- 2.32. We stressed to the company the need to understand its position in relation to the Ofwat/CCW research and the differences between the national and local priorities. We understand that differences will inevitably arise from the specific form of the questions asked as well as local priorities. We requested and were provided with a guide to where the national and local priorities combine and where they differ.

Valuing services

Willingness to pay

- 2.33. South West Water undertook willingness to pay research in 2022 with a representative sample of household customers from the South West Water and Bristol Water regions. This used the company's PR19 survey materials from 2017 for comparability, with updated performance and service level attributes where necessary.
- 2.34. The research found there been little change in customer valuations compared to the 2017 studies (willingness to pay for an increment of service improvement), albeit there are changes indicating a lower willingness to pay for some services. Customers' financial positions had worsened since 2017 (around 40% said this in both companies) with many expecting it to deteriorate further. Over a quarter on average said they had difficulty in paying their bills, more so in the South West area than in Bristol. We were unsurprised at these findings given the ongoing cost-of-living crisis.
- 2.35. While this indicated that customers have a limited budget for service improvements, it also showed that customers placed higher values on some select service areas with less appetite for an increase in bills for improvements elsewhere. Overall, the study showed that customers were willing to pay for investment that delivered a package of improvements reflecting customer priorities. Most customers stated that their maximum willingness to pay range was an increase of up to £50 a year. The equivalent range five years ago was £10 to £15. We were unsurprised at these findings given the ongoing cost-of-living crisis. Around a third of customers (for whom affordability wasn't an issue) were willing to pay up to £200 more for service improvements.
- 2.36. We were advised by Frontier Economics that the company's 2022 research into willingness to pay provided a consistent and up- to-date reflection of customer views across all the company's regions. It also reflected changes in customer preferences and valuations since the COVID-19 pandemic, the current cost of living crisis, media coverage of sewer overflows and the recent drought. We agreed with this.

- 2.37. While the latest willingness to pay research is considered to be sound to use in the PR24 Business Plan, there are some limitations when comparing it with the PR19 values. Some performance definitions have changed since PR19. Additionally, the previous research was conducted for South West Water and Bristol Water separately, as the companies were operating independently at that time. Therefore, it differs with regard to the questions posed and the scale of the change presented to customers.
- 2.38. We reviewed the use of the updated willingness to pay figures in the triangulation of customer values for the Business Plan. We comment further on this in this report.

Outcome Delivery Incentive rates

- 2.39. Ofwat has undertaken national collaborative research into Outcome Delivery Incentive (ODI) rates (service rates) at a company-specific level for 17 common Performance Commitments (PCs) for PR24. This research was led by Ofwat, working with CCW, companies and stakeholders as part of its collaborative customer research for PR24. Companies should use these indicative rates in their business plans or provide compelling evidence to support any alternatives.
- 2.40. The research was designed originally as a single-stated preference survey. The research found that customer preferences were generally similar between companies. However, Ofwat encountered a number of challenges when mapping from the service incidents customers valued to PC definitions. Without robust marginal benefit estimates from the mapping exercise, Ofwat decided late in the process to set indicative ODI rates using a 'top-down' approach based on equity return at risk.
- 2.41. The Panel reviewed Ofwat's detailed report on this process. We regret that the result was that bottom-up customer lead outcomes were not achieved by Ofwat, and that there are significant differences between the Ofwat proposals and the evidenced company-specific customer preferences demonstrated to us by the significant company-level research.
- 2.42. The company told us they had similar concerns, advising us that it could not submit a plan using Ofwat's ODI assumptions as it considered them to have been inadequately tested and to have produced illogical incentives and that they do not reflect the evidenced views of the company's customers and communities. It explained there was the potential for perverse incentives and illustrated this by showing that the nationally-derived incentive rate for discharge permit compliance was showing as around seven times the rate for leakage.

2.43. At our request the company provided with the following information which compares the ranking and the research scores of incentives from its own research with those obtained from the national research. This information is also included in the company's Business Plan.

Common Performance Commitment	Ofwat top-down customer research ranking	Company customer research ranking
Internal sewer flooding	H	M
External sewer flooding	H	M
Water supply interruptions	H	M
Compliance Risk Index (CRI)	H	H
Customer contacts on water quality	H	L
Discharge permit compliance	M	H
Serious pollution incidents	M	H
Storm overflows	M	L
Total pollution incidents	M	L
River water quality	M	H
Biodiversity	M	M
Mains repairs	M	M
Sewer collapses	M	M
Unplanned outage	M	M
Leakage	M	M
Per capita consumption	L	M
Business demand	L	L
Operational GHG emissions	L	L
Bathing water quality	L	H

2.44. We saw that the company's researched customer valuations were higher than the national valuations across all the common service areas. For example, customers in Devon and Cornwall valued bathing water quality at over twice the national average, reflecting the importance of the coast to them. The national leakage incentives also appeared to be very low compared to the evidenced views of the company's customers.

- 2.45. In the Bristol region, the valuations were overall lower than the national valuations. The exceptions were planned interruptions (6-12 hours), discoloured water and boil water notices, low flows in rivers, emergency drought restrictions and pollution incidents.
- 2.46. We were able to interrogate Frontier Research views on this disparity. We noted that Frontier Economics considered it challenging to make meaningful comparisons between the company PR24 customer valuations and those from Ofwat's PR24 research. This is because the national research captures customers' willingness to accept a level of compensation should they be affected by a service incident, whereas the company's research captures the willingness to pay.
- 2.47. In its Business Plan the company has proposed an alternative methodology for service valuations developed with specialist third parties, while also attempting to align as closely as possible to Ofwat's top-down approach, and it has had its own willingness to pay research peer reviewed by a recognised expert academic at our instigation.
- 2.48. The company recognises that it has imperfect information, as does Ofwat, but believes it to be a constructive, consistent, and well-evidenced approach. We welcomed that the company explained to us the advantages and disadvantages of both Ofwat's methodology and its own, and that we were able to interrogate this and understand the views of the company's independent expert advisors.
- 2.49. We note that the company's proposed approach to ODI allocation:
- Aligns closely to Ofwat's top-down approach
 - Further integrates the views of its customers and from those elsewhere across the country
 - Includes triangulation of economic value and both top-down and bottom-up customer valuations
 - Reduces the risk of perverse incentives
- 2.50. While we are not qualified to give expert commentary on the detail of the relative merits of the company's proposed approach and note that there will always be respective merits to competing approaches, as a customer focused panel we are supportive of prioritising valuation methodology that most realistically reflects the priorities of local customers and their willingness to pay for them. We are concerned to see that the Ofwat ODI rates appear not to do this in several cases and would both depart from highly evidenced local preferences and produce potentially illogical incentives.
- 2.51. We also recognise that engagement used in the company's approach to incentive rate setting is of high quality and builds on the approach taken by South West Water and Bristol Water at PR19 both of which Ofwat recognised as sector leading and informed both companies' PR19 Business Plans resulting in the enhanced status (fast-track) for South West Water.

- 2.52. We accept that Ofwat will ultimately judge the company's alternative ODI approach, but we believe it essential the company's customers views on willingness to pay are considered in the Business Plan and in Ofwat's assessment of and response to the plan and we support the company's proposals as in our view best reflecting the evidenced customer priorities.
- 2.53. We provide further comment on Outcomes and ODIs in Section 6 of this Report.

Balancing the Plan

Your Water Your Say

- 2.54. As part of Ofwat's PR24 Price Review methodology each company is required to hold two Your Water Your Say (YWYS) meetings; one before the submission of the Business Plan and one after. The YWYS meetings allow customers and stakeholders to question water companies and challenge them over their plans
- 2.55. The associated guidance from Ofwat and CCW prescribed that companies provide a 15-minute presentation on their business plans and Long-Term Delivery Strategy (LTDS). This was to include the issues addressed by these documents, the actions the companies intend to take, the outcomes they intend to deliver and the resulting impacts on customer bills.
- 2.56. The presentations had to cover:
- Customer service priorities
 - Long-term outcomes and how the five-year plan delivers the first part of the LTDS
 - Environmental outcomes, and
 - Bills/affordability
- 2.57. The events were chaired by an Ofwat/CCW-appointed individual.
- 2.58. The company's first YWYS event was held on 24 May 2023⁴. The second event is scheduled for early November.
- 2.59. The format of the meeting and the material presented at it were prescribed by Ofwat and CCW. We reviewed the proposed content before it was finalised and suggested a number of improvements to improve clarity and understanding. We were pleased the company took these on board and revised its material accordingly where permitted within the Ofwat requirements.
- 2.60. We noted that the attendees would be a self-selecting sample and that ideally, we would have liked to have seen some segmentation. We accepted that Ofwat's guidance on attendees had to be followed but were pleased to hear that the company would be mindful of this when using the outcomes from the event.

⁴ <https://www.southwestwater.co.uk/about-us/what-we-do/improving-your-service/your-water-your-say>

- 2.61. Some of our members attended the event as observers. We saw that the event ran well. The facilitation was very effective, and everyone was firm but measured. As a format, it worked well and that a high number of customers registered, and attendance was good. All questions were addressed. Most issues raised were focused on specific customer experiences rather than the Price Review more broadly. A written record of the session has been published on the company's website⁵.
- 2.62. We understand that CCW has gathered information from companies on the publicising of the event and has compared approaches and looked at results and demographic outcomes. This information has been used to identify best practice and inform the second sessions to be held this autumn.

Affordability and acceptability testing of the Business Plan

- 2.63. Ofwat and CCW issued mandatory guidance for water companies on the testing of customers' views of the acceptability and affordability (AAT) of PR24 business plans. This included a requirement for ICGs to play a key role in the assurance process for affordability and acceptability testing. We have diligently complied with this requirement. The detailed requirements and a description of our work associated with them are given in Appendix 5.
- 2.64. Blue Marble undertook the AAT for South West Water and consulted customers in all three of the company's regions.
- 2.65. We received confirmation from Blue Marble that the company's AAT met Ofwat's standards for high-quality research. Our own work showed that the company had followed the Ofwat/CCW guidance.
- 2.66. Stage 1 of the AAT involved large-scale deliberative events, with in-depth interviews and focus groups (reconvened for non-households) for specific customer segments.
- 2.67. We reviewed the research materials, recommending some changes to improve clarity and understanding, and attended a sample of the events in the South West Water, Bristol Water and Bournemouth Water areas. Panel members were not allowed to observe the joint Wessex Water/Bristol Water focus groups due to Ofwat's ruling concerning commercial confidentiality and competition.

⁵ <https://www.southwestwater.co.uk/siteassets/document-repository/panel-minutes/your-water-your-say-south-west-water.pdf>

- 2.68. The overall results from Stage 1 showed that:
- Most Bristol Water customers opted for the proposed plan, believing the must-do plan only offered minimal savings while compromising on outcomes. However, non-household and vulnerable customers generally preferred the must-do plan. All customers wanted to see a more ambitious leakage programme and greater clarity around the context for bill increases (including the role of government and developers in this) and the linkage between investment and bills.
 - South West Water’s proposed plan received a good level of acceptance. However, there was lower positivity around affordability. Acceptability and affordability would increase if the company delayed its net zero plans and its smart meter rollout, but increased its ambition on leakage, sewer flooding and environmental pollution reductions.
 - Less than half of Bournemouth Water’s customers found the proposed plan acceptable with a majority questioning its affordability. They preferred the slower plan in terms of affordability but wanted to see more leakage reduction and a smaller smart meter rollout programme.
- 2.69. Stage 2 of the AAT comprised large-scale quantitative research to carry out the actual assessment of acceptability and affordability. It incorporated the learning from Stage 1.
- 2.70. As for Stage 1 we reviewed the research materials and recommended some changes to improve clarity and understanding. The company took these on board and made our recommended changes.
- 2.71. The company’s AAT quantitative testing on the near final (£3.2bn) plan using the Ofwat/CCW methodology using the following bill levels:

Region	Service	2024/25 bill (£)	2029/30 bill (£)	Percentage increase before inflation
South West Water	Water service	231	299	28%
	Wastewater service	309	399	28%
	Combined	540 (490 inc. GC50)	698 (648 inc. GC50)	29%
Bournemouth Water	Water service	147	180	23%
	Combined (WSX)	371	585	37%
Bristol Water	Water service	215	240	12%
	Combined (WSX)	442	642	45%

2.72. The research yielded the following results.

	South West	Bournemouth	Bristol
Acceptability of <u>combined plan</u> (% saying proposed plan acceptable)	59%	71%	66%
Acceptability of <u>combined plan</u> (% saying proposed plan acceptable) excluding don't knows	67%	79%	77%
Acceptability <u>water-only</u> (% saying proposed plan acceptable)	62%	74%	74%
Acceptability <u>water-only</u> (% saying proposed plan acceptable) excluding don't knows	69%	80%	82%
Acceptability <u>sewerage-only</u> (% saying proposed plan acceptable)	55%	66%	59%
Acceptability <u>sewerage-only</u> (% saying proposed plan acceptable) excluding don't knows	63%	72%	66%
Affordability (% saying easy to afford proposed combined bill)	21%	26%	20%
Affordability (% saying easy to afford proposed combined bill or neutral)	53%	59%	53%

2.73. Although the questions asked at PR19 were not identical to those posed for PR24, the results obtained at PR19 were

Household customer acceptability

Customers finding their combined bills acceptable: (c) for companies who charge for water only (WoCs)	Bristol	51.80%
Customers finding their water bills acceptable: (a) for companies who charge for water only (WoCs)	Bournemouth	79.00%
Customers finding their combined bills acceptable: (b) for companies who charge for both water and wastewater (WaSCs)	South West	84.00%

Household customer affordability

Customers finding the level of their combined bills affordable: (c) for companies who charge for water only (WoCs)	Bristol	77.00%
Customers finding the level of their water bills affordable: (a) for companies who charge for water only (WoCs)	Bournemouth	97.20%
Customers finding the level of their combined bills affordable: (b) for companies who charge for both water and wastewater (WaSCs)	South West	85.60%

- 2.74. The company then undertook additional testing of testing of its final plan (£2.8bn) with households in the South West using the Ofwat/CCW methodology. This yielded slightly lower levels of acceptability (63%/ 53% including don't knows versus 67%/59% in the full survey) than the full AAT survey, but this follow up was household only and the levels were very similar for this group both times.
- 2.75. Affordability was also lower at 13% saying that the bill was easy to afford or 56% saying including neutral responses. Again, this appears to be because the sample was household only.
- 2.76. We are very mindful that the company's research shows that many customers prioritised an accelerated programme of environmental improvements, even with significant bill impacts. Other customers preferred a slower programme with low bills being their priority. Overall, customers don't want to see bills rise significantly and, if they do, would prefer a smooth profile of increases – but they do want an acceleration of investment to meet customer priorities notably increasing water supply quality and resilience, tackling pollutions and storm overflows, and improving the environment.
- 2.77. We were concerned that as at PR19, removing the £50 government bill contribution will significantly change customer acceptability, and that a robust impact analysis and assessment of customer views needed to be undertaken given the continuation of the £50 contribution is not certain. We believed therefore that, as at PR19, bills with and without this contribution ideally needed research and customer clarification (and thence to Ofwat and Defra). We advised that the company should be very transparent in its research on its assumption on the contribution. The company did not directly compare results with and without the contribution. However, it tested a range of bill impacts which showed that customer responses were relatively insensitive to the level of the bill at a programme level.
- 2.78. We consider there is a need to ensure bill increases (for programme priorities) not only have clear support but are affordable for all.
- 2.79. To increase acceptance amongst those less willing but able to pay, we have continually encouraged the company to both communicate the reasons behind any price increase and provide clear specific references to how it will help them and the environment. The company needs to ensure customers fully understand this, and how the company proposes to mitigate the impact on customers otherwise unable to afford the increase. This includes the company's ongoing commitment to eliminate water poverty (defined by Ofwat as when the water and sewerage bill costs more than 5% of disposable household income). We are satisfied that the company's work in this area has been effective, but we encourage it to continually review and improve where necessary as time progresses.
- 2.80. We are concerned that given the media and political environment, the bill rise may not be acceptable in the end to Ofwat and the Government, notwithstanding acceptability testing results that show clear customer priorities driving the plan. However, the vast majority of the Plan is being driven by legal requirements, and the rest by clear customer priorities.

- 2.81. Clearly the diverging views on investment priorities and affordability means there is a difficult task for companies and the regulator. The need to respond to the company's customer priorities regarding key investment priorities and aligning incentives may not therefore be agreed with Ofwat. We are concerned about this possibility, as we believe that the Business Plan should be led (as it has been to date) by the research conducted into the priorities of the company's customers. We also welcome the fact that there are very clear mitigation strategies to support customers unable to pay, and to innovatively address present charging structures to ensure costs fall as fairly as possible.
- 2.82. We comment in detail on the company's strategies to make bills affordable and to support customers who struggle to pay them in Sections 4 and 5 of this report.

Fairness of bills

Progressive charging

- 2.83. The company's supply region, particularly in Devon and Cornwall sees a significant increase in population in the summer months from tourism. In addition, many properties in the region are used as second homes and for holiday accommodation.
- 2.84. The company's resident customers pay for investment in the infrastructure needed to provide water and sewage services to meet the demand from the permanent and the summer population. Tourists who stay in the region pay indirectly for this investment in theory through the charges for their holiday accommodation and the price they pay for local services and amenities. This does not recover the full cost of the service and so the resident customer base carries a disproportionate share of the costs and impacts on affordability.
- 2.85. We support the company's view that progressive charging could potentially introduce greater fairness for customers and other users of water and sewerage services in the company's region. Charges should be cost reflective and revenue neutral and essential use water should cost more per unit than discretionary use water. Progressive charging could and should also promote and encourage the efficient use of water and support affordability and environmental objectives.
- 2.86. The company has undertaken some initial research with its customers into progressive charging. It has also shared its thinking with Ofwat and has received a generally positive response in principle to it. Ofwat's view is that there has to be a clear cost justification for all tariffs for each user group. We agree with this. Ofwat will consider the company's proposals for progressive charges further as part of its assessment of the PR24 Business Plan. The company is also liaising with CWW and Defra and intends to trial the charging changes in 2024/25 so they can be rolled out from 2025 onwards.
- 2.87. We consider that the biggest impact on rebalancing tariffs would be on hospitality and tourists. There are many advantages to progressive charging, but we recognise that some customers will be disadvantaged. The correct approach however must be based on fairness. We will continue to monitor the company's work on progressive charging with great interest.

- 2.88. We welcome the company's work on bill structures alongside targeted support mechanisms. It will be important that both of these are delivered.

Outcomes: Bespoke PCs and ODIs

- 2.89. Ofwat uses performance commitments (PCs) to measure the outcomes that water companies deliver for customers and the environment as part of the price control. It defined a large number of common PCs that apply to all companies for the 2025-2030 period.
- 2.90. Ofwat recognises that there are reasons why extra company-specific PCs could help to deliver extra benefits for customers. These would not apply to all companies and are known as "bespoke" PCs. They might address an issue of specific local importance or protect customers from specific issues.
- 2.91. We are supportive of the company adding specific PCs to reflect local community needs and benefits where the results from national and local research differ on common PCs. The outcomes framework at PR19 for both South West Water and Bristol Water were complemented by the inclusion of bespoke PCs, which helped the companies deliver on local priorities. However, we stressed the need to have robust supporting evidence from local customer engagement.
- 2.92. The company undertook research into PCs and ODIs (including bespoke measures) in April 2023. The research was undertaken by a specialist third-party.
- 2.93. We reviewed the research methodology and the results. We found the methodology to be appropriate and robust.
- 2.94. We noted that the key findings from the research were:
- Customers want to see a focus on delivery of regional priorities through a balance of performance commitments and incentives. They see value in bespoke measures to reflect local priorities and needs
 - Performance targets should reflect regional differences
 - Top priorities for bespoke PCs to support resilient infrastructure, drinking water quality and environmental protection
 - Customers also wanted to see company activities focus on prevention of environmental problems where possible and were therefore supportive of new, non-traditional infrastructure ways of doing this, such as catchment management
 - Customers have mixed views on ODIs but want them to focus on national and bespoke PCs with some preferring a higher financial weighting for bespoke PCs
 - The majority of customers consider the £50 government contribution to be vital for them to be able to afford their bills.
- 2.95. Our comments on the company's inclusion of two bespoke PCs in its Business Plan, and the customer evidence to support them, are given in Section 6 of this Report.

Triangulation and synthesis of research findings

- 2.96. At the behest of the Panel, the company employed Frontier Economics to undertake an independent synthesis of the customer engagement that the company has undertaken to date for the PR24 Business Plan, including some dating back to PR19. The research was designed to capture a robust and credible range of customer views from across the company's region and across all aspects of the Plan. This included views on the priorities and strategic need of each investment area and on the types of solutions the company could adopt. It also reported on how and to what extent the research had fed into the customer valuations of service.
- 2.97. We were provided with drafts of the synthesis report for review as it came together and given the opportunity to question Frontier Economics on its work and findings. We valued this as it enabled us to assess the extent and quality of research and its fitness for purpose for use in the Business Plan. It also provided third-party assurance that the research was being used appropriately to inform the Plan.
- 2.98. The synthesis work also set out the basis and justification of overall customer priorities identified from the various sources of research, as well as customers' willingness to pay for service improvements.
- 2.99. We took comfort that the synthesis report concluded that the company's research met Ofwat standards for high quality research and that this confirmed our own view obtained from our scrutiny and experience. A summary of Frontier Economics' quality assessment is as follows (note South West Water is referred to as SWB):

Ofwat standard		Description
Useful and contextualised	✓	The research has been conducted in a clear manner, based on a well-planned programme of engagement that has responded to feedback on where there were previously limitations and/or gaps in the company's understanding of their customers' views.
Fit for purpose	✓	The company has used accredited market research agencies in carrying out its research. These have followed best practice in conducting research, both in terms of sample sizes and their representativeness of the SWB customer base, and in the methodologies that have been used. Where earlier research has revealed inconsistencies or shortcomings in the methodologies used, these have been repeated and improved upon in more recent research, and in a way that allows for consistent findings to be derived across all of SWB's regions. These limitations have also been reflected in the insight weightings assigned
Neutrally designed	✓	

Ofwat standard	Description
	to each piece of research to ensure that appropriate weight is place on more recent, and more robust pieces of research, as relevant.
Continual ✓	SWB’s customer engagement plan has included research at a strategic, tactical and operational level. This has meant research has been conducted on both a one-off basis as needed on specific topic, as well as on an ongoing or regular basis to ensure that changes in customer views and priorities are clearly identified and tracked over time.
Inclusive ✓	SWB’s customer engagement has been extensive and has captured the views across all three of SWB’s regions, as well as across the broad range of demographics that it serves. This includes engaging with customers across different ages and income levels, as well as with households, non-households and retailers. Where relevant, more focussed studies have been conducted to seek views in a robust way from specific customer groups, for example vulnerable customers and future customers).
Ethical ✓	All research has been conducted in line with ethical standards, and by accredited market research agencies
Shared in full with others ✓	The individual research reports that we have synthesised include full and clear details on the methodology used, the questions asked, and materials shared with participants.
Independently assured ✓	Our synthesis of SWB’s research has been undertaken independently of SWB. However, we have worked alongside SWB and its WaterShare+ Panel in providing challenge and review to its customer engagement plan on an ongoing basis to ensure that any gaps or limitations in the customer engagement programme have been addressed

Source: Frontier Economics based on SWB’s programme of customer research

2.100. Frontier Economics assessed and scored each item of research against a set of criteria to weight its transparency, robustness and consistency in line with the best practice methodology published by CCW. This helped combining of outputs where difference in research findings existed.

Additional testing of the Business Plan

2.101. The company then tested the acceptability of the £2.8bn plan (with a similar sample size that was used earlier with the Ofwat/CCW methodology) in the same way that it did at PR19 for comparative purposes and to give additional insight on the acceptability of individual investments. It ran seven online focus groups with household and non-household customers across all three regions and undertook in depth interviews with customers from the Isles of Scilly.

2.102. The bills levels tested in this research are shown below.

Region	Service	2024/25 bill (£)	2029/30 bill (£)	Percentage increase before inflation
South West Water	Combined (including GC50)	463	575	24% (21% excluding GC50)
Bournemouth Water	Water service	134	160	19%
Bristol Water	Water service	199	239	20%

2.103. We noted that the quantitative element of the testing was undertaken for the South West Water plan only as the timing of the changes to the plan meant that it was not possible to undertake further joint research with Wessex Water.

2.104. Overall, 71% of customers found the plan to be acceptable, excluding 'don't know' responses (54% if included).

We encouraged and supported the company in undertaking the additional acceptability testing because, while it sampled a similar number of customers to the earlier mandated research, it tested individual investments of the Plan and was undertaken on a similar basis to the company's extensive acceptability research at PR19.

2.105. We note the smaller bill increase as a result of the reduced investment plan and phasing did not significantly change increase acceptability or affordability scores. The advice we received is that qualitative research suggests that customers support the investment but there is considerable concern that companies may not be taking their share of the cost in context of adverse reporting of profitability, dividends and executive salaries, more than concern about the specific quantum of investment and bill impact.

2.106. The company held a PR24 customer focused event in Bristol in July 2023, chaired by the WaterShare+ Panel chair and held under the Panel's auspices. The objective of the meeting was to seek customers' thoughts on the company's proposals specifically for Bristol Water, and whether they thought its plans were making improvements at the right pace.

2.107. A number of Panel members were able to attend the customer event held in Bristol.

- 2.108. We noted that the event was intended to discuss the Business Plan, but as with the Ofwat-initiated YWYS event most questions posed at the tables were about other things more related to the individual customers personal experiences or priorities, generally service and other issues.
- 2.109. In spite of this, we considered the Bristol event went well, as it engaged a significant number of customers, who strongly welcomed the opportunity.
- 2.110. We noted that the main outcomes from the event were that customers prioritised a clean, safe and reliable supply of water and the protection of the environment. They wished to see investment in reducing leakage but had mixed views on smart metering and higher water quality.
- 2.111. The nature of the event was very different to our on-line Panel meetings (though more similar to the Panel's annual customer general meetings which are onsite and combine presenting our Annual Report with active customer sessions), with pros and cons for each. We have recommended to the company that in future we believe the Panel should hold both the quarterly Panel online public meetings and regular local in person collaborative engagement events with the public revolving across Bournemouth, Bristol, Devon and Cornwall in areas of focus around local concerns.
- 2.112. The outcomes from the events were included in the synthesis of all the company's research.

Quality of research

- 2.113. The research for its PR24 Business Plan has been carried out for the company by specialist research agencies with experience in the water sector, its regulation and business planning.
- 2.114. The agencies are all members of the Market Research Society and follow its Code of Conduct. The agencies confirmed to us that each piece of engagement has met Ofwat's standards for high-quality research and have followed the methodologies prescribed by Ofwat and CCW for affordability and acceptability testing and the Your Water Your Say event.
- 2.115. An independent synthesis has been carried out for all the customer engagement that the company has undertaken to date for the PR24 Business Plan, including some dating back to PR19. The accompanying synthesis report concluded that the company's research met Ofwat standards for high-quality research.
- 2.116. At our request the company had its research peer-reviewed by a specialist and experienced academic Professor Ken Willis.
- 2.117. We reviewed at high level the key methodologies used for the company's research for its PR24 Business Plan.

- 2.118. We took the opportunity to add our input to the research materials as they were developed.
- 2.119. We have attended a sample of research events to satisfy ourselves that the research methodologies were followed and that the events were effective and met their objectives.
- 2.120. We reviewed the results of the research.

Conclusion

We have complied with the Ofwat and CCW requirement for ICGs to participate in the assurance process for affordability and acceptability testing of PR24 business plans.

Conclusion

From our review, scrutiny and experience and the third-party assessments, we have satisfied ourselves that the engagement materials used by the company have been accessible and easily understood, within the methodologies prescribed by Ofwat and CCW where relevant.

We consider the company's engagement has been high quality, representative and sufficiently robust and appropriate to inform the PR24 Business Plan.

The 2025-2030 Business Plan

The Panel's involvement and challenge

- 3.1. One of our key objectives is to confirm that customers' priorities and needs obtained from the engagement have been considered and accounted for in the development of the company's PR24 Business Plan, based on robust evidence.
- 3.2. We supported the very significant ongoing programme of customer research, recognising that the company needed a strong evidence base in order for its investments to meet the needs of its local customers, communities, and the environment. We welcomed the company's decision to set this out in its 'What Communities Want' and 'Line of Sight' documents.
- 3.3. These documents enabled us to see and understand how the engagement outcomes and the Business Plan are being linked. The strength of this 'golden thread' is a key focus of the Panel.
- 3.4. We consider these documents to be clear and informative. We suggested several amendments to early drafts to strengthen the company's conclusions and reasoning, to include supporting evidence and to improve the presentation of the information. We were pleased to see that the company took these suggestions on board.
- 3.5. We were regularly apprised by the company on the development process and content of the PR24 investment plan.
- 3.6. The Panel reviewed the associated strategic submissions (Water Resources Management Plan (WRMP), Drainage and Wastewater Management Plan (DWMP) and Water Quality Programme).
- 3.7. We were consulted on the company's long-term ambition and the development of its customer commitments.
- 3.8. The investment programme for PR24 is significantly greater than at PR19 and is being driven primarily by statutory requirements for water supply resilience, water quality and environmental improvement. Much of this statutory work is supported in principle by customers, although the proportion of the PR24 investment plan that can be directly influenced by customers is relatively small at around 20%. The PR24 plan results in a significant bill increase and challenges around affordability, deliverability, and financing.
- 3.9. We scrutinised closely the decisions the company made around the necessary trade-offs between what customers would like and what can be delivered affordably and fairly. We looked for clear evidence from the customer engagement to support these decisions.

- 3.10. The Panel has consistently challenged the company to ensure that its proposals are not only deliverable but affordable for customers and has endorsed its ambition to change tariffs to make charging more progressive. We have seen that the company is considering and has started modelling tariffs relating to capacity (part occupied homes), seasonality (tourism and second homes), sewerage capacity for beaches (surface water drainage in coastal areas), choice (water efficiency and wastewater economy) and associated community rebates. The development of appropriate tariff trials starting in 2024/25 is underway.

Bristol Water elements of the Business Plan

- 3.11. The CMA Determination following the merger of South West Water and Bristol Water includes undertakings on Pennon to ensure both companies provide separate historical and forecast cost and cost driver information and any other reporting of information with respect to each of the South West Water Wholesale Water Activities and the Bristol Water Wholesale Water Activities. This was to allow for the maintenance of robust separate price controls with separate revenue controls and revenue limits and to be consistent with the requirements of Ofwat's price review process and methodology.
- 3.12. We see that the company is complying with this in its Business Plan by having separate service targets, investments plans, and associated revenues and bill impacts for Bristol Water customers. The Bristol Water service targets are illustrated alongside the rest of the company's later in this section of the report.
- 3.13. As with the Business Plan as a whole, the Bristol Water aspects have been informed by customer engagement and the statutory investments the company has to comply with in the area. The key areas of research were segmented in order to identify the results from Bristol Water customers.

Key drivers of expenditure

Statutory obligations

- 3.14. Water and sewerage companies have a number of government and regulatory statutory investment programmes and obligations to deliver in 2025 -2030 and beyond, including:
- Water Resources Management Plan (WRMP)
 - Drainage Water Management Plan (DWMP)
 - Water Industry National Environment Programme (WINEP)
 - Drinking Water Quality Programme
- 3.15. Except for drinking water quality, where formal undertakings are assessed and set by the Drinking Water Inspectorate, companies have prepared and consulted on these programmes in accordance with prescribed methodologies.
- 3.16. The expenditure associated with statutory obligations, and over which customers have little say, accounts for around 80% of the PR24 investment programme.

- 3.17. Our work has involved reviewing at high level the development of the associated investment, the methods, and results of public consultations (where undertaken), the content of the final programmes agreed with government and the regulators and whether these agreed programmes are reflected accurately in the company's PR24 Business Plan.
- 3.18. We raised and discussed a number of specific points on each draft Plan. Further detail of the Plans and our scrutiny of them is provided in Appendix 6. Our comments also relate to practical measures and their effects on customers, the environment and future customer bills.
- 3.19. We received feedback on the water resource and environmental programmes from our expert advisors from EA and Natural England.
- 3.20. Both the draft WRMP and the DWMP are complex documents with a great deal of detail, and so we found it difficult to be critical of most of the proposed actions. We noted that both Plans question whether the right balance is struck between the environment and capital schemes but, without a definitive list of schemes, their relevance, and respective costs, we were unable to differentiate on this aspect.
- 3.21. We noted the responses to the draft WRMP and the DWMP by other bodies (Defra, the EA, Natural England, CCW) and the company's response to those comments, which we supported. We left the comments on format and compliance with content guidelines to those bodies as that is their role.
- 3.22. We commended Pennon Group for the inclusive nature of the proposals in both draft Plans, and the all-inclusive 'pack' of solutions included. Both Plans are comprehensive, especially the on-line Webinar on Water Resource issues.
- 3.23. The task to comply with statutory requirements is enormous and the effect on bills is significant. In the current financial climate that is unlikely to be acceptable. It will come down to the scope and pace of the investment and what the customer accepts are reasonable increases in bills. We noted the customer research to close this loop and provide guidance regionally in addition to the national research from the EA. This indicated customer preference for local solutions and proposals. We agree that rising bills may be at least mitigated by a progressive and differential charging methodology.
- 3.24. Most options are very expensive and long-term, and they will not solve drought or ongoing pollution issues for many years. We doubt any full long-term solution is available from the water resources in the company's area. Changing customer perceptions and habits is a monumental task. We can offer no instant solution suggestions, but we do believe the company's proposals for PR24 reflect the right steps at the point to address this increasing challenge.
- 3.25. We agreed that the company needed to look at and gear up its supply chains. The deliverability and materiality of the capex programme is critical to overcome inertia lag.

- 3.26. We were concerned at the scale of bill increase that would have resulted from the initial iterations of the company's PR24 investment programme.
- 3.27. The company took us through its efficiency challenge on itself (which increased progressively as the programme developed) including the design of its proposed delivery strategy, the rephasing of work where possible and focusing on discretionary expenditure that most directly delivered the evidenced customer priorities. We strongly welcomed the company doing this as it resulted in a material reduction in the scale of the 2025-2030 investment programme and in the associated bill increase.
- 3.28. We comment on the deliverability of the 2025-2030 investment programme later in this Report.

Customer priorities

- 3.29. Customers' priorities for services obtained from the engagement are:
- A clean and safe water supply
 - Prevention of pollution to seas and rivers
 - Safeguarding and improve bathing and shellfish waters
 - Reducing sewage flooding to homes and businesses
 - Protecting and enhancing biodiversity
 - Reducing leakage
 - Ensuring resilience to climate change
 - Supporting the ecology of rivers
 - Reducing reliance on storm overflows in heavy rain
 - Providing an efficient and outstanding customer service
- 3.30. Customers also highlighted areas where they would like to see improvements, for example supporting communities and dealing with short-term supply interruptions.
- 3.31. Within this, customers in the Bristol Water areas put a higher priority on addressing low water pressure, taste and quality of tap water, leakage repairs and the offer of free repairs to SMEs and schools.
- 3.32. Bournemouth Water customers showed greater support for social tariffs.
- 3.33. The following sections outline how and to what extent the company has included investment in its Business Plan to address customer priorities and our views on this.

Water supply resilience

Programme overview

- 3.34. The company's vision is to balance the water needs of people and the environment. It is proposing to spend c.£360m to achieve this.
- 3.35. The service and operational targets to 2030 associated with this investment include:

Service	2030 target (SWB)	2030 target (BRL)
Leakage (three-year average)	85.9	29.9
Leakage (annual)	82.3	29.5
Per capita consumption (three-year average)	135.9	142.4
Per capita consumption (annual)	133.6	140.5
Business demand for water (three-year average)	157.4	57.8
Business demand for water (annual)	156.7	57.4
Mains repairs	130.0	128.2
Unplanned outages	3%	3%
Water supply interruptions	00:04:00	00:04:00

Alignment with customer preferences

- 3.36. We have seen from the research that customers across the company's area placed a high priority on a resilient but environmentally friendly water supply. They recognise the impacts from climate change and increasing population. They would prefer improvements in water efficiency to new water resources but recognise that a balance has to be struck. They supported further leakage reduction, compulsory smart metering (to an extent) and the adoption of catchment-based (environmental) solutions to improve supply resilience rather than further river abstractions.
- 3.37. Our Technical and Environmental Sub-Group has focused heavily on the ongoing water resource position in Cornwall and Devon. We received regular updates on the interventions the company is planning or making to improve resource resilience in the short and longer terms including desalination, mine water sources, TUBs and bulk transfers within and outside the region. We are satisfied that the company is taking appropriate actions in these areas and note that the current resource position is stronger than this time last year.
- 3.38. We note that the company must meet statutory and regulatory obligations related to water supply resilience, mainly through the WRMP. These relate to reducing abstraction from rivers, reducing network leakage, restoring wetland habitats, and increasing the ability to transfer water across the region.

- 3.39. EA advised us and the company that it had concerns over the inclusion of a bespoke performance commitment covering water available for use. We note that the company has removed this bespoke performance commitment from its Business Plan, following the feedback it received from Ofwat after the early submission of bespoke PC proposals in April 2023.

Conclusion

We consider that the company has reflected the priorities and wishes of its customers as well as it can with regard to water supply resilience, given its statutory obligations in this area and the need to balance across the investment plan as a whole.

Drinking water quality

Programme overview

- 3.40. The company plans to invest c.£280m in maintaining and improving drinking water quality. This includes work to continue to supply drinking water that meets statutory quality standards. It also aims to supply its customers with water that looks, tastes and smells as good as it can. Its target is to replace all of its lead supply pipes by 2050.
- 3.41. The service and operational targets to 2030 associated with this investment include:

Service	2030 target (SWB)	2030 target (BRL)
Meeting drinking water standards	0	0
Customer contacts about water taste, odour or appearance	0.87	0.82

Alignment with customer preferences

- 3.42. The research showed that customers' top priority is for the company to continue to supply clean and safe drinking water with minimal disruption. They consider current drinking water quality to be good. The only area with strong support for enhancement was lead pipe replacement, particularly in the Bristol Water area.
- 3.43. The company must meet statutory and regulatory obligations related to drinking water quality. The requirements around CRI were amended just before submission of this plan and have been accommodated by the company.
- 3.44. We challenged the company on the need to target customer lead pipe replacement for customers who cannot afford to do the work themselves, rather than solely targeting replacements by geographical area. We considered this would align well with the company's social policy and strategy for tackling affordability. We were pleased that the company has agreed to consider this as its lead strategy evolves.

Conclusion

We consider that the company has accommodated the priorities of its customers for water quality appropriately, given that most of the planned investment is statutory. We welcome the proposed and discretionary lead supply pipe replacement programme, especially in the Bristol Water area, where customers valued this work more highly.

Storm overflows and pollutions

Programme overview

3.45. The company's objectives are to tackle the use of storm overflows at bathing and shellfish waters, aim to achieve the lowest absolute water pollutions in the industry and install first time sewerage and treatment on the Isles of Scilly. It is proposing to invest c.£760m to achieve this.

3.46. The service and operational targets to 2030 associated with this investment include:

Service	2030 target (SWB)	2030 target (BRL)
Internal sewer flooding events	0.80	N/A
External sewer flooding events	12.36	N/A
Sewer collapses	9.96	N/A
Discharge permit compliance	100%	100%
Serious pollution incidents	0	0
Total pollution incidents	19.5 (45 in total)	N/A
Storm overflow events	17.5	N/A
River water quality (phosphorous reduction)	190,183	N/A
Coastal bathing water quality	89.7	N/A

Alignment with customer preferences

3.47. We see that most of the investment planned for environmental improvements is required to meet statutory obligations.

3.48. We saw that the research showed that customers are now significantly more aware of pollution incidents and storm overflows due to recent media and political coverage and increasing general concern about environmental matters. Customers want the company to better protect the environment by investing in asset and operational improvements. The company, along with others in the industry, must regain public trust in its environmental stewardship.

3.49. Customers in the South West also place high value on bathing water quality, both river and coastal.

- 3.50. While the company will address many of these customer priorities through meeting its statutory obligations as part of the DWMP and WINEP, we are pleased to see that it has been able to prioritise its environmental improvements, particularly storm overflows where possible, to ensure that bathing water quality benefits. This will help build trust with its customers. We also welcome its longer-term ambition that none of its storm overflows will cause any public health or ecological harm to rivers and seas by 2050.

Conclusion

We consider that the company has accommodated the priorities of its customers for water quality appropriately, given that most of the planned investment is statutory. We welcome the proposed and discretionary lead supply pipe replacement programme, especially in the Bristol Water area, where customers valued this work more highly.

Environmental gain and net zero

Programme overview

- 3.51. The company has statutory obligations to meet in the short and longer term with regard to increasing biodiversity and reducing its carbon footprint.
- 3.52. The company's targets include achieving net zero operational emissions by 2030 and to become a net zero business by 2045. It proposes to spend c.£430m to achieve its 2030 target and increase biodiversity.
- 3.53. The environmental and operational targets to 2030 associated with this investment include:

Service	2030 target (SWB)	2030 target (BRL)
Biodiversity improvement	2.44	2.12
Operational greenhouse gas emissions (water)	70,045	29,689
Operational greenhouse gas emissions (wastewater)	89,562	N/A
Embodied greenhouse gas emissions	347	N/A
Catchment management	146,500	N/A

Alignment with customer preferences

- 3.54. Customers have said they want the company to minimise its environmental impact and improve it wherever it can. They list climate change as one of their larger concerns.
- 3.55. We note that the company has to meet statutory and regulatory obligations related to its environmental footprint.

Conclusion

While nearly all the company's proposed investment is required to meet statutory requirements (and is in line with customer wishes), we consider that the company has reflected the priorities its customers on reducing environmental impact particularly in the longer term.

Customer and community experience

Programme overview

- 3.56. The company's vision is to have fair and affordable bills and provide excellent and innovative customer services. It wishes to maximise customer trust in its services. It proposes to spend c.£17m to achieve this, with the majority of its spend covered in base.
- 3.57. The company has regulatory obligations to meet with regard to C-Mex, D-Mex and BR-Mex. The other targets are set by the company.

Alignment with customer preferences

- 3.58. We see that customer satisfaction with the service the company provides has been generally high in recent years. National research shows that customers want to be treated as individuals and want their water company to manage their expectations better, provide clearer communication, and show trust and empathy. Customers also want fair and affordable bills.
- 3.59. We note that the company has to meet obligations related to the key customer service metrics C-Mex, D-Mex and BR-Mex.

Conclusion

We consider that the company has reasonably reflected the priorities and wishes of customers regarding customer and community experience.

Deliverability

- 3.60. We have challenged the company over its ability to deliver its proposed capital investment programme to 2020, given that it is significantly larger than the current five-year programme. The size of the WINEP poses delivery risks across the sector. We wanted to be assured that customers would not face any risk of under-delivery of investment they in part have called for.
- 3.61. The company's senior executives have told us that they recognise the challenges around the financeability and buildability of the £2.8 billion investment plan to 2030. They have explained their delivery strategy to us and the work they have already completed to put this in place ahead of the March 2025 commencement date.

- 3.62. The foundations of the delivery strategy include:
- A clear pipeline of work
 - A strong and intelligent client capability (innovation, carbon reduction)
 - Sound asset management processes (currently ranked upper quartile against Ofwat's assessment)
 - Strong organisational capability (engineering, programme management)
 - Experienced supply chain partners (consultants, contractors)
- 3.63. We were encouraged to see this approach in place based on our experience. We were also comforted that the company has progressed much of its strategy by recruiting additional experienced personnel, listening to the supply market early on, appointing experienced consultants, and are currently tendering for its Tier 1 contractors. We were pleased to hear that tenders have been received from all the major contractors in the sector and that they and the company see opportunities to recruit labour from major projects in the region that will be coming to an end, for example, Hinkley Point, Devonport, and the A303 and A30 upgrades.
- 3.64. We also challenged the company about its operational capability to deliver the capital programme and operate the existing and new assets. We were pleased to hear that the company's operational and engineering teams are working collaboratively to ensure their respective activities join up.

Conclusion

We believe the company is currently well-placed to implement its delivery strategy.

We also challenged the company about its operational capability to deliver the capital programme and operate the existing and new assets. We were pleased to hear that the company's operational and engineering teams are working collaboratively to ensure their respective activities join up.

Affordability for customers

The Panel's involvement and challenge

- 4.1. The Business Plan will result in significant bill rises for the company's customers at a time of financial pressure.
- 4.2. We recognised this from an early stage in the development of the Business Plan and so closely monitored the company's development of its affordability strategy.
- 4.3. The company's affordability strategy is to make the plan affordable for all, as well as those who need assistance. It has five strands:
 - Spreading and balancing the required investment over the next five years and subsequent five-year periods ensuring statutory obligations are addressed.
 - Proposing new, progressive charging mechanisms to deliver fairness to customers and visitors.
 - Ensuring the capital programme and the company's operations are delivered as efficiently as possible.
 - Helping customers to save water while meeting their needs through water efficiency education and the use of smart meters. We welcome that the company will be offering a metered supply to its unmeasured customers (helping to ensure that it is providing the right tariff to the right customers) and supporting customers them with water efficiency measures to enable the right consumption for them.
 - Providing financial support to customers who most need it and to help the company achieve zero water poverty in its region. Our comments on this are given in the next chapter of this Report.
- 4.4. We have reviewed each of these strands in relation to the results from customer engagement the company has undertaken for its Business Plan.
- 4.5. Customer acceptability of the plan as shown by the Ofwat designed and mandated research format is around 74% across the company's three areas, much lower than was recorded at the last price review five years ago. Affordability is around 57%. Both of these outcomes are unsurprising given the financial pressure customers are currently facing and the lower sentiment towards the industry following recent and ongoing adverse publicity.
- 4.6. To achieve a like for like comparison with the company's PR19 affordability and acceptability research (regarded by Ofwat as industry leading) we sought from the company comparable research in addition to the Ofwat-mandated work. This showed 82% acceptability for the Business Plan.

Trade-offs and bill impacts

- 4.7. We were keen to understand and challenge the relationship between the proposed level and pace of investment and bills and the potential to profile these to maximise affordability.
- 4.8. We were pleased to see that the company was modelling this throughout the process and that it kept us informed of the results.
- 4.9. With bills set to rise we wished to see that the bill increases were smoothed as much as possible in line with customer wishes, at the same time being assured that the company was meeting its statutory investment obligations.
- 4.10. As mentioned earlier in this report, the company took us through its efficiency challenge on itself (which increased progressively as the programme developed) including the design of its proposed delivery strategy, the rephasing of work where possible and focusing on discretionary expenditure that most directly delivered the evidenced customer priorities. We strongly welcomed the company doing this as it resulted in a material reduction in the cost of the 2025-2030 investment programme and in the associated bill increase.
- 4.11. We considered that, by the end of the process, the company had balanced the pace of investment well against the resulting bill impact. We strongly welcome the fact that, both at our urging and in line with evidenced customer preferences, the company adopted a smooth bill profile over 2025-2030.

Region	Service	2024/25 bill (£)	2029/30 bill (£)
South West Water <i>(inc. £50 government contribution)</i>	Combined (water & sewerage)	457	570
South West Water <i>(inc. £50 government contribution)</i>	Water service	161	204
South West Water <i>(inc. £50 government contribution)</i>	Waste service	246	316
Bournemouth Water	Water service	137	167
Bristol Water	Water service	205	242

Government £50 subsidy

- 4.12. The government contribution to customer bills in the South West, currently £50, was put in place to compensate customers for the ongoing bill impact of the fact that 3% of the national population had to pay for addressing sewage discharge impacts for 30% national beaches through the 1990s and has materially contributed to the affordability of bills as a result.
- 4.13. Removing the £50 government bill contribution would significantly further increase bills and significantly change customer acceptability and affordability materially.
- 4.14. We saw clear evidence from the qualitative research (quite apart from ongoing public commentary) that customers support the continuation of the contribution alongside the company having in place its proposed measures to address the affordability and fairness of bills. Customers' concern about the bill rise is focused around rises being diverted into dividends and executive pay, both of which the company have addressed in its Business Plan in consultation with us.
- 4.15. We note also that the customer research showed a willingness to pay up to an extra £50 on bills to meet their priorities for investment. Removing the government contribution would effectively remove the value of future investment associated with a bill increase of this amount - or double the bill impact over what customers believe is acceptable. Neither outcome would have customer support.
- 4.16. We would have preferred that the company's Business Plan acceptability research tested bills with or without the £50 government contribution more directly in a form that made clear to customers, rather than simply testing alternative bill levels. It was done this way to align with the Ofwat AAT testing.
- 4.17. From all our experience we believe it is clear that customers would strongly object to the support being withdrawn. With it, subject to the company addressing bill affordability and fairness (measures it plans to have in place), there is support for the Business Plan. Without the £50 bill contribution, we believe all the research on customer concerns about affordability would mean the acceptability of the company's Business Plan would be much lower, especially so if the contribution was withdrawn in a single year. We have repeatedly made clear to Ministers that we believe this support should be retained, as the reason it was introduced has not changed – the bill impact of SWW customers representing 3% of the population paying for 30% of the UK bathing beaches, an historic cost still reflected in SWW bills.

Progressive charging

- 4.18. We support the company's intention to develop and hopefully implement a progressive charging regime during 2025 – 2030. We received clear evidence that this is also the view of customers.
- 4.19. We also welcome and support the trial schemes for 2024 to allow their incorporation from 2025.
- 4.20. The company has shown us that it has started modelling tariffs relating to capacity (part occupied homes), seasonality (tourism and second homes), sewerage capacity for beaches (surface water drainage in coastal areas), choice (water efficiency and wastewater economy) and associated community rebates. The development of appropriate tariff trials starting on 2024/25 is underway.
- 4.21. We appreciate the significant potential that progressive charging has to increase the fairness of bills for the company's customers, to encourage the efficient use of water and the responsible use of the sewerage network.

Conclusion

We support the company's affordability strategy and welcome its aim to make its bills affordable to all.

Customer vulnerability

The Panel's involvement and challenge

- 5.1. We commend the company's ambition to have none of its customers in water poverty.
- 5.2. We have reviewed how the company intends to achieve its ambition, comparing its future strategy with its current approach.
- 5.3. The company has kept us informed of the development of its vulnerability strategy throughout the process and we have reviewed its Customer Care Strategy Document included with its Business Plan submission.
- 5.4. Our comments on the company's strategy to make its bills affordable are given in the preceding chapter of this Report.

Vulnerability strategy

- 5.5. We see that the company's affordability strategy is the foundation of its approach to eradication water poverty. This is then supplemented by its approach to identify and help those customers who are vulnerable and need assistance, both financially and non-financially. We consider that finding such customers is key to success.
- 5.6. The company intends to continue and extend its current approach to identifying and helping vulnerable customers. This includes:
 - Increasing the numbers of customers on its Priority Services Register (PSR) to 25% and better segmenting the Register to prioritise help more effectively.
 - Using customer data more effectively (including better customer segmentation) to create multi-channel communication routes and to facilitate the implementation of the affordability strategy.
 - Working with partners such as debt, disability and other social assistance organisations and improve staff training to identify older and other potentially vulnerable customer and increase awareness of support offerings.
 - Automatically enrolling customers onto discount tariffs.
 - Continuing to provide clear and understandable bills, including to the visually impaired and speakers of languages other than English.
 - Prioritising medically vulnerable customers during operational incidents.

- 5.7. We welcome these initiatives and that the company recognises that the cost-of-living crisis will continue and possibly worsen in the short term and is closely monitoring the impact on its customers.

Conclusion

We support the company's plans to help its customers who find themselves in vulnerable circumstances.

Outcomes, PCs and ODIs

The Panel's involvement and challenge

- 6.1. Through our review of the investment programme for 2025 – 2030, we are satisfied that the company's proposed Outcomes align its statutory obligations and, where possible within constraints of affordability, the preference of its customers.
- 6.2. We describe in Section 2 of this report that the company is departing from Ofwat's methodology for PR24 on ODIs. It is proposing incentive rates based the wishes of its customers gleaned from its research. Some of these rates differ from Ofwat's.
- 6.3. It also wishes to adopt caps and collars and associated deadbands to some incentives (as were used at PR19) to manage risk and uncertainty.
- 6.4. The company is also challenging the definitions for some of Ofwat's common ODIs, particularly where service performance may be impacted by factors outside the company's control such as third-party action and extreme weather events (where these are not already reflected in service measures).

Conclusion

We support the company's approach to incentive rate setting because, as a customer-focused Panel, we support its evidenced reflection of customer priorities and appropriate risk-reward balance.

PCs and targets

6.5. The company's proposed Performance Commitment 2024/25 baseline and 2029/30 target levels are as follows:

South West Water

Performance Commitment (PC)	Unit	2024/25 baseline	2029/30 target
Internal sewer flooding	Number of incidents per 10,000 sewer connections	0.8	0.8
External sewer flooding	Number of incidents per 10,000 sewer connections	14.09	12.36
Bathing water quality	%	93.5	89.7
Customer contacts about water quality	Number of contacts per 1,000 population	1.33 (old definition)	0.87
Compliance risk index (CRI)	Numerical CRI score	2	0
Water supply interruptions	Hours:minutes:seconds (HH:MM:SS) per property per year	00:05:00	00:04:00
Mains repairs	Number per 1000km of mains	131.6	130.0
Unplanned outage	%	1.20 (old definition)	3.00
Sewer collapses	Number per 1,000km of mains	10.50	9.96
Total pollution incidents	Number (categories 1 to 3 – wastewater only)	45	45
Serious pollution incidents	Number (categories 1 and 2 from sewerage or water assets)	2	0
Discharge permit compliance	%	99	100
Storm overflows	Average number of spills per overflow	20	17.5
Leakage (three-year average)	Megalitres per day (Ml/d)	105.6	85.9
Per Capita Consumption (PCC) (three-year average)	Litres/ person/ day (l/p/d)	149.0	135.9
Business demand (three-year average)	Megalitres per day (Ml/d)	164.2	157.4
River water quality	Kg of phosphorus	52,622	190,183
Biodiversity	Biodiversity units per 100km ² of land in the company's area	0	2.44
Operational greenhouse gas emissions (water)	Tonnes CO ₂ e	67,329	70,045

Performance Commitment (PC)	Unit	2024/25 baseline	2029/30 target
Operational greenhouse gas emissions (wastewater)	Tonnes CO2e	83,752	89,562
Embodied greenhouse gas emissions (Bespoke)	Tonnes CO2e per £1m	385	347
Catchment management (Bespoke)	Hectares of 'Upstream Thinking' project interventions	134,000	146,500

Bristol Water

Performance Commitment (PC)	Unit	2024/25 baseline	2029/30 target
Customer contacts about water quality	Number of contacts per 1,000 population	0.83 (old definition)	0.82
Compliance risk index (CRI)	Numerical CRI score	4.71	0
Water supply interruptions	Hours:minutes:seconds (HH:MM:SS) per property per year	00:05:00	00:04:00
Mains repairs	Number per 1000km of mains	130.7	128.2
Unplanned outage	%	2.34 (old definition)	3.00
Serious pollution incidents	Number (categories 1 and 2 from sewerage or water assets)	0	0
Discharge permit compliance	%	100	100
Leakage (three-year average)	Megalitres per day (MI/d)	34.7	29.9
Per Capita Consumption (PCC) (three-year average)	Litres/ person/ day (l/p/d)	151.9	142.4
Business demand (three-year average)	Megalitres per day (MI/d)	57.5	57.8
Biodiversity	Biodiversity units per 100km ² of land in the company's area	0	2.12
Operational greenhouse gas emissions (water)	Tonnes CO2e	30,651	29,689

Bespoke PCs

- 6.6. Ofwat invited companies to propose bespoke PCs to Ofwat in April 2023. The company proposed nine as follows:
- Catchment management
Community wetlands and ponds
Surface water separation
Smarter healthier homes - smart meters
 - Smarter healthier homes - lead replacement
 - Smarter healthier homes - smart water butts
 - Sewer blockages
Embodied greenhouse gas emissions
 - Water available for use (WAFU)
- 6.7. Ofwat rejected all but one of them (embodied greenhouse gas emissions) as they considered they had a significant degree of overlap with the PR24 common PCs. Ofwat expected to see more supporting evidence for their inclusion in the Business Plan. Ofwat also said however that companies may include any bespoke PCs in their Business Plans, so long as compelling evidence is provided.
- 6.8. The company remains committed to reflecting customers' local priorities and has proposed two bespoke PCs in its Business Plan; one associated with reducing emissions by capital projects (embodied greenhouse gas emissions) and the other associated with catchment management.
- 6.9. We consider there is reasonable customer evidence to support the adoption of the bespoke PCs.

Conclusion

We support the company's inclusion of two bespoke performance commitments because, as a customer-focused Panel, we welcome its reflection of evidenced customer views.

Dividend policy

- 7.1. The company has set out its dividend policy for the next five years in its Business Plan. Before doing so, it took us through its proposals in detail and invited our challenge and comments.
- 7.2. We welcome that the dividend policy remains based on Ofwat's requirements, linked to the company's service and financial performance. We also understand that the company has no plans to alter its level of gearing in the next five-year period.
- 7.3. We are pleased that the company will continue to seek the Panel's view and support for its dividend payments each year prior to formalising it.
- 7.4. In addition, the company is unique in inviting its customers to be shareholders in its business through the WaterShare+ scheme and to benefit from further share issues or reduced bills. We are very pleased that this unique process will continue, not simply sharing customer the financial rewards of successful performance but giving tens of thousands of customers the opportunity as shareholders as well as customers to hold the company to account.
- 7.5. Customers, including the company's, have become increasingly concerned over the mechanism for and the level of dividends that have been and continue to be paid to water company investors. There is confusion amongst the public over how the water industry in England and Wales is financed.
- 7.6. While we can see that the company's proposed base dividend level is modest, we consider that it, and the rest of the industry, needs to become more effective in communicating why there is a need to provide investors with a return and that the returns are in line with those customers might receive in the personal savings and investment market.

Conclusion

Having reviewed the company's proposed dividend policy, the Panel is pleased to support it.

Remuneration policy

- 8.1. The company has taken us through its proposed remuneration policy for the next five years and will be seeking further input from us before it is finalised. From inception in 2020 the company has committed to discuss dividend policy and executive incentives and remuneration with us, and we are pleased that this has been stepped up for 2025-30 Business Plan period.
- 8.2. The company also intends to discuss its proposed policy with Ofwat.
- 8.3. We have seen and welcome that the company is proposing to change its remuneration policy to better reflect delivery on the matters of most importance to its customers and the environment. Most importantly this means that the performance elements of remuneration for all South West Water staff will be linked directly to the four outcomes contained in its Business Plan for 2025-30.
- 8.4. The company also intends to alter its Long-Term Incentive Plan (LTIP) to focus performance on greater long-term value and improved outcomes for customers and the environment and thus better align with other leading listed companies and avoid unintended variability based on short term changes in value.
- 8.5. We also expressed the view that any changes to the LTIP should have investor support. The company agrees with this.
- 8.6. On the scale of senior executive pay and rewards, we accept that the company has to be competitive in the labour market to attract the best talent. That said, we were reassured to see that the company pay, and rewards are below median FTSE comparators and aligned to the sector. We are pleased that it will continue to appropriately benchmark its remuneration policy against other organisations. We have suggested it would also be useful to look at the ratio between the lowest and highest paid in the company.
- 8.7. We look forward to further input to the company as it evolves its remuneration policy to align with customer priorities.

Conclusion

We strongly support incentives being linked to the four outcomes and extended to all South West Water staff. This would greatly strengthen links between the business to its customers and would start to address their concerns over executive pay.

Conclusions

The Panel's review and challenge

- 9.1. The Panel is an independent group of customer, business and social representatives. Panel members have extensive experience in customer behaviour and engagement, customer representation, customer vulnerability and social welfare, business planning (both within the water industry and elsewhere), and water industry engineering and operations. Most of the Panel has been through several water industry price reviews in an independent challenge capacity. Two members (including our Chair) have extensive market research experience in the political and local authority arenas. We were supported by specialist advisors from CCW, the Environment Agency and Natural England.
- 9.2. The Panel will in the new Business Plan period continue to be focusing on holding the company to account on the delivery of the PR24 commitments and directly involving customers alongside the Panel from across the South West, Bristol, Bournemouth and the Isles of Scilly.
- 9.3. The company regards the Group Panel's work and challenge as business as usual and has committed to it continuing. Like us, it sees the Panel as enabling it to reflect and respond to the wishes and needs of its customers and holding it to account.
- 9.4. In the meantime, the Panel has been focused on the company's Business Plan for 2025 to 2030 as part of Ofwat's Price Review 2024 (PR24).
- 9.5. Our primary objective associated with the company's PR24 Business Plan was to challenge the company's proposals in its PR24 Business Plan on behalf of customers. We did this by reviewing in detail the associated customer engagement the company has undertaken and assessing how well the resulting views and wishes of customers have been reflected in the Plan.
- 9.6. Our work has been conducted through meetings and other engagement with the members of the company's Executive Team and the company personnel responsible for the customer engagement and the development of the Business Plan. We held over 20 such meetings with the company and have devoted many hundreds of hours to our work.
- 9.7. We provided input to the design of the customer research materials which resulted in material revisions in some cases. We have reviewed the company's engagement reports and its Business Plan documents that are relevant to our work. We have also attended a sample of engagement events.
- 9.8. We have also held our quarterly public meetings to which customers and stakeholders are invited. This has enabled them to have their say in the operation and direction of the business and allowed the company to hear to their views, needs and concerns and respond to all questions. These meetings are unique in the water industry in England and Wales.

- 9.9. We posed and recorded around 300 information requests, actions and challenges to the company during our work. The company responded to all of them to our satisfaction. These challenges demonstrate our independence in our work.
- 9.10. We are pleased to report that the company engaged with our work openly and constructively enabling us to fulfil our objectives.
- 9.11. Our conclusions against the key areas of our work are summarised below.

Customer engagement

- 9.12. The company has engaged with its customers (including those in the Bristol Water and Bournemouth Water areas) on key aspects of its current service and its plans for the future. The extensive engagement involved some 26,000 customers in total. This is similar in size to that carried out for the last Price Review, but the engagement this time has been more diverse, for example the use of a stakeholder panel and customer forums.
- 9.13. Most of the research undertaken was company commissioned and specified. The affordability and acceptability testing methodology and the format and content of the Your Water Your Say engagement were specified by Ofwat and CCW.
- 9.14. We followed the Ofwat and CCW assurance guidance on ICGs on the testing of customers' views of the acceptability and affordability of PR24 business plans.
- 9.15. The company has undertaken its own research into the affordability and acceptability of its Business Plan as it considered the Ofwat/CCW methodology to have limitations in terms of its scope.
- 9.16. We encouraged and supported the company in undertaking the additional acceptability testing because, while it sampled a similar number of customers to the earlier mandated research, it tested individual investments of the Plan and was undertaken on a similar basis to the company's extensive acceptability research at PR19.
- 9.17. The company has synthesised its own wider research findings on acceptability with those obtained using the prescribed methodology. We supported the company in doing this as it engaged a much larger number of customers.
- 9.18. We assessed the engagement for PR24 against Ofwat's standards for high quality research, customer challenge, and assurance.
- 9.19. We have been assured by the company's specialist third parties, and a peer review undertaken of the research by an expert academic at our request, that the company's engagement for the Business Plan meets Ofwat's standards for high quality research,

- 9.20. From our expert review and scrutiny, our experience and the third-party assessments, we have satisfied ourselves that the engagement materials used by the company have been accessible and easily understood, within the methodologies prescribed by Ofwat and CCW where relevant.
- 9.21. On this basis we consider the company's engagement has been high quality, representative and sufficiently robust and appropriate to inform the PR24 Business Plan.

Long-term delivery strategy

- 9.22. We were involved throughout the development of the Long-Term Delivery Strategy.
- 9.23. We have reviewed and challenged the Strategy.
- 9.24. The Panel's scrutiny of the company's performance in the period 2020 to the present day enabled it to understand the company's 2025 baseline performance position and its future plans and ambitions.
- 9.25. We have confirmed that company's Long-Term Delivery Strategy and associated narrative considers customer preferences and fairness between current and future customers.
- 9.26. We consider the Strategy reflects customer priorities and statutory obligations.
- 9.27. We are also happy that the Strategy has been developed in line with Ofwat's guidance and has taken account of its feedback.

Customers' priorities and the company's plans

- 9.28. The company's research shows that its customers' top three priorities are:
- A clean and safe water supply
 - Prevention of pollution to seas and rivers
 - Safeguarding and improve bathing and shellfish waters.
- 9.29. Other customer priorities include reducing sewage flooding, enhancing biodiversity reducing leakage and increasing resilience to climate change.
- 9.30. South West Water customers specifically wish to see bathing water quality maintained and protected.
- 9.31. Customers of Bristol Water put a higher priority on addressing low water pressure, taste and quality of tap water, leakage repairs and the offer of free repairs to SMEs and schools.
- 9.32. Bournemouth Water customers showed greater support for social tariffs.

- 9.33. The company's investment programme for 2025 to 2030 is consistent with, but dominated by, statutory requirements to improve drinking water quality and the environment. These requirements account for around 90% of the expenditure planned in the period. While customers generally support the requirements (as many align generally with their priorities), they have little or no say in the scope and timing of the work required to meet them, or the resulting impacts on customer bills. We see no material disconnect between the company's statutory obligations and the priorities of its customers.
- 9.34. Where there has been scope in the investment plan to include discretionary expenditure, such as lead and cast-iron pipe replacements and the prioritisation of the storm overflow programme to benefit beaches first, we have seen that the company has reflected and accommodated the priorities and wishes of its customers. In our view it has done this as well as it can given the need to balance across the investment plan as a whole and to make the plan as affordable to customers as possible.
- 9.35. We welcome that the company has prioritised the statutory improvements to storm overflows ahead of government mandates to deliver improvements to river and bathing waters ahead of other areas (in line with customers wishes that such waters are improved).

Performance commitments, incentives and targets

- 9.36. The company has proposed two bespoke PCs in its Business Plan; one associated with reducing emissions by capital projects (embodied greenhouse gas emissions) and the other associated with catchment management.
- 9.37. We consider there is reasonable customer evidence to support the adoption of bespoke PCs. In our view this evidence has been obtained through an appropriate and robust research methodology. The two proposed bespoke PCs are focused on local needs and do not overlap with the common PCs specified by Ofwat. We encouraged the company to propose these in its Business Plan since we believe they reflect evidenced customer priorities and as such better hold the company to account and incentivise the delivery of the priorities of customers, and customers support them.
- 9.38. The company has departed from Ofwat's methodology for PR24 on Outcomes and ODIs. It is proposing incentive rates based the wishes of its customers gleaned from its research. Some of these rates differ markedly from Ofwat's.
- 9.39. It also wishes to adopt caps and collars and associated deadbands to some incentives (as were used at PR19) to manage risk and uncertainty.
- 9.40. The company is also challenging the definitions for some of Ofwat's common ODIs, particularly where service performance may be impacted by factors outside the company's control such as third-party action and extreme weather events (where these are not already reflected in service measures).
- 9.41. We support the company's approach to incentive rate setting because, as a customer-focused Panel, we support the linkage to customers' views.

Customer affordability and acceptability

- 9.42. The proposed investment plan will increase customer bills around 20% from current levels. We note that from its independent assessment and synthesis of the company's research, Frontier Economics reports that:

“While some customers are shocked at the scale of bill increases and clearly very worried about affordability, for many the question rests more on their willingness to pay for investments that they may not accept as opposed to their inability to pay, with customers nervous that the interests of shareholders are placed ahead of customers.”

- 9.43. Customer acceptability of the plan as shown by the Ofwat designed and mandated research format is around 74% across the company's three areas, much lower than was recorded at the last price review five years ago. Affordability is around 57%. Both of these outcomes are unsurprising given the financial pressure customers are currently facing and the lower sentiment towards the industry following recent and ongoing adverse publicity.
- 9.44. Removing the £50 government bill contribution would further increase bills and the impact of such an announcement would significantly change customer acceptability.
- 9.45. From our experience we believe it is clear that customers would strongly object to the support being withdrawn. With it, subject to the company addressing bill affordability and fairness (measures it intends to have in place), there is support for the Business Plan. Without the £50 bill contribution, we believe all the research on customer concerns about affordability and fairness would mean the acceptability of the company's Business Plan would be much lower, especially so if the contribution was withdrawn in a single year.
- 9.46. Whilst outside the terms of the Price Review, the Panel believes that it is vital this contribution is retained to reflect the ongoing bill impacts associated with 3% of UK population paying for 30% of the UK beach clean-up in the 1990s. Without this, bills in the SWW region are not in our view acceptable.
- 9.47. We support the company's view that progressive charging could potentially introduce greater fairness for customers and other users of water and sewerage services in the company's region. It also could and should promote and encourage the efficient use of water and support affordability and environmental objectives. We received clear evidence that this is also the view of customers and welcome the trial schemes for 2024 to allow their incorporation from 2025.
- 9.48. We consider there is a need to ensure bill increases (for programme priorities) not only have clear support but are affordable for all.
- 9.49. We support the company's affordability strategy and welcome its aim to make its bills affordable to all.

Customer vulnerability

- 9.50. The company's affordability strategy is the foundation of its approach to eradication water poverty. This is supplemented by its approach to identify and help those customers who are vulnerable and need assistance, both financially and non-financially. We consider that finding such customers is key to success.
- 9.51. We are pleased to see that the company intends to continue and extend its current approach to identifying and helping vulnerable customers.
- 9.52. We welcome that the company recognises that the cost-of-living crisis will continue and possibly worsen in the short term and is closely monitoring the impact on its customers, and is committed to taking the measures necessary to continue to eradicate water poverty amongst its customers as measured by CCW.
- 9.53. We support the company's plans to help its customers who find themselves in vulnerable circumstances.

Dividend policy

- 9.54. We welcome that the company's dividend policy remains based on Ofwat's requirements, linked to the company's service and financial performance. We also understand that the company has no plans to alter its level of gearing in the next five-year period.
- 9.55. We are pleased that the company will continue to seek the Panel's view and support for its dividend payments each year prior to formalising it.
- 9.56. Having reviewed the company's proposed dividend policy, the Panel is pleased to support it.

Remuneration policy

- 9.57. We have seen and welcome that the company is proposing to change its remuneration policy to better reflect delivery on the matters of most importance to its customers and the environment. Most importantly this means that the performance elements of remuneration for all South West Water staff will be linked directly to the four outcomes contained in its Business Plan for 2025-30.
- 9.58. The company also intends to alter its Long-Term Incentive Plan (LTIP) to focus performance on greater long-term value and improved outcomes for customers and the environment and thus better align with other leading listed companies and avoid unintended variability based on short term changes in value.
- 9.59. We strongly support incentives being linked to the four outcomes and extended to all South West Water staff. This would greatly strengthen links between the business to its customers and would start to address their concerns over executive pay.

- 9.60. We look forward to further input to the company as it evolves its remuneration policy to align with customer priorities.

The Panel's overall assessment of the Business Plan

Conclusions

We are satisfied that the engagement undertaken for the Business Plan has been extensive, of high quality and in line with Ofwat's standards for research. The preferences of customers obtained from the research have been reflected in the Plan where possible noting that the vast majority of the planned expenditure is intended to meet statutory obligations over which customer have little say.

We strongly agree with the company's 'right plan right now' approach based on customer priorities. We are very pleased the company is not simply 'playing along with' national processes but focusing on its customers' priorities and needs. All the evidence we see is that the company is not gaming the process but rather responding these customer needs and preferences appropriately.

We have noted and scrutinised in depth that in doing so the company is challenging Ofwat's PR24 methodology in a number of areas, most notably on outcomes and incentives. We are satisfied that it has evidence from its customer engagement to support its position.

Customer acceptability of the Plan is around 74%, much lower than was recorded at the last price review five years ago. Affordability is around 57%. Both these outcomes reflect the significant financial pressures customers are facing and a generally low sentiment towards the industry.

Despite this, given the mitigations in place to address affordability for those that need support and fairness of how costs are distributed through reforming the bill structures, we consider the Plan represents best value for customers and the environment. It reflects customer investment priorities while remaining affordable through the proposed increases to the company's social tariff schemes, continued incentive outperformance sharing and progressive charging innovations.

We therefore conclude the Plan to be a reasonable balance of what is legally required, and customer based local priorities, based on a clear 'golden thread' back to well evidenced comprehensive large-scale research into what customers want and what is affordable.

Appendices

Appendix 1 – Glossary

AAT	Acceptability and affordability testing
AMP	Asset Management Plan period (AMP7 2020-25, AMP8 2025-30)
BRL	Bristol Water
BR-Mex	Ofwat’s business customer and retailer measure of experience
BW	Bournemouth Water
BWCP	Bristol Water Challenge Panel
CCW	Consumer Council for Water
C-MeX	Ofwat’s primary household customer measure of experience
COG	Company Oversight Group
CRI	Compliance Risk Index
CSO	Combined Sewer Overflow
Defra	Department for Environment, Food & Rural Affairs
D-MeX	Ofwat’s developer measure of experience
DWI	Drinking Water Inspectorate
DWMP	Drainage Water Management Plan
EA	The Environment Agency
ICG	Independent Challenge Group
LTDS	Long-Term Delivery Strategy
LTIP	Long-Term Incentive Plan
NE	Natural England
ODI	Outcome Delivery Incentive
Ofwat	The economic regulator of the water sector in England and Wales
PC	Performance Commitment
PCC	Household per capita consumption
PR19	Price Review 2019
PR24	Price Review 2024
PSR	Priority Services Register
SUDS	Sustainable Urban Drainage System
SWB	South West Water and Bristol Water
SWW	South West Water
TUB	Temporary Usage Ban (e.g., hosepipe ban)
WaSC	Water and Sewerage Company
WCWRG	West Country Water Resources Group
WoC	Water only Company
WINEP	Water Industry National Environment Programme
WRMP	Water Resources Management Plan
YWYS	Your Water Your Say

Appendix 2 – Panel members

Lord Matthew Taylor – Chair

Lord Matthew Taylor was a member of Parliament until he stood down in 2010. He has a passion for sustainable planning and housing policy. Matthew continues to advise government, and he runs his own consultancy business advising on a significant number of major new sustainable ‘garden community’ projects across the UK.



Following a decade of working in the water sector as a non-executive director at South West Water, focused on improving customer outcomes, Matthew continues to champion customer interests by holding the company to account as the independent WaterShare+ chair.

Peaches Golding – Deputy Chair

Mrs Golding is the independent deputy chair of the WaterShare+ Panel and independent chair of the Bristol Water Customer Challenge Panel.



She is His Majesty’s Lord-Lieutenant for Bristol, Vice President of the Royal Society of St George, non-executive consultant of Moon Consulting Ltd, and a Trustee of the SS Great Britain and of Bristol Zoological Society. Mrs Golding’s board experience spans the health, media, utilities and education sectors.

She was awarded the OBE in 2009 for services to minority ethnic people in the South West.

She was graduated from the University of North Carolina, Chapel Hill, USA with a Biology degree and awarded an honorary MBA by the University of the West of England (UWE) in 2010, a Doctorate of the University by UWE in 2017 and a Doctorate of Letters by the University of Bristol in 2018.

She is an Honorary Captain of the Royal Naval Reserves and President of the affiliation between Bristol and HMS PRINCE OF WALES.

Nick Buckland

Nick continues to champion the needs of customers having successively chaired the previous independent WaterShare and WaterFuture Panels, overseeing and challenging delivery and development of South West Water’s business plans.



Nick brings a wealth of experience to the role, he is an experienced and highly regarded leader, chair and board member.

Carole Theobald

Carole has worked in the public and charitable sectors in Cornwall for more than 18 years. Carole is currently the chief executive at iSightCornwall, a leading sight loss charity supporting more than 4,000 people each year and Non-Executive Member of the NHS Cornwall and Isles of Scilly Integrated Care Board (ICB) for quality, citizen engagement and equalities.



Carole is a highly versatile senior leader with a wealth of experience in customer advocacy.

Richard Lacey

At PR14 Richard chaired the Bournemouth Water Customer View Group ensuring that the company delivered against its promises, he was instrumental in ensuring services to Bournemouth Water customers were not impacted when South West Water acquired the company in 2016. Richard continues to ensure that Bournemouth Water's customer needs are considered on the WaterShare+ Advisory Panel.



Richard is a Chartered Civil Engineer with a lifetime's experience in the Water Supply Industry both in the UK and overseas, where he has held both Executive and Non-Executive Directorships in water companies.

Anthony Denham

On retiring from a successful career in the electrical power industry, Anthony became a champion for water customers in the Southwest when he joined WaterVoice (latterly the Customer Council for Water).



Since 2015 Anthony has been the Deputy Chair of the independent Bristol Water Challenge Panel where he helps to lead the challenge to the water company on behalf of customers.

Special Advisors

The Panel is supported by 'special advisors' who are invited to the session:

- Cath Jones – CCWater
- Kevin Ward – Environment Agency
- Fergus Mitchell – Natural England

Report Writer – Jeremy Hawkins

Jeremy is a Chartered Civil Engineer with over 40 years' experience in the water industry in the UK and overseas both as a consultant and a senior water and sewerage company manager.

He has been involved in the regulation and performance monitoring of the water industry and England and Wales since privatisation and was an Independent Reporter to Ofwat for nine years.

Appendix 3 – Panel meetings

Meetings

The Panel and its Sub-Groups have held the following meetings:

WaterShare+ Group Panel meetings

Date	Topics discussed
2 October 2020	PR19 business plan overview <ul style="list-style-type: none"> • Performance commitments • Board pledges • Overview of current performance WaterShare overview Role of the Panel
8 March 2021	Business and performance update Board pledge review – outstanding customer service
23 June 2021	Environmental leadership Pollutions performance Full year results Board leadership & transparency <ul style="list-style-type: none"> • Executive pay & dividend policy Government Contribution customer research
10 November 2021	Customer AGM
14 February 2022	PR19 company performance PR24 preparation <ul style="list-style-type: none"> • PR24 planning update • Government’s Strategic Priorities for Ofwat • West Country Water Resources Group Emerging Plan • Climate Change Adaptation report Customer engagement proposals
5 May 2022	Bristol Water update PR19 company performance Environmental leadership <ul style="list-style-type: none"> • WaterFit plan PR24 preparations Customer research synthesis
12 September 2022	PR19 company performance Supporting customers – affordability Environmental leadership <ul style="list-style-type: none"> • Water situation • EPA performance PR24 preparations Bristol Water update

Date	Topics discussed
15 November 2022	Company performance Environmental leadership – PR24 <ul style="list-style-type: none"> • PR24 Programme update • Customer research for long-term plans • Affordability Drought update – Stop the Drop
22 February 2023	CEO overview and reflections Integration update Sub-Group feedback
6 March 2023	Developing the PR24 Business Plan Progressive charging
19 May 2023	Reports of performance PR24 updates incl. <ul style="list-style-type: none"> • What our customers are telling us • Emerging Plan • Prospects for prices • Progressive charges
31 July 2023	Drought and resilience update Overview of sector performance PR24 update incl. <ul style="list-style-type: none"> • PR24 narrative • Business Plan, risks and outcomes • Programme update Panel Sub-Groups’ summary reports
30 August 2023	PR24 overview Customer engagement update Investment plan Long-Term Delivery Strategy Assurance
11 September 2023	PR24 overview Investment plan update Outcomes update Draft Panel report
20 September 2023	Investment plan Customer research – acceptability update Progressive charging Draft Panel Report Dividend policy Remuneration policy

Bristol Water Challenge Panel main meetings

In addition to the below meetings of the main panel, there have also been sub-group meetings held to cover customer engagement, social contract and environment.

Date	Topics discussed
24 June 2020	2019/20 performance and assurance Covid update West Country Resource group – strategic regional operations
23 September 2020	CMA update Voids deep dive Indicative wholesale charges Drought management plan Westcountry Water Resource Scheme update Empowering community groups
2 December 2020	Regulatory updates Supply interruptions Mid-year performance 2020/21
24 March 2021	Regulatory updates Bad customer debt Household complaint practices Future customer research
23 June 2021	Pennon Acquisition Annual performance summary Report assurance summary Regulatory updates
22 September 2021	Regulatory updates BW Net zero carbon strategy Charges 2022/23
15 December 2021	Regulatory updates Mid -ear performance update CCW update Customer minutes lost
24 March 2022	Pennon update Health and Safety update – Storm Eunice Charges Scheme Annual report WRMP/WCWRG updates
22 June 2022	Pennon update Ofwat update Annual performance report Assurance Long term strategy WRMP update Non-public water supply assessment

Date	Topics discussed
23 September 2022	Pennon update – structure and PR24 Drought response Draft water management plan Indicative wholesale charges 23/24 Pennon 25 year development vision
6 December 2022	PR24 update Pennon update Mid-year performance results CCG Integration DWRMP consultation
23 March 2023	Integration with WaterShare+ Performance update <ul style="list-style-type: none"> • D-MeX • C-MeX inc. focus group of under 30s Customer Research Vulnerability action plan Charges 2023/24
22 June 2023	Review of 2022/23 company performance Customer research and engagement Vulnerability action plan Social Contract and Environmental updates WaterShare group panel
21 September 2023	BWCP annual report PR24 timelines Jacob's assurance report Customer research and engagement WaterShare meeting in Bristol Vulnerability action plan

WaterShare+ Group Panel: Customer and Affordability Sub-Group meetings

Date	Topics discussed
29 November 2022	Customer research and engagement framework Ofwat centralized research Research synthesis Valuation Affordability update CCW and Ofwat – supporting customers through the cost-of-living pressures
21 December 2022	PR24 research framework progress Customer priorities Open challenge sessions
6 January 2023	PR24 research framework progress Priorities research overview Your Water, Your Say Affordability and acceptability testing Sampling strategy Month ahead research
31 January 2023	PR24 research framework progress Valuation overview Sampling and segmentation update Net zero and Smarter, Healthier Homes storyboards
28 February 2023	PR24 research framework progress Youth Board reflections Affordability and acceptability testing Valuation and willingness to pay Sampling strategy Your Water Your Say Sewer misuse survey
4 April 2023	Research framework progress and recent research Customer priorities Ofwat valuations update Affordability and acceptability testing Your Water Your Say update Progressive charging update
3 May 2023	Customer priorities Ofwat valuations update Research framework progress Your Water Your Say update Affordability and acceptability testing update Bespoke Performance Commitments (PCs) feedback
6 June 2023	Customer synthesis update Research framework progress Affordability and acceptability testing update National and company valuations Affordability outlook Progressive charging update Your Water Your Say update

Date	Topics discussed
4 July 2023	Affordability and acceptability testing update Customer synthesis update What communities want Research framework progress Affordability and vulnerability strategy update Your Water, Your Say industry insight Progressive charging update

WaterShare+ Group Panel: Technical and Environment Sub-Group meetings

Date	Topics discussed
11 January 2023	Purpose of the Sub-Group Strategic Direction update Long-Term Delivery Strategy (LTDS) Water Industry National Environment Programme (WINEP) review
3 February 2023	Water Resources Management Plan (WRMP) review Drinking Water Inspectorate (DWI) review Customer priorities and the draft outcomes framework Business Plan early sight LTDS and best value planning approach
1 March 2023	WRMP consultation update Drainage Water Management Plan (DWMP) consultation update WINEP update Bespoke Performance Commitments (PCs) review Your Water, Your Say update
6 April 2023	AMP7 (2020 – 2025) water resources resilience update Emerging investment plan update Isles of Scilly update Building Blocks update – WINEP, DWMP, WRMP Bespoke PCs review Best value plan update
4 May 2023	AMP7 water resources resilience update Emerging investment plan update Submission building blocks update – DWMP, WINEP, Water Quality Plan deliverability LTDS update
7 June 2023	AMP7 water resources and WRMP update DWMP and WINEP update Funding routes and bill impacts Emerging investment plan update LTDS update
12 July 2023	AMP7 water resources resilience update WRMP and WINEP update Emerging investment plan update Outcomes update LTDS update

WaterShare+ Group Panel: Combined PR24 Sub-Group meetings

Date	Topics discussed
1 August 2023	Your Water, Your Say update AAT update Customer research line of sight update Programme update Investment plan update <ul style="list-style-type: none"> • Business Plan and outcomes • Investment phasing update WRMP update
18 August 2023	Programme update <ul style="list-style-type: none"> • Regulatory landscape • Investment plan • Alignment with regulatory framework Customer engagement update and draft reports Outcomes and incentives update LTDS update and supporting customer research WRMP update Affordability and vulnerability strategies Progressive charging update
5 September 2023	Drought update Customer engagement update and draft reports AAT compliance Continual customer research update Investment plan update Draft Panel report

The South West Water WaterShare+ Customer Advisory Panel has held quarterly meetings in person that are open to customers and stakeholders, rotating across the regions. This enables customers to have their say in the operation and direction of the business and allows the company to listen to their views, needs and concerns. The following public meetings over the last 18 months at which the company’s current performance and future plans have been discussed and challenged:

Public meetings

Date	Topics discussed
12 January 2021	Role of the Panel Role of South West Water <ul style="list-style-type: none"> • Who we are and what we do • Overview of ‘New Deal’ business plan Company performance <ul style="list-style-type: none"> • Overview of half yearly performance Q&A session
26 April 2021	Overview of our services in North Devon Overview of affordability in the region Q&A session
11 January 2022	Half Year Performance Climate change <ul style="list-style-type: none"> • Climate adaptation report • Customer priorities Q&A session
17 March 2022	Performance overview Price review process <ul style="list-style-type: none"> • Preparations for PR24 Q&A session
13 June 2022	Approval of minutes Performance overview Environmental leadership -WaterFit Live WaterShare+ overview Q&A session
13 December 2022	Approval of minutes Performance overview Supporting customers – affordability PR24 overview Q&A session
28 March 2023	Approval of minutes Performance overview and Action Plan Drought and resilience update Q&A session WaterFit Live
23 June 2023	Approval of minutes 22/23 performance overview Drought and resilience update Q&A session

Appendix 4 – Challenge log

Challenge	Company response
Panel proposed reviewing draft research materials to provide input before fieldwork was undertaken and requested that outputs be made available for review.	Panel provided opportunity to review draft engagement materials with feedback acted upon. Panel observed online customer research sessions. Third party reports made available to the Panel to review, which were complemented by an independent peer review of willingness to pay studies, a synthesis of research and customer priorities and an assessment of the quality of research undertaken.
Panel challenged the company to ensure that, in the South West region, the views of water only customers were reflected.	Company sampling strategy includes capturing single-service customer views.
When requesting the views of customers who make use of the company's recreational facilities, the types of facility should be listed.	The company's standard question set was updated to reflect the Panel's request.
Panel requested that a third-party assessment of the company's engagement be undertaken.	Frontier Economics commissioned to synthesise the company's research and make an assessment against Ofwat's standards for high quality customer research. Academic peer review of the company's willingness to pay studies conducted.
Panel challenged the company on the specific wording of its ambition on customer affordability.	The company agreed with the Panel's wording, which highlights that customer affordability is always a key consideration, and not only during a cost-of-living crisis.
Panel challenged the company to ensure that the views of customers in the region are reflected within its Business Plan.	Company has maintained its programme of customer research to understand what matters most to its customers and has set out a clear line of sight to its investments.
Panel advised the company to be clear in its narrative document where 'support' relates to customer affordability measures or other mechanisms, such as water efficiency advice, to ensure that there is no confusion on its messaging.	Feedback acknowledged and reflected in documentation.
Panel requested that segmentation differentiates between types of vulnerability.	Enhanced segments captures ease of payment, disability or long-term illness and whether signed up to the priority services register.
The Panel asked the company to consider exclusions in its segmentation strategy, if results might be impacted by external factors.	In its price review research the company has not set out exclusions for external factors. The company continues to track long-term sentiment and research findings.

Challenge	Company response
In its segmentation, the Panel asked the company to capture if respondents have a mortgage, in addition to whether they own or rent their home, noting that rising interest rates may cause homeowners financial difficulty.	Segmentation strategy updated to include mortgage status.
In its approach to replacing lead supplies, the Panel challenged the company to support supplies of vulnerable customers under its delivery profile.	The company's lead strategy will take a risk-based approach by proactively replacing lead pipes for customers on a support tariff and vulnerable customers, e.g., nurseries and schools.
The Panel asked the company to consider how it would report on its ambitions.	The company will continue to report on its performance via existing mechanisms, such as its annual performance report.
The Panel asked the company to make regular updates to its Water Company Performance Report 2021/22 action plan.	Updates are published to the Company's website and in its annual performance report.
The Panel suggested that the company's website should provide the opportunity for customers to register to engage in research.	Option for customers to register for engagement workshops included on website: https://www.southwestwater.co.uk/about-us/watershareplus/
The Panel asked the company to review sample sizes for the affordability and acceptability testing.	The company concluded that the sample size was appropriate and adhered to the CCW/Ofwat guidance.
The Panel requested that, in so much as it was possible, the company's affordability and acceptability testing reflected impacts from Wessex Water's plans for the Bristol and Bournemouth areas.	Third party research provider selected who is acting on behalf of both companies, with bill impacts shown for wastewater investment.
The Panel asked the company to ensure that Natural England's feedback on the draft water resources management plan was responded to.	The company responded to feedback in its published statement of response.
The Panel asked to be provided with analysis of the company's 2022 storm overflow data.	The company shared its analysis with the Panel.

Challenge	Company response
The Panel challenged the Company to demonstrate that the planned investment programme was deliverable.	Detail of the Company's approach was shared with the Panel.
The Panel requested that the company propose a bespoke performance commitment on affordability.	Whilst not within the outcomes framework, the company is maintaining its commitment to eliminate water poverty
The Panel challenged the inclusion of a bespoke performance commitment on 'water available for use'.	The company has not progressed this bespoke performance commitment as part of its Business Plan submission
The Panel called for greater clarity on the company's approach to smart metering within its draft Water Resources Management Plan.	Smart metering options detailed against demand-side options in the company's water resources management plan
The Panel requested that the company show forecast bill values separately for the South West, Bournemouth and Bristol areas.	The company shared bill forecasts by region with the Panel as part of its review and challenge of the investment plan.
The Panel recommended that the company be clear on the role of dividends for customers.	The company has set out its dividend policy and explained the role of dividends in its narrative document.
The Panel requested that the company provide assurance reports from its independent technical auditors, and to explain how it is acting on feedback.	Assurance reports shared with the Panel, with the auditor available to the Panel to discuss findings.
The Panel challenged the company to provide additional context and information its affordability and acceptability research testing materials.	The format of the centralised affordability and acceptability testing research was defined by regulators for comparative purposes, however the company undertook additional research aligned to the approach at PR19 to provide a comparison and meet the requirements of the Panel.
The Panel instructed the company to show the impact of the £50 government contribution against its bill forecasts in certain research studies.	The company reflected the views of the Panel in its research materials.

Challenge	Company response
The Panel suggested that the company explain the benefits it plans to deliver in storm overflows by operational activities, in addition to capital investment.	The company has set out its plans for storm overflows in its Business Plan document 'WaterFit: Our plan to protect rivers and seas'.
The Panel challenged the company on the level of enhancement expenditure during the current regulatory period.	The company set out its financial performance and forecasts for the Panel.
The Panel requested that the company illustrate its engagement undertaken in addition to its customer research.	The company has published its engagement and research approaches as part of its Business Plan.
The Panel challenged the company to explain how some pieces of research are more relevant than others.	The company has set out its triangulation approach for customer research.
The Panel requested that the company quantifies its qualitative statements on customer views.	The company commissioned a synthesis of its customer research clearly setting out findings and customer valuations.
Panel requested that the synthesis report it commissioned from Frontier Economics more clearly states that the document was prepared for them, rather than the company.	Frontier Economics corrected the relevant section in its document.
Panel wanted it to be made clear that its input into the affordability and acceptability testing was limited and that they were not able to attend deliberative sessions where data from another sewerage company was also being tested.	The company updated its internal report.
The Panel requested that a third party made an independent assessment of the company's customer research approach against Ofwat's tests for high quality research.	Frontier Economics commissioned on behalf of the Panel to undertake an assessment of the company's research programme against Ofwat's quality tests.

Challenge	Company response
The Panel instructed the company to make clear to it where it was likely to diverge from Ofwat's price control methodology.	The company provided regular updates throughout the development of its investment plan, and in particular its approach to the outcomes framework. Approaches were tested with the Panel, who confirmed the company's approach.
The company was challenged by a local resident on a sewage discharge into the sea at St Agnes.	The company confirmed that subsequent sampling and analysis showed that the appearance was from soil erosion washing into the stream, and not discharge from its asset.
The company was challenged on its strong performance on bathing water compliance in AMP7, given it has been adverse to target on pollutions.	The company provided an explanation of the methodologies for both metrics.
A customer challenged the company on its long-term infrastructure planning, given the recent drought and strain on water resources.	The company undertakes long-term planning, including under the Water Resources Management Plan, which includes forecasts of the impact of population growth and climate change.
A customer challenged the company as to why wet wipes caused issues such as blockages in its infrastructure.	The company explained that upgrading its sewerage network capacity would carry significant costs, and that part of its ongoing strategy would be educating customers on what should not be flushed down toilets and to continue to support the drive to remove plastics from wipes - and ultimately the environment.
A customer challenged the company to expand its water storage capacity by further excavating its existing reservoirs.	The company explained that this approach would not be practical, given it would likely necessitate draining supplies or taking reservoirs out of service to achieve - which would result in supply interruptions. The company is evaluating other supply-side schemes as part of its planning, in conjunction with demand-side reductions.
The company was challenged by the Panel as to when customers would see the regulatory penalties (from AMP7 performance commitments) returned to them.	The company confirmed that penalties would be returned to customers in the form of reduced bill rates the following financial year.
A customer challenged the company on the quality of its asset information, in relation to a significant event in 2021/22 which resulted in performance commitment penalties of c.£8 million, suggesting poor quality data may have led to the incident.	The company refuted the claims, explaining that the third-party damage to its assets was caused by them not following existing protocols.

Challenge	Company response
A customer challenged the company on the operation of its storm overflows on two specific sites.	The company reiterated its commitments under its WaterFit strategy, which includes investment to reduce spills to an average of 20 per year by 2025.
A customer challenged the company to support its customers with water efficiency, in addition to financial support for those struggling to pay their bills.	The company acknowledged that this is an important area to focus on, and supporting customers in reducing their water usage forms part of its existing affordability toolkit.
The Panel challenged the company as to whether its commitment in the South West Water region to address water poverty by 2025 remained achievable, given the emerging cost of living crisis.	<p>We continue to target support to those who need it the most, as measured through our ambition to eradicate water poverty by 2025, which we are on track to achieve across the region, and that have achieved in the Bristol region for 22/23.</p> <p>This is at the heart of our approach, and we have already made great strides with nearly 65,000 customers being helped through one of our schemes from April 2020 to March 2023, with over £30m of support provided over the same period.</p> <p>The innovative use of data is at the forefront of eradicating poverty, allowing us to identify and reach out and auto enrol customers directly onto the best discount scheme for them.</p> <p>During 2022-23 we have developed a data suite and approach which has given us the ability to proactively identify customers at risk of being in water poverty. This coupled with information provided through our data sharing agreements with government bodies and local councils has for the first time allowed us to auto-enrol customers onto support tariffs, removing the need for customers to apply.</p> <p>This has reduced the barriers for customers in getting the right support, and ensures we are helping more customers than ever before. The success of this approach can be seen through the in-year growth of number of customers on support tariffs by 12,452k (23%) with this set to further increase by 17,000 (26%) in 2023-24.</p>
A customer advised the company that real humans available on a telephone line are important to some customers.	The company confirmed that voice/agents remains part of it's multichannel offering for customers. Its call centre staff are trained to talk to customers in how to support their affordability needs. Alternative channels remain available for those customers who would prefer digital and self-service offerings.

Challenge	Company response
A customer commended the company for providing free water saving devices to its customers, but suggested the company could do more in-person to promote its water efficiency messaging.	The company undertakes a wide range of activities to promote water efficiency, from attendance at local events, social and traditional media, campaigns such as 'Stop the Drop' and 'Save Every Drop' and its Water-Saving Community Fund.
A customer expressed their unease at the payment of dividends at a time when water resources were under strain.	<p>The company explained that its infrastructure investment includes finance raised from investors. By raising finance this way, it can keep customer bills lower.</p> <p>Part of the customer bill is used to pay back what has been borrowed with interest and dividend payments. The company's regulator sets dividends at a level similar to interest rates.</p>
The Panel challenged the company to set out a clear customer research plan for PR24, as it was concerned that local interests may not be adequately represented by the national research undertaken by Ofwat.	The company set out its customer research programme for PR24, which included studies to determine customer priorities and willingness to pay.
The Panel were keen to understand any differences arising from Ofwat's customer research and the company's own findings.	The Panel was kept up-to-date on customer research outputs, including briefings by third party experts.
The Panel asked to review and challenge the company's customer research segmentation strategy.	The company's segmentation strategy was presented to the Panel, and subsequently updated to incorporate the Panel's feedback.
The Panel requested that research be undertaken to understand customer perception of hosepipe bans, following their introduction in parts of Devon and Cornwall.	Post event surveys commissioned for areas impacted by temporary use bans.
Given the scale of the statutory environmental programme in comparison to previous price reviews, the Panel challenged the company to ensure that the plan would be financeable.	The company confirmed that in addition to customer affordability and plan deliverability, it was analysing the financeability of its submission.

Challenge	Company response
The Panel challenged the company to ensure that its PR24 targets are laid out in such a way that they are easy for customers to understand.	The company confirmed that alongside its submission documents for the price review, it would develop a customer summary of its plan.
The Panel recommended that the company work with other agencies to investigate where flood defence schemes may be mutually beneficial.	The company confirmed that it engages with local flood authorities and other interested parties as part of its resilience planning
With the impacts of climate change being felt and the chance of drought events becoming more frequent, the Panel asked the company what contingencies it had considered in its planning.	The company confirmed that as part of its water resources management plan it had modelled a range of climate scenarios, while its long term delivery strategy would provide a framework to monitor and respond to change
The Panel noted that the company's performance on discoloration, taste and odour contacts is above industry average and asked the company what was in its plans to rectify this.	The company advised that relative to the industry, it abstracted a larger proportion of its raw water from rivers as opposed to ground water sources. This results in natural variability in the quality of its raw water supplies. The company's PR24 strategy is to resolve issues at source with treatment works upgrades and investment in its supply network.
The Panel requested that the company's action plan (in response to the findings in Ofwat's Water Company Performance Report 2021-22) be accessible to customers, with updates shared regularly.	The company produces a customer version of its action plan and makes updates available on its website.
The Panel asked that the company continues to address performance issues openly with its customers.	The company remains committed to regular meetings with the Panel, held in public, where performance issues and other matters will be addressed.
The Panel recommended that the company provide a comparison of key performance areas today, and those pre-privatisation, as part of its Your Water Your Say presentation.	The Panel's suggestions were incorporated into the presentation.
The Panel provided suggestions as to how the company's WaterFit website pages could be more accessible to customers.	The Panel's suggestions were reflected in the website update.

Challenge	Company response
The Panel welcomed the introduction of WaterFit Live and challenged the company as to how it monitor usage.	The company confirmed that it is able to track usage of its website.
The Panel asked the company if its projections for summer 2023 would result in a worse situation on water resources than that seen in 2022.	The company confirmed that it was confident its planned interventions would improve its water resources position for summer 2023.
The Panel challenged the company to ensure that its customer research was representative of the regions that it served and that it addressed key areas such as willingness to pay and cross subsidies.	The company agreed, noting that representation was addressed in its segmentation strategy and that its engagement plan included these key items.
The Panel challenged the company to make changes to its affordability and acceptability testing materials.	The company accommodated the majority of the Panel's suggestions. A smaller number conflicted with Ofwat's guidance and therefore were not made.
The Panel questioned the sample sizes proposed by the company for its affordability and acceptability testing.	The Company confirmed that its approach met Ofwat's requirements.
The Panel expressed concern around the impact that new water sources could have on the public supply.	The company confirmed that stringent standards are in place to monitor and protect the quality of water in supply, and this would also apply any new sources introduced.
The Panel raised concerns surrounding the proposed introduction of a new desalination plant, including the relatively high energy usage of such technology.	The company is mindful of such concerns, noting that desalination is part of a portfolio of supply-side options under consideration. Mitigations will be considered, such as the use of on-site green energy generation.
The Panel raised concerns that improvements removed from the plan due to not aligning with the regulatory framework may not be subject to customer consultation.	The company confirmed that customers would be consulted on its wider plan, and that it would take into account customer preferences and willingness to pay from its own studies.

Challenge	Company response
<p>The Panel recognised that a large proportion of the company's investment plan was driven by statutory obligations, and challenged the company to ensure that customer priorities were taken into account where the company had choice available to it.</p>	<p>The company committed to reflect customer preferences within its investment decisions, as evidenced from its programme of customer research and demonstrated to the Panel.</p>
<p>The Panel requested to see the likely impact on wastewater bills for customers in the Bournemouth and Bristol regions.</p>	<p>The company advised that while affordability and acceptability testing was being undertaken by a third party, which included data from another wastewater company, the company could, and should not, have access to this data and so was not able to share with the Panel.</p>
<p>The Panel flagged that with respect to progressive charging, there may be some resistance to change from certain categories of customer.</p>	<p>The company advised that its proposals would focus on addressing fairness of charging for its resident population. Whilst it had undertaken customer research and a range of modelling to assess the impacts, it understood the concerns raised by the Panel and was likely to trial new tariffs initially to test and refine its approach.</p>
<p>The Panel asked the company to consider charging highway authorities for their contribution to highway drainage and the associated infrastructure costs.</p>	<p>The company advised that this may be an area to consider in the future, but that current legislation requires companies to make necessary improvements with costs borne by its customers.</p>
<p>The Panel challenged the company on its plans for the deployment of smart meters.</p>	<p>The company confirmed that since 2015 it had installed automatic meter reading (AMR) meters, alongside traditional or 'dumb meters'. The company is also installing smart meters as part of its Smarter Healthier Homes initiative. This is focusing on specific geographic areas so that wider benefits beyond reducing water usage, such as leakage reduction, can be obtained.</p> <p>Smart meters will be rolled out across the region in future. Dual billing is also being employed which allows unmeasured customers to have a meter installed to compare their charges with the option to switch if they find a saving, or to remain on their unmeasured charge. The company's metering approach will be set out in its water resources management plan.</p>

Challenge	Company response
<p>A customer challenged the company on their remuneration and the payment of dividends in light of the use of storm overflows.</p>	<p>The company advised that sewerage infrastructure is designed to utilise storm overflows to prevent flooding of properties and land during heavy rainfall. It acknowledges that this doesn't make this practice acceptable, and the company accepts that it must stop.</p> <p>The company's WaterFit website shows investments planned at beaches to reduce the use of storm overflows, and the company has plans to reduce spills to an average of 20 per year by 2025.</p> <p>The company confirmed that the remuneration package for its executives is conditional on delivery of robust financial, customer and operational and personal objectives, as well as value created for shareholders, which is overseen by an independent board.</p> <p>The company explained that its infrastructure investment includes finance raised from investors. By raising finance this way, it can keep customer bills lower.</p> <p>Part of the customer bill is used to pay back what has been borrowed with interest and dividend payments. The company's regulator sets dividends at a level similar to interest rates.</p>
<p>A special advisor to the Panel challenged the company on the need to manage land to deliver wider environmental benefits.</p>	<p>The company confirmed that it had been undertaking catchment management activities since 2006. The company's Upstream Thinking project is an multi-award-winning catchment management scheme which applies natural landscape-scale solutions to improve water quality and supply.</p>
<p>A customer challenged the company on the number of customers paying their bills on an unmeasured basis, when they might benefit from switching to metered charges.</p>	<p>The company advised that over 80% of its customers have a water meter, with the remaining customers paying by rateable value or on an assessed charge (where it is not practicable to have a meter fitted). The company can help customers with their water use and through its affordability packages and wider social benefit qualification checks to maximise their income and frontline staff always try to make sure customers are on the right tariff. The company remains on track to address water poverty by 2025.</p>
<p>A customer commended the company's new WaterFit Live service, but stated that data should continue to be provided to Surfers Against Sewage for its service.</p>	<p>The company confirmed that it will continue to share data with Surfers Against Sewage.</p>
<p>The Panel challenged the company on whether it was forecasting its base expenditure for the PR24 business plan.</p>	<p>The company confirmed that in developing its plans it will identify synergies between base costs and enhancement expenditure.</p>

Challenge	Company response
The Panel challenged the company on its development of a bespoke environmental performance commitment for PR24, given the potential overlap with other obligations.	The company confirmed that its approach would not overlap with existing commitments and would enable the company to deliver more without detriment to delivery of its plan.
The Panel challenged the company on its plans for performance commitments, questioning whether its approach would result in higher bills for customers.	The company confirmed that its intention was to create a more balanced framework of risk and reward, while ensuring that penalty and incentive rates reflected its customers' priorities and willingness to pay.
The Panel raised concerns that central valuations were not necessarily aligned with what is important to local customers.	The company is committed to undertake its own research programme to ensure that it understands what is most important to its customers and communities.
The Panel noted the breadth of customer research being undertaken and questioned whether there was a risk the number of customers surveyed would be diluted as a result.	The company provided their segmentation strategy, which was updated and approved by the Panel.
The Panel raised concerns that customer attendance at the Your Water Your Say event would be self-selecting and may not be representative of the company's customer base.	The company advised that the Ofwat guidance for the event is clear and would be followed. As it is self-selective, it will not be considered as representative of its customer base.
The Panel challenged the company to ensure that its Your Water Your Say event was well promoted to ensure a good level of attendance.	The company committed to invite customers to attend across multiple communication channels. As a result, 912 customers registered their interest with c.170 joining the session.
The Panel highlighted that with the increased scale of the PR24 programme compared to previous price reviews, deliverability would be a challenge	The company has been quick to market to secure its delivery partners, ensuring diversification in its supply chain and is confident it can deliver its plans.
A special advisor to the Panel challenged the company on the level of stakeholder engagement undertaken in the development of its Drainage and Wastewater Management Plan.	The company provided details of its stakeholder engagement, including the establishment of its Stakeholder Forum, in its drainage and wastewater plan statement of response document.

Challenge	Company response
<p>The Panel challenged the company on their performance on pollutions, noting that customers would expect to see improved performance delivered more quickly.</p>	<p>The company acknowledged that, despite significant progress in reducing the number of pollutions (with 2022 seeing a 30% reduction and its best ever performance), it has more to do.</p> <p>The company is doing more to achieve its performance commitments to 2025. These actions will continue to be reported in its Pollution Incident Reduction Plan which will be published throughout the year.</p>
<p>The Panel asked to be provided with assurance reports on both its performance and key Business Plan submissions.</p>	<p>Assurance reports shared with the Panel, with the auditor available to the Panel to discuss findings.</p>
<p>The Panel challenged the company as to why issues with the sewerage system had not been addressed sooner, if they were known about 30 years ago.</p>	<p>The company advised that previously 250 raw sewage outfalls were open and today all of those raw sewage outfalls have been closed. 100% bathing water compliance was achieved last year but the company recognises there is more to do. Public expectations have changed, and the company is spending £750 million to 2025 to make improvements.</p>
<p>The Panel questioned the company as to whether its Save Every Drop campaign had also been promoted with non-households and businesses.</p>	<p>The company confirmed that businesses were included within its campaign.</p>
<p>The Panel challenged the company on its self-reporting performance under the Environment Agency's Environmental Performance Assessment.</p>	<p>The company advised that it is introducing a new systems and monitors to improve its performance in this area.</p>
<p>The Panel challenged the company on the lack of emphasis on affordability in one of its early draft PR24 documents.</p>	<p>The company confirmed that this is an area of huge importance for it, as reflected in its commitment to address water poverty, and that this would be reflected in subsequent iterations of its document.</p>
<p>The Panel challenged the company to deliver a smoother investment profile for its longer-term investment forecast.</p>	<p>The company confirmed that the timing of some elements was dictated by statutory obligations, but that it would endeavour to deliver a smoother profile in its Long-Term Delivery Strategy.</p>
<p>The Panel challenged the company to test future investment profiles with its customers.</p>	<p>The company advised that its deliberative research for affordability and acceptability research covered AMP8 investment plans in the context of AMP8 to AMP12 bill profiles. The company confirmed this was followed up with options testing research, which asked customers about alternative programmes of investment based on pace of delivery in relation to longer term plans.</p>

Challenge	Company response
The Panel challenged the company on its pace of investment on lead pipe replacements.	The company demonstrated its longer-term investment profile as part of its Long-Term Delivery Strategy.
The Panel challenged the company on the operability levels of its event and duration monitors (EDM) following recent media reports.	The company confirmed that it had installed EDMs on 100% of its storm overflows ahead of the regulatory timeline. The company advised that its percentage operability rate is in line with the industry average.
The Panel requested that certain third-party reports be more specific and quantify and qualitative statements.	The customer research synthesis has been updated to include quantitative AAT results and provides more data in its commentary.
The Panel provided feedback on the presentation of the company's main narrative document.	The company reflected the Panel's request in its final narrative document.
The Panel suggested that the company included tailored information on its business plan within stakeholder communications.	The company took the Panel's suggestion into consideration.
The Panel asked the company to make clear in its main narrative document that it had assumed the £50 government contribution would endure.	The company took the Panel's suggestion into consideration.

Appendix 5 – Findings against ICG requirements

CCW/Ofwat guidance for water companies: testing customers' views of the acceptability and affordability of PR24 business plans

Requirements on ICGs – extracts from Ofwat/CCW document of December 2022 and the WS+ Panel's work and findings against each

Area	Ofwat/CCW Requirement	The Panel's work and findings
<p>Before conducting research</p>	<p>All companies have an Independent Challenge Group (ICG) or equivalent and these will play a key role in the assurance process for affordability and acceptability testing. Each company should use its customer challenge and assurance arrangements as a platform for presenting their proposed approaches to the research, to show how they have followed this guidance, including responding to any challenges that have been raised.</p> <p>The ICGs will be provided with this guidance to use as reference when considering companies' research approaches, as will the Challenge Co-ordination Group (which comprises the Chairs of the independent groups).</p>	<p>The WS+ Panel was made aware of the Ofwat/CCW guidance.</p> <p>The company provided updates on its acceptability and affordability testing (AAT) to the Panel's Customer Sub-Group at which members are able to question and challenge the research methodology, the research materials, and the results.</p> <p>The AAT was undertaken by Blue Marble (BM). BM is also undertaking similar research for Wessex Water.</p> <p>The BM AAT research proposal was presented to the Panel's CASG on 28 February 2023. The AAT methodology is largely prescribed by Ofwat/CCW. The AAT is being conducted to in two main stages: qualitative testing (March to April 23) and quantitative testing (May to August 2023). The Sub-Group minuted that it was happy with the substance of the AAT methodology.</p> <p>The qualitative testing was completed, and the Panel received a briefing on the results in July 2023.</p>
<p>Observers</p>	<p>At least one observer from the company's ICG should be invited to attend for reasons of process assurance.</p>	<p>Panel members attended a sample of the AAT deliberative (qualitative) events.</p> <p>They observed that the agreed methodology was followed.</p>

<p>Minimum requirements for testing</p>	<p>We expect companies to work with their ICG and supplier(s) to determine what the sample sizes should be beyond our minimum requirements, or where the minimum should be applied.</p> <p>Companies could consider retaining a sample of participants from the 'full scale' household and non-household deliberative research to test the direction of travel of refinements to their proposed business plan where there is insufficient time to conduct fresh recruitment for larger scale testing. The research agency should be responsible for selecting this sample..... The approach would use the same format for the discussion and materials as the initial testing, updated for the changes that have been made, with the rationale for this set. The exact approach would need to be agreed with the ICG.</p>	<p>The BM AAT research proposal presented to the Panel's Customer and Affordability Sub-Group in February included the sampling strategies for both the qualitative and quantitative testing, including sample sizes and recruitment of participants.</p> <p>The Panel's Customer and Affordability Sub-Group raised several questions and challenges.</p> <p>It noted there wasn't an intention to use third parties to help with recruitment for the testing. The company said was following the Ofwat guidance first and will fill in any gaps through other engagement means.</p> <p>The Panel's Customer and Affordability Sub-Group considered the proposed sample size of 600 to be quite low. 1,000 and above would be better and the company was urged to consider what's best for both the qualitative and quantitative elements of the research. There were no concerns about the non-household sample sizes. The company said that the sample size is the minimum recommended by Ofwat. There was still time to develop this further. The quantitative engagement was survey based. The company agreed the bigger the sample the better but there must be a balance between time, recruitment and budget.</p> <p>The Panel's Customer and Affordability Sub-Group was not convinced that Ofwat understands the practicality of the 600 sample and placing reliance on the outcomes of engagement at this level, particularly when the 600 is subdivided into sub-sets, when sample size would potentially be</p>
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Area	Ofwat/CCW Requirement	The Panel's work and findings
		<p>too small to draw conclusions as margin of error would become very high.</p> <p>The Panel's Customer and Affordability Sub-Group questioned the inclusion of hard-to-reach customers, for example the elderly and those who struggle with IT. The company said that customers can engage via letter or by telephone. Every venue will be fully IT enabled. Those who have physical vulnerabilities would have a support person present at home during telephone engagement.</p> <p>The company agreed to review the AAT sample sizes for BRL and SWW customers in the light of the Bournemouth sample size, (which is above the Ofwat minimum) and to show the difference this would make to the reliability of the engagement results. They were found subsequently to be statistically reliable and so were kept in line with the Ofwat guidance.</p>

<p>Tailoring of research materials</p>	<p>The research materials describing the plan need to be relevant to the audience in question and fit the methodology being used (whether deliberative discussion or in-depth interview). Companies should consult with their chosen supplier and ICG on the tailoring of research materials.</p>	<p>The Panel’s Customer and Affordability Sub-Group’s interest in the research materials was around what information was provided to participants in advance, what was provided verbally, the level of participants’ knowledge and understanding, the involvement of participants with disabilities (visible and hidden), the provision of financial incentives to participants and the use of pilot studies. It was suggested by the Panel’s Customer and Affordability Sub-Group that it may be able to assist with testing of the AAT research. The materials were sent to the Panel’s Customer and Affordability Sub Group for testing and comment and found to be satisfactory.</p> <p>BM presented its proposed indicative AAT research materials for the qualitative research to the Panel’s Customer and Affordability Sub-Group for information on 4 April 2023.</p> <p>It was suggested and agreed that, given the amount of work that will be going on and the need for the Panel to be frequently engaged with it, one or two Panel members should go through the research materials and discuss results outside the Sub-Group’s meeting. The company’s AAT programme showed the Panel would be engaged at seven points over the coming months. The key inputs were after the first cognitive testing, agreeing if and how the research material should be changed and inputting to the design of the materials to be used for the quantitative stage.</p> <p>The Panel’s Customer and Affordability Sub-Group reviewed the proposed qualitative research materials and made a few</p>
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Area	Ofwat/CCW Requirement	The Panel's work and findings
		<p>suggestions to improve clarity and understanding. These suggestions were taken on board.</p> <p>The Panel reviewed the proposed materials for the quantitative testing and found them to be appropriate for purpose.</p>
Piloting/testing	<p>Water companies, along with their ICGs, should consider what piloting and testing is needed and allow time in the development of their research for this.</p> <p>Stimulus materials that support unfamiliar and complex concepts in the business plans should be tested cognitively for comprehension via an in-depth interview, and the materials revised, before the research commences.</p> <p>Companies may wish to consider a trial run of the deliberative discussion with a small group to identify any issues (e.g. timings) to implement improvements. The results of this would be reviewed with the supplier and the ICG to agree changes to the research materials. The research timetable should build in sufficient time for this review to take place and for refinement of materials to take place.</p>	<p>The Panel reviewed and fed back on the testing materials, which the company piloted via cognitive testing prior to the full customer research.</p> <p>The Panel considered whether any piloting of the quantitative research material was needed.</p>

Area	Ofwat/CCW Requirement	The Panel's work and findings
Describing statutory programmes in business plans	<p>The description of statutory drivers should ideally be consistent across water companies to support comparability. However, some water companies will have more substantial statutory programmes and it may be appropriate to provide a bespoke description.</p> <p>We propose (the following) wording as a starting point for water companies and encourage companies to use it. It can be developed in consultation with ICGs where needed.</p>	The company informed the Panel that it would use the Ofwat/CCW prescribed text.
Customer segments	<p>The prescribed minimum expectations for the inclusion of key customer segments in the sample are in Table 1.</p> <p>The minimums of 24 and 48 would be allocated to 8 or 16 for SEG AB, 8 or 16 for C1C2 and 8 or 16 for DE. Other segments to be recruited, e.g. metered or unmetered would be built into the recruitment and decided in consultation with the supplier and ICG.</p> <p>In addition to the outline samples in Table 1, companies should work with their ICG and supplier to consider what other characteristics are important to identify in the sample or quota for recruitment. For example, this could include the basis of charge, ethnicity, business sector, geographic and supplier coverage (where a customer has more than one supplier of services).</p> <p>Companies should work with their ICG and supplier to define their preferred approach for including future bill-payers in this research.</p>	<p>The BM AAT research proposal presented to the Panel's Customer and Affordability Sub-Group in February 2023 included the sampling strategies for both the qualitative and quantitative testing, including sample sizes and recruitment of participants.</p> <p>See above for the Sub-Group's questions and challenges on these.</p>

Area	Ofwat/CCW Requirement	The Panel's work and findings
Hybrid recruitment of bill-payer segments using company customer lists and back-up recruitment agency support	Companies should discuss the detail of this with their suppliers and ICG.	<p>Bill paying customers were recruited for the qualitative testing from the company's customer database.</p> <p>Non-bill payers (future customers) and non-household customers were recruited for the qualitative research by other means, using regional field recruiters (BEAM Fieldwork) and, for non-households, commercial databases.</p> <p>The Panel's Customer and Affordability Sub-Group was content with this approach.</p>
Recruitment of participants that water companies do not have records for future bill-payers	Companies and suppliers should consider which approach will deliver the high-quality sample they require and discuss the approach with their ICG.	<p>Non-bill payers (future customers) were recruited for the qualitative research by using regional field recruiters (BEAM Fieldwork).</p> <p>The Panel's Customer and Affordability Sub-Group was content with this approach.</p>
Inclusion of people with vulnerabilities in business plan research	If there is nothing in the business plan yet, then companies should conduct ad hoc bespoke research when they have a proposal for services aimed at people with health and economic vulnerabilities. It would be good practice to consult with their ICG or equivalent on the development of this research.	<p>The Ofwat/CCW guidance included an option to include eight in-depth interviews per company with household customers who are economically vulnerable (either on a social tariff or eligible for one). The guidance also suggests consideration be given to boosting the low-income groups within the main household sample. BM included the optional low-income households within the deliberative group format in a session in Bristol.</p> <p>The Panel's Customer and Affordability Sub-Group was content with this approach.</p>

Area	Ofwat/CCW Requirement	The Panel's work and findings
Stimulus for deliberative discussions and in-depth interviews	In the discussions themselves, the summary business plan can be built on via additional stimulus which may be provided to cover essential context about these performance commitments that was too much detail to include the summary. The content of the additional stimulus should be discussed with the ICG.	Additional stimuli was prepared and shared with the Panel for its review and input; feedback was incorporated ahead of customer research.
Quality assurance – briefing and running the deliberative discussions	<p>The household deliberative sample (see Table 1) can be split into smaller groups for both face-to-face and online deliberation, with at least one moderator from the supplier, per group. The moderator will take each group through the discussion guide and stimulus materials.</p> <p>Where the moderator is unable to answer a key question from a participant, a water company representative can respond following a request from the moderator. The supplier should record the question and response given by water company representatives. These responses should be available to the ICG for process assurance and be added to the briefing for any future group discussions.</p>	The Panel's observed that during deliberative sessions the third-party facilitator ensured that all customer questions were captured and put to the company in a controlled and recorded manner.
Prescribed pre-task content for household and non-household deliberations	<p>Companies must provide an explanation of the role of research with customers in PR24 (i.e. price review submissions should reflect an understanding of customers' and communities' needs, priorities and concerns).</p> <p>The texts (below) are prescribed. It includes a link to a film which is not prescribed in the event that companies wish to use a company specific alternative which their ICG agrees is informative, relevant and neutral information.</p>	The company used the Ofwat/CCW prescribed text.

Area	Ofwat/CCW Requirement	The Panel's work and findings
Prescribed pre-task content for optional vulnerable in-depth interviews	Water companies that conduct in-depth interviews with vulnerable customers should discuss with their ICG how they have considered making the delivery of the pre-read content and taking part in the in-depth interview as accessible as possible.	The company undertook in-depth interviews with health-vulnerable customers.
Reporting	For the reporting on the deliberative discussion groups and in-depth interviews, water companies need to provide a debrief, which ICG members, as well as Ofwat/CCW, should be invited to for assurance purposes.	<p>The company provided a verbal update on its AAT qualitative research to the Panel's Customer and Affordability Sub-Group in early June 2023. The verbal feedback was that most participants found the proposed plan acceptable. They were generally in favour of investment now rather than in the future, but higher bills were not welcome. There were different reactions to different parts of the plan. Sewage improvements and lead pipe replacements were welcomed. There was a question of who should pay for net zero improvements and the benefits of smart metering were not well understood.</p> <p>Blue Marble subsequently presented the debrief to the Panel.</p>

Area	Ofwat/CCW Requirement	The Panel's work and findings
After conducting research	For PR24, Ofwat will require companies to include an overall board assurance statement with their business plan submission. As part of the assurance statement, companies will be required to provide assurance that their customer engagement meets the standards for high- quality research, and any other relevant statements of best practice, and has been used to inform their business plans and long-term delivery strategies. As part of the assurance statement, companies should explain how their ICG provided scrutiny (and where necessary) challenge in the preparation, delivery and interpretation of this research.	The Panel received assurance from Frontier Economics that the company's engagement met the standards for high-quality research.

Appendix 6 – Panel view on statutory programmes

Draft Water Resources Management Plan

We noted that feedback from Ofwat and EA on the company's draft WRMP was tough, particularly from EA which found an apparent lack of assurance that the Plan would ensure security of supply and to provide this in a way which doesn't impact on the environment. EA also considered that the stakeholder consultation on the draft WRMP was inadequate and that more could have been included on the company's demand side of the Plan. We were pleased to hear that the company is working closely and constructively with EA to ensure the issues are addressed satisfactorily and that it has sufficient resources to address the feedback and provide the necessary responses. We are monitoring the outcomes.

Government guidelines and requirements around environmental and ecological protection were changing and being rephased up until submission of the Business Plan. Changing the requirements close to submission was not ideal. We recognised that the company needed to consider these changes carefully, particularly on abstractions and that it felt uncomfortable to be pushing back supply options which are currently deemed to be essential. We accept there is a risk of storing up problems for the future and we are against pushing water resource investment back, as the work must be done sooner rather than later and will have to be paid for by customers.

Customers are being asked to reduce water consumption but are going to be met with higher bills. We consider there could be significant push back. We were pleased that the Business Plan included investment for educating customers to use less water in the face of population growth and climate change. Achieving the right Business Plan needs to consider the conflicting interests and this must be explained to customers. The industry has a huge PR task to do and has been generally poor on this to date. There is also a need for a wider narrative, with CCW, EA and Ofwat also playing a part.

We noted references to stakeholder surveys in the WRMP overview. Time constraints to date have meant it we have not been able to review these. We hope to be able to do this at some point but in the meantime note the EA's concerns over the engagement as mentioned above.

The wider West Country Water Resources Management Plan (WCWRMP) is in our view the only way forward for overall water resources in the West Country, i.e., collaboration between South West Water, Bristol Water, Bournemouth Water and Wessex Water.

While the WCWRMP has a longer timescale than the WRMP and DWMP it is vital that thinking and planning on the wider resource Issue continues both parallel and apace. Again, the deliverability and materiality are critical for the long-term resilience of water resources, wastewater services and the environment.

We were pleased to hear that the company will be undertaking an eight-week public consultation on its revised draft WRMP in October and November this year.

Drainage Water Management Plan

The ongoing publicity around sewage discharges will only increase. What was acceptable 30 years ago is unacceptable today, but the timeframe has now speeded up in terms of this unacceptability.

We noted that the feedback from Ofwat on the company's draft DWMP was mainly complimentary, but it asked for more information on stakeholder engagement and on catchment partnerships. We will review the company's response to Ofwat on these matters.

EA informed us that it was happy with the evidence base for the DWMP. It did expect more ambition and detail around addressing the Defra storm overflow sub targets and also felt that stakeholder engagement could have been a lot better. There had been no multi stakeholder events and catchment partnerships appeared to have been missed out. We understand that EA and the company are discussing these issues.

The proposed wastewater investment programme for 2025-2030, both from the dWRMP and the WINEP, is much larger than in the current period and is challenging and ambitious.

We questioned if the total supply chain has the required capacity to deliver it and raised challenges around buildability and the planning processes to go through. We wished to understand where SWW has got sufficient land and whether there are any planning implications. This could have a major impact on what can be done on these sites. The planning process can be tedious at times and have impacts on the supply chain. We were pleased to hear that the company recognises these risks and is planning to mitigate them at best it can.

The company told us that the external assurance it had received on the WINEP and DWMP had found no material issues. We read the DWMP assurance report and raised some questions that we wished to pursue further. Our questions were addressed satisfactorily leaving us without any residual concerns.

We that although the DWMP has been submitted, the company will carry on engagement with customers and stakeholders. We will review any further engagement that is undertaken.

Water Industry National Environment Programme

This WINEP is mainly led by national legislation to address environmental risks to comply with the Environment Act 2021. 97% is statutory, the remaining 3% non-statutory but requiring support from customers. A separate WINEP is required for South West Water and Bristol Water.

Solutions for each WINEP scheme are identified through a methodology specified by EA which included optioneering, least cost and best value engineering.

The South West Water WINEP programme is around £1.7bn and comprises:

- Storm overflow reductions
- Nutrient and phosphate reduction from wastewater treatment discharges
- Water resource interconnections
- Increased resilience to coastal erosion
- Reduction in biosolids volumes and increases in biosolid quality
- River water quality monitoring

The Bristol Water WINEP (around £9m) includes 39 projects (one non-statutory) covering:

- No deterioration to environmental quality schemes
- Investigations and monitoring of environmental quality and improvement

We were not directly party to discussions between the company, Defra and EA on the scope and timing of the WINEP. However, the company kept up informed of developments and the EA contributed to our discussions in our meetings with the company.

Our primary focus was on the quantum and phasing of the WINEP programme (and its effect on customer bills) and the company's communication and portrayal of it in the materials presented to customers as part of the research for the PR24 Business Plan.

At the time of writing most of the WINEP activities have been agreed with Defra and EA, including a final position on continuous water quality monitors which had been a significant source of uncertainty.

Appendix 7 – Business Plan research undertaken by company

Title	Method	Purpose
Affordability - annual tracker	Quant survey	Each quarter we track attitudes and levels of affordability SWB
Vulnerability / PSR customers - annual tracker	Quant survey	Each quarter we track vulnerable customer satisfaction and how we can best meet their needs SWB
Satisfaction, service, performance, value for money - annual tracker	Quant survey	Each quarter we track our overall performance and satisfaction SWB
Annual satisfaction surveys	Quant survey	Each quarter we track our overall performance and satisfaction BRL
Environmental leadership	Qual/delib	To understand overarching priorities for environmental improvements
Developing future long-term strategies	Qual/delib	Testing long-term strategies
River water quality	Qual/delib	To understand how media attention and what customers want us to do
Sentiment tracking	Qual survey	To track sentiment of SWW and other water companies over time
WaterFit priorities	Qual/delib	To test our WaterFit plans to make sure it focused on what matters most
Priorities research	Quant survey	Understand PR24 priorities and household and business customer appetite for change and bill impacts
Future ambition testing	Qual/delib	Testing future ambitions with customers to inform the 'Strategic Direction to 2050' document and the LTDS
Youth Board - future customers	Qual/delib	Understand PR24 priorities from younger customers
Retailers priorities	Qual/delib	Understand PR24 priorities
Water quality perception	Qual/delib	Understand < 30 year views on water in BRL region, based on customer feedback
Visitor survey - Post Covid impacts	Quant survey	Understand views and priorities of visitors
Visitor survey - behaviours	Quant survey	Understand how visitors behave when on holiday
Main stage study - SWB	Quant survey	Update main stage research from PR19
Main stage study - BRL	Quant survey	Add BRL into the WTP programme
WRMP second stage WTP - WCWRG deliberative phase	Qual/delib	Update valuation evidence around drought and water resources

Title	Method	Purpose
Drought and water resources second stage WTP - WCWRG quant (pre-drought)	Quant survey	Update valuation evidence around drought and water resources
Drought and water resources second stage WTP - SWW quant (post-drought)	Quant survey	Update valuation evidence around drought and water resources
Storm overflows and pollution second stage WTP	Quant survey	Update valuation evidence around spills and pollution, split by rivers and coast
Drinking water / clean water second stage WTP - testing and update of PR19 research	Qual/delib	Update valuation evidence
Flooding and drainage/SUDS second stage WTP - testing and update of PR19 research	Qual/delib	Update valuation evidence
Ofwat centralised ODI research - following mandated approach	Quant survey	Ofwat mandated research - additional validation point
Overall WTP playback and triangulation	Qual/delib	Test robustness and applicability of our values
Top down incentive research	Quant survey	Additional data point around assessing the value of services for incentive setting - SBB and National
DWMP - preferences and testing	Qual/delib	Develop plan based on views
WINEP - priorities and testing	Qual/delib	Develop plan based on views
WRMP - metering and alternative supply options (compulsory metering BW)	Qual/delib	Develop plan based on views
WRMP - non-household need and options	Qual/delib	Develop plan based on views
WRMP - Views on desalination versus other options	Qual/delib	Develop plan based on views
WRMP - drought management (testing BRL plan)	Qual/delib	Develop plan based on views

Title	Method	Purpose
WRMP - testing water efficiency messaging	Qual/delib	Develop plan based on views
Smarter healthier homes (lead, water efficiency, metering, charging)	Qual/delib	Develop plan based on views
Net zero	Qual/delib	Develop plan based on views
Post event research - survey on TUBs and Stop the Drop	Quant survey	Understand the impact of events on customers
Post event survey - survey on cold snap 2022	Quant survey	Understand the impact of events on customers
Your Water Your Say - first meeting	Qual/delib	Ofwat mandated event
AAT - Ofwat methodology - Deliberative	Qual/delib	Test the plan
AAT - Ofwat methodology - survey	Quant survey	Test the plan
WaterShare+ customer testing event	Qual/delib	Session ran on behalf of WS+ to test views of customers, to explore findings of AAT
LTDS pace of investment	Qual/delib	Testing investment plan options in the context of pace of delivery of longer term plans
Isles of Scilly testing	Qual/delib	Test plan meets their needs
Social tariff research SWW	Quant survey	To understand appetite to support social tariffs
Social tariff research BRL and BW (testing with Wessex)	Quant survey	To understand appetite to support social tariffs
Understanding behaviours - water efficiency co-creation workshops	Qual/delib	Support delivery of our plans and strategies, recognising customers have a role
Understanding behaviours - sewer misuse	Quant survey	Support delivery of our plans and strategies, recognising customers have a role
Understanding behaviours - Save Every Drop	Qual/delib	Support delivery of our plans and strategies, recognising customers have a role
Outcomes framework	Qual/delib	Understand what outcomes and performance commitments are needed to reflect local factors

Title	Method	Purpose
Outcomes framework	Qual/delib	Developing incentive ranges based on customer top-down views
Additional acceptability testing (AAT methodology)	Quant survey	Testing final plan post changes requested by regulators (SWW)
Additional acceptability testing (PR19 methodology)	Quant survey	Testing final plan post changes requested by regulators (SWW)
Additional acceptability testing (PR19 methodology)	Qual/delib	In depth discussions with customers to obtain feedback on proposed plan (all regions)