FOR YOU.
FOR LIFE.
A NEW CHAPTER begins....
When YTL acquired Wessex Water in 2002, we gave clear guidance to the management team – "Performance before profits; you need to earn the right to profits by being the best." Within two generations, YTL was built from small beginnings into a global infrastructure and services business by following this clear instruction. We believe in stewardship; a responsible long-term commitment to the businesses we own, and the communities we serve.

We recognise the great responsibility and opportunity we have been afforded in providing such an essential public service in the UK. The water industry in any country is fundamental to the health and wellbeing of its citizens, its environment and its economy. So a company must take a long-term view when drawing up plans to operate and maintain high quality, resilient services.

We plan on the basis of stewardship in perpetuity. We are looking after Wessex Water not just for this generation, but for generations to come. I am proud of the record we have at Wessex Water and of the commitment of our great team of staff right across the business in serving customers, enhancing the environment, going the extra mile and always looking to innovate and improve. This record has been hard-earned, but we know it could so easily be lost if our performance or our behaviours fall below the expectations of our customers and wider society.

As a pragmatic business owner, my experience has convinced me that there is an alternative to traditional tax-and-spend policies of governments to meet the pressing need for new infrastructure. The solution, I believe, is to embrace the private sector to build, operate, and maintain infrastructure, and to provide the innovation required to deliver the best service for a fair price and a fair return. For this to work most effectively, it is essential that companies have a reliable regulatory framework under which they can make rational investment choices.

Currently there are understandable concerns about the behaviour and performance of some companies, so it is appropriate that the government should seek to strengthen economic regulation to ensure the private sector delivers for society as well as for investors. This needs to be through a regulatory framework that is consistent with the rule of law, steeped in accountability and transparency, and which rewards long-term thinking and responsible stewardship.

One of our principal motivations when making our original investment in Wessex Water was the stability, predictability and political independence of the regulatory regime, which we have always regarded as the best in the world.

Over recent review periods, UK regulation has delivered real price reductions for customers, accompanied by very substantial cuts in the permitted cost of capital. As a result, dividends have fallen significantly and are predicted to be even lower during the five years covered by our PR19 plan.

We have accepted these reductions as consequences of the falling cost of equity capital in world markets. Moreover, we have maintained a prudent balance sheet, with a gearing target of 70% and a simple financial structure; and have consistently paid our full share of taxes. In return we seek a continuing strong, incentive-based regulatory framework that rewards the risks we face as shareholders.
We recognise the importance of our own role as a board in ensuring our leadership and approach to governance engenders the trust of those we serve. We fully embrace the spirit of Ofwat’s governance review as well as the wider initiatives such as the Wates Review on the governance of privately-owned companies.

Our commitment to the UK has also seen us reinvest profits in some great new ventures that build on the core capabilities of Wessex Water. These are award-winning businesses, such as Pelican, GENeco, EnTrade, Flipper and Albion Water, all of which have accelerated the value we provide to our customers through innovation in the services they offer. We are also investing in a bold new housing and community development of more than 4,000 homes and businesses in North Bristol, and we continue to invest in the skills of our current and future generations of employees. One of our proudest achievements this year is that apprentices and graduates on formal training now represent nearly 10% of our total workforce.

Building on our strong values, we have put together a business plan with Wessex Water’s customers and stakeholders that shows no complacency, but a commitment to leadership in our industry, to forge a new relationship between public and private sectors, to restore faith in a responsible long-term commitment to public service and to stimulate a healthy market for innovation.

We are already adopting the open system model within our business, eg, using EnTrade and catchment-based approaches to deliver environmental improvements while also contributing towards the government’s 25-year Environment Plan. We welcome the support of our regulators in forging this new model for future delivery.

We are pleased to commend our plan for PR19 as a whole, including an excellent deal for our customers, the enhancement of the natural environment, and the balance we propose between risk and reward for shareholders and debt investors.

Francis Yeoh
Chairman

“We believe in stewardship; a responsible long-term commitment to the businesses we own, and the communities we serve.”

Francis Yeoh
Chairman
Managing Director’s statement

Our mission is to be in the top 20 of all UK service businesses and a leader on environmental performance, so we are determined to benchmark ourselves not just against fellow water companies and utilities, but also against the UK’s very best service companies.

The board is clear on the importance of meeting and, wherever possible, exceeding our regulatory obligations. We will continue to strive to maintain our position as the best performing water company. Our mission, however, is defined by goals that derive from our own ambition rather than from our obligations.

We are proud of our record to date in delivering essential water and environmental services. More of the same, however, is not a good plan.

This business plan describes how we will deliver by implementing a new business model that embraces our public service ethos while capitalising on the ambition and innovation that markets empower.

It is designed to make Wessex Water a business where:

• our customers recognise water as a natural resource in which everyone has a stake
• technology and new business models are used to benefit customers
• our seven-day-a-week customer services are seamless and hassle-free
• value is shared with our communities who, in turn, help us to deliver better outcomes
• our investment in education and apprenticeships benefits the local economy
• we deliver a zero-polluting, carbon-neutral operation
• risk is borne by our shareholder rather than our customers
• we fully engage with customers, employees and other stakeholders and take account of their interests
• ensuring the health, safety and wellbeing of our people is fundamental to the way we work
• we are transparent, accountable, pay full taxes and are resilient
• our assets and services are open to the marketplace in a way that encourages innovation and cost reduction.

This document sets out our vision, defines the challenges to overcome and describes how we will go about making bills affordable for every household and deliver an exceptional service based on our customers’ convenience, not ours.

These ambitions are being built into the Wessex Water DNA, with the full support and encouragement of our owners, YTL.

Andy Pymer
Managing Director
BUT MORE OF THE SAME IS NOT A GOOD PLAN

WE ARE PROUD OF OUR RECORD TO DATE BUT MORE OF THE SAME IS NOT A GOOD PLAN

WESSEX WATER BUSINESS PLAN 2020-2025
More of the same will not deliver this vision. We have to do things differently, promoting competition and encouraging new ideas. If others can deliver a much valued service more effectively than we can, then we will embrace this.

By keeping an open mind regarding who effects delivery, and by making our structures, systems and data as open as possible we will give ourselves the best possible opportunity to promote innovation and change.

The success of GENeco and EnTrade have already provided examples of how effective an open systems approach can be. And our established relationships with universities have been designed to inspire the entrepreneurialism and innovation on which open systems depend.
So, we will extend this approach - championing new, disruptive ideas from within Wessex Water and from outside, capitalising on new technology and operating transparently for the benefit of customers and society. We will procure, where appropriate, new services through third parties where we can gain best value and enrich the service we offer.

**Our open systems approach**

**National system architect**  
(Regulators)
- Sets outcomes
- Quantity and quality
- Timescales
- Return on capital
- Approves bills

**Local open systems coordinator**  
(Wessex Water)
- Owns and finances assets
- Catchment focus
- Engages with local stakeholders
- Optimises solutions
- Accountable for delivery

**Wider markets**  
(Various interests)
- Farming
- Industry
- Flooding and drainage
- New development
- Waste management
- Utilities
- Home services

**Competitive / market tested delivery**
- Resource nutrient trading
- Operations and maintenance
- Engineering and construction
- Developer support
- Biosolids and waste to energy
- Retail services
Redefining public service

While we are proud of our record, this business plan is about resetting our ambitions and targets to meet today’s challenges.

We thrive on doing things differently. As a private company that delivers essential public services we need an approach that is not limited by our statutory obligations.

We are facing pressures from climate change, population growth, new environmental requirements, an ageing asset base, changing customer expectations, and growing cynicism about corporate behaviour.

Our ‘open systems’ approach will provide sectoral leadership and champion innovation. In line with our social and public purpose, it will also share success with our local communities with whom we will foster increasingly strong partnerships.

This plan describes how we will meet these challenges, including a new model for delivery that recognises water as a natural resource in which everyone has a stake; and how we will put customers at the heart of what we do, benefiting current and future generations.

We thrive on doing things differently.
Putting our customers and communities at the heart
Our service commitments encompass all our customers. Our engagement with them shows that their needs are diverse and can change over time. So, while we aspire to match the best organisations for effortless online service provision, we also aim to match the best for personal service, ethics and value for money.

To test our progress, we will benchmark ourselves against the best service providers and will be ranked in the top 50 consumer-facing UK companies from 2020, and in the top 20 by 2025.

This business plan has, as its foundation, what customers have told us they want from us.

And so:
• bills will be lower in 2020
• support for those on lower incomes will increase
• no customer will have to ration water use based on ability to pay
• investment in services will be higher
• efficiency will be increased.

We’ll reduce the number of sewer flooding incidents, and by 2040 we will remove the last remaining lead pipes to give greater confidence in our safe, reliable supplies.

We will deliver the best services to all – seven days a week, not just for emergencies, but for our customers’ convenience.

Our services will be fully accessible to all, from a warm, local voice on the end of a phone to seamless online technology. They will also be personalised – always designed in a way that recognises some people will occasionally need more direct help from us.

Continuing to deliver what our customers want means we will need to adapt to instant feedback, so we will increase the range of ways that customers can tell us what they think.

We will also encourage customers to use our services wisely. We will operate in a way that encourages more people to engage with their local water environment. So, we will provide greater opportunities for our customers to contribute to challenges such as saving water and managing what they flush down the toilet.

Our aims will only be achieved by working in close partnership with people and communities, and by being transparent in everything we do.
Our partnership working recognises that there is no single answer, and that others are sometimes better placed than ourselves to make the biggest impact. It’s our role to develop the appropriate schemes and to fund and facilitate delivery by others where this can achieve the best outcome for our customers.

Partnerships with the debt advice sector mean that customers who need the most support from us are able to gain independent holistic debt advice, budgeting support and an income maximisation service. In return we are far more likely to receive a sustainable offer of payment based on true ability to pay.

Our first partnership was formed in 2005, but this quickly expanded and led to the development of the industry’s first ever social tariff, Assist, in 2007. We now partner with all Citizens Advice across our region, StepChange, National Debt Line and many cultural and faith organisations that provide debt assistance, as well as tenant support workers in housing associations and local councils.

Partners have gone on to play an important part in helping us develop and design our wider affordability offering, tap, and our wider strategy for those in more vulnerable circumstances, which form part of this plan. Our affordability advisory group, which also includes academics and consumer organisations, helps us ensure that our strategy remains fit for purpose and takes account of evolving trends, eg, the current rollout of Universal Credit.

We will continue to deepen these partnerships to our mutual benefit. More recently we have shared statistical data with partners to allow them to see where their services may not be reaching those most in need. We have also developed financial incentives for agencies to increase the volume and quality of applications for assistance and have funded small community projects, typically outreach services, to increase uptake in the hardest to reach areas. The information and intelligence we gain from organisations at the frontline of financial vulnerability allows us to adapt and adjust to current trends more quickly.

We want our services to be affordable for all. We realise, however, that tackling water poverty cannot be achieved in isolation. It is never just about water – customers generally have multiple debts to multiple creditors.
CASE STUDY

IN PARTNERSHIP WITH OUR COMMUNITY

We have ambitious plans to increase awareness and customer engagement through participatory work with our local communities. Our themes are community support, community education, health and wellbeing and leisure access for all.

Working in partnership with local communities, councils and other local charitable organisations to develop stronger relationships will allow us to invite and encourage people to play their part in meeting the challenges we face.

We are building on our existing successful initiatives, such as our education programme where we will go further in supporting the provision of outreach and engagement with students around science, technology, engineering and maths subjects. And we’re encouraging staff to be community ambassadors through our volunteering scheme Water Force.

Making drinking water accessible for all will see us investing in water refill points and financially supporting communities that want to install drinking water fountains, while promoting health and wellbeing. We’ll also be supporting local organisations that bring people together, particularly around water conservation or engagement with the local water cycle.

CASE STUDY

Evolving the retail model

We will be shortly launching a new, free energy switching service, exclusively to Wessex Water customers.

Why would a water company do this? We understand that the traditional water retail experience is fast becoming outdated. And our affordability work has taught us that just looking at water bills limits our impact.

This new service will take the hassle away from minimising energy bills by regularly flipping supplier.

It will also assist us to engage more meaningfully in helping customers to save on their water bills. Any surplus generated will be recycled into schemes that improve affordability, such as social tariffs.
Our region has a wonderful and precious landscape that we will help maintain and enhance, contributing to cleaner and healthier rivers and high quality bathing waters for everyone to enjoy.

Using a catchment approach, our vision is to make these improvements in a way that maximises the benefits for society and the wider environment, rather than restricting ourselves to a precise legal obligation.

As an environmental leader, we have committed to improving the health of more than 400 miles of river in our region. We will make further substantial cuts to the number of accidental pollutions and we have a clear ambition to be a carbon neutral company.

Even allowing for a growing population, we have committed to reducing the abstraction of water from the environment for our own use. We’ll achieve this by reducing leaks and fixing them faster, and by enabling customers and communities to use less water. We’ll also seek out opportunities to share our resilience with neighbouring regions where water is more scarce.

While the day-to-day performance of our waste water network is strong, it is coming under increasing strain from heavier rainfall events and misuse of the sewer network. Our long-term planning identifies that, to avoid pollution and sewer flooding, we need to continue our programme of strategic capital investment and work more closely with customers.
EnTrade creates online auctions to deliver environmental improvements, such as reducing the nutrient load in catchments.

The concept extended the leading role we have played in catchment management over the past 10 years, and moved our relationships with individual farmers on to a more systematic approach.

Firstly, in 2015, using catchment management, we successfully negotiated with the Environment Agency and Natural England to offset 40 tonnes of nitrogen from entering Poole Harbour by working with farmers in the catchment, rather than building a nitrogen removal plant at Dorchester sewage treatment works.

Then we used EnTrade to invite farmers to bid for funding to grow cover crops over winter to reduce the nitrogen leaching into the watercourse.

We ran the first auction in June 2016 for 20 tonnes and received 147 bids from 19 farmers to make nitrogen savings of 47.5 tonnes through cover crops. The auction saved us 30% on our nitrogen costs compared to previous methods of working with farmers.

Further auctions were run in 2017 and 2018 comprising:

• cover crop auctions which received bids for a further 125 tonnes of nitrogen savings against a target of 70 tonnes, at a lower price than the previous auction
• auctions for arable reversion – where crop growing land reverts to grassland – which received bids for 24 tonnes of savings over three years across 270 hectares.

The EnTrade platform estimates the savings for measures that sellers, such as farmers and landowners, choose to bid for. The seller can enter their own cost from which they can see the resulting pound per unit of saving on which their bid will be judged.

Sellers can adjust their bid at any point during the auction and once the auction closes, the buyer of the offsets can calculate the most cost-effective combination of bids to meet their target.
115 tonnes of nitrogen saved through EnTrade
Creating great places to live and work

Investing in people and skills

At the heart of Wessex Water are our 2,500 employees, the great majority of whom are also customers of the company and members of the communities we serve. We retain a strong sense of public service across our organisation, and in a recent survey 86% agreed, “I am able to go the extra mile for customers or support my colleagues in doing so”.

We will continue to reward our employees for going the extra mile for customers, and will empower them to do so. More than that, we will treat our people well so that they are able to do the same for our customers.

Successful delivery of our plan and vision depends on having resilience within this workforce. That is why nearly 10% of employees are in formal training or apprenticeships at any one time.

We will continue to invest in these apprenticeships, but also in STEM subjects and career development generally. This will ensure we have full diversity of people, with the right skills and a commitment to the Wessex Water way of doing things.
CASE STUDY

IN PARTNERSHIP WITH

OUR PEOPLE

We want to be in the top 20 of all consumer facing organisations in the UK for customer service. Our skilled people are the most important resource we have to deliver this. We need to retain a dedicated, resilient, customer-focused service, and we know that an engaged workforce increases customer satisfaction. In short, we treat our people right and they treat our customers right.

In 2014 we launched our Going the Extra Mile (GEM) programme and have regularly refreshed it since. Developed from scratch, GEM sums up our approach to dealing with customers.

The GEM programme rewards staff with small thank you gifts each time they go the extra mile for customers and we receive a thank you for exceptional service from the customer themselves. Every month, typically 80-100 staff receive a GEM award.

GEM encourages our people to:

“UNDERSTAND”
listening to the customer, acknowledging the issue, putting themselves in the customer’s shoes and taking ownership

“DELIVER”
providing a high level of service, keeping the customer informed and resolving the issue

“WOW”
going the extra mile by exceeding the customer’s expectations to ensure they are happy.

The GEM programme has further embedded a culture of serving customers into our DNA – at Wessex Water, going the extra mile for our customers is simply a way of life.
The ethos of YTL, our long-term shareholder and a family-run business, is critical in enabling our vision. They require us to aim high in everything we do.

This has meant that Wessex Water has always been structured and financed in a simple and transparent way and that we have always paid the right amount of tax. They urge us to share our success with our customers and communities; to play an active role in local projects and organisations across the region and to use local companies to deliver our multi-million pound investment schemes, supporting thousands of jobs and, ultimately, more sustainable communities.

They have demonstrated their own commitment to long-term investment and growth in the UK, accepting that dividends will fall up to 2025 even though the scale of the investment over the same period will be increasing. Our dividend policy will continue to ensure we maintain a solid investment grade with gearing held below 70%.

YTL’s approach also means that our executives are rewarded primarily according to their success in delivering for customers and the environment. As a private provider of a public service we recognise that customers need to see more directly and more clearly how our success is shared with them. As part of this plan we will create a new independent community fund, designed to increase the resilience of communities in the long term by improving:

- the financial capabilities of current and future customers
- independent debt advice and benefits assistance
- community environmental schemes
- schemes which improve science, technology, engineering and mathematics (STEM) skills in our region
- schemes that could promote greater diversity in our future workforce.

Wessex Community Foundation will be funded initially from savings we’ve made in the current business planning period and will be the vehicle through which we share any outperformance with our region in the future.
Defined by AMBITION
In developing this plan we have renewed our social and public purpose, with a vision defined at the point at which our statutory responsibilities end and our ambitions begin. So, we have set our own, stretching targets and devised ways of meeting them that will fundamentally change Wessex Water, possibly even the wider water industry.

**TO DO LIST**

We will reduce bills in 2020, extend help to those in vulnerable circumstances, invest more than we have ever invested before, and provide service to our customers that ranks alongside the UK’s best businesses.

We will be responsible stewards of our network for the benefit of current and future generations and ensure a sustainable water management system that will benefit everyone.

We will be a leader for environmental performance.

We know that we will only succeed in these aims by working in authentic partnerships with others in our region and by sharing value with customers, communities and organisations across our region.
### On to the next chapter

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive summary</td>
<td>24</td>
</tr>
<tr>
<td>Engaging customers</td>
<td>32</td>
</tr>
<tr>
<td>Addressing affordability and vulnerability</td>
<td>56</td>
</tr>
<tr>
<td>Delivering outcomes for customers</td>
<td>92</td>
</tr>
<tr>
<td>Securing long-term resilience</td>
<td>110</td>
</tr>
<tr>
<td>Markets and innovation: Wholesale</td>
<td>128</td>
</tr>
<tr>
<td>Markets and innovation: Open systems and direct procurement for customers</td>
<td>180</td>
</tr>
<tr>
<td>Markets and innovation: Retail</td>
<td>194</td>
</tr>
<tr>
<td>Securing cost efficiency</td>
<td>208</td>
</tr>
<tr>
<td>Aligning risk and return</td>
<td>224</td>
</tr>
<tr>
<td>Financeability</td>
<td>238</td>
</tr>
<tr>
<td>Accounting for past delivery</td>
<td>250</td>
</tr>
<tr>
<td>Securing trust, confidence and assurance</td>
<td>264</td>
</tr>
</tbody>
</table>
Executive summary
This document sets out our commitments for the period 2020 to 2025. It is endorsed by Wessex Water’s full board and is consistent with our open systems vision, outlined in the preceding sections. The board has worked alongside company management both to develop the proposals within this plan and to challenge the level of ambition and stretch in our future targets.

The board has also engaged directly with customers, investors and other stakeholders so we can be sure the plan meets the needs of customers and of wider society, both now and in the long term.

### Our bills, investment and returns:

<table>
<thead>
<tr>
<th></th>
<th>Change from current level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average household bill in 2025 (in 2018-19 prices)</td>
<td>£458</td>
</tr>
<tr>
<td>Allowed investor returns (WACC)</td>
<td>2.6%</td>
</tr>
<tr>
<td>Investment (2020-2025)</td>
<td>£1.4bn</td>
</tr>
<tr>
<td>Households on a low-rate affordability tariff or scheme</td>
<td>1 in 15</td>
</tr>
</tbody>
</table>

### Our key targets and commitments:

<table>
<thead>
<tr>
<th></th>
<th>Better than or as good as current industry best?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Efficiency (improvement by 2025)</td>
<td>↑ 11%</td>
</tr>
<tr>
<td>Reduction in leakage since the 1995 peak</td>
<td>↓ 62%</td>
</tr>
<tr>
<td>Water quality compliance</td>
<td>100%</td>
</tr>
<tr>
<td>Pollution incidents</td>
<td>↓ 40%</td>
</tr>
<tr>
<td>Customer supplies at risk in a 1 in 200-year drought event</td>
<td>0%</td>
</tr>
<tr>
<td>Internal flooding from sewers</td>
<td>↓ 22%</td>
</tr>
<tr>
<td>Customer service comparison with other UK companies by 2025</td>
<td>Top 20</td>
</tr>
</tbody>
</table>
**WHAT CUSTOMERS THINK**

Of our customers, 96% say our plan is acceptable to them, and 93% say it represents good value for money. The great majority of customers are very positive about it.

![Customer Feedback](image)

Source: Populus, 2018, Emotional response to the proposed plan

**WHY OUR BILLS ARE CHANGING**

![Average Household Bill Chart](chart)

Source: Populus, 2018, Emotional response to the proposed plan
We will improve services to meet growing customer expectations. This will allow us to continue delivering the best overall customer and environmental service levels in the industry on the things that matter most: drinking water quality, avoiding pollutions, supply interruptions and customer service.

We will be ranked in the top 50 of all service providers in the UK and continue to improve so that by 2025 we will be ranked in the top 20. Achieving these will require us to:

• give a truly seven-day-a-week service for our customers’ convenience
• constantly optimise those services based on real-time feedback
• always meet the needs of customers who are finding life more difficult
• give no-quibble compensation if things do go wrong
• encourage customers to recognise the value of the water environment and to work with us to improve it
• work with partners to offer our customers a wider and richer retail experience
• increase help for households to use less water
• reduce leakage by 15% so that the total amount of water we take from the environment will reduce despite a growing population
• avoid compulsory restrictions on use such as hosepipe bans
• fix the vast majority of reported leaks in a day
• replace lead pipes so our network is lead free by 2040.

Our services for developers and retailers will be open, transparent and offer excellent value. An open system approach to our assets and data will allow the market to deliver what these customers want at an efficient cost.

Of our customers, 8% tell us they are unable to afford their water charges. We will make our bills affordable for every household by adjusting them based on ability to pay for those on lower incomes and by helping all customers save water.

Our plan cuts average household bills in 2020 so that in real terms they are 7% lower than the current (2018-19) level. We expect that in cash terms this means we will cut bills in 2020 and average bills will then increase on average by 2.8% per year, slightly above the level of inflation in the four subsequent years to 2025. This reflects the record level of investment we will be making to improve the environment and services. By 2025 bills will still be 4% lower in real terms than they are today.

We currently help 35,000 households with affordability problems, many of whom receive reductions in their bill. We will extend our social tariffs to a further 50,000 households so that by 2025 one in every 15 households will receive a bill tailored to make it affordable.

We will also extend our help to reduce bills by promoting our risk-free metering service (developed by our Young People’s panel) and by increasing the help we give customers to use water wisely. We will help at least 40,000 households reduce their water use and bill through our free Homecheck service.

It’s never just about water so many of these services will continue to be co-delivered with our partners in the debt advice sector who are able to look at wider household costs.

Working with our partners, we will also help our customers reduce their other utility bills by helping to reduce energy use, and launching a free energy switching service. Any surplus this switching service generates will be reinvested into affordability assistance.
**INNOVATION**

We are targeting an 11% improvement in efficiency, meaning that as our business grows, we will do more with less without risking essential services – so we will need to keep finding new ways to do things.

Our strategy for driving further innovation and efficiency is to make our data and services open to the market, encouraging others to help us find the best and lowest cost solutions. Our open systems approach will champion new, disruptive ideas from within Wessex Water and outside, capitalising on new technology and operating transparently for the benefit of customers and society.

We’ve already pioneered reverse auctions with farmers and this has delivered environmental benefits and savings that we can pass on to customers.

Our more innovative and catchment based approach to meeting environmental outcomes, negotiated with the Environment Agency (EA), has delivered new savings of more than £100m between 2020 and 2025 that have been incorporated into this plan.

**RESILIENCE IN THE ROUND**

Our approach is underpinned by the ethos of YTL, our long-term shareholder. Under YTL’s stewardship we have always been structured and financed in a simple and transparent way that ensures we are financially resilient. Our gearing will continue at under 70%.

Our independent non-executive directors actively participate in the development of our vision, long-term planning and strategy, and continuously challenge the executive in its delivery. The board undertakes regular effectiveness reviews and ensures that its composition is appropriate to meet the challenges we face.

Our operational services will continue to be more reliable than those in other regions. Customers tell us they expect us to future proof these services as a matter of course and so our supplies will remain resilient to a one in 200-year drought event, through continued demand-side measures and without the need to invest in new water resources.

Our waste water network is coming under increasing strain from heavier rainfall events and misuse of the sewer network. Our long-term waste water plan identifies that, to avoid pollution and sewer flooding, we need to continue our programme of strategic capital investment in our network and combine this with a focus on working with customers to reduce sewer misuse. We will also meet the constantly shifting challenges of cyber security through appropriate investment.

We have always been a consistent leader on environmental performance, are committed to trying for zero pollutions of all severities, and aim to continue being an industry leader. In line with this, our plan, including our PR19 performance commitment and associated incentive arrangements, will enable us to meet the EA performance target of a 40% reduction in accidental pollutions by 2025 in a way that is in the long-term interests of customers.
OUR INVESTMENT

At £1.4bn our capital investment programme will be our largest ever and incorporates the biggest programme of environmental improvements. It will improve the ecology of local rivers such as the Parrett in Somerset, and the Stour in Dorset by removing phosphorus and nitrogen. Our investment also supports and generates economic growth and new development in the region.

We have worked to identify different ways to achieve outcomes that achieve greater environmental benefit at lower cost. These changes have been agreed with the EA and the £100m savings incorporated into our plan.

CONTRIBUTING TO THE GOVERNMENT’S OBJECTIVES FOR THE SECTOR

There is a growing recognition that increasing the resilience of the environment requires more collaboration across all sectors and communities. While this is an approach we have taken for some time, this business plan proposes that we deepen our partnerships so that we can deliver multiple outcomes wherever we can. Many of our performance commitments encourage us to incorporate natural capital benefits into our decision making.

Markets and private financing are important in delivering the government’s 25-year Environment Plan in an efficient way. Our open systems model will enable greater use of these approaches in our region.

The government’s clean growth strategy drives greater focus on the circular economy towards zero waste and reduced carbon. This plan marks a step towards our vision for zero waste and zero carbon by 2040.

The government has a twin track approach to delivering greater resilience in the sector at a national level, so our business plan targets material reductions in leakage and per capita consumption despite operating in an area of water surplus. This will create further opportunities for trading with regions with greater water scarcity.

Increased investment in waste treatment, network capacity and changing behaviours around sewer use will also allow us to meet the demand for new housing in our region and to increase the resilience of our network, reducing sewer flooding and pollution.

We’ve led the sector in promoting, developing and delivering affordability assistance to those on lower incomes. This plan delivers a further significant change in that assistance, driven by a clear ethos that no customer should need to ration their essential water use on the basis of ability to pay. At the same time, we are setting challenging targets to reduce uncollected debt which will help keep bills down.
PUTTING CUSTOMERS AT THE HEART OF EVERYTHING WE DO AND SHARING OUR SUCCESS

In line with our social and public purpose, the value we create is shared between investors and the people, businesses and communities we serve.

Our business plan delivers:

• the best overall service standards of all the UK’s water companies
• our largest ever investment programme to secure the resilience of our services and the water environment
• a reduction in bills in 2020, achieved through innovation and efficiency
• an extension of help to the most vulnerable so that our bills are affordable for all
• a more sustainable water management system that will benefit everyone.

We will also share a greater proportion of our success and do so transparently, by reinvesting in the resilience of our local communities through an independent body.

A THANK YOU

Customers are at the heart of what we do and the development of this business plan started and finished with their views. Day-to-day feedback has heavily influenced our proposals. In addition, we are immensely grateful to more than 140,000 individuals and organisations who have taken the time to give us their views on what we should deliver, and at what price, in this plan.

We are also grateful for the expertise and counsel of our independent Customer Challenge Group (the Wessex Water Partnership) that has assessed our engagement with customers, our interpretation of it and how we have incorporated it into our plan.

This plan will not be finally agreed until December 2019 and we are still pleased to receive feedback on it. To give us your views please contact yoursay@wessexwater.co.uk We look forward to hearing from you.

To see our full plan visit our website wessexwater.co.uk

And to read the Wessex Water Partnership’s independent report on our plan visit wessexwaterpartnership.co.uk
1. ENGAGING CUSTOMERS
Section 1 Engaging customers - summary

The development of this business plan has started and finished with customers' views. The evidence shows it has very strong support.

We developed our eight long-term priorities with customers and stakeholders.

We’ve reflected their views on how we should deliver as well as what we should deliver.

We constantly talk with and listen to customers, and we’ve used the data we get from this day-to-day feedback in our plan.

All our customers had the opportunity to engage with us about this plan – more than 140,000 people chose to take part in our consultations.

Where the evidence wasn’t clear we asked customers again to be sure we understood what their views were.

Where customers have mixed views (eg, on incentive payments if we beat our targets), we’ve made adjustments in our plan to take those views into consideration.

We’ve taken particular care to take the views of people in more vulnerable circumstances into account.

We’ve used innovative techniques to understand the values customers placed on particular service levels.

Many of our performance commitments were co-created by customers and stakeholders.

High quality customer engagement can itself help to deliver our objectives. More engaged communities that value the water environment are more willing to participate with us to achieve our shared goals.

Our research for this business plan has been part of a wider participation strategy that will help us deliver our objectives.

How acceptable is our plan to customers?

96% say our plan is acceptable
93% say it represents value for money

How our customers feel about our plan

29% 44% 15%
In this section, we describe what customers think of our plan and how their views have informed and shaped it.

We describe how we have engaged with customers and other stakeholders. We also describe how customer engagement is core to our future strategy that encourages customers to participate with us to help deliver better outcomes for all.

Section contents

1.1  Introduction – what customers think of our plan
1.2  How customers have informed and influenced our plan at every stage
1.3  Our customers’ priorities are our priorities
1.4  Developing performance commitments with customers
1.5  Using customer engagement to set agreed target levels and incentives
1.6  Using customer engagement to understand views on bills and bill profiles
1.7  Iterating our plan with customers
1.8  Your Say Your Future: a step change in our engagement
1.9  Our engagement in action
1.10 Developing a wider participation strategy
1.11 Governance and assurance
1.12 Principles of engagement

Where to find further information

Supporting information for various aspects of this section are provided as below:

<table>
<thead>
<tr>
<th>Ref.</th>
<th>Title</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Supporting document 1.1 Summary of research findings</td>
</tr>
<tr>
<td></td>
<td>Supporting document 1.2 Communications strategy</td>
</tr>
<tr>
<td></td>
<td>Supporting document 1.3 Customer participation and behavioural engagement strategy</td>
</tr>
</tbody>
</table>
1.1 Introduction - what customers think of our plan

Customers are at the heart of what we do, and the development of this plan started and finished with customers’ views. We are pleased our research has suggested that our customers continue to hold us in high regard and trust us to do what is right for the long term. It’s clear that this has influenced their willingness to accept our proposals.

We tested our plan over two phases with household customers, business customers, retailers, those in vulnerable circumstances and industry stakeholders using a variety of qualitative and quantitative techniques. These included immersive engagement events, in-home interviews, hall tests, community events, Facebook bot and online surveys. We not only sought customers ratings of our plan but also their emotional response using non-verbal scales.

Results were triangulated across a variety of qualitative and quantitative methodologies to maximise the robustness of both the sample and conclusions.

Testing has shown that 96% of our customers find our business plan acceptable. Acceptability is above 90% across all demographic sub-groups.

Similarly, 93% of our customers consider the plan to represent good value for money. Levels are high for all sub-groups but are slightly less high amongst those with a personal disability, albeit above 80%.

Acceptability and value for money exceeded 90% for business customers. Stakeholders also approved of the plan. They appreciated its comprehensiveness, value, educational dimension and inclusiveness.
Perceptions of our plan are also positive, with more than eight in 10 of our customers describing it as effective, efficient, innovative, impressive and thorough.

Some customers are more negative. However, innovative, implicit testing techniques have shown that those who are negative feel less certain of their response. A very large majority of Wessex Water customers give a positive emotional response to the proposed approach, and there was very little negative emotional response.

Figure 1-2: Implicit testing of our plan (Source: Acceptability testing, phase 2, Populus, 2018)

Figure 1-3: Emotional response to the plan (Source: Acceptability testing, phase 2 Populus, 2018)

92% of customers consider our plan is affordable for them. Ratings were slightly lower for vulnerable customers due to their personal financial circumstances, albeit still above 80%. We show how we have embedded the requirement for bills to be affordable for all into our proposals in section 2, Addressing affordability and vulnerability.

More than 90% of businesses found the plan affordable. Stakeholders particularly appreciated the proactivity in identifying financially vulnerable customers and
education/partnership initiatives to deliver customer affordability.

Full details of both phases of our acceptability testing can be found in supporting document 1.1 and appendix 1.1.O.

We also tested what our customers thought of our performance commitments through a series of focus groups that encompassed a cross-section of our customer base. They felt, on balance, that our current performance levels were good and that the targets we are setting are stretching. We tested our range of incentives with customers. Although there was a mix of views, on balance, customers supported the concept of payment by results and found the range of payments that we have proposed acceptable. For further details see section 3, Delivering outcomes for customers and appendix 1.1.Y.

1.2 How customers have informed and influenced our plan at every stage

We continuously seek the views of our customers whether in or out of a business plan cycle. We also understand that our customer engagement and research can itself help to deliver our objectives. More engaged people, businesses and communities that value water and the water environment are more willing to participate with us to achieve our shared goals.

We want to work increasingly in partnership with the communities around us. By working together we can enhance the long-term resilience of our water supply and sewerage systems and lessen their impact on the environment. The research we have carried out shows this is the way that informed customers wish to work with us.

This has led us to take a different approach with many of our research projects.

- Staff, including at director level, have participated in the research alongside customers, often co-creating solutions to the problems faced.
- Our online, telephone and face-to-face research through market research agencies has sought to educate and inform about the water environment as well as eliciting customers’ views. For many research projects we have given customers a full briefing on the issues and an opportunity to reflect on this, in order for them to give an informed view.
- We have ensured that as many customers as possible feel they have had the opportunity to make a difference, using a multi-channel approach and consistent branding to tie these messages together under the ‘Your Say Your Future’ tagline.
- Our engagement has been more visible. We have used shopping centres across the region, communicated through our customer magazine, which is delivered to all our customers, and we have built a greater social media presence.
- We have built innovative engagement tools that can be used on an ongoing basis to assess shifts in customer sentiment.
- We have made greater use of data that we gather from continuous interactions with our customers to help identify the things that are most important to them.
- We have expanded our efforts to engage with those who are traditionally hard to reach, for instance offering face-to-face discussions alongside carers for support.

We have also introduced feedback mechanisms using our website and other media. As we build our level of engagement it’s important we show not only that everyone feels that they have had a chance to contribute, but also how this is influencing the decisions we make.
1.3 Our customers’ priorities are our priorities

In 2016 we reviewed and developed our vision in our 25-year Strategic Direction Statement. Through this process we engaged regularly with customers and other stakeholders via focus groups, surveys and expert panel discussions. At the same time, the most significant areas of focus for the future at a national level were being identified by regulatory bodies. This and our ongoing engagement resulted in:
• adding a new priority to develop better relationships with communities that cements our focus on working to co-create and co-deliver solutions
• creating a single priority area to protect and enhance the environment
• redefining the ‘tackling leakage’ priority to ‘efficient use of water’. This reflects our integrated strategy to reduce water wastage through service, behavioural and asset solutions.

We used this and subsequent pieces of research to inform the areas of service that we should concentrate on most. We wanted to understand what customers thought was important, what they thought could be improved, how frequently they considered they suffered service failures and the impact these service failures could or would have on them.

**Figure 1-6: Importance and improvements (Source: SDS research, Blue Marble, 2016)**

Customers tended to view all areas as important, but we used this information to focus our proposals for improving service. We also noted that business customers see supply interruptions (whether planned or unplanned) as a greater priority than other customers.

**Figure 1-7: Frequency and impact (Source: MaxDiff research, Accent, 2017)**
Our plan includes accelerated, customer-driven investment to deliver greater improvements in the:

- frequency and risk of sewer flooding
- total amount of water leaked
- help we give customers to participate in saving water
- frequency and duration of supply interruptions
- amenity value of bathing waters.

We will continue to invest in all the other areas, particularly where there are statutory requirements, for instance on reducing pollutions and also to ensure that our existing service levels are maintained.

Throughout this document you will see how insights gained from our engagement have informed our approach to investment, service improvements and bills. Our targeted approach to future resilience investment is one example, described in section 4 of this document, Securing long-term resilience.

1.4 Developing performance commitments with customers

We’ve also used customer views and engagement to develop many of our bespoke performance commitments.

- The commitments in this plan on education, water efficiency, and fixing leaks quickly were co-created with groups of customers.
- The commitments in this plan on working with partners to deliver outcomes for the environment, affordable bills and engaged communities have been developed in response to customer research that considered how we should aim to deliver our priorities and showed a strong preference for innovative, low-cost partnership approaches.
- Customer research identified that customers place a high priority and value on environmental improvements to watercourses in our region. We have therefore developed additional commitments that allow us to go the extra mile to deliver additional environmental benefit where this is cost-beneficial.

1.5 Using customer engagement to set agreed target levels and incentives

Having defined the measures of performance, the way we balance the priorities in our investment plans is crucial. We’ve used the information we have gained from customers about their priorities to identify the areas we need to focus on.

We’ve used the values they place on increments to performance to assess whether improvements are cost-beneficial. Some of this data has been developed from specific pieces of market research; some has been through using the data we collect on a day-to-day basis which shows how customers respond if they experience a service failure.

The large number of data sources we’ve used means we’ve developed a methodology that weights each piece of research. This process is called triangulation and you can see more details of our methodology in supporting document 3.2.

We also consider whether there are any mandatory regulatory targets that we are required to meet, in particular where it is mandatory for us to set our performance target explicitly taking into account the performance achieved by other water companies.

We have researched customers’ views on the incentives themselves and shown that they support them and the potential impact they can have on their bills.
1.6 Using customer engagement to understand views on bills and bill profiles

We continuously track customer sentiment through our Image Tracker about the affordability of their bills and whether they will be better or worse off in the future.

We also sought their views on:
- the bill profiles that they preferred
- their general preferences on the trade-offs between bills and service levels.

For more information on this see section 2, *Addressing affordability and vulnerability*.

1.7 Iterating our plan with customers

We presented our plans to customers in a variety of ways to check that we had understood their views correctly. We used our customer magazine which is delivered to all customers; we undertook specific face-to-face market research with the hard to reach; we visited local shopping centres in our region; and we used the local press as well as our website and social media.

We took the opportunity to offer customers further choices when we weren’t sure that the evidence we had received to date was clear. This process allowed us to make further changes to our plans. For instance, customers chose higher levels of leakage reduction than we had originally factored in, despite the additional cost in bills. We updated our plan accordingly.

1.8 Your Say Your Future: a step change in our engagement

The following pages provide an overview of the depth and breadth of the engagement through our Your Say Your Future engagement programme.

A full and detailed summary of all the research projects including findings can be found in supporting document 1.1 and details of each individual research project or initiative in the associated appendices 1.1.A through to 1.1.AC.

The communities we serve are diverse and we recognise that customers are more inclined to engage when it is convenient for them to do so, and when information is presented in a format they wish to interact with.

We have engaged with all customers in one way or another through our innovative and multi-channel approach. All have had the opportunity and ability to shape the future of their water services.

We have communicated our plan through Facebook bots and in articles in parish magazines. We have also gone out to local shopping centres to engage face-to-face.

We deliberately engaged through channels that customers are familiar with, using understandable language so they can easily play their part in the future planning process and adding fun wherever we could. You can see our full communications strategy in supporting document 1.2 along with images of Your Say Your Future in action.
In total more than 140,000 customers have chosen to take part, a significant increase on the 24,000 in PR14. Never before have we engaged with so many customers in so many different ways.

**Figure 1-8: The scale of our Your Say Your Future engagement**

**By customer type**

- **137,765** households
- **1,214** future customers
- **52** stakeholders
- **873** in vulnerable circumstances
- **1,226** business
- **801** staff

**By research type**

- **465** group discussions
- **32,373** online
- **36,263** telephone
- **14,954** postal
- **728** face to face
- **53,185** social media
- **3,963** text

**141,931 total**
We have discussed a wide range of topics alongside our day to day engagement with our customers.

**Figure 1-9: Your Say Your Future customer engagement topics and timeline**

Your Say Your Future has seen a step change in the quality of our engagement as we have used innovative approaches, encouraged customers to co-create solutions and made greater use of behavioural techniques.
1.9 Our engagement in action

Here are examples of our Your Say Your Future projects in action. Further information on each can be found in supporting document 1.1.

Case study: how continuous engagement has influenced our plan

Expert statistical analysis over time of our long-running Image Tracker showed that the largest single driver of increased customer satisfaction is playing an active role in the community. This insight had not been apparent from the simple answers to the questions about what customers think is important to them. Recognising this became a fundamental part of this business plan and our wider vision for the future.

We engage with customers on a daily basis about our service through telephone, text, online, social media and postal surveys. This feedback is used in our continuous improvement programme, overseen by our Customer Experience Group and has informed how we have balanced our performance commitments. We are also on the 17th survey with our online Have Your Say panel.

Further information on how we have used this in our plan can be found in appendix 1.1.R.

Case study: leakage research – co-creation of our performance commitments in practice

We developed our ‘efficient use of water’ performance commitments through deliberative research with customers. In the first of two interactive, three-hour sessions, we immersed customers in information about leakage and the wider context of water resources and our network assets.
The second session, a few days later, with the same customers saw them co-create packages of promises that they wanted us to deliver and communication messages that they felt would resonate with uninformed customers.

Wessex Water staff attended the event to give presentations and hear views first hand.

The package of promises and communication messages was then developed and shown to a fresh set of customers who were seeing these communications cold. We supplemented the interviews with customers who were in more vulnerable circumstances, and businesses.

**Case study: Young People’s Panel – future customers co-creating service delivery**

Starting in 2016, our Young People’s Panel was a first for the UK water industry. The initiative was published as a case study in the market research industry magazine Impact, and was a finalist for the Customer Focus – Large Enterprise category at the 2018 Institute of Customer Service Satisfaction Awards.

The Young People’s Panel, made up of 16-18 year olds recruited from schools and colleges across our region, was developed to engage customers of the future in an innovative way relevant to them. Participants take part in two workshops at our offices where they firstly immerse themselves in the business and what it does and take part in a variety of focus group discussions including those to help shape our plan. They are then split into teams and set a live business problem.

In the second session the ideas from the groups are pitched in the style of The Apprentice, to the managing director and other senior managers and a winner is then selected.

We’ve implemented many of the ideas from our Young People’s Panels. The 2016 Panel co-created our ‘money back guarantee’ for meter options, as well as a digital job tracker allowing customers to track completion of an operational job in the same way as a parcel or pizza delivery. Our 2017 Panel came up with some entertaining and innovative campaigns to encourage customers to care about what they flush down the toilet and sink and these will be used in our next sewer misuse campaign which will be targeted at younger people including students.

Feedback has been excellent and we have kept in touch with many of our panellists. They leave Wessex Water with real experience of a business and a reference to use in applications for university or apprenticeships as well as having had the opportunity to meet new people and increase their confidence.

**Case study: business plan game – a new and innovative way to educate and obtain valuations to inform triangulation**

In November 2017, we launched our innovative and engaging business plan game. This involves educating customers on the water cycle and what a water company does, and customers giving their view on the balance between service and cost.

The game was developed with creative consultancy ‘Supercharge’ and personalised the different areas of Wessex Water’s work into six characters. Customers were asked to up-skill each character, depending on how important each area was to them. The
different levels of skills showed different bill impacts.

At the end of the game customers could see the effect they were having on bills and service levels with their choices on a dynamic impact screen that they could choose to share on social media.

We promoted the game on all our communications channels including our magazine, online, through social media and via several events in shopping centres around the Wessex Water region. We had positive feedback from those playing the game. Respondents said they liked the characters and that it was a good way to learn more about what Wessex Water does. We supplemented the data collection with an online sample of Wessex Water customers plus other individuals in England and Wales. In this way we were able to compare how important each service area is in the Wessex Water region compared with the population overall.

The game was also showcased at the All Party Parliamentary Working Group’s Innovation evening in November 2017.

1.10 Developing a wider participation strategy

We need the people and communities we serve to willingly partner and participate with us in the delivery of our objectives. For them to trust us implicitly, we have to be accountable, transparent and deliver excellent services.

That’s why we’ve developed a partnership agreement against which we can be measured, and which underpins our plan.

So, as we pledge to work our hardest to protect the water environment and invest in the future, we will be asking our customers for their help. Here are some examples:
In support of this partnership approach we will create an independently administered charitable trust to improve the financial, social, economic and environmental resilience of our local communities. The Wessex Community Foundation will invest in:

- the financial capabilities of current and future customers
- independent debt advice and benefits assistance
- community environmental schemes
- schemes which improve science, technology, engineering and mathematics (STEM) skills in our region
- schemes that could promote greater diversity in our future workforce.

The Wessex Community Foundation will be funded initially from savings we’ve made in the current business planning period and will be the vehicle through which we share such savings with our region in the future.

We want customers to participate in and enjoy their local water environment which includes all the water services we provide. Encouraging customers to participate in the services we offer isn’t a new activity but our approach is currently evolving at a faster rate than ever before as we incorporate behaviourial science and increasingly sophisticated engagement methods into our ‘business as usual’ ways of working.

We have mapped our wide-ranging initiatives against the FACE model. This model considers customer participation under four core themes – Futures, Action, Community and Experience.

**Futures:** we will co-create programmes and solutions with our customers and others to improve the sustainability of the water system in our area.

Our Young People’s Panel and the immersive leakage research co-created solutions to reducing demand and improving customer service and shaped the direction of our strategy in relation to the efficient use of water.

Starting in 2018 our water citizenship project in Chippenham seeks to engage with people...
Wessex Water

as citizens of their local water environment rather than as consumers of our services. Instead of tackling participation themes in isolation, we are engaging with communities on multiple issues of importance to the future sustainability of the water system which underpin our services simultaneously.

Our hypothesis is that by strengthening people’s understanding of how their actions can influence environmental futures we are more likely to deliver lasting behavioural change at a community scale. It may also enhance the way they experience the services we provide. Further detail can be found in the Chippenham case study later in this section.

By making our systems and data as open as possible we will foster new collaborations with third parties that will offer us greater insight into the issues and futures we might face and help identify potential solutions. In 2018 we are undertaking our first ‘hackathon’ to begin this journey.

**Action:** we will engage with customers to adopt actions and behaviours at scale to achieve real change.

We’ve distributed more than 60,000 free water-saving device packs since 2010. By 2020 we will have undertaken 20,000 Home Check visits to offer tailored behavioural advice and device installations in customer homes. Customers told us that they want us to empower them to save water and money.

We will do this by expanding our Home Check service so that by 2025 a further 40,000 visits will have taken place. We know, from our customer segmentation work, that different customer types may require different participation approaches. Therefore, we will also be expanding our digital services to help over 13,000 new customers a year better understand their water use and how their use compares to others in their community. These schemes underpin the delivery of our performance commitment relating to volume of water saved by water-efficiency engagement – see section 5 for further details.

The ability of water metering to achieve real reductions in demand is well known. Our own 6,000-household tariff trial demonstrated how metering on change of occupier reduced consumption by 15% on average and that customers became motivated to act in reducing water wastage by fixing leaking taps, for example.

Since 2010 more than 60,000 customers have taken action to opt for a meter. Many of them have been encouraged to do so by our optional metering campaigns using social media and personalised letters. Our future strategy to encourage optional metering at scale is focused around the money back guarantee that was co-created with our Young People’s Panel.

**Community:** we will engage with our customers as citizens of the water environment and encourage them to own particular aspects of water and its resilience as an essential resource.

The community we serve is at the heart of our business. This is reflected in the creation of our ‘better relationships with customers and the community’ outcome for this plan. From our customer participation segmentation (see appendix 1.1.T) we estimate that around 25% of our customers are currently ‘active citizens’ in their local community, and just under half our customers have potential to be interested, if they are given relevant opportunities.

In addition to the development of our citizenship engagement framework (see Chippenham case study later in this section) we have also launched our Water Force employee volunteering programme and tap water refill campaign.

**Experience:** we will give customers more control of water in their home and their customer service experience.

We know that some customers are keen to understand more about their water usage. Every year around 4,000 customers participate in our online water-use calculator tool and in 2017 we began including simple...
charts on our bills for all customers which now enable them to compare themselves to similar households. Our future strategy will see an evolution of our online services to provide a dashboard that helps customers compare their use with others; receive tailored behavioural and devices advice; and access other water efficiency services, such as to request a Home Check visit if their water fixtures meet certain criteria.

In 2018, we are launching a digital job tracker to enhance the customer service experience. We are also embracing the popularity of conversational platforms such as Amazon’s Alexa and Google Home and are currently working towards the launch of our own Wessex Water ‘skill’ on Alexa.

Case study: water citizenship in Chippenham

To increase customer participation and grow the trust that customers and organisations in our community have in us, we are developing a new, innovative approach to engagement. This views customers less as consumers of our services and more as citizens of the shared water environment. To challenge and develop our thinking and approach we have been working with the New Citizenship Project team.

The foundation of the new approach is this: we believe that strengthening the relationship our communities and people have with their local water system (rather than with Wessex Water as a service provider), creates a community where individuals are motivated to take action – reducing water use or not flushing wet wipes, for example. This is more likely to achieve a more sustainable future for everyone.

In 2018, we are undertaking a citizenship project trial in Chippenham. We have so far facilitated two co-creation workshops involving local staff, councillors and environmental groups. We explored the citizens’ relationship with water in general; the specific characteristics of the town, its amenities and facilities; and water system issues relevant to workshop participants. This enabled us to generate ideas for new engagement approaches that we can support. This will in turn strengthen the relationship that residents have with their local water environment and support the shift towards water citizenship in Chippenham.

We’ve identified synergies between our own business objectives and those of the local community. For example, our ambition to reduce the number of wet wipes being flushed and our tap water refill initiative with the community’s ambition to reduce single use plastics.

We intend to use our pilot in Chippenham to develop a framework to this new way of approaching engagement and behavioural change – a guide to establishing more citizen-based engagement approaches that we can then support in other communities.

1.11 Governance and assurance

Wessex Water Partnership (WWP)

The Wessex Water Partnership is our Customer Challenge Group (CCG) and it has scrutinised all elements of our customer engagement, our interpretation of the findings and their use in the development of this plan.

It also holds us to account for the delivery of the plan, and our performance commitments for the period 2015-2020 and provides advice and challenge on policy areas including:

- customer service
- vulnerability
- affordability and social tariffs.

The independent chair is former water minister, Dan Rogerson. He was appointed by a recruitment panel comprising members of the Partnership. Our senior independent non-executive director, Gillian Camm, attends each of the Partnership meetings and is the liaison point between the chair and the board of Wessex Water Services. The chair has attended both board and
Audit Committee meetings to share the views of the Partnership.

Members include:

<table>
<thead>
<tr>
<th>Organisation</th>
<th>Area of focus and challenge</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumer Council for Water</td>
<td>Interest of all water customers</td>
</tr>
<tr>
<td>Environment Agency</td>
<td>Environmental regulation and compliance</td>
</tr>
<tr>
<td>Citizens Advice</td>
<td>Customer service, affordability and vulnerability</td>
</tr>
<tr>
<td>Age UK</td>
<td>Interests of customers in later life</td>
</tr>
<tr>
<td>Money Advice Trust</td>
<td>Affordability and vulnerability</td>
</tr>
<tr>
<td>Advice UK</td>
<td>Affordability and vulnerability</td>
</tr>
<tr>
<td>University of Bath – lecturer</td>
<td>Expert knowledge of customer engagement and behaviour change</td>
</tr>
<tr>
<td>University of Bath - student</td>
<td>Interests of students and future customers</td>
</tr>
<tr>
<td>Catchment panel chair</td>
<td>Environmental priorities and outcomes</td>
</tr>
</tbody>
</table>

The Partnership has met as a full group 14 times prior to submission of this plan. Minutes of each meeting are published on the Partnership website which can be found at wessexwaterpartnership.co.uk.

It has maintained a challenge diary and has reported on progress with each of those challenges in its annual reports.

There are three sub-groups, each with a chair and terms of reference, covering:

- performance commitments and investment
- affordability and vulnerability.

The work of each sub group is detailed in the Partnership’s independent report on our plan and in its annual reports, all of which can also be found on the Partnership’s website.

The customer engagement sub group is led by the lecturer member from the University of Bath with extensive academic and practical knowledge of customer engagement. The group has reviewed each of the customer research projects including the proposal, stimulus materials, discussion guides and questionnaires, the results of the research and the use of it. Any amendments requested by the sub group have been made.

More information about the WWP can be found in supporting document 12.1.

**The Catchment Panel**

The Catchment Panel supports, promotes and provides advice and guidance on innovative approaches and promotes joint working across stakeholders. It has helped us create some of our performance commitments and its chair sits on the WWP.

The role of the Panel is to scrutinise the company’s environmental performance commitments, environmental outcomes and measures of success, and to review activity and progress in delivering more innovative strategies. The membership includes the Environment Agency, Natural England, academia, environmental NGOs and representatives from farming and local authorities.

The Catchment Panel has written a statement in support of the innovative approach we have taken in developing this plan. This is provided in appendix 5.1.A.
1.12 Principles of engagement

We carried out a full review of our engagement for PR14 and identified improvements that could be made for our Your Say Your Future engagement programme.

We have also followed recommendations set out in Ofwat’s ‘Tapped In’ report.

We comply with all Ofwat’s principles of good engagement, both those remaining from PR14 and additional ones introduced for PR19. Based on the information in this section, the following table summarises how we’ve met the specific requirements. We have omitted Principle 7 as this relates to Ofwat’s decision making on price limits.

The Wessex Water Partnership considers our engagement to be thorough and innovative. More detail can be found in their published report.
<table>
<thead>
<tr>
<th>Ofwat’s principles</th>
<th>Wessex Water’s approach</th>
</tr>
</thead>
<tbody>
<tr>
<td>Water companies should deliver outcomes that customers and society value at a price they are willing to pay (Principle 1).</td>
<td>We have carried out extensive engagement through Your Say Your Future including establishing customers’ priorities, how we should deliver those priorities and the price they are willing to pay. A full summary of our research can be found in supporting document 1.1 and all associated appendices. We have achieved very high acceptability ratings for our plan. Customers and stakeholders have helped us co-create our performance commitments.</td>
</tr>
<tr>
<td>Customer engagement is essential to achieve the right outcomes at the right time and at the right price (Principle 2).</td>
<td>Our day to day contact with customers, eg, through SMS, telephone, feedback cards, Live Chat, Twitter and Facebook and out and about in the community, feeds into our continuous improvement programme to improve customer experience, overseen by our senior Customer Experience Group. Our Image Tracker collects respondent feedback throughout the year, and our online Have Your Say research panel runs three times a year and the findings also feed into our continuous improvement programme. Information about these can be found in the appendices to supporting document 1.1.</td>
</tr>
<tr>
<td>Engagement should not simply take place at price reviews. Engagement means understanding what customers want and responding to that in plans and ongoing delivery (Principle 3).</td>
<td>It is customers’ responsibility to engage with customers and to demonstrate that they have done it well (Principle 4). Your Say Your Future is our largest ever engagement programme and is underpinned by continuous engagement on our day-to-day service. Our customer challenge group, the Wessex Water Partnership, has scrutinised and challenged our engagement and how we have used the findings to inform this plan. We use feedback loops to update our customers who have taken part in surveys, for example articles in our customer magazine or newsletters with our online Have Your Say research panel.</td>
</tr>
<tr>
<td>It is the companies’ responsibility to engage with customers and to demonstrate that they have done it well (Principle 4).</td>
<td>Customers and their representatives must be able to challenge the companies throughout the process. The engagement process should ensure this challenge happens (Principle 5). Our customer challenge group, the Wessex Water Partnership, has scrutinised and challenged our engagement and how we have used the findings to inform this plan. All customers have had the opportunity to comment on our plan through our multi-channel engagement programme.</td>
</tr>
</tbody>
</table>
Engagement is not a one-size-fits-all process but should reflect the particular circumstances of each company and its various household and non-household customers (Principle 6).

We have tailored our research projects to ensure they are representative of all groups, with regard to age, sex, social grade, vulnerability and customer type. We have also included staff, businesses and stakeholders within major projects. Our audience segmentation has allowed us to look at attitudinal and behavioural factors of customers to target them more effectively.

The following are Ofwat’s additional principles introduced for PR19

| Using a robust, balanced and proportionate evidence base to develop a genuine understanding of their customers’ priorities, needs, requirements and behaviours. For example, cross-checking and sense-checking evidence on a range of techniques (such as stated and revealed preference willingness-to-pay techniques and experiments) and a range of sources (including information obtained through day-to-day interaction with customers, for example complaints). | Our research programme has covered different aspects of customer perception, experience and behaviour. We’ve gained customer valuations from many different projects, including a combination of stated preference and revealed preference techniques. We have also interrogated a wealth of data from our day-to-day contact and feedback from customers to help us identify what matters to them most and balance our performance commitments. The results from these projects have fed into our triangulation analysis. Figure 1-10 illustrates all our engagement techniques and information on all projects can be found in the appendices to supporting document 1.1. |

| Engaging customers as an ongoing process. | Our day-to-day contact with customers, eg, through SMS, telephone, feedback cards, Live Chat, Twitter and Facebook and out and about in the community feeds into our continuous improvement programme to improve customer experience, overseen by our senior Customer Experience Group. Our Image Tracker collects respondent feedback throughout the year, and our online Have Your Say research panel runs three times a year and the findings also feed into our continuous improvement programme. |

| Ensuring a two-way and transparent dialogue which includes educating and informing customers. | As well as using all the above methods for customers to talk to us, our customer magazine reaches all customers in the Wessex Water region and publishes many articles about Wessex Water’s areas of work, including reporting back on research projects. The online Have Your Say panel receives a newsletter after every survey which is published online and summarises the findings and steps to be taken by Wessex Water as a consequence. Our website has been used to update people on the findings of our research |
and on progress with our plan, in both word and video format. For instance, we published our performance commitments in May 2018.

<table>
<thead>
<tr>
<th>Setting the context through the use of comparative information, with definitions that are consistent across the sector.</th>
<th>We’ve used data from the Discover Water website and shadow reporting of common measures to provide comparative information for many of our major projects including resilience, leakage and acceptability testing.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Involving customers in service delivery.</td>
<td>Our day-to-day contact with customers, eg, through SMS, telephone, feedback cards Live Chat, Twitter and Facebook feeds into our continuous improvement programme to improve customer experience, overseen by our senior Customer Experience Group. Ideas from our Young People’s Panel have resulted in new initiatives (online job tracker, money back metering guarantee and sewer misuse campaigns). Our leakage research is an example of co-creation in service delivery. Customers and stakeholders have given their views on Priority Services and all ideas on improving the scheme and raising awareness have fed directly into our strategy for customers in vulnerable circumstances. Our debt advice partners and our Affordability Advisory Group play on ongoing role in shaping tap (our tailored assistance programme for the financially vulnerable) and all ideas from our stakeholder survey and workshops on Priority Services and tap have also been included in our strategy. Information on all projects can be found in the appendices to supporting document 1.1.</td>
</tr>
<tr>
<td>Engaging on longer term issues, including resilience.</td>
<td>We made use of extended qualitative group discussions to inform customers of longer term issues. For the resilience project we developed scenarios to bring to life some of the possible longer term impacts of climate change, population growth and other risks such as cyber-crime. We also engaged our Young People’s Panel in group discussions around future proofing our services. Information on all projects can be found in the appendices to supporting document 1.1.</td>
</tr>
<tr>
<td>Understanding the needs and requirements of different customers, including customers in circumstances that might make them vulnerable.</td>
<td>We undertook a review to understand what effect different vulnerabilities have on engagement (financial, cognitive, mental health, disability with or without impact on</td>
</tr>
</tbody>
</table>
water services, language, literacy, isolation, inexperience, age, recent stress including bereavement, job loss). This can be found in appendix 1.1.AA. Vulnerable and seldom heard audiences feature in all our projects and we include separate activities to ensure their voices are heard, including face-to-face interviews with carers present. We set up the Young People’s Panel to engage with young people who will be bill payers of the future. Customers and stakeholders have given their views on Priority Services and all ideas on improving the scheme and raising awareness have fed directly into our strategy for customers in vulnerable circumstances. Our debt advice partners and our Affordability Advisory Group play an ongoing role in shaping tap (our tailored assistance programme for the financially vulnerable) and all ideas from our stakeholder survey and workshops on Priority Services and tap have also been included. Our strategy. Through the four workstreams of our strategy for customers in vulnerable circumstances we have delivered a number of successful initiatives to better identify customers who need support and raise awareness and increase uptake of that support. We have set out our plans under these four workstreams in our strategy which can be found in supporting document 2.1. Information on all projects can be found in the appendices to supporting document 1.1.
2. ADDRESSING AFFORDABILITY and VULNERABILITY
This business plan has drawn on key insights from our continuous engagement about affordability and value for money. It delivers improvements in areas of service that matter most to customers, including significant investment in the environment, while at the same time making water bills affordable for all. We will:

- cut bills in 2020 so that they are 7% lower than the current level in real terms
- increase our help for those in financial hardship. One in 15 households will receive a reduced bill through our award-winning tailored assistance programme (tap).

Under the guidance of our expert Affordability Advisory Group we will continue to co-deliver tap with the independent debt advice sector to maximise benefits to customers. We’ll continue to fund a range of local advice partners to increase uptake of tap, even in our hardest to reach areas, and to improve the financial capability of our customers.

We will improve utility affordability in more general terms by launching a free service that takes the hassle away from minimising customers’ energy bills by flipping their energy supplier for them. This service will also help us engage more meaningfully on helping customers to save on their water bills.

Every customer matters so our service will be fully inclusive and accessible to all and our staff will be skilled and empowered to go the extra mile.

Our offering will meet the often complex needs of our customers. This will be achieved by co-creating our services with our advice partners, and by their endorsement.

We will raise awareness of our support and increase uptake of both tap and Priority Services through the four workstreams of our strategy for customers in vulnerable circumstances, ‘Every Customer Matters’.

- Using data wisely.
- Growing partnerships.
- Community engagement.
- Improving the customer journey.

We will increase our wider assistance to reduce bills through our home checks.
In this section, we demonstrate that Wessex Water’s bills for 2020-25 and beyond are affordable and value for money. We describe the way that we identify and provide support for those in vulnerable circumstances, including assistance options we have put in place for those who are struggling to pay; our strategy for customers in vulnerable circumstances now and for the future and our bespoke performance commitments for vulnerable customers.

Section contents

2.1 Introduction

**Affordability and value for money**

2.2 A plan based on insights
2.3 Affordability 2020-2025
2.4 Affordability beyond 2025
2.5 Affordability for the financially vulnerable
2.6 Making a difference with tap - our tailored assistance programme
2.7 Governance and assurance
2.8 Co-delivery through partnerships
2.9 Improving utility affordability
2.10 Ofwat’s five principles to assess affordability

**Delivering for people in vulnerable circumstances**

2.11 Vulnerability – not just financial
2.12 Our vulnerability initiatives
2.13 Our vulnerability plans for 2020 to 2025
2.14 Ofwat’s good practice and principles to assess vulnerability support

**Where to find further information**

Supporting information for various aspects of this section are provided as below:

<table>
<thead>
<tr>
<th>Ref.</th>
<th>Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>Supporting document 2.1</td>
<td>Strategy for customers in vulnerable circumstances – Every Customer Matters</td>
</tr>
<tr>
<td>Supporting document 2.2</td>
<td>Information strategy</td>
</tr>
<tr>
<td>Supporting document 2.3</td>
<td>Analysis of affordability by income decile</td>
</tr>
</tbody>
</table>
2.1 Introduction

Two of our key priority areas are: ensuring bills are affordable for all now and in the long term; and providing excellent service to all customers, including those in vulnerable circumstances. This plan delivers on those promises.

Our Customer Challenge Group, the Wessex Water Partnership, has provided a qualitative assessment of affordability and vulnerability in their report.

We provide evidence that we meet Ofwat’s principles and best practice recommendations set out in the Vulnerability Focus Report 2016 in which we feature.

We will:

• cut bills in 2020 so they are 7% lower than the current level in real terms
• make water affordable for all by increasing our help for those in financial hardship – one in 15 of all households will receive a reduced bill tailored to meet their individual financial circumstances
• continue to co-deliver our schemes with the independent debt advice sector to maximise the benefits to customers
• increase our assistance to reduce bills through home checks
• continue to implement our strategy for customers in vulnerable circumstances through our four key workstreams
• increase the number of customers on Priority Services so we can take full account of their needs at all times
• accelerate the removal of lead pipes so that our network is lead-free by 2040.

2.2 A plan based on insights

We’ve drawn on key insights derived from our continuous engagement with customers on the subject of affordability and value for money.

Insight 1: concerns about the economy and household finances remain

Household finances are still a concern for many. Around a quarter of our customers believe they are going to be worse off in the next 12 months.

Our customers’ views on the future of the economy remain, on the whole, negative with our latest Image Tracker showing that around three in 10 customers think the economic climate will deteriorate in 2018 vs 2017. And our customers of the future are concerned about cost of living, employment prospects and lack of affordable housing.

This gloomy outlook is backed up by PwC’s November 2017 UK Economic Outlook which highlights a squeeze in consumer spending power from higher inflation and modest wage growth.
General attitudes to affordability are at similar levels to those we saw for our PR14 engagement, with 8% of customers telling us that they are unable to afford our charges.

In response, we will reduce bills and significantly increase the reach of our tailored affordability support.
Insight 2: customers support innovation

We know, from the engagement on our Strategic Vision, that most customers support us trying less proven but less expensive approaches for delivery such as catchment management as a way of limiting the impact on bills.

We have worked with the Environment Agency to find new alternative ways of delivering the environmental programme. This has saved more than £100m on our investment programme whilst delivering better environmental outcomes.

Insight 3: customers are willing to pay for service improvements

The majority of customers will choose service increases above bill reductions.

This plan delivers significant improvements in areas that matter most to our customers.

Figure 2-3: Preferred bill options (Source: Magazine survey, 2017)
Insight 4: customers like certainty

Customers prefer stability in bills. They are content not to pay for all expenditure in the year that it is incurred to avoid a rollercoaster from one year to the next.

We know that this is particularly important to customers on fixed incomes or who are reliant on state benefits.

In smoothing revenues we have also been mindful of the level of revenue required to maintain interest covers as discussed in section 10, *Financeability*.

Our bill profile balances these priorities by being as close to inflation as possible with small changes from one year to the next.

Insight 5: we should offer better value for money

And finally, our latest Image Tracker shows that only 70% of our customers find their water and sewerage services 'value for money'.

We have tested our plan with customers and 93% say it offers good value for money which is more than 20% higher than our current rating.
2.3 Affordability 2020-2025

Our business plan will deliver improvements in the areas of service that matter most to customers including significant investment in the environment but will do this alongside an initial cut in bills and then rises slightly above inflation.

We have done this by passing back efficiencies achieved in this period to customers, setting challenging, forward-looking efficiency targets and by accepting lower returns for investors.

We explain our chosen bill profile in more detail in section 9.12.
Figure 2-6: Average household bills

![Average household bills graph showing planned bill in real terms, planned bill in cash terms, and current bill level increased by inflation every year.]

Figure 2-7: Why bills are changing (2018-19 prices)

![Why bills are changing graph showing contributions from financing, past efficiency, future efficiency, and improved service and standards.]
What our customers have told us

This plan started and finished with customers’ views.

We tested the plan thoroughly over two phases in terms of its acceptability, affordability and value for money, with household customers, including those who find life more financially challenging, business customers, retailers and other stakeholders.

Detail of the findings can be found in section 1, supporting document 1.1 and appendix 1.1.O.

In summary:

- 96% of customers told us they find our plan acceptable.
- 93% of customers told us our plan offers good value for money.
- 92% of customers told us they find our plan affordable.

Affordability levels are high for all sub-groups but are slightly less so amongst those in vulnerable circumstances, due to their personal financial circumstances and those aged 25-34. Nevertheless, they still exceed 80% for these groups.

Figure 2-8: Informed affordability of our business plan (Source: Acceptability testing, Phase 2, Populus, 2018)

(Note: arrows show any significant difference by subgroup)
2.4 Affordability beyond 2025

Our plan is designed to be affordable to all our customers both now and in the long term. We’ve considered our long-term potential future investment plan.

It is unlikely that the cuts to investor returns that have helped facilitate bill reductions between 2015 and 2025 can be repeated. This means there will be long-term upwards pressure on bills to maintain a growing asset base, deliver further ambitious environmental improvements and enhance the resilience of wastewater services.

There is also upward pressure in the near-term on bills as the industry funding model moves more fully towards a CPIH based model from the previous RPI approach. Therefore, it is expected that bills will increase after 2025 in real terms.

We must therefore continue to innovate and find new ways to deliver. By doing so we can keep future bill changes below projected changes in earnings in the economy so that the improvements in affordability achieved in this five-year plan are maintained. This is illustrated in the chart below.

Section 6 of this document explains how we will seek to deliver long-term innovation.

Figure 2-9: Longer-term projection of bills versus income

- Expected real average earnings growth
- Forecast bill after future innovation (2018-19 prices)
- Forecast average household bill (2018-19 prices)
- Index = 100
2.5 Affordability for the financially vulnerable

Although our business plan is affordable for the majority of customers, the financially vulnerable will continue to need support so that we are affordable for all.

Independent data

‘Behind on the basics’ (May 2018), the latest research from one of our partners StepChange, shows that 140,000 or two in five of their clients were behind on at least one of their essential household bills in 2017. They estimate that across Great Britain more than 3 million people fell behind on their essential household bills in the last 12 months.

The report also highlights that certain groups are particularly at risk of falling into arrears, including people with a vulnerability and younger people who are more likely to see a squeeze on incomes, rising living costs and insecure work. 9.3 million people used credit to cover household needs, up from 8.8 million in 2016.

Wessex Water data

While we estimate our 2019 average bill will be c.1.6% of the UK median household disposable income we recognise that customers with the lowest incomes in our region will continue to pay a significant proportion of their income on their water bills.

Detailed analysis of our own data suggests that for the bottom decile, on average their bill may be as much as 7% of their disposable income after housing costs.

We will therefore take further measures in this plan to improve affordability for those on the lowest incomes.

Using data wisely

We have been analysing deprivation data for some time. We have identified areas where our social tariff reach is not as wide as we would expect and have worked with our partners in the debt advice sector to help target those areas.

We fund hard to reach projects across our region with our partners to raise awareness and increase uptake of our affordability support.

We will continue to develop our use of internal and external datasets on incomes and other vulnerability and affordability indicators at a postcode level. By layering datasets together, we can build up a customer-level understanding of vulnerability, targeting our social tariffs effectively, improving our proactive and reactive customer-service offering and achieving our targets and aspirations across our affordability, vulnerability and customer service strategies.
Tailored assistance programme (tap)

All of this evidence speaks to the importance of our willingness, ability and commitment to working with financially vulnerable customers.

We believe that our award winning tailored assistance programme (tap) is one of the most extensive, innovative and mature affordability support programmes across the water industry.

Through tap we offer customers a range of schemes and very low-rate tariffs to enable them to afford their ongoing water charges and repay their debt, along with practical help to reduce water and energy bills. Each customer is provided with a tailored solution to meet their own financial circumstances.

The following pages provide an overview of tap. A comprehensive description of the history, development, co-delivery, and current and future initiatives can be found in our strategy for customers in vulnerable circumstances, supporting document 2.1. Future initiatives are set out in section 2.13.
**Figure 2-11: Our tailored assistance programme (tap)**

**Affordability advisory group**

**Water Direct**

**Assist**

**Pension Credit Discount**

**Restart**

**Payment holidays**

**Money Matters Awards**

**Hard to reach projects**

**Debt advice grants**

**Flexible payment plans**

**WaterSure Plus**

**Free water meter**

---

**The values that inform our strategy for customers in vulnerable circumstances - financial vulnerability**

- Water-use should not be rationed by a customer’s ability to pay.
- We encourage engagement with customers who are financially vulnerable.
- We build relationships of mutual trust with advice agencies/partners.
- We support a holistic approach to debt management.
- We offer tailored solutions with flexibility to meet individual financial circumstances.
- We prefer a sustainable and affordable level of payment of whatever size to no payment at all.

**2.6 Making a difference with tap**

We are currently supporting just under 40,000 customers on tap, including 35,000 who benefit from a social tariff. The number of customers supported through the programme is growing on average by 30% each year.

Many of our customers use a number of the following tap schemes together.

**Assist tariff**

Assist was introduced as a win-win tariff in 2007, the first in the industry. Through customer consultation we gained support for a cross subsidy of up to 50p to £1 but the tariff remains virtually self-financing due to the delivery model we have chosen to use working with the debt advice sector.
Assist offers bill discounts of up to 90%. The average bill reduction for customers on the Assist tariff is around £220. These customers contribute, on average, £50 more than they did before, which is more than the cost of administering the tariff.

Restart
Restart changes payment behaviour. It helps customers repay their debt and get back on track. More than 90% of customers who have completed the 2-year scheme continue to engage and pay their ongoing charges.

WaterSure Plus
WaterSure Plus is an enhancement to the government mandated WaterSure scheme with bills capped at the average for a metered customer. There is currently a 27p cross subsidy for WaterSure Plus.

Pension Credit Discount
We give customers on Pension Credit or whose only income is the state pension a discount of around 20% off bills. We have an agreed cross subsidy of £3.50 for our Pension Credit Discount and the current cross subsidy is only 43p. The average bill reduction is around £90.

Assist for organisations
This is available to not for profit organisations, so they can pass bill discounts on to vulnerable young adults on low incomes moving out of the care system.

Shorter-term help
Some customers may only need help for a short while. Our range of flexible payment plans, and payment holidays provide that breathing space.

Ambitious targets
Through this business plan and delivery of our strategy for customers in vulnerable circumstances, we will more than double the number of customers receiving discounts through social tariffs from 35,000 to 85,000 by 2025.

By 2025 we will provide £11.2m in discounts to customers on social tariffs.

Further detail of our performance commitments can be found in section 7, Markets and innovation: Retail and section 3, Delivering outcomes for customers along with supporting documents 3.1.A and 3.1.B.

Awards for tap
Awards include a Social Policy award from Citizens Advice and the Queen’s Award for Sustainable Enterprise. We were recently highlighted in the Money Advice Service Strategic Toolkit for Creditors as an example of best practice. We hold the Customer Service Excellence Award and our affordability work was highly commended.

Case study - turning lives around
A Wessex Water customer in her 20s posted on an online forum about her experience with debt.

“I've been in debt since I was 18, and it's got well out of control. I got myself into around £10-12,000 worth of debt, and I'm really quite ashamed. I'm now 29. I can't go on living this way. I'd love to buy my own house one day and be able to save a decent retirement fund.

“Now I've looked at the bigger picture and got some fantastic advice and ideas from wonderful people. They're so lovely, I spoke to three different people, and I didn't feel I was being judged. My anxiety levels were actually pretty low. When I was on the phone to the water company I felt quite comfortable. The lady was so lovely about it all.

“My plan was 'debt free by 39' – but it looks like it's going to be 'debt free by just after 30' – I don't think I've ever felt so happy!”
2.7 Governance and assurance

Affordability Advisory Group (AAG)

In 2013, we set up our expert Affordability Advisory Group to oversee:

- the range of support we offer via tap
- delivery and effectiveness of that support
- acceptability of the cross subsidy for our social tariffs
- expert guidance on how to improve our affordability offering in the future
- expert guidance on how to raise awareness and increase uptake.

The AAG has confirmed that our affordability offering fully meets the needs of our low-income customers.

The AAG was instrumental in the introduction of our Pension Credit Discount and the development of our wider strategy for customers in vulnerable circumstances and associated workstreams, detailed in section 2.13.

The AAG panel reports into the Wessex Water Partnership and has some common members for consistency.

Members include independent experts in debt advice or welfare reform:

- Professor Elaine Kempson (emeritus professor and government adviser)
- the Money Advice Trust
- Citizens Advice
- Christians against Poverty
- StepChange
- the Consumer Council for Water
- our senior independent non-executive director, Gillian Camm.

The AAG has endorsed our strategy for customers in vulnerable circumstances as thoughtful and comprehensive and a copy of their statement can be found in supporting documents 2.1.A and 12.4.

Affordability and Vulnerability sub-group

The Affordability and Vulnerability sub-group of our customer challenge group, the Wessex Water Partnership, was set up to focus on this key area and offer challenge.

It is made up of members of the Partnership with relevant expertise in this area including:

- the Money Advice Trust
- Citizens Advice
- Advice UK
- the Consumer Council for Water.

The group has met three times during 2018 to review and challenge us on this area. The group has helped shape our strategy for customers in vulnerable circumstances and endorsed it.

2.8 Co-delivery through partnerships

Partnerships with independent debt advisers

Customers who need the most support from us, such as the large discounts available on our Assist tariff, are required to seek independent debt advice face to face, online or over the telephone.

We’ve developed very successful partnerships over the years with the debt advice sector and other organisations supporting customers in vulnerable circumstances.

Our first was with a local Citizens Advice Bureau just outside Bath in 2005. We’ve gone on to partner with all Citizens Advice across our region as well as StepChange, National Debt Line, Christians Against Poverty and many other local, independent debt advice agencies including cultural, faith and niche organisations, and tenant support workers in housing associations and councils.

We signpost to and fund these agencies, as we believe it’s essential that customers receive holistic debt advice and budgeting support along with income maximisation. It is never just about water. Customers
generally have multiple debts to multiple creditors.

These trusted third parties are far better able to determine a sustainable offer of payment, however small, based on true ability to pay.

Partners have also played an integral part in the co-design of tap and our wider strategy for customers in vulnerable circumstances.

According to the recent review of debt advice by Peter Wyman, of the eight million people or more struggling with debt, only about 1.1 million receive advice.

Through delivery of this plan we will continue to partner with the advice sector to make sure customers in our region can access independent, free holistic advice when they need it. We expect to receive at least 2,300 successful applications for affordability support from our partners each year.

**In-home debt advice**

For those customers who cannot or will not access independent debt advice we will continue to provide our own in-home service with specially trained members of staff.

We promote Turn2Us on our website for those customers seeking information on benefits and grant funding and we are currently developing a more direct referral pathway with them.

**Staff training**

Our frontline staff have been through specialist training with the Money Advice Trust to better spot and understand the signs of financial difficulty.

They are empowered and confident to find the best solution for the customer through tap, depending on their financial circumstances, to prevent them from falling into debt and to ensure their ongoing bills are affordable.

**Funding our debt advice partners**

We’ve been funding debt advice partners who complete a financial budget and refer onto tap since 2005 as we recognise we are increasing their footfall. The funding model, developed with Citizens Advice, rewards and incentivises successful applications.

In addition, we fund community-based, hard to reach and financial capability projects.

Where possible we share learning from our projects so that others may benefit locally and nationally. In addition, we will be providing further funding for independent debt advice and benefits assistance through our new independent community fund, the Wessex Community Foundation.

**Hard to reach and financial capability projects (Money Matters)**

Organisations face the same challenges as us in attempting to engage with customers. Many cannot afford to offer sufficient local, community-based outreach services. We also live in a society where insufficient financial capability and budgeting support is available.

We’ve used our own data to help organisations identify hotspots in their geographic areas where outreach services would be most beneficial. So far, we’ve funded 12 projects aimed at raising awareness and increasing take-up of assistance amongst our hardest to reach customers.

Through Money Matters, delivered in partnership with the Quartet Community Foundation, we’ve so far funded 33 projects to improve financial capability and budgeting skills amongst a diverse range of customer groups across our region.

We actively encourage organisations to test new and innovative approaches, with no penalty for failure, as this is about identifying solutions that work.

We’re working with the Money Advice Service (MAS) to document the evaluations from each of our projects and MAS has committed to providing an independent
review and publishing evidence on their hub where it can.

Examples of innovative projects we’ve funded are included in our strategy for customers in vulnerable circumstances.

2.9 Improving utility affordability

We have analysed the potential impact of our proposals on affordability, making use of a third-party dataset of average household income at a granular level.

Our analysis shows that the targeted growth in social tariffs will materially improve the situation of customers with the lowest incomes. We estimate that the average bill as a % of household disposable income will fall for the bottom decile from 7% in 2017-18 to around 5% in 2024/25.

This is contingent on us not only meeting our performance commitment targets but also ensuring our support helps those most in need. More detail on this analysis is included in supporting document 2.3.

It is clear that, given the level of income inequality in the UK, we are unlikely to be able to solve this problem. However we can do all we can to help:

• By 2019-20 a significant proportion of the bottom decile will be on a social tariff, or receiving the support they need to be able to afford their bill on an ongoing basis.

• Our partnership working will look wider than water, aiming to reduce more bills than just water for customers and educate and inform communities in our region on water efficiency and financial management.

Our affordability work has taught us that looking at water and sewerage services in isolation limits our impact. We also understand that the pace of technological change means that the traditional water retail experience will quickly become outdated.

We’ve therefore looked wider to see what steps we can take to evolve the water retail model into one that gives customers greater choice over a wider scope of services, and that will generate further opportunities to engage with our customers to help deliver the outcomes in this plan.

With this in mind we will shortly be launching a new, free energy switching service, exclusively to Wessex Water customers. This will improve utility affordability in more general terms by taking the hassle away from minimising energy bills by regularly flipping their energy supplier for them.

As a water retailer it will also assist us to engage more meaningfully in helping customers to save on their water bills. Any surplus generated from the service will be recycled into schemes that improve affordability, such as social tariffs.
### 2.10 Ofwat’s five principles to assess affordability

Ofwat uses five principles to assess affordability. A summary of how our approach meets them is given below.

<table>
<thead>
<tr>
<th>Principle</th>
<th>Description of principle</th>
<th>Summary of how we meet the principle</th>
</tr>
</thead>
</table>
| Customer engagement      | Quality of engagement with customers and third-party organisations on addressing affordability. | Business plan is based on sound customer insights – see section 2.2.  
Very high levels of support for the plan through our Your Say Your Future engagement programme. Thorough and innovative testing of the business plan with all customer groups including robust samples of seldom heard and low-income customers – see section 1, supporting document 1.1 for a summary of our customer engagement and appendix 1.1.O for details of the acceptability testing.  
Social tariff research to confirm eligibility and acceptable level of cross-subsidy for our social tariffs - see supporting document 1.1 for a summary of our customer engagement and appendix 1.1.A for details of our comprehensive social tariff research.  
Partner survey and co-creation workshops - see section 2.13 and appendix 1.1.Q.  
Ongoing partnerships and co-creating innovative affordability support - see section 2.13.  
Expert Affordability Advisory Group - see section 2.7. |
| Customer support         | Customers’ views on the company’s proposals for addressing affordability.                  | Very high levels of support for the plan through our Your Say Your Future engagement programme. Thorough and innovative testing of the business plan with all customer groups including robust samples of seldom heard and low-income customers – see section 1, supporting document 1.1 for a summary of our customer engagement and appendix 1.1.O for details of the acceptability testing.  
Social tariff research - see supporting document 1.1 for a summary of our customer engagement and appendix 1.1.A for details of our comprehensive social tariff research. |
| Effectiveness            | How well the company’s proposed approach will improve affordability.                        | Evidence to show effectiveness of our affordability schemes in terms of bill reductions, improved cash collection, low cross subsidies – see section 2.6.  
Evidence of payment behaviour change through our Restart programme – see section 2.6.  
Impact of hard to reach and financial capability funded projects – see section 2.8 and supporting document 2.1. |
2.11 Vulnerability – not just financial

So far, we’ve described one element of our strategy for customers in vulnerable circumstances, namely how we support those in financial vulnerability through tap.

But this is just one example of a vulnerable circumstance. We know that people don’t like to think of themselves as vulnerable and most think the term could never apply to them. The reality is that anyone can find themselves in vulnerable circumstances at any time.

Vulnerability can be transitory or long term. It may be due to age, physical or mental ill health, disability, literacy, digital exclusion or life events such as divorce, bereavement - all with short or long-term effects.

That is why the starting point for us is not to define or categorise our customers but to
build a service on the basis that every customer matters, always.

Our staff are trained and empowered to identify signs of vulnerability. We give them the right ‘tools’, confidence and awareness to deal with complex situations they may come across. And through our many and varied partnerships with and funding of other support agencies, our customers can access holistic advice and services.

The service ethos of going the extra mile for our customers runs right through our business and we excel in customer service having been top of the SIM in all but one year since its inception. We have also achieved and retained a number of external accreditations for our service.

We are proud, not just of the future plans set out in our strategy, but of our existing substantial track record in service delivery for customers in vulnerable circumstances and the deep well of experience we have across the spectrum of activities designed to support them.

Figure 2-12: Our approach to customer care
The values that inform our strategy for customers in vulnerable circumstances – non-financial vulnerability

- We are committed to delivering customer care and service tailored to the individual.
- Our service is inclusive and accessible to all.
- We give staff the right tools, training, confidence and awareness to spot the signs of vulnerability and deal with complex situations.
- We maximise opportunities for partnership working with other customer support organisations across our region.

Priority Services
We have a Priority Services scheme for those customers with disabilities or additional needs that we need to take account of in our day-to-day activities such as billing, communications and supply interruptions.

We designed the scheme to meet the widest possible range of needs and have ensured that these can evolve in the years to come.

23 charities and organisations have reviewed these services over the last year – in some cases helped us to design them – and have given us permission to display their logo in our strategy by way of endorsement.

This includes local and national organisations such as Mind, Kidney Patients UK, Action on Hearing Loss, Dementia Action Alliance, Macular Society, Disability Rights UK, Citizens Advice, the British Disabled Angling Association and Avon and Somerset Police.

Future context
The number of people living with dementia is set to rise to more than one million nationally by 2025 and currently one in four people suffer some sort of mental ill health in any one year.

One in six of the population suffers from some form of hearing loss and around five million adults have literacy levels of an 11-year old.

The number of people with sight loss is expected to double by 2050. The number of people over the age of 60 is expected to rise to 20 million by 2030.

Our aim is to be proactive
We need to continue to be proactive in raising awareness of Priority Services and tap and it’s essential that we continue to take every opportunity to encourage customers who need additional support to sign up.

Our four key workstreams, as shown in Figure 2-13
There are four workstreams in our strategy, overseen by a dedicated senior manager working group, to help us raise awareness and increase take up of both tap and Priority Services. These were set up in 2013 under the guidance of our Affordability Advisory Group.

1. Using data wisely
2. Growing partnerships
3. Community engagement
4. Improving the customer journey

Our overall approach, along with initiatives within these four workstreams, very much aligns with the principles for the role of customer data in the water sector set out in Ofwat’s ‘Unlocking the value in customer data’ report.

A copy of our full information strategy is set out in supporting document 2.2.
Figure 2-13: The four workstreams of our strategy

1. Using data wisely
   this helps us assess the effectiveness and uptake of our support and identify and target activity proactively and effectively

2. Growing partnerships
   this workstream is designed to increase the number and variety of our partners and to work with them in a way that suits them to best engage with their clients, who are our customers.

3. Community engagement
   to extend our reach and engagement across communities to break down barriers to engagement and reach those who might otherwise not have been heard.

4. Improving the customer journey
   to make it as easy as possible for customers to know about and access our support through the channel of their choice and to have an excellent customer experience.
2.12 Our vulnerability initiatives

Through delivery of our strategy for customers in vulnerable circumstances and initiatives within the four workstreams, we’ve seen an uplift of around 30% each year on both tap and Priority Services.

Customer satisfaction levels remain high and our latest Image Tracker shows 86% of customers feel we treat them fairly.

More detail about all our current initiatives is set out in our strategy and is illustrated by the following case studies.

Case study: growing partnerships and community engagement – Partner Hub

We launched our innovative, digital Partner Hub in April 2018 as part of our drive to improve two-way digital engagement, increase opportunities for self-serve and overall better serve our growing number of partners. The Hub has been co-created with our partners and tested for its suitability.

The Hub offers our partners the ability to order a range of free, standard or bespoke resources to raise awareness of our customer support schemes. It includes information on our schemes with links to online application forms, news bulletins and newsletters and information on our funded community projects including evaluation and learning and online application for funding.

It also provides details on community events and a booking service for Wessex Water staff attendance at events and free training.

Case study: improving the customer journey – mental health training

We worked with Wiltshire Mind to develop an engaging and bespoke mental health training package delivered to all customer facing staff either via face-to-face classroom style training or by e-learning.

We also published a version of our mental health training video online and on social media to raise awareness of this very important topic. The animation was based on drawings done by consumers with mental ill health.

Case study: using data wisely and growing partnerships – Wellington Healthy Homes project

As part of a joint initiative with Western Power Distribution (WPD) we have been working with Wellington Medical Centre, the Centre for Sustainable Energy (CSE) and Taunton Deane Borough Council to reach and support vulnerable households suffering the health impacts of a cold home.

Customers were selected by matching health data from the medical practice and household energy performance data from CSE.

We promoted the scheme to our existing Priority Services Register customers in that local area, offering face-to-face or telephone advice and support such as energy crisis packs, energy saving, water saving and benefits advice.

This initiative has allowed both ourselves and WPD to target information to key individuals without needing to go through data sharing requirements.

Case study: growing partnerships – working with foodbanks

We’ve been working with a range of foodbanks across our region, including the Trussell Trust, to support some of our poorest families.

We train their volunteers, so they know what support is available to their clients and can encourage them to apply. We also include promotional flyers within food bags along with water bottles.

Staff have enjoyed going along and packing and distributing food parcels as part of our Water Force volunteering programme and we’ve agreed to save empty boxes in our Operations Centre for parcelling up food.
And it does make a difference. A single mum who visited the Melksham foodbank got in touch after receiving one of our flyers. She is now on tap which has been a great relief to her and her family.
2.13 Our vulnerability plans for 2020-2025

Co-creation with customers and stakeholders

‘Seldom heard’ or ‘customers in vulnerable circumstances’ feature heavily in all our customer engagement and our partners play a continued role in the co-delivery and co-creation of our customer support.

To check and inform our strategy for customers in vulnerable circumstances moving forward, we have undertaken customer and stakeholder engagement as follows:

- Two pieces of qualitative research to:
  - ascertain customers’ overall views of the services we currently offer under Priority Services, including during service interruptions such as no water
  - identify potential improvements to Priority Services for the future
  - identify ways we can promote Priority Services in the future.

- An online survey and interactive workshops with our advice partners to:
  - seek views on the value and effectiveness of our partnerships
  - co-create improvements to our offering for customers in vulnerable circumstances and ways to raise awareness and increase take-up of support.

This is in addition to the day-to-day, multi-channel feedback we receive on our customer service which feeds directly into our continuous improvement programme, overseen by our Customer Experience Group.

Case study: results of qualitative research by Blue Marble

Customers often have multiple and complex needs.

They expect high quality priority customer service and are pleased to hear the depth and breadth of support available through our Priority Services as well as the peace of mind it offers.

Customers expect us to keep their needs up to date at all times and be proactive in the offer of services. We should make sure all communications are easy to understand, available in alternative non-digital formats and offer warm voice call centres.

For those with difficulty paying, they expect alternative payment options and understanding over late or missed payments.

Customers suggested a number of ways we can build awareness of the PSR, maximise the touchpoints with customers, enhance the services provided under PSR, improve communication, make better use of data and grow new partnerships. A full copy of the research can be found in appendix 1.1.P.

All recommendations have fed into our strategy for customers in vulnerable circumstances.
Case study: partner survey and workshops

The online survey was overwhelmingly positive with, on average, 95% of our partners happy with the way we work with them including accessibility of our staff and our offering for customers.

All ideas from the co-creation workshops around improving communication, growing promotional opportunities, increasing diversity of partners and improving the application process have also fed directly into our strategy for customers in vulnerable circumstances. Members of the Wessex Water Partnership attended the sessions.

More detail can be found in appendix 1.1.Q.
During our acceptability testing we took the opportunity to ask customers in vulnerable circumstances about tap and Priority Services while we were interviewing them in their homes.

There was quite low awareness of both schemes although some customers admitted to receiving help but not knowing through which scheme.

They suggested there are barriers to engagement and many are fearful of getting in touch particularly if they are in debt.

Anything we can do to “myth bust” those fears would be helpful. They also encouraged us to make sure the application process is simple and easy to use.

Customers suggested a number of trusted third parties who we might want to work with to promote our support schemes such as specific disease/disability clinics which have also fed into our strategy for customers in vulnerable circumstances.

Further detail can be found in appendix 1.1.O.
What we will do

We’ll continue to focus on the four workstreams of our strategy identified in 2013, whilst expanding and evolving our activities in each of them from now to 2025, as summarised below.

<table>
<thead>
<tr>
<th>Workstream</th>
<th>From now to 2025 we will</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Using data wisely</td>
<td>Evolved data mapping&lt;br&gt;To help us assess effectiveness and uptake of our support and identify and target activity proactively and effectively.</td>
</tr>
<tr>
<td></td>
<td>We will build on and develop our extensive data mapping using our own and external sources of information such as socioeconomic status, benefits data, disposable income, health measures, conditions and disabilities as well as local authority data on free school meals and benefit recipients. We will layer this data to get a comprehensive view of affordability and vulnerability at the customer level. This will help us identify customers in vulnerable circumstances, target our information campaigns, and quantify the proportion we are already supporting. By sharing the data with our partners, we will continue to help them identify hotspot areas and target outreach services. We will also work on embedding this intelligence into our systems, improving how we make decisions and how we identify customers in vulnerable circumstances in real-time.</td>
</tr>
<tr>
<td></td>
<td>Full use of data sharing&lt;br&gt;We will target our social tariffs and discounts by making full use of data sharing (based on the Digital Economy Act) and data mapping with the Department of Work and Pensions.</td>
</tr>
<tr>
<td></td>
<td>Early adopter&lt;br&gt;We will increase the number of customers registered for Priority Services by developing additional local energy data sharing pilots and by early adoption of national data sharing with energy companies. Customers should only need to tell their water and energy providers once.</td>
</tr>
<tr>
<td></td>
<td>Identify, tailor and communicate&lt;br&gt;In order to better identify customers in vulnerable circumstances and allow us to tailor our communication and collections more effectively we will introduce more sophisticated segmentation within our billing and debt recovery systems utilising multiple internal and external data sources.</td>
</tr>
<tr>
<td></td>
<td>Behavioural insights&lt;br&gt;Behavioural insights such as payment behaviour and contact frequency help us to identify customers who need additional support. We will use behavioural techniques such as ‘nudging’ to encourage take-up of services such as tap or Priority Services.</td>
</tr>
<tr>
<td></td>
<td>Monitoring developments&lt;br&gt;We will follow national and local developments (such as the national roll-out of Universal Credit) that have the potential to increase or decrease the vulnerability of our customers and continuously assess their implications for our work.</td>
</tr>
<tr>
<td>Workstream</td>
<td>From now to 2025 we will</td>
</tr>
<tr>
<td>------------</td>
<td>--------------------------</td>
</tr>
<tr>
<td><strong>2. Growing partnerships</strong></td>
<td><strong>Continuing evolution</strong></td>
</tr>
<tr>
<td>Increasing the number and variety of partners and working with them in a way that suits them to best engage with their clients.</td>
<td>We will continue to learn from and directly involve our partner organisations and stakeholders, including our Affordability Advisory Group, in the ongoing evolution of our support for customers in vulnerable circumstances.</td>
</tr>
<tr>
<td><strong>National groups</strong></td>
<td>Membership of national forums such as the Money Advice Service ‘Debt Advice Operational Group’ illustrates our support for work in the area of vulnerability at a national level and gives us the opportunity to champion the needs of our water customers in vulnerable circumstances.</td>
</tr>
<tr>
<td><strong>Debt advice funding</strong></td>
<td>To maximise the efficiency and effectiveness of our partner referral process we will:</td>
</tr>
<tr>
<td>• continue to fund debt advice partners across the Wessex Water region</td>
<td>• continue to fund debt advice partners across the Wessex Water region</td>
</tr>
<tr>
<td>• fund a new independent community fund – Wessex Community Foundation – to deliver additional funding for independent debt advice</td>
<td>• fund a new independent community fund – Wessex Community Foundation – to deliver additional funding for independent debt advice</td>
</tr>
<tr>
<td>• keep our referral funding model under review working with Citizens Advice</td>
<td>• keep our referral funding model under review working with Citizens Advice</td>
</tr>
<tr>
<td>• continue to provide a dedicated relationship manager to support partners</td>
<td>• continue to provide a dedicated relationship manager to support partners</td>
</tr>
<tr>
<td>• continue to run annual workshops to share and learn and other regular 1-2-1 or group discussion forums</td>
<td>• continue to run annual workshops to share and learn and other regular 1-2-1 or group discussion forums</td>
</tr>
<tr>
<td>• continue to provide free training for all paid and volunteer advisers on our support schemes.</td>
<td>• continue to provide free training for all paid and volunteer advisers on our support schemes.</td>
</tr>
<tr>
<td><strong>Community project funding</strong></td>
<td>We will continue to fund a variety of hard-to-reach and financial capability (Money Matters) community projects focusing on schemes we have previously funded that are shown to be effective and innovative. This will include:</td>
</tr>
<tr>
<td>• assisting the development of financial capability work by debt advice agencies to prevent the onset or recurrence of debt problems</td>
<td>• assisting the development of financial capability work by debt advice agencies to prevent the onset or recurrence of debt problems</td>
</tr>
<tr>
<td>• ensuring those in the most deprived and hardest to reach areas are aware and can access our support schemes</td>
<td>• ensuring those in the most deprived and hardest to reach areas are aware and can access our support schemes</td>
</tr>
<tr>
<td>• working closely with the Money Advice Service (and its successor the Single Financial Guidance Body) and national debt advice bodies such as the Money Advice Trust, StepChange and Citizens Advice</td>
<td>• working closely with the Money Advice Service (and its successor the Single Financial Guidance Body) and national debt advice bodies such as the Money Advice Trust, StepChange and Citizens Advice</td>
</tr>
<tr>
<td>• wherever possible, assessing the impact and sharing learning from our funded projects both locally and nationally so that others may benefit.</td>
<td>• wherever possible, assessing the impact and sharing learning from our funded projects both locally and nationally so that others may benefit.</td>
</tr>
<tr>
<td><strong>Improved Partner Hub</strong></td>
<td>We will evolve our innovative Partner Hub based on user feedback with the objective of increasing the number of partners using it and maximising the opportunities for joint working and self service.</td>
</tr>
</tbody>
</table>
## Workstream  From now to 2025 we will

### Extended online application

We will ensure our online application service for advice partners remains up to date with the Standard Financial Statement and trigger figures and any other developments in delivery of debt advice.

### Increased partner network

Our network of partners already exceeds 100. We will extend and broaden this by creating further partnerships with cultural, religious, local niche groups, health centres and GPs, half-way houses, day care centres, Mumsnet, health visitors, midwives, Life Line, Neighbourhood Watch, motability centres and specific disease/disability clinics. We will continue to offer free training and promotional resources to all new partners and establish an effective way of working with them and their clients that suits them best.

### Referral opportunities

We will strengthen our partnership with Turn2Us moving from simple signposting to two-way referral. We will explore and develop direct referrals with other partners.

### Promotional resources

Our aim is to develop even more innovative, free and bespoke promotional resources for partners. As just one example, we are working with foodbanks to print affordability messages on food bags.

### In-home emergency service

We will explore partnerships with ‘red pull cord’ providers with the aim of offering a single in-home emergency service for our Priority Services customers. Any customer in need of help only needs to speak to one person to get that help.

### Data sharing

We will establish data sharing with credit reference agencies.

### Accredited agency

We will develop an accredited agency scheme with our debt advice partners allowing fast-track applications for those submitting the highest quality applications to tap.

### Joint projects

So as to reach customers in vulnerable circumstances and promote available support, we will develop and fund additional joint projects with partners such as local authorities, housing and social care providers and foodbanks, building on lessons learned from previous projects such as Wiltshire Council and Wellington Homes.
<table>
<thead>
<tr>
<th>Workstream</th>
<th>From now to 2025 we will</th>
</tr>
</thead>
<tbody>
<tr>
<td>3. Community engagement</td>
<td><strong>Stakeholder events</strong></td>
</tr>
<tr>
<td></td>
<td>We will continue to attend and support public and stakeholder events with our partners across our communities. We’ll use learning from other events and</td>
</tr>
<tr>
<td></td>
<td>community work to make them engaging and interactive, and we’ll promote them via our Partner Hub.</td>
</tr>
<tr>
<td></td>
<td><strong>Proactive advice</strong></td>
</tr>
<tr>
<td></td>
<td>Advice networks in the Wessex Water region include: Wiltshire Money, Bristol Older People’s Forum, Connecting Advice in Dorset, Help and advice across</td>
</tr>
<tr>
<td></td>
<td>Somerset, Somerset advice network, Advice UK, Advice Centres for Avon, Advice North Somerset, Bristol Financial Inclusion Forum. Continuing to work</td>
</tr>
<tr>
<td></td>
<td>proactively with these networks will increase the depth and breadth of our local partnerships.</td>
</tr>
<tr>
<td></td>
<td><strong>Community projects</strong></td>
</tr>
<tr>
<td></td>
<td>We will support community projects by providing staff volunteers through our Water Force programme.</td>
</tr>
<tr>
<td>4. Improving the customer journey</td>
<td><strong>Gold creditor</strong></td>
</tr>
<tr>
<td></td>
<td>Our aim is to become a Gold creditor under the standards set out in the Money Advice Service publication ‘Working collaboratively with debt advice agencies:</td>
</tr>
</tbody>
</table>
|                            | a strategic toolkit for creditors’.
<p>|                            | <strong>Build on distinction</strong>                                                                                                                                   |
|                            | Achieve ServiceMark from the Institute of Customer Service across all customer facing departments. This will build on the distinction currently held for our contact   |
|                            | centre.                                                                                                                                                     |
|                            | <strong>Post-event research</strong>                                                                                                                                     |
|                            | Continuous post-event research with customers – particularly those on Priority Services – gives us invaluable feedback on their experience of billing and         |
|                            | operational contact, which we can put to use in the continuous improvement programme that is overseen by our Customer Experience Group.                    |
|                            | <strong>Journey mapping</strong>                                                                                                                                             |
|                            | We currently analyse and map the customer journey associated with a range of our Priority Services in order to continuously improve the experience, reduce   |
|                            | customer effort and improve satisfaction. Any improvements to the registration process, communication and service delivery feed into our continuous improvement     |
|                            | programme overseen by our senior Customer Experience Group.                                                                                             |
|                            | <strong>Areas of focus in the future will include:</strong>                                                                                                              |
|                            | • access and registration (eg, single sign up for tap and Priority Services)                                                                                |
|                            | • digital opportunities such as providing photographic evidence                                                                                          |
|                            | • communication (general and during events)                                                                                                                 |
|                            | • the service experienced by customers across all vulnerable circumstances.                                                                                |</p>
<table>
<thead>
<tr>
<th>Workstream</th>
<th>From now to 2025 we will</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Continuous review</strong></td>
<td>We will continuously review the eligibility criteria for Priority Services, as well as the services that we offer for each vulnerable circumstance. We will use research to inform our product enhancement recommendations.</td>
</tr>
<tr>
<td><strong>Warm voices</strong></td>
<td>In order to develop more cross partner referral platforms and our work through advice networks, we will establish additional warm voice (hot key) transfer arrangements to advice partners.</td>
</tr>
<tr>
<td><strong>Filling the gap</strong></td>
<td>We will continue to provide an in-home service with specially trained members of staff for those customers who cannot or will not access independent debt advice and may be excluded from accessing tap.</td>
</tr>
<tr>
<td><strong>Specialist training</strong></td>
<td>We will build on our existing Going the Extra Mile (GEM) training programme and identify further opportunities for specialist training for our customer-facing staff following the success of training with Mind, Money Advice Trust, Samaritans and the Alzheimer’s Society. We will continue to develop elearning modules and information videos and continue to run our in-house vulnerability roadshows.</td>
</tr>
<tr>
<td><strong>Dementia friendly</strong></td>
<td>We already have a Dementia Alliance Action Plan and this will remain in place. Our targets are: to have 2,000 staff trained as Dementia Friends by 2020; for all newly-recruited customer-facing staff to be Dementia Friends; for all Wessex Water sites that have public access to be dementia friendly with dementia-friendly signs.</td>
</tr>
<tr>
<td><strong>Self service</strong></td>
<td>We will introduce additional and effective self-service capabilities on our customer billing portal and we will link this to tap and Priority Services.</td>
</tr>
<tr>
<td><strong>Smart conversations</strong></td>
<td>Conversational platforms such as Amazon Alexa are an opportunity for us to develop support for Priority Services customers.</td>
</tr>
<tr>
<td><strong>Innovative touchpoints</strong></td>
<td>We will identify further and more innovative touchpoints such as improved bill design, meter installations, welcome packs, signage, social media, van sides, giveaways that can be used to promote support services.</td>
</tr>
<tr>
<td><strong>Free energy switching service</strong></td>
<td>We will launch a new, free energy switching service exclusively for our customers. This new service will take the hassle away from minimising energy bills by regularly flipping supplier. We will recycle any surplus generated from commissions into schemes that improve affordability such as social tariffs.</td>
</tr>
</tbody>
</table>
Making a difference

As well as increasing the numbers benefiting from tap, we will increase the number of new customers on our Priority Services register by 2,200 per year.

This will be over and above the growth we will see through the national energy data sharing initiative due to go live in April 2020, of which we aim to be an early adopter.

We will also continue to hold the British Standard for Inclusive Service Provision (BS 18477) and the Customer Service Excellence award so we can ensure we offer a fully inclusive and accessible service.

Full details of our bespoke performance commitments can be found in section 7, Markets and innovation: Retail and section 3, Delivering outcomes for customers along with supporting documents 3.1.A and 3.1.B.

In addition, we will continue to hold the Louder than Words charter mark from Action on Hearing Loss and the Keep me Posted best practice mark.

We currently hold the Institute of Customer Service’s ServiceMark with distinction for our Contact Centre and we aim to achieve distinction in this accreditation across all customer facing areas of our business by 2025.

We will continue to be a dementia friendly utility and all existing customer facing staff will be Dementia Friends by the end of 2018. We will comply with the recently published Dementia Friendly Utilities Guide, in which we feature.

In the Customer Metrics table (APP4) we have forecast expected improvement in customer awareness of tap and Priority Services.

Other endorsements of our approach

We have held the Customer Service Excellence Award since 1995 and have been highly commended for our support for customers in financial difficulty as well as our overall level of customer service. We are also one of only a handful of companies nationally to retain the Queen’s Award for Enterprise for a third time.

Case studies of our Wellington Healthy Homes project and data sharing pilots with WPD and SSEN featured in the recent UKRN publication ‘Making Better Use of Data: identifying customers in vulnerable situations’, a report for water and energy companies.

We also featured as an example of good practice in the Money Advice Service publication ‘Working collaboratively with debt advice agencies: a strategic toolkit for creditors’.

2.14 Ofwat’s good practice and principles to assess vulnerability support

Ofwat’s Vulnerability Focus Report 2016

Wessex Water featured as a case study of best practice in the Vulnerability Focus Report.

In developing this plan, we undertook a full gap analysis against the principles of good practice set out in this report.

We also meet the good practice recommendations set out by other organisations or regulators including the Consumer Council for Water, the Financial Conduct Authority, StepChange and Citizens Advice when dealing with customers in vulnerable circumstances and have been invited to speak at a number of events on our approach.

Ofwat’s principles to assess vulnerability support

Ofwat uses three principles to assess vulnerability support, aligned to guidance in the Vulnerability Focus Report 2016.

Based on the approach and examples set out in this section and summarised in Figure 2-15, we believe we meet those principles.
Figure 2-15: How our approach aligns to Ofwat’s principles and good practice

<table>
<thead>
<tr>
<th>3 Principles</th>
<th>Vulnerability Focus Report</th>
<th>Workstream</th>
<th>Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td>How well companies use good quality data to understand their customers and identify those in circumstances that make them vulnerable</td>
<td>Working to ensure excellent care for all customers</td>
<td>Improving the customer journey</td>
<td>Communication/clear calls for action, Going the extra mile, Specialist training, Empowered and confident staff, Multi-channel contact, Outcome driven customer journeys, Conversational platforms, Free energy switching service</td>
</tr>
<tr>
<td>How well companies engage with other utilities and third party organisations to identify vulnerability and best support those who are in circumstances that make them vulnerable</td>
<td>Using data effectively to understand customers and identify and support those customers whose circumstances make them vulnerable</td>
<td>Using data wisely</td>
<td>Geographical analysis of multiple data sources and sharing with partners, Targeted promotion with partners, Segmentation, Use of behavioural insights, Data sharing projects</td>
</tr>
<tr>
<td>How targeted, efficient and effective companies’ measures to address vulnerability are</td>
<td>Partnering with other utilities and other third party organisations to identify and to assist customers in situations of vulnerability</td>
<td>Community engagement</td>
<td>Growing partnerships, Energy partner data sharing, Multi-partner data sharing, Community funding, Holistic debt advice and income maximisation, Partner Hub, Co-creation of support</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Multiple advice networks and partners, Community events, Community projects via Water Force</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Growth in Priority Services and tap, Improved awareness of Priority Services and tap, High acceptability ratings, Customer satisfaction, Organisation endorsement, External accreditations</td>
</tr>
</tbody>
</table>
3. DELIVERING OUTCOMES FOR CUSTOMERS
Section 3 Delivering outcomes for customers - summary

We’re committed to delivering the best overall level of service on the things that matter most to customers:

- drinking water quality
- customer service
- supply resilience and interruptions
- internal sewer flooding
- environmental pollution
- leakage.

Over and above this, our aim is to create a service that is better than the best in the water industry. We want to be ranked in the top 50 UK service providers from 2020, and in the top 20 by 2025.

We will also consider a small number of long-term KPIs which will indicate how we are delivering on our priorities. These include:

- delivering a zero-pollution, carbon free operation
- replacing lead pipes so our network is lead free by 2040.

This plan defines 41 performance commitments (PCs) for the period up to 2025 and sets long-term expectations against them in line with our vision.

More than half these PCs involve or need engagement and participation from others in our community to help us deliver.

Our customers are diverse, as are their needs. Our PCs show how we will be delivering the best services to all.

Many go beyond our legal obligations and stretch us to deliver value for customers, communities and wider society.

We are penalised for failing the targets, and receive incentives if we can beat them. Our estimated range of performance payments is +3.0% to -2.7% of our regulated equity. We are a comparatively high-performing company and so it is less likely that we will suffer penalties against targets set on a comparative basis. This is offset by having stretching targets that increase the downside potential.

We’ll reinvest 20% of any net reward into the local community through our Wessex Community Foundation.
In this section, we detail the performance and service that we are committing to, with evidence of how appropriate, well-evidenced and stretching this is to Wessex Water and our customers. We do the same for our outcome delivery incentives and explain our focus on service performance in our risk/reward package.

We also explain how we will report transparently on our performance so that customers and stakeholders can have trust and confidence in what we do.

Section contents

3.1 Section introduction
3.2 The outcomes we have prioritised
3.3 How we have arrived at our 41 performance commitments
3.4 Our risk and reward package
3.5 Setting the multipliers and incentives
3.6 Transparent performance reporting

Where to find further information

Supporting information for various aspects of this section are provided as below.

<table>
<thead>
<tr>
<th>Ref.</th>
<th>Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>Supporting document 3.1</td>
<td>Performance commitment overview</td>
</tr>
<tr>
<td>Supporting document 3.2</td>
<td>Triangulation methodology</td>
</tr>
<tr>
<td>Supporting document 3.3</td>
<td>Cost benefit analysis – methodology and results</td>
</tr>
<tr>
<td>Supporting document 3.4</td>
<td>Calculation of incentive rates including enhanced incentives</td>
</tr>
<tr>
<td>Supporting document 3.5</td>
<td>Inputs to RORE for outcome delivery incentives</td>
</tr>
<tr>
<td>Supporting document 3.6</td>
<td>Sharing success – proposals for a Wessex Water community foundation</td>
</tr>
</tbody>
</table>
3.1 Section introduction

Our customers have told us what is important to them and we have described this in section 1, Engaging customers. We’ve then used this evidence to reflect our customers’ views in the performance commitments (PCs) and Outcome Delivery Incentives (ODIs) described in this section.

We have set ourselves stretching targets against innovative commitments. Our PCs are consistent with us delivering the best overall levels of service and remaining a leading environmental performer.

“BEST” is the single word that sums up what we aim to deliver to our customers, communities and the environment. We already use it internally as an acronym to describe how we work together as a business by demonstrating Behaviours, Excellence, Service and Teamwork, so it is natural for us to extend the concept to our external focus.

In this plan we are committing to deliver the best overall service amongst our peers in the water industry on the things that matter most to customers:

- drinking water quality
- customer service
- supply resilience and interruptions
- internal sewer flooding
- environmental pollution
- leakage.

We will create a service that is better than the current best in the water industry. We want to be ranked in the top 50 UK service providers from 2020, and in the top 20 by 2025.

Our commitments encompass all customers. Our engagement with them has shown us that their needs are diverse and can change over time. So, while we aspire to match the best organisations for effortless online service provision – irrespective of the sector in which they operate – we also aim to match them for personal service, ethics and value for money.

Many of our customers live busy lives, so we will:

- make our online services seamless, while encouraging them to use our services in a way aligned with societal goals including using water wisely
- be available for them seven days a week: not just for emergencies as we are now, but for our customers’ convenience
- constantly optimise our services based on real-time feedback
- always get the basics right, delivering reliable services to customers and the environment that are resilient in the face of unexpected events.

People who are directly engaged with their local community are most likely to respond to direct approaches to work together on shared goals. So, we will operate in a way that encourages this – by promoting local abstraction agreements where there are concerns around our impact on rivers and streams, for example. And we will provide opportunities for our customers to contribute to challenges such as saving water and managing what they flush down the toilet.

Our engagement with customers also tells us that some people will occasionally need more direct help from us. This may be to meet an unexpected problem such as a leaking pipe; the need for a bill that is tailored to be affordable; or just for someone to speak to them with understanding and empathy when they choose to contact us at a difficult time.

We also serve a range of businesses, including water retailers and developers. Providing transparency, fairness and good value to each of these sectors helps contribute to the economic development of our region.

All of this leads us to stretch ourselves well beyond the statutory minimum levels of service to deliver value for customers, communities and wider society.
The diagram below shows how our PR19 service proposals deliver to each of our customer segments and describes some of the ways we go beyond legal requirements to create wider value.

Many of these service offerings are incorporated into new PCs so we can be held accountable for them.

Figure 3-1: How our service proposals meet customers’ needs
3.2 The outcomes we have prioritised

We published our Strategic Direction Statement – supporting document 12.12 – in 2017 and this identified our key priorities. We’ve also identified a key performance indicator against each priority that we will monitor and publish our long-term progress against each year.

<table>
<thead>
<tr>
<th>Our priorities</th>
<th>Long-term Key Performance Indicator</th>
</tr>
</thead>
<tbody>
<tr>
<td>Delivering excellent customer service</td>
<td>UK CSI rating / Net Promoter Score</td>
</tr>
<tr>
<td>Ensuring bills are affordable for all</td>
<td>% of customers who say they struggle to pay</td>
</tr>
<tr>
<td>Future-proofing our services</td>
<td>% at risk of supply restrictions in a one in 200-year drought</td>
</tr>
<tr>
<td></td>
<td>% at risk of flooding in severe storm</td>
</tr>
<tr>
<td>Protecting and enhancing the environment and natural capital</td>
<td>Environmental Performance Assessment (EPA)</td>
</tr>
<tr>
<td>Using water in our region more efficiently</td>
<td>Total water abstracted</td>
</tr>
<tr>
<td>Providing excellent quality drinking water</td>
<td>Compliance risk index (CRI)</td>
</tr>
<tr>
<td>Minimising sewer flooding</td>
<td>Risk of flooding index</td>
</tr>
<tr>
<td>Developing better relationships with the communities we serve</td>
<td>Customer trust rating</td>
</tr>
</tbody>
</table>

**Our 41 Performance Commitments for 2020-25**

We want to deliver the best services for customers whose needs and priorities vary substantially and can change over time.

Our resulting performance commitments are designed so we deliver for:

- the busy water consumer who wants a no-hassle service
- those who would like to be more engaged and participate with us in the local water environment
- those who are in more vulnerable circumstances.

Business customers are also diverse and so our commitments deliver for retailers, businesses and property developers. For example, business customers who are reliant on a continuous water supply for their operations value avoiding interruptions more than our typical household customers do.

Our performance commitments will assist us and others to see how we are progressing towards our aspirations at a more detailed level.

The remainder of this section explains how we have arrived at the 41 PCs we will be measuring between 2020 and 2025, and our associated risk and reward package. It also sets out how we will ensure our reporting is transparent to aid customer trust and confidence.

We also look into the longer term and so appendix 3.1.A shows our aspirations for the period to 2045. It includes details of each PC and ODI, with information on comparative performance, willingness to
pay, cost benefit analysis and the decisions we’ve made as a result.

The aim of these PCs and ODIs is to make Wessex Water the best performing water company and to deliver exactly what our customers and stakeholders want from us.

Having defined them, the remainder of this plan sets out how we will deliver these outcomes.

Further information on all our PCs is available in supporting document 3.1, which discusses type and frequency of measurement, timing and form of incentive as well as detail about the challenges we have employed in developing the targets.

**Uncertainty in the size of the Water Industry National Environment Programme (WINEP)**

The final scope of the legally required environmental programme will not be confirmed until 2021, so if required we will restate the ‘Km of river improved (WINEP)’ PC target to reflect this. Further information on an uncertainty mechanism that protects customers from overpaying for this are included in section 10 of this document.

**The detail behind our 41 PCs**

The following tables set out the detail behind our PCs. Each table covers the PCs associated with one of our outcomes. They explain what it means in plain English, how we will measure our success, how we expect to be performing in 2020 and 2025, as well as the type of incentive associated with it. The final two rows highlight those PCs that need the engagement of our communities as well as work by us and we explain why our target level is stretching.
### AFFORDABLE BILLS

<table>
<thead>
<tr>
<th>PERFORMANCE COMMITMENT</th>
<th>WHAT DOES THIS MEAN?</th>
<th>UNIT OF MEASUREMENT</th>
<th>FORECAST FOR 2020</th>
<th>TARGET FOR 2025</th>
<th>INCENTIVE TYPE</th>
<th>ENGAGING WITH OUR COMMUNITIES</th>
<th>WHY IS THIS STRETCHING?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total bill reduction to customers on social tariffs per 10,000 properties</td>
<td>Reducing bills to help customers that can’t afford them</td>
<td>£ per 10,000 households</td>
<td>55,040</td>
<td>87,029</td>
<td>Outperformance and underperformance payments</td>
<td></td>
<td>Our affordability support is assessed to be best practice, and this extends its reach</td>
</tr>
<tr>
<td>Successful applications for assistance received by the independent advice sector / third parties</td>
<td>Working with expert partners to help customers who are in financial difficulty</td>
<td>Number of successful applications each year</td>
<td>2,300</td>
<td>2,300</td>
<td>Outperformance and underperformance payments</td>
<td></td>
<td>Co-delivery with independent debt advice sector, which is under significant financial pressure</td>
</tr>
<tr>
<td>Void sites</td>
<td>Reducing the number of properties that are receiving our services, but not being billed</td>
<td>% of properties</td>
<td>2.1</td>
<td>2.0</td>
<td>Outperformance and underperformance payments</td>
<td></td>
<td>Reaching industry upper quartile by 2020</td>
</tr>
<tr>
<td>Gap sites</td>
<td>Reducing the number of properties that are receiving our services, but we don’t know about it</td>
<td>Number of sites discovered</td>
<td>112</td>
<td>112</td>
<td>Reputational</td>
<td></td>
<td>This is a new measure, reported for the first time</td>
</tr>
</tbody>
</table>

### EXCELLENT SERVICE FOR CUSTOMERS

<table>
<thead>
<tr>
<th>PERFORMANCE COMMITMENT</th>
<th>WHAT DOES THIS MEAN?</th>
<th>UNIT OF MEASUREMENT</th>
<th>TARGET FOR 2025</th>
<th>INCENTIVE TYPE</th>
<th>ENGAGING WITH OUR COMMUNITIES</th>
<th>WHY IS THIS STRETCHING?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer measure of experience (C-MeX)</td>
<td>Delivering excellent customer service to household customers</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Aiming also to be top 20 in UK by 2025</td>
</tr>
<tr>
<td>Developer services measure of experience (D-MeX)</td>
<td>Delivering excellent customer service to house builders and developers</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Currently below average in WaterUK metrics</td>
</tr>
<tr>
<td>C-MeX score</td>
<td></td>
<td>Top 3</td>
<td></td>
<td>Outperformance and underperformance payments</td>
<td></td>
<td></td>
</tr>
<tr>
<td>D-MeX score</td>
<td></td>
<td>Upper quartile</td>
<td></td>
<td>Outperformance and underperformance payments</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
## RESILIENT SERVICES

### PERFORMANCE COMMITMENT

<table>
<thead>
<tr>
<th>Water supply interruptions</th>
<th>Risk of severe restrictions in a drought</th>
<th>Risk of sewer flooding in a storm</th>
<th>Water main bursts</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minimising interruptions to customers’ water supply</td>
<td>Ensuring that people don’t experience severe water supply restrictions (e.g. standpipes) in extreme droughts</td>
<td>Ensuring people’s homes are not flooded by sewage in serious storms</td>
<td>How often our water mains burst</td>
</tr>
</tbody>
</table>

### WHAT DOES THIS MEAN?

- Minimising interruptions to customers’ water supply
- Ensuring that people don’t experience severe water supply restrictions (e.g. standpipes) in extreme droughts
- Ensuring people’s homes are not flooded by sewage in serious storms
- How often our water mains burst

### UNIT OF MEASUREMENT

<table>
<thead>
<tr>
<th>Minutes per property above 3 hours</th>
<th>% of population at risk</th>
<th>% of population at risk</th>
<th>Number per 1,000km mains</th>
</tr>
</thead>
<tbody>
<tr>
<td>00:12:20</td>
<td>N/A</td>
<td>8.37</td>
<td>&lt;165</td>
</tr>
<tr>
<td>00:03:07</td>
<td>0</td>
<td>8.37</td>
<td>&lt;163</td>
</tr>
</tbody>
</table>

### FORECAST FOR 2020

- 00:12:20
- N/A
- 8.37
- <165

### TARGET FOR 2025

- 00:03:07
- 0
- 8.37
- <163

### INCENTIVE TYPE

- Outperformance and underperformance payments
- Reputational
- Reputational
- Underperformance payments only

### ENGAGING WITH OUR COMMUNITIES

<table>
<thead>
<tr>
<th>WHY IS THIS STRETCHING?</th>
</tr>
</thead>
<tbody>
<tr>
<td>&gt;75% reduction by 2025</td>
</tr>
<tr>
<td>Maximum level achievable</td>
</tr>
<tr>
<td>This is a new measure, reported for the first time</td>
</tr>
<tr>
<td>Keeping an ageing asset base in a stable condition while improving the direct service received by customers</td>
</tr>
</tbody>
</table>

### RESILIENT SERVICES (CONTINUED)

### PERFORMANCE COMMITMENT

<table>
<thead>
<tr>
<th>Unplanned outage</th>
<th>Sewer collapses</th>
<th>Restrictions on water use (hosepipe bans)</th>
</tr>
</thead>
<tbody>
<tr>
<td>How often our water treatment works have to be taken out of service unexpectedly</td>
<td>How often we have to repair a sewer because it has collapsed</td>
<td>Ensuring we don’t have to enforce a hosepipe ban</td>
</tr>
</tbody>
</table>

### WHAT DOES THIS MEAN?

- How often our water treatment works have to be taken out of service unexpectedly
- How often we have to repair a sewer because it has collapsed
- Ensuring we don’t have to enforce a hosepipe ban

### UNIT OF MEASUREMENT

<table>
<thead>
<tr>
<th>% of production capacity</th>
<th>Number per 1,000km sewers</th>
<th>Number of bans</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;2.34</td>
<td>&lt;18.1</td>
<td>0</td>
</tr>
<tr>
<td>&lt;2.34</td>
<td>&lt;18.1</td>
<td>0</td>
</tr>
</tbody>
</table>

### FORECAST FOR 2020

- <2.34
- <18.1
- 0

### TARGET FOR 2025

- <2.34
- <18.1
- 0

### INCENTIVE TYPE

- Underperformance payments only
- Underperformance payments only
- Underperformance payments only

### ENGAGING WITH OUR COMMUNITIES

<table>
<thead>
<tr>
<th>WHY IS THIS STRETCHING?</th>
</tr>
</thead>
<tbody>
<tr>
<td>A new measure to help ensure we are keeping an ageing asset base in a stable condition</td>
</tr>
<tr>
<td>Keeping an ageing asset base in a stable condition while improving the direct service received by customers</td>
</tr>
<tr>
<td>Maximum level achievable</td>
</tr>
</tbody>
</table>
## PROTECTING AND ENHANCING THE ENVIRONMENT

<table>
<thead>
<tr>
<th>PERFORMANCE COMMITMENT</th>
<th>Treatment works compliance</th>
<th>Wastewater pollution incidents – category 1-3</th>
<th>Abstraction incentive mechanism (Mere)</th>
<th>Natural capital: improve Sites of Special Scientific Interest (SSSI sites)</th>
</tr>
</thead>
<tbody>
<tr>
<td>WHAT DOES THIS MEAN?</td>
<td>Ensuring our treatment works return wastewater to the environment meeting the allowed levels</td>
<td>Minimising events that pollute the water environment</td>
<td>Reducing the amount of water we take from environmentally sensitive sites</td>
<td>Improving habitats for plants and wildlife on the SSSI land we own</td>
</tr>
<tr>
<td>UNIT OF MEASUREMENT</td>
<td>% of works that are compliant</td>
<td>Incidents per 10,000km sewers</td>
<td>Millions of litres per year</td>
<td>% of agreed actions delivered</td>
</tr>
<tr>
<td>FORECAST FOR 2020</td>
<td>99.3%</td>
<td>22</td>
<td>&lt;100</td>
<td>N/A</td>
</tr>
<tr>
<td>TARGET FOR 2025</td>
<td>100.0%</td>
<td>17</td>
<td>&lt;100</td>
<td>100</td>
</tr>
<tr>
<td>INCENTIVE TYPE</td>
<td>Underperformance payments only</td>
<td>Outperformance and underperformance payments</td>
<td>Outperformance and underperformance payments</td>
<td>Outperformance and underperformance payments</td>
</tr>
<tr>
<td>ENGAGING WITH OUR COMMUNITIES</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>WHY IS THIS STRETCHING?</td>
<td>100.0% target in line with EA performance expectations</td>
<td>25% improvement on current performance which is amongst the best in the industry</td>
<td>Target is more stretching than that which would be implied by Ofwat’s standard AIM methodology</td>
<td>Developing the framework for assessing natural capital benefits</td>
</tr>
</tbody>
</table>

## PROTECTING AND ENHANCING THE ENVIRONMENT (CONTINUED)

<table>
<thead>
<tr>
<th>PERFORMANCE COMMITMENT</th>
<th>Greenhouse gas emissions</th>
<th>Working with communities to improve bathing water experience</th>
<th>Working with catchment partners to improve natural capital</th>
<th>Satisfactory sludge disposal</th>
</tr>
</thead>
<tbody>
<tr>
<td>WHAT DOES THIS MEAN?</td>
<td>Reducing the amount of greenhouse gases our activities create</td>
<td>Supporting or creating community projects at beaches to improve the experience of beach users</td>
<td>Doing projects with partners that have wider benefits to the natural environment as well as protecting our water supplies and local rivers</td>
<td>Safely disposing of the solids that are left at the end of the waste treatment process</td>
</tr>
<tr>
<td>UNIT OF MEASUREMENT</td>
<td>KtCO2e</td>
<td>Number of beaches</td>
<td>Number of schemes</td>
<td>% of sludge</td>
</tr>
<tr>
<td>FORECAST FOR 2020</td>
<td>117</td>
<td>14</td>
<td>35</td>
<td>100</td>
</tr>
<tr>
<td>TARGET FOR 2025</td>
<td>101</td>
<td>47</td>
<td>36</td>
<td>100</td>
</tr>
<tr>
<td>INCENTIVE TYPE</td>
<td>Underperformance payments only</td>
<td>Outperformance and underperformance payments</td>
<td>Outperformance and underperformance payments</td>
<td>Underperformance payments only</td>
</tr>
<tr>
<td>ENGAGING WITH OUR COMMUNITIES</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>WHY IS THIS STRETCHING?</td>
<td>Targeting carbon neutrality by 2040</td>
<td>Above statutory obligations</td>
<td>Above statutory obligations</td>
<td>Maximum achievable</td>
</tr>
<tr>
<td>PERFORMANCE COMMITMENT</td>
<td>Length of river with improved water quality through WINEP delivery</td>
<td>Reduce frequent spilling overflows (non-WINEP)</td>
<td>Km of river improved (non-WINEP)</td>
<td>Abstraction incentive mechanism (Stubhampton)</td>
</tr>
<tr>
<td>------------------------</td>
<td>-------------------------------------------------------------------</td>
<td>-----------------------------------------------</td>
<td>----------------------------------</td>
<td>-----------------------------------------------</td>
</tr>
<tr>
<td>WHAT DOES THIS MEAN?</td>
<td>Delivering the environmental improvements required by the Environment Agency</td>
<td>Improving the environment by reducing the number of overflows that frequently spill sewage into rivers and the sea</td>
<td>Improving river quality by reducing the amount of unwanted nutrients</td>
<td>Reducing the amount of water we take from environmentally sensitive sites</td>
</tr>
<tr>
<td>UNIT OF MEASUREMENT</td>
<td>Km of river improved</td>
<td>Number of schemes delivered above the legal requirement</td>
<td>Km of river improved above the legal requirement</td>
<td>Millions of litres per year</td>
</tr>
<tr>
<td>FORECAST FOR 2020</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>192</td>
</tr>
<tr>
<td>TARGET FOR 2025</td>
<td>640.9</td>
<td>&gt;0</td>
<td>&gt;0</td>
<td>45</td>
</tr>
<tr>
<td>INCENTIVE TYPE</td>
<td>Underperformance payments only</td>
<td>Outperformance payments only</td>
<td>Outperformance payments only</td>
<td>Outperformance and underperformance payments</td>
</tr>
<tr>
<td>ENGAGING WITH OUR COMMUNITIES</td>
<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
</tr>
<tr>
<td>WHY IS THIS STRETCHING?</td>
<td>Our biggest ever environmental programme</td>
<td>Going beyond our obligations</td>
<td>Going beyond our obligations</td>
<td>Target is more stretching than that which would be implied by Ofwat’s standard AIM methodology</td>
</tr>
</tbody>
</table>
### BETTER RELATIONSHIPS WITH CUSTOMERS AND COMMUNITIES

<table>
<thead>
<tr>
<th>PERFORMANCE COMMITMENT</th>
<th>WHAT DOES THIS MEAN?</th>
<th>UNIT OF MEASUREMENT</th>
<th>FORECAST FOR 2020</th>
<th>TARGET FOR 2025</th>
<th>INCENTIVE TYPE</th>
<th>ENGAGING WITH OUR COMMUNITIES</th>
<th>WHY IS THIS STRETCHING?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of customers added to the Priority Services Register</td>
<td>Identifying more customers in vulnerable circumstances and understanding their needs</td>
<td>Number of customers added</td>
<td>2,200</td>
<td>2,200</td>
<td>Outperformance and underperformance payments</td>
<td>Maintaining higher than average growth each year</td>
<td></td>
</tr>
<tr>
<td>Delivering for customers in vulnerable circumstances</td>
<td>Ensuring our service are accessible and available to everyone, especially those in vulnerable circumstances</td>
<td>N/A</td>
<td>Compliance with BS 18477 and achievement of the Customer Service Excellence Award</td>
<td>Compliance with BS 18477 and achievement of the Customer Service Excellence Award</td>
<td>Reputational</td>
<td>Represents best practice</td>
<td></td>
</tr>
<tr>
<td>Number of children / students engaged</td>
<td>Engaging children / students to teach them about the water environment</td>
<td>Number of children engaged</td>
<td>22,880</td>
<td>24,370</td>
<td>Outperformance and underperformance payments</td>
<td>Beyond our obligations - growing our engagement with young people</td>
<td></td>
</tr>
</tbody>
</table>

### USING WATER EFFICIENTLY

<table>
<thead>
<tr>
<th>PERFORMANCE COMMITMENT</th>
<th>WHAT DOES THIS MEAN?</th>
<th>UNIT OF MEASUREMENT</th>
<th>FORECAST FOR 2020</th>
<th>TARGET FOR 2025</th>
<th>INCENTIVE TYPE</th>
<th>ENGAGING WITH OUR COMMUNITIES</th>
<th>WHY IS THIS STRETCHING?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Volume of water leaked</td>
<td>Reducing the amount of water that leaks from pipes in our region</td>
<td>% change from 2019-20</td>
<td>N/A</td>
<td>-15%(^1)</td>
<td>Outperformance and underperformance payments</td>
<td>Tripling the rate of leakage reduction. 62% reduction since 1995</td>
<td></td>
</tr>
<tr>
<td>Volume of water used per person</td>
<td>Reducing the average amount of water used by each person in a day</td>
<td>Litres per person per day</td>
<td>129.0 (three-year average)</td>
<td>127.9 (three-year average)</td>
<td>Outperformance and underperformance payments</td>
<td>Reversing a recent upwards trend in use per person</td>
<td></td>
</tr>
<tr>
<td>Customer reported leaks fixed within a day</td>
<td>Fixing leaks that are reported by customers within a day</td>
<td>% of leaks fixed</td>
<td>90</td>
<td>90</td>
<td>Outperformance and underperformance payments</td>
<td>Maintaining industry leading performance</td>
<td></td>
</tr>
<tr>
<td>Volume of water saved by water efficiency engagement</td>
<td>Helping customers reduce the amount of water they use</td>
<td>Millions of litres per day</td>
<td>4.5</td>
<td>5.0</td>
<td>Outperformance and underperformance payments</td>
<td>Increasing activity by 20% from previous five years</td>
<td></td>
</tr>
</tbody>
</table>

\(^1\) Because we expect to accelerate the rate of leakage reduction after 2020 the 2025 target represents a 13% reduction in the three-year average. It is a 17% reduction from the current (2017-18 level)
## Providing Excellent Drinking Water Quality

### Performance Commitment

<table>
<thead>
<tr>
<th>Index</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Compliance risk index (CRI)</td>
<td>Water quality customer contacts (appearance)</td>
</tr>
<tr>
<td>Tackling water quality at home and in the work place</td>
<td>Lead communication service pipes replaced (Wessex Water assets)</td>
</tr>
<tr>
<td>Event risk index (Wessex Water)</td>
<td></td>
</tr>
</tbody>
</table>

### What Does This Mean?

- Providing excellent quality drinking water

### Unit of Measurement

<table>
<thead>
<tr>
<th>DWI Index (zero is best)</th>
<th>Number of contacts per 1,000 people</th>
<th>Index (higher is better)</th>
<th>Number of pipes replaced</th>
<th>Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.523</td>
<td>0.89</td>
<td>16.634</td>
<td>2,984 (2015-2020)</td>
<td>13.720</td>
</tr>
<tr>
<td>0.000</td>
<td>0.69</td>
<td>18.297</td>
<td>9,000 (2020-2025)</td>
<td>13.720</td>
</tr>
</tbody>
</table>

### Forecast for 2020

- 0.523
- 0.69
- 16,634
- 2,984
- 13.720

### Target for 2025

- 0.000
- 0.69
- 18,297
- 9,000
- 13.720

### Incentive Type

- Underperformance payments only
- Outperformance and underperformance payments

### Engaging with Our Communities

- 100% compliance target – maximum achievable
- Achieving >20% reduction
- Maintaining a step up in the number of customer lead pipes replaced
- Working towards a lead-free network by 2040.
- Matching our best ever performance

## Minimising Sewer Flooding

### Performance Commitment

<table>
<thead>
<tr>
<th>Index</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer property sewer flooding (internal)</td>
<td>Customer property sewer flooding (external)</td>
</tr>
<tr>
<td>Sewer flooding risk</td>
<td>North Bristol Sewer Scheme - Trym catchment</td>
</tr>
</tbody>
</table>

### What Does This Mean?

- Minimising the number of times sewage floods into customers’ homes
- Minimising the number of times sewage floods outside customers’ homes (e.g. gardens)
- Managing the overall risk of sewer flooding
- Delivering one of our major projects - a big new sewer in the north of Bristol

### Unit of Measurement

<table>
<thead>
<tr>
<th>Index</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number per 10,000 sewer connections</td>
<td>Number per 10,000 sewer connections</td>
</tr>
<tr>
<td>Index (lower is better)</td>
<td>N/A</td>
</tr>
</tbody>
</table>

### Forecast for 2020

- 1.60
- 17.42
- 50,651
- N/A

### Target for 2025

- <1.25
- <15.69
- 50,651
- Scheme delivered

### Incentive Type

- Outperformance and underperformance payments
- Outperformance and underperformance payments
- Underperformance payments only
- Underperformance payments only

### Engaging with Our Communities

- 100% compliance target – maximum achievable
- Achieving upper quartile performance
- Maintaining stable risk despite climate change, increasing development and growth in impermeable areas
- N/A

### Why Is This Stretching?

- Continued industry leading performance
- Achieving upper quartile performance
- Maintaining stable risk despite climate change, increasing development and growth in impermeable areas
- N/A
3.3 How we have arrived at our 41 performance commitments

Updating our PCs for 2020-25

For this business plan, we've increased our number of PCs to 41. All new measures have been considered by the Wessex Water Partnership, and some were changed based on their recommendations.

We also worked alongside stakeholders through our Catchment Panel to define the measures. In conjunction with continuous engagement, we've undertaken specific quantitative and immersive qualitative research to gain a deeper understanding of:

- our customers’ priorities
- their preferences on how we should deliver those priorities
- the values customers place on incremental improvements to performance.

See section 1, Engaging customers and the supporting documents and appendices for more details of our customer research.

Of our 41 PCs for 2020-25:

- 14 (six new and eight existing) are mandated by Ofwat. While they are common measures for all companies, we have been given the freedom by Ofwat to propose the target and incentives
- 22 are new
- 19 replicate existing measures (some with minor changes)
- 13 are fully bespoke measures (10 new and three existing).

Our bespoke performance commitments are a direct result of our customer and stakeholder engagement.

Delivering our PR14 PCs

In our previous business plan (PR14), we set 32 PCs (which we will continue to monitor up to 2020). Of these:

- six have been completed
- two have been removed
- five have been replaced
- 14 have been updated
- five are continuing unchanged.

Where the premise of PR14 performance commitments has changed for PR19, this is largely as a result of mandatory direction from Ofwat through common performance commitments. Full explanations of why and how we have changed or discontinued each of these measures is included in supporting document 3.1.

3.4 Our risk and reward package

Our risk and reward package is focused on service delivery. We want to have the right incentives in place to help us be the best and deliver what customers want, to the level they want. We are rewarded where we move service levels on for our customers or for the industry. And we will return money to customers through cheaper bills where we do not meet the ambitious objectives we aim for.

Having defined the measures of performance, the way we balance the priorities in our investment plans is crucial. We assess whether these improvements are cost-beneficial by:

1. using the values our customers place on incremental performance improvements
2. taking into account our mandatory regulatory target, in particular where we are obliged to set our performance target explicitly taking into account the performance achieved by other water companies.

Setting performance targets

Our targets are all set at a level that will stretch us to improve our current performance in line with the value placed on them by customers through our ‘triangulated willingness to pay valuations’ (see supporting document 3.2) and our ‘cost benefit analysis’ (supporting document 3.3).

We have a wealth of evidence to support our targets and this is set out, in detail, for each PC in supporting document 3.1. In many cases, due to our high service levels, exceeding our proposed target will not only stretch Wessex Water but also move the frontier for the entire water industry.
In the case of sewer flooding, pollutions and leakage, delivering a stretching cost-beneficial target requires additional expenditure over and above what we expect Ofwat’s cost models to allow. This is because our performance in these areas is already amongst the leading companies whereas, all else being equal, the models will only allow expenditure for average performance. In these cases, therefore, we have accompanied the stretching target with a cost adjustment claim (see supporting document 8.9).

An alternative approach would have been to target a less stretching level of performance in our performance commitments and propose enhanced outperformance payments to compensate us for the investment required to deliver more stretching performance. On balance we decided that this approach would be less transparent for stakeholders, including for customers, and that our business plan investment and performance commitment targets should be consistent.

Creating Outcome Delivery Incentives (ODIs)

We not only set a target for each of our PCs, but we also set an Outcome Delivery Incentive for each one. These are designed to incentivise outperformance and deter underperformance. They also ensure that we protect customers against failure by setting out appropriate payments should we fail to reach our target. Equally, should we perform better than our target in areas that customers value, we will receive outperformance payments to account for the increased cost and risk of achieving these levels.

Our ODI payments only relate to real performance changes and not definitional or methodological changes.

Defining the risk and reward package

The financial penalties for failing a target are generally greater than the incentive payments if we beat it.

Ofwat asked us, however, to express our package as a likely maximum range of returns against regulated equity. This shows the impact on us if we performed on every measure at the worst and best level that is likely (a 10th percentile and a 90th percentile).

On an additive basis we have a range of possible outperformance and underperformance payments of +3.0% to -2.7% of return on regulated equity (RORE). This is equivalent to +£36m to -£32m each year.
We have also calculated a more likely range using Monte Carlo analysis. This gives a range of +1.6% to -1.4%. This models each PC as an independent event which narrows the range considerably compared to the additive method. We then account for interdependencies between outcomes, for instance high rainfall in winter is likely to adversely affect not only internal flooding but also external flooding incidents and pollutions.

Under both methods our maximum likely range is skewed slightly towards the upside, and this is to be expected for a company that is already comparatively high-performing.

We don’t think it is likely that we will suffer customer service penalties as we have been the best performing water and sewerage company in the service incentive mechanism (SIM) every year bar one since it was introduced. Our likely downside is therefore that we achieve no rewards on the new measure, whereas our upside is that we will achieve maximum rewards.

Other measures are skewed slightly to the downside, reflecting the stretching nature of our future targets.

We will also reinvest at least 20% of any net outperformance payment into community resilience measures through the Wessex Community Foundation.

Almost all our ODIs assume that the payments are applied within the period as adjustments to revenue.

Alongside this we propose to limit the net outperformance/underperformance revenue impact in a single year to be +/-2% of RORE when calculated on a notionally geared basis.

Any net underperformance greater than 2% in a single year will still be applied but instead of an in-period revenue adjustment, it will be made on the 1st April 2025 as a deduction to our capital value.
Where there is a net outperformance payment in excess of 2% of RORE due in a single year (after allowing for the 20% payment to the Wessex Community Foundation) we will consider, in consultation with our Customer Challenge Group, the extent to which the value in excess of 2% was driven by fortuitous unforeseeable events rather than management action, before proposing an increase to our RCV at 1st April 2025.

This protects customers by limiting the potential volatility of bills from one year to the next. It also protects the resilience of services by reducing the risk of short-term company financial distress caused by low probability but severe events.

Given that, in the medium-term, our cap and collar proposals don’t reduce the overall risk borne by the company it is appropriate that the limits should apply to the net of all the ODI incentives rather than applied to each individual ODI. Because some customers only receive a single service from us, we will apply the mechanism at the service level.

This net approach is also simpler and more transparent for customers than calculating incentive caps for individual measures.

**Customers’ views on our performance commitments and incentives**

We tested what our customers thought of our performance commitments through a series of focus groups that encompassed a cross-section of our customer base.

Customers felt on balance that our current performance levels were good and that the targets we were setting were stretching.

We tested our range of incentives with customers. Although there was a mix of views, on balance customers supported the concept of payment by results.

We reviewed the ODI types we’d proposed according to the principles customers used to allocate them. This led us to amend sewer flooding risk, greenhouse gases and hosepipe ban measures to underperformance-only ODIs.

Those who were less comfortable with payment by results wanted reassurance about what the money will be used for. Many remain uncomfortable with rewards going towards profits. We have agreed with customers that we’ll reinvest at least 20% of any net PR19 reward into schemes and projects which further the resilience of the local community.

More details of our Wessex Community Foundation proposal are contained in supporting document 3.6. We will also articulate to our customers more clearly how our owner YTL has a history of reinvesting its profits in projects that improve the local community.

In general customers were unconcerned with the range of possible outperformance and underperformance payments and the impact on their bills but some articulated the view that the company should not be penalised so much that it threatened our ability to provide services. Our proposal for a limit to the in-year revenue impact of ODI payments is consistent with and, in part, a response to this finding.

We also tested our entire range of PCs through our acceptability testing as part of our wider plan. 96% of customers found our plan acceptable.

**3.5 Setting the multipliers and incentives**

Ofwat has asked companies to calculate enhanced performance and underperformance rates on our incentives. We have used a multiplier of 4.3. We have based this on a calculation of the benefits that would be gained from other customers if the largest company in the industry outperformed the existing frontier. The details of our calculation are included in supporting document 3.4, and details of how we would share knowledge about our performance levels in the event that we are eligible for a payment are contained in document 3.4.C.

We are attaching enhanced rates to almost all financial common measures, even
underperformance payment only measures. This is because we are committed to performing well on all common measures. Attaching them only to areas in which we consider we are likely to gain enhanced outperformance payments would distort incentives towards a small number of measures. This includes asset health measures where enhanced underperformance rates demonstrate our commitment to retaining stable asset health.

We have not proposed enhanced outperformance payments for the volume of water used per person measure, because an enhanced payment for our customers taking action to use water more wisely does not seem appropriate.

**Willingness to pay (WTP) and triangulation**

Customer valuations are used in the setting of incentives. We have many types of research by which to assess a final customer valuation as discussed in section 1, *Engaging customers* and the associated supporting documents and appendices. We need to consider what weight to apply to each piece of evidence, a process called ‘triangulation’.

Our criteria for assessing weightings of each piece of evidence includes:

- quality of choice architecture / options provided
- comparison to observed behaviour
- completeness of results
- statistical significance of results
- cognitive validity of results.

A full description of our triangulation process is available in supporting document 3.2.

3.6 Transparent performance reporting

Our Annual Performance Report provides our customers and other stakeholders with a very clear summary and associated detail of our performance each year. It sets out each of our performance commitments, the targets associated with them, our actual levels of performance compared with previous years and any outperformance or underperformance payments.

Customers tell us that they would prefer annual updates to information about our performance. We will seek to explain our annual performance through the full range of media.

We continue to improve the accessibility of our website and have recently developed a webpage that contains all the detail about our performance. The website is our most popular reference point for customers. We will also share our performance in our magazine each year, which is circulated to every one of our customers.

We will also continue to meet regularly with the Wessex Water Partnership and other key stakeholder groups with whom we share our performance information.

Finally, the water industry comparison website, www.discoverwater.co.uk, contains comparative information for all water companies on a number of metrics that are important to customers. We will continue to contribute information to Discover Water (or any successor) and signpost it so that customers and stakeholders can easily and transparently compare our performance with others.
4. **Securing Long-Term Resilience**
Section 4 Securing long-term resilience – summary

We define resilience as our ability to:

- maintain high-quality and reliable services for our customers
- protect the natural environment in the face of disruptive events
- ensure the long-term viability of those services against a backdrop of strategic pressures and a changing external environment.

Our resilience depends on natural resources, how we maintain our assets and systems, and fundamentally on our people, their skills and their expertise.

Resilience is not a new concept for Wessex Water. We’ve consistently taken a long-term view to improving the resilience of our service in line with customer preferences and expectations.

In line with Ofwat’s seven principles, we have developed proposals for each of the four components of resilience:

- corporate resilience
- financial resilience
- operational resilience
- environmental resilience.

We’ll also continue to embrace new ways of working such as market tools and catchment partnerships.

Our services are comparatively resilient. No essential water supplies would be restricted in a one in 200-year drought event and we are a leading performer in environmental compliance and sewage flooding.

Based on immersive research with customers and stakeholders, our business plan includes further specific improvements to the resilience of our services. It also includes an emphasis on efficient use of water and a major environmental programme, including partnership working and alternative preventative strategies, which customers support.

Investment

Using the full range of mitigation options, we are proposing cost beneficial investment in:

- flood protection
- improvements to the resilience of a major water treatment works
- further improvements to protect against malicious attack and cyber-attack.

In addition, we’ll continue to maintain our assets to provide resilient services to our customers and the environment now and into the future.

<table>
<thead>
<tr>
<th>Totex summary</th>
<th>Water</th>
<th>Waste-water</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Resilience improvements</td>
<td>19</td>
<td>3</td>
<td>22</td>
</tr>
<tr>
<td>Maintaining existing service levels and resilience</td>
<td>533</td>
<td>842</td>
<td>1,376</td>
</tr>
</tbody>
</table>
In this section we demonstrate how we have objectively assessed and prioritised the risks and consequences of disruptions to our systems and services; how we have engaged with customers on resilience; how we have assessed the full range of mitigation options; and, how we have gone about selecting the best-value option.

We also summarise our approach to maintaining our water and waste water assets, our long-term planning for water resources and for drainage and waste water, because they inform many of our long-term outcomes and resilience plans.

**Section contents**

4.1 Section introduction – what is resilience  
4.2 Considering resilience in the round  
4.3 A summary  of our proposals for 2020-25  
4.4 Corporate resilience  
4.5 Financial resilience  
4.6 Operational resilience  
4.7 Environmental resilience  
4.8 Customer engagement on resilience  
4.9 Maintenance planning  
4.10 Water Resources Management Plan  
4.11 Drainage and Waste Water Management Plan  
4.12 Board assurance and sign-off

**Where to find further information**

Supporting information for various aspects of this section are provided as below:

<table>
<thead>
<tr>
<th>Ref.</th>
<th>Title</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Supporting document 4.1</td>
</tr>
<tr>
<td></td>
<td>Providing resilient services</td>
</tr>
</tbody>
</table>
4.1 Section introduction

How do we define resilience?

Resilience is the ability to:

- maintain high-quality and reliable services for our customers
- protect the natural environment in the face of disruptive events
- ensure the long-term viability of those services against a backdrop of strategic pressures and a changing external environment.

Our resilience depends on natural resources, how we maintain our assets and systems, and fundamentally on our people, their skills and their expertise.

Our history of resilience

Resilience is not a new concept for Wessex Water. We have consistently taken a long-term view to improving the resilience of our service in line with customer preferences and expectations, and as shown by the integrated grid project (see later case study).

Our assets, systems and people are already very resilient, as demonstrated by the high levels of service we provide to our customers every year, and our performance during recent disruptive events such as:

- the flooding of the Somerset levels in 2014 – the largest flood event ever known in the area since records began in the 1600s
- the foot and mouth outbreak in 2001 when access to land for sludge disposal was restricted
- the Beast from the East in 2018 when we were able to keep all our customers in supply despite extreme cold weather.
- it is over 40 years since we imposed a hosepipe ban and our essential supplies are resilient to a one in 200-year drought.

4.2 Considering resilience in the round

In line with Ofwat’s seven principles

We aim to maintain high-quality and reliable services and to protect the natural environment at all times and during disruptive events.

At PR14, resilient services was one of the key outcomes in our Strategic Direction Statement. Resilience remains a key priority for Wessex Water as we look forward to 2020-2025 and beyond.

Our approach is fully in line with Ofwat’s seven principles of resilience planning:

1. considering resilience in the round for the long term
2. a naturally resilient water sector
3. customer engagement
4. broad consideration of intervention options
5. delivering best value solutions for customers
6. outcomes and customer-focused approach
7. board assurance and sign-off.

We have also embraced new ways of working such as market tools and catchment partnerships.
4.3 A summary of our proposals for 2020-25 and beyond

Outcomes for customers and the environment

Customer research on resilience and future-proofing, carried out in 2017, concluded that:

- in general customers have a low appreciation for future risks and the need to build resilience into water and waste water infrastructure; they expect water companies to be planning for the future as a matter of course
- customers are willing to assist to mitigate risk but need help on how to achieve this
- customers see more value in strategies that have a clear logic, are preventative, resonate emotionally and are low cost

The majority of customers are prepared to pay a little more to future-proof water services for future generations. They are willing to pay more to mitigate resilience risks that relate to risks that are not part of a company’s business as usual and where there is a wider societal dimension such as for environmental damage.

In response, our plan includes commitments to deliver resilient services for our customers and to the environment for the period 2020 to 2025 and beyond, as highlighted in the table below.

The customer and environmental benefits of our resilience plans

<table>
<thead>
<tr>
<th>Water resources and water network plus</th>
<th>Bioresources and waste water network plus</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Customer service</strong></td>
<td></td>
</tr>
<tr>
<td>- Supply interruptions – 75% reduction to forecast industry upper quartile</td>
<td>- Sewer flooding – industry leading performance for internal flooding and a 10% reduction for external flooding</td>
</tr>
<tr>
<td>- Restrictions on water use – industry leading levels of service</td>
<td>- Pollution incidents – aiming for zero pollutions and meeting expectations for industry leading performance</td>
</tr>
<tr>
<td>- No hosepipe bans</td>
<td></td>
</tr>
<tr>
<td><strong>Asset health</strong></td>
<td></td>
</tr>
<tr>
<td>- Mains bursts – stable over the long term</td>
<td>- Sewer collapses - stable over the long term</td>
</tr>
<tr>
<td>- Unplanned outage – stable over the long term</td>
<td>- Discharge permit compliance – aiming for 100% compliance</td>
</tr>
<tr>
<td><strong>Long-term planning</strong></td>
<td></td>
</tr>
<tr>
<td>- Drought resilience – 0% of our customers at risk of restrictions in a severe (one in 200-year) drought</td>
<td>- Flooding resilience – fully developed Drainage and Waste Water Management Plan by 2023</td>
</tr>
<tr>
<td><strong>Catchment partnerships and catchment management</strong></td>
<td></td>
</tr>
<tr>
<td>- Catchment management to mitigate deteriorating raw water</td>
<td>- Catchment market tools to offset nitrogen</td>
</tr>
<tr>
<td></td>
<td>- Catchment wide permitting and interventions for phosphorus</td>
</tr>
<tr>
<td><strong>Community engagement</strong></td>
<td></td>
</tr>
<tr>
<td>- Greater help to encourage efficient use of water</td>
<td>- Avoiding sewer misuse</td>
</tr>
</tbody>
</table>
**Four components of resilience**

Our proposals for the four components of resilience – corporate, financial, operational and environmental - are summarised below, and set out in more detail in the sections that follow.

<table>
<thead>
<tr>
<th>Resilience component</th>
<th>Proposals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate resilience</td>
<td>Regular review of governance, accountability and assurance processes. Further develop well established processes for the identification and management of risk. Progress our People Programme to address the long-term risk around people and shortfall in STEM skills.</td>
</tr>
<tr>
<td>Financial resilience</td>
<td>Annual stress-testing for our long-term financial viability statement, with assurance by the board and review from an independent third party. Ensure corporate structure is consistent with the guidelines and principles for board leadership, transparency and governance.</td>
</tr>
</tbody>
</table>
| Operational resilience | Continuous improvement of our processes and policies, based on a maturity assessment against the six guidelines in BS65000, the British standard for organisational resilience. Based on assessment of the full range of potential hazards, cost beneficial investments to address residual risks to service:  
  - flood protection at one of our major sewage treatment works  
  - resilience improvements at our largest water treatment works  
  - improvements to the robustness of our operational technology and communications systems.  
Industry leading service levels for hosepipe bans and drought restrictions, and sewer flooding. |
| Environmental resilience | Catchment partnerships in Stour and Bristol Avon. Catchment management to tackle water quality at source, including:  
  - nitrates in catchments to our drinking water sources  
  - catchment interventions and catchment wide permitting to deliver phosphorus reductions in rivers  
  - catchment management to offset nitrogen in the Dorset Stour. Enhanced community engagement to encourage efficient use of water and avoid sewer misuse. |
4.4 Corporate resilience

Corporate resilience is the ability of an organisation’s governance, accountability and assurance processes to avoid, cope with and recover from disruption of all types; and to anticipate trends and variability in its business operations.

The board of Wessex Water has overall responsibility for identification and management of risk and resilience. There are three levels of control and review to manage service resilience and risk:

1. we operate management systems across the company, supported by external verification against relevant international standards, with regular audits. These provide a framework for the policies, strategies, plans and procedures used throughout the business.

2. risk management at operational and corporate levels. The Risk and Resilience Management Group (RRMG) is responsible for reviewing current and emerging risks and resilience issues across the business, scoring the risks and identifying mitigation. The Risk Management Advisory Group (RMAG), composed of executive directors, considers the updates from the RRMG and informs the board on the current and future status of risks and resilience.

3. robust internal and external audit function that routinely examines and evaluates the adequacy and effectiveness of our governance, risk management, and internal processes as well as our performance in meeting service objectives. The Audit Committee reviews the internal control systems and process for managing risk including the review of both internal and external audit arrangements.

One of the trends that we have recognised is the increasing long-term risk around people and skills, potentially leading to a reduced business resilience. To address the risks, we have developed and implemented the People Programme.

Case study: the People Programme

There is a recognised short-fall in STEM skills (Science, Technology, Engineering and Maths), compounded by the uncertainty due to Brexit and heightened in our region by the impact of the Hinkley Point C project. We are already competing for talent; all of which results in increased costs for skilled labour and a reduced ability to deliver on our commitments effectively and efficiently.

We have an ageing workforce with extensive corporate knowledge who will exit the business over the medium term. Finally, an engaged workforce is proven to increase levels of discretionary effort, performance and customer satisfaction.

As a business, our most important resource is our people and the skills they bring to ensure that we remain a dedicated, resilient customer-focused service. Therefore we have initiated the People Programme to mitigate the short and medium-term risks and to build a sustainable workforce for the future.
4.5 Financial resilience

Financial resilience is the extent to which an organisation’s financial arrangements enable it to avoid, cope with and recover from disruption.

We test our business fundamentals against a series of stress tests including some remote, extreme scenarios. These tests are performed each year and underpin our long-term financial viability statement (LTVS). For the purposes of this plan we have extended these scenarios to 2030.

Our overall approach to stress testing is shown in section 10 of this document.

4.6 Operational resilience

Operational resilience is the ability of an organisation and its infrastructure, people and skills to avoid, cope with and recover from disruptive events.

Resilience maturity assessment

As an organisation we have already done much to build in resilience, through the implementation of best practice approaches to business continuity, our risk management, emergency planning and asset management policy.

Our investment in the grid between 2010 and 2018 and our proactive approach to sewer flooding is further evidence of our commitment to protecting customers from significant disruption. We intend to build on these strong foundations. In practice, that means objectively and systematically looking at how we identify and assess threats to service, and understanding whether our existing policies and processes are aligned in a way that allows us to achieve the level of resilience our customers and other stakeholders expect.

We’ve developed a ‘resilience maturity assessment’ approach based on the structure and principles of BS65000, the British standard for organisational resilience, as shown in figure 4-1 below.

The aim of this approach is to:
• manage our service risks more effectively
• embed service resilience best practice across Wessex Water and
• provide a measure so we can monitor continued improvement.

We’ve had an external, third-party review of our approach.

The maturity process ensures that we have a resilience focus across the whole of Wessex Water that leads to the identification of improvement opportunities and supports the continuous improvement of service resilience.

Figure 4-1: Resilience “wheel” based on BS65000
Assessment and prioritisation of risks and consequences

We have taken an integrated approach to identifying the risks to customer service and the environment, considering long time horizons.

Risk to our water supply services for customers against potential hazards has been assessed, as shown below, considering the likelihood of failure, the consequence of failure and the mitigation control factors. The method has also been adapted to provide a similar approach to sewage treatment works.

We’ve used this approach to prioritise threats and focus on key areas where additional resilience mitigation is beneficial.

<table>
<thead>
<tr>
<th>Site ID</th>
<th>Works / System name</th>
<th>Type</th>
<th>Capacity ml/d</th>
<th>Flood</th>
<th>Critical asset failure</th>
<th>Raw water quality risk</th>
<th>Malicious damage</th>
<th>Telemetry / Scada / control system failure</th>
<th>Total system</th>
<th>Risk category</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>A</td>
<td>SW</td>
<td>80</td>
<td>395</td>
<td>23,838</td>
<td>8,154</td>
<td>944</td>
<td>14,899</td>
<td>48,230</td>
<td>A</td>
</tr>
<tr>
<td>2</td>
<td>B</td>
<td>SW</td>
<td>28.5</td>
<td>4,974</td>
<td>3,891</td>
<td>5,324</td>
<td>308</td>
<td>6,573</td>
<td>21,071</td>
<td>A</td>
</tr>
<tr>
<td>3</td>
<td>C</td>
<td>SW</td>
<td>18</td>
<td>6,241</td>
<td>1,847</td>
<td>6,680</td>
<td>866</td>
<td>8,247</td>
<td>23,880</td>
<td>A</td>
</tr>
<tr>
<td>4</td>
<td>D</td>
<td>SW</td>
<td>15</td>
<td>5,369</td>
<td>1,589</td>
<td>5,747</td>
<td>443</td>
<td>7,095</td>
<td>20,243</td>
<td>A</td>
</tr>
<tr>
<td>5</td>
<td>E</td>
<td>GW</td>
<td>33</td>
<td>9,240</td>
<td>2,735</td>
<td>5,861</td>
<td>1,282</td>
<td>6,105</td>
<td>25,223</td>
<td>A</td>
</tr>
<tr>
<td>6</td>
<td>F</td>
<td>GW</td>
<td>30</td>
<td>294</td>
<td>2,486</td>
<td>7,992</td>
<td>1,166</td>
<td>5,550</td>
<td>17,488</td>
<td>A</td>
</tr>
<tr>
<td>7</td>
<td>G</td>
<td>GW</td>
<td>24</td>
<td>235</td>
<td>1,989</td>
<td>6,394</td>
<td>833</td>
<td>4,440</td>
<td>13,890</td>
<td>A</td>
</tr>
<tr>
<td>8</td>
<td>H</td>
<td>GW</td>
<td>20</td>
<td>5,600</td>
<td>1,658</td>
<td>7,104</td>
<td>694</td>
<td>3,700</td>
<td>18,755</td>
<td>A</td>
</tr>
</tbody>
</table>

High-level resilience assessment of water treatment works

Following this high-level assessment, where appropriate, a more detailed assessment has been undertaken against specific hazards, including:

- flooding
- failure of critical assets
- malicious attack; physical and systems security.

Figure 4-2: Overtopping of a flood protection embankment at Portbury Wharf sewage treatment works
Based on the detailed assessments, which are set out in supporting document 4.1, we are proposing investments to improve resilience as summarised in the table below.

<table>
<thead>
<tr>
<th>Hazard</th>
<th>Proposed investment</th>
<th>Benefit</th>
<th>Cost £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Flooding</td>
<td>Reinforcement of sea wall – see figure 4-2 above</td>
<td>Protection of a sewage works from flooding - mitigating risk of pollution of the Bristol channel (figure 4-2)</td>
<td>3</td>
</tr>
<tr>
<td>Standalone water treatment works failure</td>
<td>Improvements to resilience of the existing treatment works by removing single points of failure; study of other long-term options to minimise the risk</td>
<td>Reduce the probability of prolonged supply interruptions to 42,000 properties</td>
<td>5</td>
</tr>
<tr>
<td>Operational technology security</td>
<td>Improvements to our operational technology systems – network hardening and segregation against cyber-attack; key re-suiting</td>
<td>Reduce the risk of prolonged supply interruptions across the region</td>
<td>14</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td><strong>22</strong></td>
</tr>
</tbody>
</table>

### 4.7 Environmental resilience

**Naturally resilient water systems**

There is growing awareness of our dependence on natural capital and the risks from climate change, development pressures and resource constraints. We recognise the need to embed long-term climate adaptation and build resilience in the natural ecosystems that support our business. This requires innovative ways of working with others to deliver the shared benefits for the water systems in our area.

We will develop our partnerships in catchments and continue with catchment management, as well as engaging with customers on how they can help support resilience.

**Catchment partnerships**

Sustainable land use is central to the stewardship of catchments and the water quality and flows from catchments. This is a multi-organisation challenge where a coordinated, collaborative and long-term approach is required to respond to future shocks and uncertainty.

Across the Wessex Water region, we’ve developed catchment-based partnerships working with organisations and individuals to protect and restore the water environment, minimise flooding and ensure sustainable water resources.

By working together, the catchment partnerships aim to:

- share local knowledge and expertise
- identify the local challenges
- deliver cost-effective solutions with multiple benefits
- improve the natural resilience of the catchment.
An innovative catchment programme, with catchment management at its centre, can improve the water environment and provide more integrated management of land and watercourses.

Partnerships have also been developed for bathing water quality. The two Litter Free Coast and Sea Partnerships in Dorset and Somerset actively work with local residents, businesses, schools and visitors to raise awareness and undertake projects to enhance beach and bathing water amenity.

**Catchment management**

We were one of the first companies to pioneer the catchment management approach to protect our sources of water and improve the natural resilience of the catchment.

Since 2005 we’ve been collaborating with farmers and land managers to reduce the application of nitrate fertilisers and pesticides in the catchments surrounding some of our water sources. This is designed to prevent leaching into rivers and groundwater. These schemes protect raw water quality without the need to install expensive treatment solutions. We are seeing the benefits of this work, with fewer periods of outage due to raw water quality deterioration and an increase in the natural resilience of the catchment.

We are using catchment management to offset nitrogen in the effluent discharged from Dorchester’s sewage treatment works into Poole Harbour by 40 tonnes of nitrogen per year. By working with farmers to reduce agriculturally derived nitrate from the catchment, this will avoid the need for an expensive and less sustainable nitrogen removal plant, thereby minimising whole life cost and saving customers money.

**Case study: reverse auctions**

In 2016 we launched EnTrade which is an innovative, market-based method for improving the water environment. EnTrade involves an online platform by which farmers bid for payment via reverse auction to carry out measures such as planting cover crops that reduce the amount of nitrogen that leaches from soil into groundwater and run off into surface water. This approach is much more cost-effective than conventional engineered solutions and the first two auctions were significantly oversubscribed.

Newer approaches to environmental stewardship, such as nitrogen offsetting, online nitrogen trading, can rarely be delivered by single bodies. We are showing how new types of public-private partnership can produce benefits for all involved.

**Community engagement on environmental resilience**

Community engagement and participation has the potential to improve resilience and deliver better service to customers. Two key areas for community engagement on environmental resilience – the efficient use of water, and misuse of sewers are described in detail in section 5 under the relevant performance commitments.

**Case study: biodiversity partnerships delivering environmental resilience**

Wessex Water was the first water company to publish a Biodiversity Action Plan in 1992. A key strand of this plan is the Partners Programme, working to deliver biodiversity gain and natural capital benefits.

The aim is to deliver on the ground biodiversity benefits through project working, engagement and volunteering. Ongoing projects include:

- Dorset Wild Rivers (Dorset Wildlife Trust)
- South Wiltshire Farmland Bird Project (Cranborne Chase AONB)
- Wessex Chalk Stream Project (Wiltshire Wildlife Trust).

In addition, in future we will continue to work with Avon Wildlife Trust in the North Somerset Levels and Moors, engaging with farmers on biodiversity, wetland and floodplain management, over and above our statutory obligations.
4.8 Customer engagement on resilience

Case study: resilience research

We wanted to talk about the issues of resilience in a way that was relevant to customers, so an initial “listening” phase was designed into this research. Separate pairs of customers discussed how they felt about future scenarios that might happen in four areas: water use restrictions, water supply stoppages, sewer flooding and environmental impacts. Through this we found that the words “future proofing” best described what we mean by resilience in a way that connects with customers.

Video clips from these conversations were put together with voices from Wessex Water staff and external stakeholders to create a film to use in the deliberative groups. Context boards were also shown to the participants; these outlined the background on the issue, reasons why this happens, comparative information, and what Wessex Water is currently doing about it.

The participants were then asked to think about different future scenarios that could happen in each area, relating to the issues of climate change, population growth and shock events. Investment choices to mitigate these risks were shown, so that participants could visualise the effects and make informed decisions about what activities and levels of investment they felt were appropriate. The full findings of customer engagement on resilience is included in supporting document 1.1 and the associated appendices.

The conclusions from this research, shown in the diagram below, have been factored into our assessments:

- customers were happy with their level of service for hosepipe bans and prioritised efficient use of water – hence our proposals for water efficiency and leakage reduction
- an expectation that we would be planning and investing for the future as a matter of course. Our plans are targeted at a small number of specific vulnerabilities. Our maintenance plans will continue to focus on resilience as well as customer service and compliance
- customers were keen to protect the environment for future generations. Our plan includes a large environmental programme driven by statutory obligations. We have gone beyond the minimum requirements, including partnership working and alternative preventative strategies, wherever feasible.
Broad consideration of options and ensuring best value

Resilience of critical infrastructure and essential services can be secured through four key interventions:
- resistance to the hazard
- reliability of the asset
- redundancy built in to the systems
- response and recovery when an event occurs.

For each of the hazards we’ve considered the full range of mitigation options using these four key interventions, with the baseline option of maintaining the existing response and recovery arrangement rather than undertaking additional investment. Whole-life cost benefit assessment was then used to determine the most cost-effective and beneficial solution.

Case study: water supply grid

An example of our long-term resilience planning and integrated resilience approach is the development of our strategic integrated water supply grid, completed in 2018. An example of ‘smart thinking’, it has provided multiple benefits in the most cost beneficial way. The result is that there is only one significant supply area that cannot be fully supported from multiple sources. This area is itself being made more resilient by other investments.

With the grid system in place, and based on our supply and demand forecast for the region, we now have a robust drought resilience position.

The grid is controlled remotely through an optimiser system, which can automatically assess the best way to operate the network to ensure resilient operation of the supply system, whilst managing cost.

The project has won numerous awards and was cited in a report by the National Infrastructure Commission on the value of design in infrastructure delivery.

The flexibility provided by the grid has enabled us to manage recent events, such as the Beast from the East and high demands in the dry summer of 2018, without any impact on customers.
4.9 Maintenance planning

Ensuring that our water and wastewater assets continue to deliver at the existing, industry leading level is fundamental to securing the resilience of our infrastructure and services now and into the future.

Thus, the bedrock of our plan is maintaining current service levels at an efficient cost.

The challenges we face

Our approach is to base investment and operational decisions on sound science and industry best practice, having considered the longer term challenges we face, and having evaluated the financial, social and economic cost and benefits of the options open to us.

We follow the principles of the Common Framework for Expenditure Decision-making, which sets out a process for underpinning expenditure decisions, from setting the strategy, assessing current and future risk, cost and service, through to balancing and delivering the expenditure plans.

For long-life assets (such as water mains and sewers), our analysis of future maintenance needs is derived from deterioration modelling and an assessment of the most cost-effective approach over the long term. We have used deterioration modelling to assess the rate of deterioration of our 12,000 km of water mains and 35,000 km of sewers and rising mains and to consider the impact of different replacement strategies on services to customers in the short and long term.

For short to medium life assets such as mechanical, electrical and process equipment, our maintenance assessment uses more than one approach so that the results can be triangulated:

- systematic bottom-up assessment of asset condition and performance and site inspections, giving a view of near-term expenditure requirements, balanced by an outcome related risk score
- asset renewal models which provide a longer-term forecast of expenditure and renewal trends.

This methodology applies to more than 16,000 water non-infrastructure assets covering sources, water treatment works, booster pumping stations and 61,000 sewerage non-infrastructure assets covering pumping stations, treatment works and sludge treatment centres.

For the more specialised assets or where the asset stock is not large, such as dams and outfalls, we are guided by the results from proactive inspections and individual bottom up assessments.

We face upward cost pressures related to maintaining existing base service, including:

- increases in energy costs
- the effect on operating cost of quality obligations in the period 2015 to 2020
- increases in base maintenance requirements following significant historical enhancement expenditure, eg, investments to meet the Urban Waste Water Treatment Directive in the 1990s
- the need to gradually close the gap between predicted deterioration rates and actual replacement rates of long life assets such as water mains and sewers to ensure a broadly stable asset base in the long term.

What we will be doing to 2025

To combat the upward cost pressures on maintaining service we need to become more efficient at what we do and more effective in the way we do it.

Our key strategies to keep service levels high and assets broadly stable whilst minimising costs are:

- to use improvements in asset and work management systems to absorb some of the input price pressures on our operational and maintenance activities
- to continue to invest in energy saving initiatives to reduce the power our assets consume
- to make the most of data and information to inform our operational response and
planning; our information strategy is covered in supporting document 2.2

• to increase investment in monitoring and control to optimise energy and chemical usage, and to deliver improved service
• to continue to utilise our risk-based planning approach to target and prioritise highest risk assets for preventative maintenance, life extension or replacement
• to increase levels of technical innovation and standardisation.

We’ll continue our rolling programme of maintenance of our sources and water treatment works, in order to maintain drinking water quality and production capacity, and of our sewage treatment works and pumping stations, to ensure compliance with discharge permits regarding quality and capacity.

We’ll continue with mains replacement and sewer rehabilitation. Our asset health outcomes are set out in supporting document 5.6.

Our strategy beyond 2025

Our long-term vision is to be more innovative and specifically to include more real-time monitoring and control in our business operations so we are more proactive; thereby providing a more resilient service to our customers. We’ll also be improving the use of the data we collect.

An example of this is the PRISM visualisation platform. Our regional telemetry system collects data, alerts and alarms from our distributed assets providing near real-time information. PRISM converts this information into an accessible format and supports decision-making by highlighting the most important and relevant information and providing an early warning of supply system issues, thus enabling root cause analysis and ensuring efficient response and recovery to any asset failure and minimising customer service impacts.

4.10 Water Resources Management Plan

We published our draft Water Resources Management Plan (WRMP) earlier this year. Investments required to deliver the WRMP are described in section 5 on wholesale controls.

It sets out how we’ll meet demand for water whilst protecting the environment over the next 25 years. We prepare a plan every five years that is reviewed by our regulators, the Environment Agency, Ofwat and Defra. We also actively encourage other stakeholders to tell us what they think of our proposals.

If the system is forecast to be in surplus through the planning period then no further action is required. Nonetheless we can choose to take forward new schemes to meet wider objectives related to government policy, customer preferences, operational efficiency, system resilience and/or environmental benefits.

The WRMP is not produced in isolation. The plan is fully integrated with our drinking water quality programme to ensure that our statutory drinking water quality obligations, regulated by the Drinking Water Inspectorate, are taken into account in the long-term planning of water resources. And it is consistent with our asset maintenance programme, for which one of the key planning objectives is maintaining capacity.

Our Water Resources Management Plan

Given the investments we’ve already made, we have access to enough water resources to meet the needs of our customers for the next 40 years without the need to develop new sources of water. However, we are taking forward ambitious proposals to work with our customers and local communities so that together, we can reduce the water we take from the environment, improve the resilience of our services and potentially support areas of the country where water scarcity is a growing problem. We’ll also continue to work with partners at a catchment level to help safeguard the
resilience of the ecosystems that provide us with our raw water supplies.

The Wessex Water region continues to face:

- above-average population growth
- raw water quality pressures
- the potential need to reduce water abstraction licences to protect river ecology
- changing weather patterns driven by climate change.

The investments we have made in network infrastructure, source protection and promoting efficient water use have created a very resilient water supply system. Households and businesses in the Wessex Water region have enjoyed supplies without restriction for more than 40 years.

Our services are resilient to a repeat of any of the drought events experienced in the last 100 years without the need to require customers to restrict their use. Therefore, we would not expect to impose temporary use restrictions (hosepipe bans) on average more than once every 100 years or to impose non-essential use bans for commercial customers more than once in every 150 years on average. This level of drought resilience is amongst the highest for all water companies in the UK.

We have historical records to estimate the magnitude of more severe droughts that might happen only once in 200 years. Our modelling shows that we would not need to implement rota cuts during this type of drought event.

We will continue to manage water supply by continuing to reduce leakage (by 15% by 2025) and supporting customers to manage household demand by promoting metering and water efficiency through behavioural engagement.

Consultation on our WRMP

Our draft WRMP underwent public consultation from 9 March until 1 June 2018. A statement of response to the representations on our plan that consultees sent to Defra and a revised WRMP that incorporates necessary changes is being submitted to the Secretary of State, the EA and Ofwat in early September 2018 at the same time as this business plan submission.

All documents are available to download here: [https://www.wessexwater.co.uk/waterplan/](https://www.wessexwater.co.uk/waterplan/)

Following permission to do so from Defra we will publish the final WRMP. We expect this to be early 2019.

Future regional water resources planning

We’re committed to working with other members of the West Country Water Resources Group (WCWRG) to undertake regional water resource planning to identify solutions across company boundaries. During 2020-25 the WCWRG will undertake regional modelling and analysis to develop a regional plan with a long-term vision of water resilience. The regional plan will then be used to inform our next WRMP.

4.11 Drainage and Waste Water Management Plan

Long-term resilience planning for drainage and waste water is not as advanced as for water supply, partly because of the individual and diverse nature of the wastewater and drainage systems.

However, following the work by the 21st Century Drainage Programme, we will publish long-term plans for sewerage investment. These plans will be called Drainage and Wastewater Management Plans (DWMP). They will be the wastewater equivalent of the Water Resources Management Plan.

Scope of a Drainage and Waste Water Management Plan

A framework, which is currently being finalised, will include three levels of plan to suit different audiences, as summarised below:
• **level 1**: at the water company regional area, the DWMP report will be similar to the WRMP report
• **level 2**: strategic planning areas will be based on river basin catchments (four areas in Wessex Water). The expectation is that we’ll host catchment partnership meetings to influence our approaches
• **level 3**: drainage strategies at treatment works catchment level.

The overall aim is to develop plans for areas that could be at risk of flooding now or in the future, due to intense rainfall, development and other drivers, so that a holistic long-term picture of the ‘sewerage deficit’ can be formed.

DWMPs are not currently a legislative requirement. We will deliver the plans as soon as possible and by March 2023 at the latest, in order to inform PR24.

**Our draft Drainage and Waste Water Management Plan**

**The challenges we face**

The Wessex Water region continues to face above-average population growth. Changing weather patterns driven by climate change, along with urban creep, are putting our drainage system under pressure.

**What we will be doing to 2025**

We have models for more than 85% of our foul and combined sewerage system, and plan to complete modelling of our sewer network, combined overflows and surface water drainage.

We are already developing a long-term sewerage capacity graphical information portal (see figure 4-3 below) to allow customers and stakeholders to see our long-term Drainage and Waste Water Management Plan and capacity information. This will be rolled out on a catchment by catchment basis using a risk-based approach with high-risk catchments first, based on the drainage area planning and capacity assessment frameworks that have been developed by Ofwat, the Environment Agency and the 21st Century Drainage Programme.

We will use the proposed national capacity assessment tool and our drainage water management plans to assess long-term investment needs.

We will continue to work with local lead flood authorities and other stakeholders to identify joint schemes that provide value for money, sustainable solutions to reduce flooding.
4.12 Board assurance and signoff

Board assurance is covered in more detail in section 12. Specific board and senior management engagement related to resilience includes:

- Audit Committee paper in November 2017
- draft Water Resources Management Plan agreed in November 2017
- senior management team agreement of service resilience policy in February 2018
- non-executive directors review meeting in April 2018.

Further information on our approach to resilience and proposals for 2020-2025 are given in supporting document 4.1 - Providing resilient services.
5. MARKETS and INNOVATION: WHOLESALE
Section 5 Markets and innovation: wholesale – summary

Innovation
We want to be an acknowledged leader and exemplar at innovation, in ways that benefit the people we serve and the environment around us.

We will generate cost efficiencies and improved services by innovating:

- a trading tool that enables us to reduce nitrogen at a fraction of the cost of building new treatment processes
- catchment permitting - a new and flexible system that maximises the use of existing phosphorus removal plants
- catchment management - a continuation of our pioneering approach to control nitrates at source
- grid optimiser - automatic control to ensure the optimum utilisation of our sources as well as ensuring resilience.

Markets
We welcome the move to liberalise the water resources and bioresources markets.

We have a surplus of available water supplies compared with predicted demand over the next 25 years and we are actively pursuing opportunities to play our part in improving water security in neighbouring areas where water is scarcer.

Commercialisation of the sludge treatment and recycling market is the approach Wessex Water adopted in 2009 when we created GENeco. Exposing comparative costs and services, commercialising intra-group relationships and setting benchmarked prices, all help to improve efficiency and drive innovation.

Delivery of the outcomes
Our aim is to achieve the best overall service levels in the industry. How we approach delivery is also ambitious.

We will deliver our biggest ever environmental programme in order to improve and protect the ecology of the rivers, estuaries and bathing waters in our area. Innovative catchment-based methods will be adopted, alongside asset solutions. We will adopt an open systems approach to maximise efficiency.

Service improvements, such as supply interruptions, reducing leakage, pollution reduction and sewer flooding, will be delivered by the best combination of:

- changing the way we work through improved real-time data and analytics
- continued engagement with our customers where they can contribute to achieving our goals, such as avoiding sewer misuse and saving water
- taking action against raw water deterioration, through catchment management and EnTrade
- timely provision of additional capacity in our network and at our sewage works.

In addition, we will maintain our existing assets so that they continue to provide the required service now and in the future.

<table>
<thead>
<tr>
<th>Totex summary</th>
<th>Water resources and network plus water</th>
<th>Bioresources and network plus wastewater</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service improvements</td>
<td>104</td>
<td>89</td>
</tr>
<tr>
<td>Environmental programme</td>
<td>11</td>
<td>497</td>
</tr>
<tr>
<td>Maintaining our existing services &amp; accommodating new development</td>
<td>550</td>
<td>998</td>
</tr>
</tbody>
</table>
In this section we demonstrate how we use innovation and markets to drive cost efficiencies while improving service. We describe our long-term strategy for delivering bioresources services, and our regulatory capital value (RCV) allocation. We also set out our strategies for delivery of the wholesale outcomes.

Section contents

5.1  Section introduction
5.2  A summary of our proposals for 2020-25

Innovation

5.3  Innovating for results

Markets

5.4  Embracing markets for water resources
5.5  Embracing markets for bioresources

Outcomes

5.6  Delivering our five wholesale outcomes
   5.5.1  Environment
   5.5.2  Resilient services
   5.5.3  Efficient use of water
   5.5.4  Drinking water quality
   5.5.5  Sewer flooding

5.7  Accommodating growth and new development

Price controls

5.8  Totex investment summaries

How this ties in with other sections of the Business Plan

Section 3: sets out how we go about Delivering outcomes for customers, which itself is based on the priorities established from Engaging customers as set out in Section 1.

Section 4: Securing long-term resilience sets out our resilience plans, long-term strategy for water resources, drainage and wastewater, and our approach to maintenance planning.

Section 6: Markets and innovation: open systems and DPC sets out how we intend to change our business model to one based around open systems in order to improve efficiency and deliver better outcomes. We also explain how we have considered relevant projects for direct procurement.

In Section 8: Securing cost efficiency we show how the costs that we have allowed in our investment proposals are efficient.
Where to find further information

Supporting information for various aspects of this section are provided as below:

<table>
<thead>
<tr>
<th>Ref.</th>
<th>Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>Supporting document 5.1</td>
<td>Protecting and enhancing the environment</td>
</tr>
<tr>
<td>Supporting document 5.2</td>
<td>Using water efficiently</td>
</tr>
<tr>
<td>Supporting document 5.3</td>
<td>Providing excellent drinking water quality</td>
</tr>
<tr>
<td>Supporting document 5.4</td>
<td>Minimising sewer flooding</td>
</tr>
<tr>
<td>Supporting document 5.5</td>
<td>Bioresources</td>
</tr>
<tr>
<td>Supporting document 5.6</td>
<td>Maintaining our services</td>
</tr>
<tr>
<td>Supporting document 5.7</td>
<td>Accommodating growth and new development</td>
</tr>
<tr>
<td>Supporting document 5.8</td>
<td>Water resources bid assessment framework</td>
</tr>
<tr>
<td>Supporting document 5.9</td>
<td>Water resources RCV allocation</td>
</tr>
<tr>
<td>Supporting document 5.10</td>
<td>Bioresources RCV allocation</td>
</tr>
</tbody>
</table>

5.1 Section introduction

Following a description of our innovative methods of delivery and approach to embracing markets, we set out our strategy for delivery of each of the outcomes, delivered through the wholesale price controls, both for the period 2020 to 2025 and over the longer term:

- environment
- resilient services
- efficient use of water
- drinking water quality
- sewer flooding.

We also describe our approach to accommodating growth and new development in our region.

At the end of this section 5 we provide a summary of the investment programmes for each of the four wholesale price controls of:

- water resources
- network plus water
- network plus wastewater
- bioresources.
5.2 A summary of our proposals for 2020-25

Innovation and markets

A summary of how we use innovation and markets to drive efficiencies and improve service is given below, and set out in more detail in the sections that follow.

How we drive cost efficiencies while improving service

**Innovation**

Our vision is to continue to be an acknowledged leader and exemplar at innovation, in ways that benefit the people we serve and the environment around us. We have a track record based on employee suggestions, academic partnership and doing things in a different way.

Innovations that have generated cost efficiencies and improved service range in size and complexity, and include:

- **EnTrade**: a nutrient trading tool that enables us to reduce nitrogen in a catchment at a fraction of the cost of building new treatment processes
- **catchment permitting**: a new and flexible permitting system that maximises the use of existing phosphorus removal plants rather than providing additional treatment
- **catchment management**: we were pioneers in using catchment management to control nitrates at our water sources, thus avoiding investment in treatment works
- **grid optimiser**: an automatic control system to ensure the optimum utilisation of our sources at the same time as delivering resilience.

**Markets**

**Water resources**

Our draft Water Resources Management Plan shows that we have a surplus of available water supplies compared with predicted demand over the next 25 years.

We are actively pursuing market-based opportunities to play our part in improving water security in neighbouring areas where water is scarcer. We are a founding member of the West Country Water Resources Group which will undertake regional water resource planning to identify optimum solutions for the region.

We’ve already embraced an opportunity to enhance our resilience through a cross-border transfer arrangement with South West Water (Bournemouth area). We have published a Bid Assessment Framework as part of this plan consistent with our wider open systems strategy.

**Bioresources**

Commercialisation of the sludge treatment and recycling market is the approach Wessex Water adopted in 2009 when we created GENeco – a recycling and renewable energy subsidiary, committed to offering customers innovative, cost-effective and sustainable solutions.

Exposing comparative costs and services, commercialising intra-group relationships and setting benchmarked prices, all help to improve efficiency and drive cultural change and innovation across the wholesale business.
Our strategy and plans for delivery of the outcomes

Our aim is to achieve the best overall service levels in the industry. How we approach delivery is also ambitious. A brief summary of our strategies and plans for each of the wholesale outcomes is given below. More detail is provided in the sections that follow.

Environment

This business plan includes our biggest ever environmental programme in order to improve and protect the ecology of the rivers, estuaries and bathing waters in our area.

Fully in accordance with our statutory obligations, the key investments include:

- enhancements at our sewage treatment works to improve river water quality, using catchment-based and market tools wherever possible. We will remove a further 289 tonnes of phosphorus per year by 2025 and deal with nitrogen at six sites
- improvements at 13 combined sewer overflows as well as additional flow and spill monitoring
- enhancements at two sites to keep bathing water quality at beaches in good or excellent condition, and investigations at 10 sites
- a multi-track programme of customer engagement, jetting of sewers, additional monitoring and analytics to reduce the number of pollution incidents, aiming for zero pollutions and to maintain our industry leading performance.
- measures on biosecurity, eel passage and invasive non-native species.

Resilient services

Previous investments in our water supply grid, catchment management, leakage reduction water efficiency and metering have developed a robust water supply system that has enhanced our resilience to droughts while supporting environmental improvements.

We are committed to reducing supply interruptions to the lowest possible level, by:

- ensuring that planned interruptions are all completed within three hours
- changing the way we work on unplanned interruptions through centralised resources, improved real-time data and knowledge management, improved interconnection, additional network infusion equipment, CALM networks and operational modelling and drain down analysis.

In addition, as discussed in section 4 Securing long-term resilience, we propose to improve the resilience of large standalone water treatment works and continue to enhance our cyber security.

Efficient use of water

Minimising water wastage and supporting the continued growth in the efficiency of water use are cornerstones in our ambition to operate as a truly sustainable business. Despite a 13% increase in population since 1995 we are abstracting around 21% less water from rivers and aquifers than we did 20 years ago.

We will reduce leakage by 15% by 2025 alongside reductions in average per capita consumption, through:

- a step change in our leakage activities and innovation to reduce losses from our distribution network
- reductions in losses from customers’ pipes through our enhanced metering programme
- promoting ways in which customers can contact us to report a leak such as our leak stoppers telephone hotline
- continuing our change of occupancy metering programme and enhancing the promotion of optional meters so that 77% of households will be on a meter by 2025
- expanding our Home Check water efficiency service to reach more customers, and particularly those for whom the affordability of their water bill is a key concern, to a further 40,000 customers.
• evolving our digital services to provide customers with an online platform to help them understand their water use and how it compares to similar households.

Drinking water quality

Our drinking water quality programme, which is supported by the Drinking Water Inspectorate, will include:

• taking action on rising nitrates and pesticides in the raw water at our sources, including catchment management at a further six sources, blending at three sites and a trial of EnTrade to reduce metaldehyde in the upper Tone catchment
• a step change in the rate of lead pipe replacement in conjunction with continued phosphate dosing. We have set a long-term ambition of having a lead-free network by 2040
• working with customers and stakeholders to improve and protect drinking water quality in the home and workplace, including schools and public buildings
• reducing customer contacts about appearance through mains replacement and improved advice to consumers.

Sewer flooding

We already provide the best service in the industry for internal sewer flooding in terms of incidents per 10,000 properties. Our aim is to remain the best performing company through to 2025.

To deliver the sewer flooding targets that we have set ourselves, including internal and external flooding and capacity, we will:

• tackle sewer blockages through continued engagement with our customers to reduce sewer misuse, and proactive jetting
• provide adequate capacity where development occurs and where sewers are already at the limit of their capacity during heavy rainfall
• work with our partners, maximising opportunities for sustainable drainage system and the separation of surface water from combined sewerage systems
• complete the North Bristol sewerage strategy. We’ve already completed the first part of the strategy, the Frome Valley relief sewer. We’ll complete construction of the Trym tunnel by March 2023 to reduce flood risk, accommodate new development, improve overflow performance and future-proof the strategic sewers in North Bristol.

Totex investment summary

<table>
<thead>
<tr>
<th>Price control</th>
<th>Totex £m 2020 - 2025</th>
<th>Price control</th>
<th>Totex £m 2020 - 2025</th>
</tr>
</thead>
<tbody>
<tr>
<td>Water resources</td>
<td>87</td>
<td>Bioresources</td>
<td>124</td>
</tr>
<tr>
<td>Network plus water</td>
<td>578</td>
<td>Network plus wastewater</td>
<td>1,461</td>
</tr>
<tr>
<td>Total wholesale water</td>
<td>665</td>
<td>Total wholesale sewerage</td>
<td>1,585</td>
</tr>
</tbody>
</table>

Note: Totex is gross totex excluding pension deficit recovery.
5.3 Innovating for results

The true test of innovation is delivering better outcomes for our customers and the environment, and then enabling the whole industry to benefit. There are numerous examples of where we have done just that:

- we were pioneers in using catchment management to deal with raw water quality at source, which is now considered mainstream, advocated by all the regulators as the preferred approach
- we have extended this approach using market tools such as EnTrade
- the development of our water supply grid, and its ground-breaking real-time control system
- the formation of GENeco as a distinct operating division as a precursor to liberalisation of bioresources. This business model innovation has led to food waste digestion and processing biogas into biomethane for export to the gas grid and use in vehicles, all to the benefit of our customers
- development of the world’s first domestic wastewater meter
- pioneer in innovative pipeline technologies to allow condition surveys of sewers and cleaning of water mains.

Our track record is illustrated by the case studies throughout the business plan. We have won the Institute of Water Innovation of the Year twice in the past three years.

A culture of innovation

Innovation is the introduction of new technologies, products or ways of working that offer clear benefits – a better service to customers, for example, a healthier environment, lower costs or reduced risk.

Our vision is to be an acknowledged leader and exemplar in innovation, in ways that benefit the people we serve and the environment around us. Rather than having a large research and development department, we have worked to build a culture of innovation throughout the organisation. This then feeds into a small innovation team that monitors the full cross-section of work and builds links within and outside the company.

Employee suggestions

Our employee suggestion scheme, Eureka, gathers and implements original ideas and then offers a reward depending on their success. Improvements can potentially be scaled up to help reduce operating costs or improve our performance. We also run specific open innovation challenges, set by our directors, to which anyone in the company can respond.

Technology trials

We work with external companies to trial new products and, occasionally, completely new technologies. This can occur through direct contact or via third parties such as Isle Utilities’ Technology Approvals Group, British Water, or the Future Water Association.

Academic partnership

Since 2013 we have supported the Water Innovation Research Centre (WIRC) at the University of Bath, which includes work with PhD students on the Water Informatics – Science and Engineering programme. We host undergraduate students on placements, benefiting from their focused attention on specific areas, with some subsequently becoming full-time employees.

Internal collaboration

We encourage sharing of innovation work and experience from across functions. This is assisted by our inter-departmental innovation and technology forum and online platforms such as Yammer.

Environmental investigations

We carry out field-based environmental investigations to make sure subsequent improvement works are well targeted and proportionate. Between 2015 and 2020 we will conduct 40 environmental investigations covering a range of issues, including leading-edge projects such as: two UK-first trials of new methods for removing
phosphorus from sewage (magnetite and high-rate algal ponds); the use of piezometers to give better detail about groundwater flows, and controlled release of spate flows from Durleigh reservoir to remobilise phytoplankton and improve ecological conditions downstream.

UK Water Industry Research (UKWIR)

This is the main vehicle for collaborative research between water companies. The programme comprises projects addressing common interests and concerns, providing a sector-wide perspective and enabling larger scale research to take place than would otherwise be achieved.

Case study: catchment permitting

Despite phosphorus removal being in place at the larger sewage treatment works (STWs) in the Bristol Avon catchment, elevated phosphorus remains one of the main reasons why only a quarter of the rivers and streams in this catchment have good ecological status. However, the capital cost of upgrading sewage treatment works that have not already installed phosphorus removal is becoming disproportionate. And so the Environment Agency (EA) agreed that we should explore alternative, more innovative approaches.

First, we identified those with the greatest influence on phosphorus levels in the water environment due to their size and location, and also those with the most scope for improvement. We then agreed a mandatory phosphorus tonnage reduction target for the group as a whole, and voluntary stretch targets for each site.

Consequently, there will be a mix of new investment or operational changes, reducing our overall discharge of phosphorus by 46 tonnes per year across the catchment. This approach is much more cost beneficial than the traditional site-by-site methods and could potentially be combined with other methods such as nutrient trading, or applied to dealing with other environmental pressures.
Recent and current innovation is summarised in the diagram below.

**Environment**
- Multi-agency catchment partnerships
- EnTrade online auctions for environmental benefits
- Novel methods to reducing phosphorus in sewage effluent
- Working with public health practitioners on pharmaceutical residues
- Local engagement on beach litter
- Coastwatch interactive bathing water app
- Food waste digestion, biomethane export

**Drinking water quality**
- Diverse forms of catchment management
- Reservoir mixing systems to reduce problems caused by manganese
- Constructed wetland to control sediment & nutrients at Durleigh reservoir

**Minimising sewer flooding**
- Campaigning to reduce blockages from wet wipes, fat, oil and grease
- Monitors in sewers at flooding hotspots

**Efficient use of water**
- Devices that pinpoint the location of leaks from customers’ pipes
- Hydrophones that detect leaking pipes via their sound signature
- Water use graphs on metered bills
- Online ‘smart engagement’ portal

**Resilient services**
- Predictive modelling of deterioration hotspots in water mains
- Partnerships for surface water, flooding risk, and environmental resilience
- Optimiser system for operating our water supply grid

**Excellent service for customers**
- Real-time feedback from customers
- Online interactive map of live jobs
- Cash back meter option guarantee
- Sharing data with energy providers to help vulnerable customers

**Affordable bills**
- The first social tariff in the sector
- Partnerships with debt advice charities
- Training projects for household money management
- Mapping tools to plot areas of deprivation
- Online portal for partner organisations

**Community engagement**
- Local engagement on water issues
- Public information on asset performance
- Development of ‘citizenship approach’ to support greater customer participation
- Social media, digital communications and game apps

**Future innovation**

The world is changing rapidly. We see changes in people’s expectations of service providers; the standards we have to meet; operating costs; the acceptable level of returns to our investors; the amount of competition that we face; the technology available to us; and in what employees expect from their employers. Standing still is not an option. Therefore, to continue being a leading company, we’ll need to look constantly for better ways to do things, and new opportunities that are coming our way.

Our future innovation work can be thought of in terms of projects and offerings, our internal processes, and the people involved.
For each of these themes we will aim to achieve:

**Projects and offerings:**
- a portfolio of innovation projects that break new ground
- a mix of products and services that meet the aims of our core business while exploiting new opportunities.

**Process/organisation:**
- defined systems and processes, so that our resources are used where they deliver most value
- an ability to assess the benefit or impact of new technologies and ideas, which means we can scale-up those that show good promise, or quickly move on from those that do not
- good retention of knowledge on what we’ve done in the past.

**People:**
- staff throughout the company who look for opportunities to do things differently and better
- a culture that allows risks to be taken where appropriate, and embeds innovation into regular practices
- good relationships with those outside the business who are able to introduce us to innovative thinking, practices and technologies.

We see great opportunities arising from new, disruptive technologies that have a good fit with utilities. Most notably machine learning and artificial intelligence, the internet of things and pervasive sensors; predictive analytics and modelling; virtual and augmented reality; and advances in aerial and underground survey.

These will not only be influential in asset management but are set to enter the home in more meaningful ways, allowing opportunities for more responsive and personalised services to customers. Our 2017 Futures report outlines some of the impacts that these are likely to have.

However, we will not focus solely on technology innovation by any means. Many of our innovation successes in recent years have been centred on partnerships and relationship-building – with farmers, regulators, social charities, wildlife organisations and others – as well as customers themselves. As set out in section 6 we will develop this further and embrace an open systems approach to expand the range of buying and financing models, and deliver better outcomes for our customers and for the environment.

**Wessex Water Catchment Panel**

**Ambition and innovation**

The Wessex Water Catchment Panel is an independently-chaired advisory panel comprising national and regional environmental experts. Their role is to scrutinise and comment upon the environmental performance commitments, environmental outcomes and measures of success proposed by Wessex Water in its business plan, and to advise and assist in the adoption of the innovative catchment-based strategies.

The panel has produced a report on the level of ambition and innovation in the plan. A full copy is included in Appendix 5.1.A.

The panel is supportive of the innovative approaches piloted by the company during 2015-20, such as catchment permitting, EnTrade, constructed wetlands, the extensive use of environmental investigations and collaborative water quality modelling to ensure investment is based on sound science and robust evidence, and catchment partnerships.

The panel is keen to see these approaches extended into PR19, as these mechanisms can often deliver wider environmental benefits than those associated with capital asset improvements. It is particularly keen to see the extension of EnTrade, in combination with catchment permitting, allowing asset optimisation and offsetting to deliver nutrient reduction targets at a catchment scale.
5.4 Embracing markets for water resources

Section 4 includes a summary of our draft Water Resources Management Plan, which underwent public consultation from March to June 2018.

Third-party options

Our draft Water Resources Management Plan shows that we have a surplus of available water supplies compared with predicted demand over at least a 40-year planning horizon, while at the same time ensuring that the environment is protected.

Therefore, we have no need to consider third-party proposals for the development of new supply-side options.

We recognise the findings of Water UK’s Water Resources long-term planning framework (Sept 2016) and the National Infrastructure Commission’s report on Preparing for a drier future (April 2018) that call for increased water trading. We are actively pursuing opportunities to play our part in improving water security in areas where water is scarcer. In 2017 we were a founding member of the West Country Water Resources Group that seeks to undertake regional water resource planning to identify optimum solutions for the region and, in particular, explore new trading opportunities. Potential new or revised transfers include transfers to:

- **Southern Water**: to partially address their deficits due to sustainability reductions
- **Bristol Water**: for improved resilience.

We’ve already embraced an opportunity to enhance our resilience through a cross-border transfer arrangement in the south of our region near Poole. The arrangement provides resilience benefits to Wessex Water and South West Water (Bournemouth area) by maximising the use of existing assets. Our draft WRMP also included a small new transfer to Thames Water starting in the 2070s, although modelling for their final WRMP has not selected this transfer as a preferred option we will consider future trading opportunities under the regional planning analysis.

Our work in the next period as part of the West Country Water Resources Group will see us continue the regional analysis of water resources planning and exploration of cross-sector solutions including new trading opportunities.

Markets are key to delivering future water resilience. Our open systems approach will include consideration of how other parties can provide capacity at local level to deal with peaks in demand. Further information is provided in supporting document 5.8 Water resources bid assessment framework.

RCV allocation

Our allocation of the water regulated capital value (RCV) between water resources and water network plus was submitted to Ofwat in January 2018.

The RCV allocation is based on an updated assessment of the net modern equivalent asset values for our water resources assets (dams, boreholes and raw water mains). We received feedback from Ofwat in April 2018 and we have taken this into account in the final submission. Further details are included in supporting document 5.9.

5.5 Embracing markets for bioresources

We welcome the separate price control as the first step towards fully embracing market forces to provide bioresources services – an idea we proposed in our Water 2020 paper: Potential commercialisation of sludge treatment and recycling.

The opening of the bioresources market through a separate specific price control will deliver more efficient and sustainable services. We agree that, provided care is taken over the valuation of assets, this approach will ensure ‘no regrets’ when considering if and how to liberalise contestable parts of the supply chain.
Exposing comparative costs and services, commercialising intra-group relationships and setting benchmarked prices, all help to improve efficiency and drive cultural change and innovation across the wholesale business.

This is the approach Wessex Water adopted in 2009 when we created GENeco – a recycling and renewable energy subsidiary, committed to offering customers innovative, cost-effective and sustainable solutions.

In this section we describe:

- the management structure of GENeco
- how we have used markets to drive efficiency and innovation
- our long-term strategy for bioresources
- maximising opportunities from the bioresources market.

**GENeco management structure**

GENeco is a line-management team which undertakes regulated sewage treatment and bioresources activities (sludge tankering, treatment and recycling) for Wessex Water Services Ltd (WWSL) as well as unregulated renewable energy production (such as Combined Heat and Power generation, Gas to Grid and liquid organic waste treatment) for Wessex Water Enterprises Limited (WWEL). (GENeco Ltd. is a subsidiary company of WWEL which operates a food waste plant.)

The figure below illustrates the extent of GENeco’s activities.

GENeco operates under a single line-management structure with arm’s length transactions between the regulated (WWSL) and unregulated businesses (WWEL). This separate and dedicated management structure has helped us improve our understanding of costs and service performance and encouraged a greater commercial culture which has delivered for customers and the environment.
How we have used markets to drive efficiency and innovation

GENeco has been successful in identifying and maximising revenue streams in bioresources and related waste treatment and energy generation markets. This has benefited our sewerage customers through greater use of existing regulated assets. It has also created additional profit centres for the broader YTL (UK) Group.

Our approach to the organic waste and recycling market has facilitated innovation and enabled us to drive efficiency for the benefit of our customers and the environment, as explained below.

Further information can be found on the GENeco website.

---

Case study: awards

Operating at the cutting edge of innovation has led to recognition through numerous awards, as highlighted here.
Case study: IChemE Global Awards, Sustainability

The Institution of Chemical Engineers Global Awards celebrate excellence in chemical, biochemical and process engineering from across the world. In November 2017 GENeco was named the winner of the Sustainability Award with its entry titled Building an Innovative Renewable Energy Ecosystem, which showcased the transformation of its main site, Bristol Sewage Treatment Works, into a resource and energy factory, converting wastes into green electricity, gas and vehicle fuel.

Benefits for customers and the environment

Our business model is unique in the water industry and the innovations this has brought contribute towards several of the outcomes that customers value:

- protecting and enhancing the environment
- affordable bills
- resilient services.

Table 5-1 below illustrates how the unregulated business has a net positive financial benefit for the regulated customer.

We estimate that, without a market-based approach, our regulated customers’ bills would be £3 higher and the impact on the environment would be greater.

### Table 5-1: Benefits to customers from unregulated activity

<table>
<thead>
<tr>
<th>Service provided to WWEL</th>
<th>Annual gross income to WWSL £m/yr</th>
<th>Annual net income to WWSL £m/yr</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food waste centrate treatment</td>
<td>0.1</td>
<td>0.0</td>
</tr>
<tr>
<td>Mesophilic digester rental</td>
<td>0.1</td>
<td>0.1</td>
</tr>
<tr>
<td>Grit and screenings slab hire and run-off treatment</td>
<td>0.8</td>
<td>0.3</td>
</tr>
<tr>
<td>Biogas production</td>
<td>2.0</td>
<td>2.0</td>
</tr>
<tr>
<td>Biosolids production</td>
<td>0.4</td>
<td>0.4</td>
</tr>
<tr>
<td>Liquid organic waste treatment</td>
<td>5.1</td>
<td>4.1</td>
</tr>
<tr>
<td>Staff and overheads</td>
<td>1.1</td>
<td>0.0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Service provided to WWSL</th>
<th>Annual gross cost to WWSL £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electricity purchase</td>
<td>-3.2</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Total</th>
<th>Annual gross income to WWSL £m/yr</th>
<th>Annual net income to WWSL £m/yr</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>6.4</td>
<td>3.7</td>
</tr>
</tbody>
</table>
Using market forces for bioresources services

The increased focus on efficiency drives us to consider alternative market-based approaches, to either increase revenue or reduce costs.

Here are examples of our use of market forces for bioresources services.

Tankering, treatment and recycling services

Wessex Water currently provides a complete bioresources service (transport, treatment and recycling) for Veolia’s sewage treatment works at Tidworth. This contract has been in place since 2011.

Bioresources recycling service

We use the external market to ensure efficient recycling of our bioresources to agricultural land. All bioresources produced at our bioresource centres are removed by a third-party contractor for storage and spreading on farmland. This contract is competitively tendered every three years. As we still provide management oversight for the delivery of the contract, it is not considered a true outsourced service as per the PR19 data table definitions.

Agronomic advice

We provide agronomic advice and support to farmers to assist with the appropriate application of the nutrient-rich organic fertiliser. We compete against man-made fertiliser and adjust our sales price to provide a competitive product. Our customers benefit from the income from these sales.

Liquid tankered organic waste services

Liquid organic waste produced by third parties (eg, landfill leachate, septic tank sludge) are brought into reception facilities provided and staffed by our unregulated business at 12 sewage treatment works across our region.

More information about our competitive liquid organic waste business can be found here. WWSL provides a treatment service to our non-appointed business and charges for the service according to load and volume using the Mogden formula to calculate long-run and short-run marginal costs. The annual benefits for the regulated business are demonstrated in table 5-1 above.

Bioresources RCV allocation

We’ve carried out an economic valuation of our bioresources assets. We conclude that at 2020, our bioresources assets will have an economic valuation of £115.6m or 5.6% of our total wastewater RCV. Further details are provided in supporting document 5.10.
Our long-term strategy for bioresources

Our performance commitments for this area

<table>
<thead>
<tr>
<th>Performance commitment</th>
<th>Units</th>
<th>Forecast for 2020</th>
<th>Target for 2025</th>
</tr>
</thead>
<tbody>
<tr>
<td>Satisfactory sludge use or disposal</td>
<td>% of sludge</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>

We’ve forecast our sludge production through to 2025 and have considered the need for additional capacity. We will also maintain our existing bioresources assets.

Bioresources production forecasting

The tonnage of bioresources produced at our treatment centres is forecast to grow due to an increasing population and higher effluent treatment standards – notably reducing phosphorus discharged to the water environment. We forecast that annual production will increase from 74,400 to 77,800 tonnes of dry solids between 2020-2021 and 2024-2025. Further detail is provided in supporting document 5.5.

Enhanced capacity investment

We’ve reviewed our capacity position, allowing for the growth of bioresource production as described above. Based on our current capacity and the opportunities to make use of capacity provided by third parties, we are not proposing any further treatment capacity enhancement investment in bioresource assets between 2020 and 2025. However, the requirement for phosphorus removal in the River Stour, and in particular the introduction of a low phosphorus limit for Holdenhurst STW, will result in a significantly increased volume of sludge to be transferred from Holdenhurst STW to Berry Hill STC. The transfer is a bioresource activity and will require additional transfer capacity, storage tanks and thickening plant. We provide further detail on the measures proposed in supporting document 5.5.

Maintenance investment

Our assessment of maintenance requirements for our bioresources assets is explained in detail in supporting document 5.5.

Maximising opportunities from the bioresources market

Our approach is to maximise the opportunities that a market brings by looking for ways to deliver existing services for lower cost or provide additional services to others where capacity exists or is created.

In our view there are four main trading opportunities for bioresources:

1. providing a resilient service without additional assets
2. logistics optimisation across boundaries
3. short to medium-term utilisation of a third party’s temporary spare capacity
4. longer-term bioresource contracts with a third party.

Providing a resilient service without creating additional assets

We are planning to use options beyond our own boundary to mitigate risks in our own area. This reduces the need for Wessex Water assets and places greater reliance on third parties (neighbouring WaSCs or other organic treatment providers).

We’ve agreed heads of terms with our neighbouring WaSCs (South West, Southern, Thames, Severn Trent and Dwr Cymru Welsh Water) to provide a mutual aid resilience service.
Logistics optimisation across boundaries

We’ve looked for opportunities with neighbouring WaSCs to save on logistics costs by optimising travel across borders between sewage treatment works and bioresource centres.

Utilisation of third-party capacity

We’ve identified several opportunities to utilise headroom in others’ treatment centres which could provide lower costs to our customers. This capacity may have been created to meet their forecast growth in production and is available in the short term.

Such trades are dependent on other companies delivering their investment programmes and the fees will be heavily dependent on the RCV element of the gate fee. Details of opportunities that we would like to pursue are described more fully in supporting document 5.5.

Long-term bioresource service contracts

Long-term contracts enable assets to be created to provide a bioresource treatment and recycling service. These will be essential for new entrants to the market, and their viability will be dictated by the gate fees set for the incumbent providers compared to those offered by new entrants.

We have shared our bioresources production data with potential new market entrants and welcome their ideas to deliver low-cost bioresources services.

However, until gate fees can be established – which will ensure a level playing field in which new market entrants can compete – we consider it unlikely that third parties will risk making investments in new capacity.

Market opportunities identified to date are illustrated in figure 5-1 below.

Figure 5-1: Potential market opportunities
5.6 Delivering our five wholesale outcomes

For each of the five outcomes delivered through the Wessex Water wholesale price controls we describe in detail:

- the performance commitments that will hold us to account
- the challenges we face
- what we’ll be doing to 2025
- our strategy beyond 2025.

5.6.1 Environment

- Sustainable abstraction
- River water quality
- Bathing water quality
- Pollution reduction
- Biodiversity and natural capital
- Carbon footprint

5.6.2 Resilient services

- Supply interruptions
- Security of supply
- Asset health

5.6.3 Efficient use of water

- Water consumption and customer participation in water saving
- Leakage

5.6.4 Drinking water quality

- Raw water deterioration
- Lead
- Customer contacts

5.6.5 Sewer flooding

- Minimising sewer flooding
- Completing the North Bristol sewerage strategy

Further information is given in the supporting documents.
Our approach
Our aim is to achieve the best overall service levels in the industry.
How we approach delivery is also ambitious.
We will make the most of innovative methods of delivery such as catchment management, partnership working, market-based approaches and behavioural initiatives.

Our approach is built on consideration of:
• our statutory obligations and the expectations of government, Defra and other stakeholders
• the priorities set out in our Strategic Direction Statement (25-year vision)
• customer engagement as set out in section 1
• cost benefit analysis
• ensuring that we maintain current industry leading levels of service whilst remaining efficient
• appraisal of feasible options to deliver improved service levels
• maximisation of synergies. Many of our investment plans deliver multiple outcomes and we aim to maximise the synergies between investment programmes
• using data and information to drive our decision making. Our information strategy is covered in supporting document 2.2. Information and data is also a cornerstone of our revised business model, set out in section 6.

Stakeholders and statutory obligations
We’ve worked with stakeholders to ensure that all legislative drivers are satisfied.

Defra
In October 2017 the Environment Agency and Natural England (NE) jointly issued the Water Industry Strategic Environmental Requirements (WISER) document. The aim of the document is to provide guidance on the environmental, resilience and flood risk obligations that we must take into account when developing our business plan. A summary of how we have addressed the obligations in WISER is given in the next section, with more detail in appendix 5.1 B.

Environment Agency
The next River Basin Management Plan (RBMP) commences in January 2022 and runs to December 2027. The Water Industry National Environment Programme (WINEP) will set out our contribution to the RBMP in the Wessex Water area. We have worked closely with the Environment Agency during the development of the WINEP. We have continuously challenged the evidence and timing of improvements at the same time as ensuring that environmental obligations are met.

Natural England
Natural England has responsibility for promoting nature conservation and protecting biodiversity and the landscape, particularly in relation to designated sites such as SSSIs and RAMSAR. We have liaised closely with Natural England throughout the development of our plan.

Drinking Water Inspectorate
The Drinking Water Inspectorate (DWI) issued their guidance on long-term planning for the quality of drinking water supplies in September 2017. We’ve had regular meetings with the body on routine and strategic issues. Our drinking water quality programme, which is fully integrated with our water resources and maintenance plans, was submitted to the DWI for their review and we have included all the supported schemes in our plan.

Water Industry Strategic Environmental Requirements (WISER)
WISER provides a clear steer to us on the future challenges and expectations. Key requirements are summarised in the table below, with a signpost to where we have included the requirements.

In addition to statutory obligations (S), WISER identifies some requirements as ‘statutory plus’ (S+), which require benefit/cost evidence and affordability considerations to be taken into account, and
‘non statutory’ (NS) requirements, which require customer support before inclusion on investment plans.

In some areas, with the support of our customers we’ve gone beyond the minimum requirements, as indicated in the table below.

Table 5-2: Summary of key WISER requirements

<table>
<thead>
<tr>
<th>Heading</th>
<th>S</th>
<th>S+</th>
<th>NS</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Waterbody status (Water Framework Directive)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Measures to prevent deterioration in current waterbody status</td>
<td>✓</td>
<td>✓</td>
<td></td>
<td>Working with NE we are proposing additional measures on the Hampshire Avon</td>
</tr>
<tr>
<td>• Measures to improve waterbody status</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Work with stakeholders and catchment partners on integrated solutions</td>
<td></td>
<td></td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td><strong>Bathing waters</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Measures to achieve at least sufficient class and to prevent deterioration in class</td>
<td>✓</td>
<td>✓</td>
<td></td>
<td>Working with the community performance commitment</td>
</tr>
<tr>
<td>• Event monitoring of storm overflows affecting bathing waters</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Measures to achieve good / excellent class</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Shellfish waters</strong></td>
<td>✓</td>
<td>✓</td>
<td></td>
<td>Working with partners additional measure</td>
</tr>
<tr>
<td><strong>Biodiversity and ecosystems – SAC, SPAs, Ramsar and SSSIs</strong></td>
<td>✓</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Sustainable fisheries – eels, fish</strong></td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Invasive non-native species</strong></td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td><strong>Urban waste water</strong></td>
<td></td>
<td></td>
<td></td>
<td>Designations awaited</td>
</tr>
<tr>
<td>• Measures to protect newly identified sensitive areas</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Measures to improve sewage treatment where population thresholds are exceeded</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Drinking water protected areas</strong></td>
<td>✓</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Chemicals</strong></td>
<td>✓</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Regulatory compliance and sludge</strong></td>
<td></td>
<td></td>
<td></td>
<td>Integral part of our maintenance and STW growth plans</td>
</tr>
<tr>
<td>• A plan in place to achieve 100% compliance for all licences and permits, including works with descriptive limits</td>
<td>✓</td>
<td></td>
<td></td>
<td>Covered by our pollution reduction strategy</td>
</tr>
<tr>
<td>• Serious pollution incidents to trend towards zero and aim to minimise all pollution incidents (cat. one to three) by 2025; high levels of self-reporting</td>
<td>✓</td>
<td></td>
<td></td>
<td>Principal objective of our bioresources business</td>
</tr>
<tr>
<td>• Manage sewage sludge so as not to cause pollution to land, surface water or groundwater</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
5.6.1 Environment

This business plan includes our biggest ever environmental programme, dominated by further enhancements to the quality of the discharges from our sewage treatment works, in order to improve and protect the ecology of the river and estuaries in our area.

We adopt catchment-based and market tools wherever possible to deliver the improvements in the most efficient way. And we recognise that our activities are part of a wider water system, such that greater benefits can be achieved if we work in partnership with other catchment operators.

Our environment outcome includes the following:

- improving river flows through sustainable abstraction
- improving river water quality where affected by discharges from sewage treatment works and combined sewer overflows
- helping to keep bathing water quality at beaches in good or excellent condition
- reducing the number of pollution incidents
- enhancing biodiversity and improving natural capital
- reducing our carbon footprint.

Further details of each area are given in supporting document 5.1

Sustainable abstraction

Our performance commitments for this outcome

<table>
<thead>
<tr>
<th>Performance commitment</th>
<th>Units</th>
<th>Forecast for 2020</th>
<th>Target for 2025</th>
</tr>
</thead>
<tbody>
<tr>
<td>Abstractions at Mere exported (AIM)</td>
<td>Megalitres/year</td>
<td>&lt; 50</td>
<td>&lt; 100</td>
</tr>
<tr>
<td>Abstractions at Stubhampton exported (AIM)</td>
<td>Megalitres/year</td>
<td>&lt; 192</td>
<td>&lt; 45</td>
</tr>
</tbody>
</table>

The challenges we face

Our Water Resources Management Plan describes how we expect to balance the demand for water from our customers with available supplies and protect the environment over the next 25 years. It includes ambitious proposals to work with our customers and local communities so that together we can reduce the water we take from the environment, improve the resilience of our services and potentially support areas of the country where water scarcity is a growing problem.

All the water we supply to customers comes from the local environment. Approximately 75% comes from boreholes and springs that tap into the chalk and limestone aquifers of Wiltshire and Dorset and 25% from reservoirs in Somerset. Ensuring abstraction licences are set at sustainable levels is critical to the overall viability of the Water Resources Management Plan and our wider business.

Over the last 20 years we’ve worked in partnership with the Environment Agency and others to investigate sources where there are concerns about the impact of abstraction on local watercourses and the wildlife that they support. Some investigations have led to reductions in the licensed volumes or other mitigation measures to ensure precious habitats are protected.

Most recently 23.5 Ml/d of reductions in the River Wylye and River Bourne tributaries of the Hampshire Avon chalk stream have been achieved, made possible by our eight-year, £230m investment in the integrated grid project. This scheme, first proposed in 2009 became fully operational in 2018. It delivers environmental improvements and enhances resilience for our customers without the need to develop new sources.
What we will be doing to 2025

We have worked closely with the Environment Agency through the WINEP process to identify any changes that may be required to our licences to ensure they are sustainable.

No further abstraction licence reductions are confirmed for the period 2020 to 2025. A new group of 13 sites will be investigated in 2020-25, and subject to the findings any changes will be implemented after 2025.

Where the effects of abstraction on the environment are uncertain and formal licence changes are not required but concerns exist within the local community, we use innovative ways to reduce abstraction when possible. In 2013 we began working with the Environment Agency and the local community to reduce abstraction at our Mere source using the Abstraction Incentive Mechanism (AIM).

Since this work began we’ve reduced the volume of water abstracted for export from the local catchment by around 40%. In addition, we liaise regularly with the community on abstraction and weather effects on river flows and water conservation. In 2018 we encouraged the community to participate in water-saving activities through our Home Check service and had a notably higher uptake rate for the service in this particularly engaged community. We’ll continue with the AIM scheme at Mere and we are introducing AIM for our Stubhampton source, where an investigation has highlighted that our abstraction may have an effect on flow in the River Tarrant although the scale of this is not adversely affecting the river ecology. We have agreed with the EA to implement an AIM approach rather than making a sustainability reduction. The AIM will see us reduce abstraction by half at times when the local groundwater level falls below a specified threshold. Our approach will also see us enhance our community engagement, particularly with the River Tarrant Protection Society.

Our strategy beyond 2025

We’ve assessed the effect of possible future sustainability changes on our plan by scenario testing. We’ve reviewed the potential for future sustainability changes that could arise from the investigations that will be undertaken between 2020 and 2025, and have made an assessment about what the reduction volumes could be for each source.

The potential reductions range from zero to 15 Ml/d, during a critical dry period. Nevertheless under all planning scenarios, we remain in surplus and there would be no change to the levels of service we provide to customers.
River water quality

Our performance commitments for this outcome

<table>
<thead>
<tr>
<th>Performance commitment</th>
<th>Units</th>
<th>Forecast for 2020</th>
<th>Target for 2025</th>
</tr>
</thead>
<tbody>
<tr>
<td>WINEP delivery</td>
<td>km</td>
<td>n/a</td>
<td>641</td>
</tr>
<tr>
<td>Length of river improved (non-WINEP)</td>
<td>km</td>
<td>n/a</td>
<td>&gt; 0</td>
</tr>
<tr>
<td>Reduce frequent spilling overflows</td>
<td>Number of schemes</td>
<td>n/a</td>
<td>&gt; 0</td>
</tr>
</tbody>
</table>

The challenges we face

Our environmental performance is comparatively very high. Using the headline Environmental Performance Assessment (EPA) measure published by the Environment Agency we’ve been rated as industry leading for five of the seven years the measure has existed – more than any other company.

Of the individual indicators within EPA we have achieved exemplary performance including:

- significantly lower pollution incident rates than the sector – graph below
- better permit compliance than the rest of the sector – graph below
- 100% delivery of schemes in the National Environment Programme by the due dates.
On the back of our excellent performance we’ve been at the forefront of developing innovative ways of achieving environmental improvements. We have pioneered catchment wide permitting in the Bristol Avon to deliver reductions in phosphorus and the EnTrade online reverse auction for reducing nitrates.

Environmental standards continue to tighten, and to meet Water Framework Directive (WFD) requirements for the ecological condition of rivers, we need to reduce the quantity of nutrients reaching rivers. We also need to take account of population growth, particularly in areas with sensitive rivers or inland waters.

Based on our track record in delivery and innovation, we are well placed to meet these challenges.

A further challenge is the timetable for the next RBMP, which commences in January 2022 and is not synchronised with the price review timetable. The different timetables result in uncertainty about the scope of work to be delivered over the next five years but also provide an opportunity to consider the pace of implementation.

To cater for the uncertainty in the evidence-base and the stage of development, the EA have colour coded schemes in the WINEP, as follows:

- **green (certain)** - there is evidence that water company action is required, clarity on the measure, and the measure is cost beneficial and affordable
- **amber (indicative)** - there is evidence that water company action is required and clarity or developing clarity on the measure, but ministerial decision on cost benefit and affordability is awaited
- **red (unconfirmed)** - evidence is required and measure is not yet clarified
- **purple (provides direction of travel)** - a future requirement.

As required, our business plan includes cost allowances for all the green and amber schemes.

**What we will be doing to 2025**

We have collaborated intensively with the Environment Agency and Natural England to develop the WINEP. Our overall aims have been to ensure that there is scientific evidence of the need for an environmental improvement; to always consider alternative ways of achieving similar objectives such as catchment solutions rather than asset based solutions; and to challenge the timescales for delivery.

Through this process we’ve avoided more than £50m of investment needs, while still delivering the overall environmental outcome that our regulators require and customers support. Examples of reductions achieved include:

- Bristol Avon and Little Avon catchments – catchment wide permitting and maximisation of synergies, avoiding disproportionately expensive improvements at small sewage works, saving £3m
- catchment offsetting, removing the need for immediate improvements at three works which discharge to groundwater, avoiding £15m of investment
- prioritising investigation of flow issues to ensure a sound science approach is adopted before major investment is scheduled.

We also worked hard with the Environment Agency to develop a phased programme that we considered met the overall environmental needs and balanced the need for an affordable and deliverable plan. Our proposals would have resulted in the uncertain phosphorus removal work being extended through to the end of the RBMP in 2027 and the flow driver works phased across 10 years to 2030. This phased programme would still have delivered the majority of the environmental improvements (measured in terms of tonnes of phosphorus removed) by March 2025, with a more efficient delivery programme. However, following a review by the Secretary of State, Defra has advised that all the environmental improvements should be delivered as soon
as possible within the next price control period.

In June 2018 we submitted proposals for an alternative approach for delivery of the Water Framework Directive phosphorus removal programme, to address the concern that the large scale of the programme could stifle innovation and sustainable catchment-based approaches. Our approach, which is based on long-term catchment interventions alongside cost effective and optimised asset solutions, saves £52m compared with the baseline in WINEP3. The EA and Ofwat said our proposals were well thought out and supported the alternative approach.

Thus, through working with the EA before finalisation of WINEP and considering alternative means of delivery, we have reduced the PR19 programme by over £100m, whilst delivering better outcomes.

**Water Industry National Environment Programme (WINEP)**

Version 3 of WINEP was issued in March 2018. It includes over 1,000 lines, covering numerous different legislative drivers.

There are three main parts to the WINEP: water quality; fisheries, biodiversity and geomorphology, and; water resources. The total cost of the programme is estimated to be £486m, dominated by the water quality part, which exceeds £450m even allowing for the avoided costs mentioned above.

A breakdown by driver is given in figure 5-2 and table 5-3 below.
Table 5-3: WINEP3 summary

<table>
<thead>
<tr>
<th>Driver</th>
<th>Number of schemes (WINEP lines)</th>
<th>Totex £m</th>
<th>Certain / green</th>
<th>Indicative / amber</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Water quality</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nutrient removal - phosphorus and nitrogen</td>
<td>95</td>
<td>132*</td>
<td>86*</td>
<td>218*</td>
<td></td>
</tr>
<tr>
<td>• UWWTD, Habitats Directive, SSSI, WFD, DrWPA</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sanitary parameters (BOD and ammonia)</td>
<td>10</td>
<td>21</td>
<td>12</td>
<td>33</td>
<td></td>
</tr>
<tr>
<td>• WFD</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Chemical investigations and removal</td>
<td>34</td>
<td>25</td>
<td>-</td>
<td>25</td>
<td></td>
</tr>
<tr>
<td>WFD</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Flows</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• UWWTD</td>
<td>488</td>
<td>122</td>
<td>-</td>
<td>122</td>
<td></td>
</tr>
<tr>
<td><strong>Sewerage</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• CSOs, IUDM etc</td>
<td>362</td>
<td>30</td>
<td>-</td>
<td>30</td>
<td></td>
</tr>
<tr>
<td><strong>Surface water sewers</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• SSSI</td>
<td>4</td>
<td>7</td>
<td>-</td>
<td>7</td>
<td></td>
</tr>
<tr>
<td><strong>Bathing and shellfish waters</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Bathing Water Directive, Shellfish Water Directive</td>
<td>16</td>
<td>33</td>
<td>-</td>
<td>33</td>
<td></td>
</tr>
<tr>
<td><strong>Drinking water quality catchment management</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• DrWPA</td>
<td>9</td>
<td>2</td>
<td>-</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td><strong>Fisheries, biodiversity and geomorphology</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Biodiversity, biosecurity, eels</td>
<td>45</td>
<td>10</td>
<td>-</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td><strong>Water resources</strong></td>
<td>18</td>
<td>7</td>
<td>-</td>
<td>7</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1081</td>
<td>388</td>
<td>98</td>
<td>486</td>
<td></td>
</tr>
</tbody>
</table>

Key: WFD = Water Framework Directive; UWWTD = Urban Wastewater Treatment Directive; DrWPA = Drinking Water Protected Areas; SSSI = Sites of Special Scientific Interest
* includes £52m saving from our alternative approach to delivery of the WINEP, supported by Ofwat and the EA.

Brief outlines of each of the three main parts of the river water quality programme are given below, with further details in supporting document 5.1:

1. Discharges from our sewage treatment works
2. Intermittent discharges from our combined sewer overflows
3. Investigations.
1. Discharges from our sewage treatment works

We have 401 sewage treatment works that discharge to groundwater, rivers and the sea in our area. WINEP3 includes more than £420m for schemes at sewage treatment works. There are very substantial programmes related to phosphorus removal and flow drivers and £98m of the programme is indicative (amber) to be confirmed by 2021.

There are 10 catchments in our region (shown above), and our aim is to ensure holistic and effective improvements throughout the catchments.

Building on our previous successes, our innovative approach for the WFD phosphorus removal programme, focused on the Parrett and Dorset Stour catchments, comprises a combination of:

- construction of new phosphorus removal plants for cost effective permit limits of not less than 1 mg/l
- optimisation of existing and proposed phosphorus removal plants using catchment wide permitting, building on the success of the Bristol Avon trial
- catchment interventions, including working with farmers and using market tools such as EnTrade
- updated river water quality modelling to ensure all investments are based on the best available scientific evidence.

The programme will remove an additional 289 tonnes per year of phosphorus, on top of the 450 tonnes per year we’ll have removed up to 2020.

Following discussion with Natural England and backed by strong customer support, we propose to go beyond the minimum requirements of the WINEP in two areas:
• **Hampshire Avon**: The EA have confirmed that we have already achieved our fair share of phosphorus removal in this catchment. However, NE are seeking to maintain the current loads in the river in the face of increased population due to new development upstream in the catchment. We are proposing a performance commitment that provides an incentive for us to outperform at the sewage treatment works in the catchment. There will be no change in the permit values. The performance commitment is expressed in terms of km of river improved (non WINEP).

• **Poole Harbour**: Designated as an SSSI and a Special Protection Area (SPA) under the Habitats Regulations 1994, and as a Ramsar site, the harbour is also a Sensitive Area under the UWWTD. The performance commitment will also incentivise us to remove more nitrogen.

2. Intermittent discharges from our combined sewer overflows

We will minimise any environmental or amenity impact from spills from our 1,400 overflows. Since 2015 we’ve been collecting more information about their performance in order to identify which ones may need to be improved.

The 21st Century Drainage programme, promoted by Water UK, has developed a process to assess which overflows require improvement, based on relevant factors such as the number of spills per year, the environmental impact and the balance of costs and benefits of making the improvement. Accordingly the WINEP includes a number of improvements and investigation schemes. In addition we will install event-duration monitoring at all remaining combined sewer overflows (CSOs).

3. Investigations

We have completed investigations across our region to quantify our nutrient contributions. These have focused on locations where improvements to sewage treatment processes may be required, but also locations where alternative approaches to reducing nutrient levels, such as working with the agricultural sector, will offer better value for money.

Through the national Chemicals Investigations Programme we work with other water and sewage companies and our regulators to monitor chemicals and other emerging pollutants in sewage. The industry is developing approaches to removing them at lower cost, such as source control by promoting the use of different substances. In AMP7 we will extend these investigations to include emerging issues such as the presence and removal of microplastics in sewage; the risk posed by sewage treatment processes to increasing anti-microbial resistance; and the benefits of ‘green prescribing to reduce the concentration of pharmaceuticals in sewage.

**Our strategy beyond 2025**

We will progress our long-term strategies for the largest sewage treatment works. At Avonmouth (Bristol) we’ll commence construction of an extension to our largest works in the period 2020 to 2025, and complete it by 2030. Extensions are also proposed at Holdenhurst (Bournemouth), Saltford (Bath) and Poole.

Our underground sewage treatment works on the seafront at Swanage is based on membrane treatment to provide a high-quality effluent for discharge to the sea near a designated bathing beach. We’re appraising long-term, future-proofed solutions for the town, including potentially relocation of the works to a greenfield site. We will continue to progress the design and resolution of the significant land, planning and third-party issues.
Bathing water quality

Our performance commitments for this outcome

<table>
<thead>
<tr>
<th>Performance commitment</th>
<th>Units Forecast for 2020</th>
<th>Target for 2025</th>
</tr>
</thead>
<tbody>
<tr>
<td>Working with community to improve bathing water experience</td>
<td>Number of beaches</td>
<td>14</td>
</tr>
</tbody>
</table>

The challenges we face

There are 49 designated bathing waters in our region, including the recently designated beach at Manor Steps in Bournemouth. However, one bathing water is closed indefinitely and one is a private swimming lake, therefore our activities relate to 47 bathing waters. We'll continue to play our part in protecting the quality of our bathing and shellfish waters.

The majority of the bathing waters are classified as excellent or good, based on sample data for the past two years. Four bathing waters have been classified as poor or sufficient, all on the north Somerset coast, as follows:

- Weston-Super-Mare Uphill Slipway
- Weston Main
- Burnham Jetty North
- Blue Anchor West.

It's well known that bathing water quality is affected by numerous factors, not just the quality of the discharges from our sewage treatment works and sewerage system. Our responsibility is to ensure that our assets perform in line with their permits and to work with partners to minimise issues that could impact on quality.

To help improve bathing water quality, we've recently constructed ultra violet treatment at one works and additional storm storage at the overflows in Bridgwater. As the classification is based on a four-year rolling average, the full effect of this work won't been seen until 2020.

Investigations upstream of Taunton concluded that the performance of our assets further upstream does not affect the quality of the bathing water along the north Somerset coast, thus avoiding unnecessary investment in the period 2015 – 2020.

What we will be doing to 2025

The WINEP includes a number of schemes focused on bathing and shellfish waters:

- additional treatment at West Hunstspill to improve the quality of effluent discharging near the Burnham bathing water
- additional storm storage at Holdenhurst to minimise spills to the River Stour which enters the sea near the Bournemouth and Christchurch bathing waters
- ultra violet treatment to disinfect the effluent from Corfe Castle sewage treatment works, in Dorset, which discharges to Poole Harbour where there are shell fisheries
- investigations at 10 bathing waters that are currently rated as less than good, with the aim of determining what work would be required in future to ensure they are rated as good or, where possible, excellent.

In addition, we'll work with local communities to improve the amenity value of bathing beaches. Our aim, based on feedback from customers, is to go beyond the statutory duties of managing and improving our assets in accordance with the Bathing Water Directive, and encourage greater awareness of bathing water quality and the wider beach environment.

We'll work with Litter Free Coast and Sea steering groups, the Environment Agency, local authorities, Surfers Against Sewage and the Marine Conservation Society to identify the main issues impacting each bathing water. Based on this information we'll promote self-sustaining engagement projects at each beach, including:
• actions to improve beach cleanliness such as sponsored #2minutebeachclean stations, beach clean groups or voluntary dog patrol groups
• engagement with local communities to reduce litter, understand where litter comes from and minimise waste through initiatives such as business accreditation schemes
• awareness campaigns running over the year with local groups such as parish councils and clubs, focusing on key issues such as plastics and fats, oils and greases
• working with farmers to reduce levels of run-off with high bacteriological loadings, like farmyard manures and slurries.

A key element of the work will be collecting and reporting data such as kg of litter collected per beach; number of beach clean events; number of businesses engaged; and number of campaigns delivered, including topical projects (eg, Yellow Fish, Only Rain Down the Drain or Refill stations).

**Our strategy beyond 2025**

All storm overflows from our coastal sewage treatment works have monitors that provide data to inform investigations into potential future improvements.

We are committed to working with partners to minimise pollution near bathing waters. In addition, we’ll continue to maintain our existing assets to achieve the best possible performance.

**Pollution reduction**

Our performance commitments for this outcome

<table>
<thead>
<tr>
<th>Performance commitment</th>
<th>Units</th>
<th>Forecast for 2020</th>
<th>Target for 2025</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wastewater pollution incidents - category 1-3</td>
<td>Incidents per 10,000 km of sewers</td>
<td>22</td>
<td>17 - with an outperformance target of less than 13</td>
</tr>
</tbody>
</table>

**The challenges we face**

Although we have been a regular industry leader in terms of the number of pollution incidents per 10,000km of sewer, our board is clear that we aim to have zero pollutions (of any category), in accordance with the statutory obligation on us.

In line with our aspiration to continue to be an industry leader on environmental performance, we will continue to have the EA’s Environmental Performance Assessment as a Key Performance Indicator for the company and it will continue to be an integral part of performance targets across the business, including at executive level.

In addition WISER sets out the EA’s expectations for excellent performance. We will plan to meet the performance targets set out in WISER, including:

- no serious (category 1 and 2) pollutions.
- 40% reduction in all pollution incidents compared with the number of incidents recorded in 2016, which requires a reduction from 75 pollutions in 2016 to 45 by 2025, equivalent to 13 incidents per 10,000 km of sewer. Our plan enables us to, and we plan to meet the 40% reduction target in a way that is in the long-term interests of customers.
- high levels of self-reporting.

Separate from the statutory and policy requirements described above, the PR19 methodology includes a common performance commitment for wastewater pollution incidents (categories 1, 2 and 3), with a requirement to set a stretching target and accompanying outcome delivery incentive package.

In accordance with the PR19 methodology we have set our performance commitment target as a 25% reduction in the number of pollution incidents by 2025 (equivalent to 17 incidents per 10,000 km of sewer), which we forecast will keep us as a leading company on this measure. The ability to gain outperformance payments that are in line with customers willingness to pay means
that we have a strong incentive to deliver a greater reduction and that customers are protected. This separate regulatory mechanism does not diminish our ambition to minimise all pollutions and meet the performance targets in WISER.

We consider our proposals comply with the three sets of requirements that we need to meet:

1. the statutory obligation not to pollute by aiming for zero pollutions of any category
2. the expectations for excellent performance set out in WISER, including a target to have no serious pollutions and 40% reduction in all pollutions by 2025
3. a separate regulatory mechanism in accordance with the PR19 methodology including a performance commitment with a stretching target that protects customers from both under-delivery and from paying too much.

The technology to develop ‘smart manholes’ that will enable us to make the next step-change in pollutions is in its infancy and costs are high, so it is important we ensure this is delivered in a cost-effective way.

Our analysis shows that most pollution incidents occur in the sewerage network, and the vast majority are due to blockages caused by sewer misuse.

The misuse of sewers from the flushing of wet wipes and disposal of fats, oils and greases into kitchen drains is typically caused by customers who are unaware of the consequences of their actions. Our engagement with customers on this issue is made more difficult because some wet wipes are labelled by manufacturers as ‘flushable’. Like other water companies, we are keen to promote the simple message that only the three Ps should be flushed.

In 2016 we led the industry in trying to tackle this issue directly through our report to the Advertising Standards Agency. The whole water industry (via the 21st Century Drainage Programme) subsequently raised the issue with Trading Standards, calling for a ruling on the misleading advertising claims that certain wipes are ‘flushable’. Both consumer organisations declined to make a ruling and instead proposed that it was a matter for the courts to consider.

**What we will be doing to 2025**

We will implement a multi-track approach to reducing the number of pollution incidents, and increasing the level of self-reporting, including:

- **customer engagement strategy:** engagement using social media platforms and partnerships with organisations such as City to Sea and other water companies plus focused engagement in ‘blockage hotspots’ and with traders and environmental health officers
- **lobbying:** we’ll continue to lobby government to tackle manufacturers who wilfully mislead customers to unconsciously misuse the sewer network. We will emphasise the wider environment impact due to the plastic fibres contained in wet wipes
- **jetting of sewers:** we will introduce an additional inspection of sewers in areas assessed as high risk and improve our targeting of sewer jetting
- **monitoring and data analytics:** we will install depth monitors in sewers at historical pollution sites and blockage hotspots, and flow and pressure monitors on rising mains, together with data analytics, visualisation and assessment tools, with the aim of proactively identifying pollution risks before they happen
- **rising mains:** we will prioritise rising mains for replacement
- **self-reporting:** we will increase monitoring at pumping stations and in the network, and provide more flow monitoring at sewage treatment works through the WINEP, all of which will increase our ability to self-report pollution incidents.
Our strategy beyond 2025

We aim to have zero pollutions of any category. This will require us to maximise the use of the increased monitoring within the sewerage network and at sewage treatment works.

Our customer engagement strategy for sewer misuse is not short term. Whilst we hope that government will support the water industry and the wider environment by legislating on wet-wipe labelling, we will continue to adapt our engagement strategy to help us deliver our objectives and those of the wider water system.

Biodiversity and natural capital

Our performance commitments for this outcome

<table>
<thead>
<tr>
<th>Performance commitment</th>
<th>Units</th>
<th>Forecast for 2020</th>
<th>Target for 2025</th>
</tr>
</thead>
<tbody>
<tr>
<td>Natural capital: improve SSSI sites</td>
<td>% of agreed action delivered</td>
<td>n/a</td>
<td>100</td>
</tr>
<tr>
<td>Working with catchment partners to improve natural capital</td>
<td>Number of schemes</td>
<td>35</td>
<td>36</td>
</tr>
</tbody>
</table>

The challenges we face

We operate in an exceptionally biodiverse area with more than 530 Sites of Special Scientific Interest and 57 Natura 2000 or Ramsar sites within the region. We have a duty to conserve and enhance biodiversity during our operational and construction activities and to manage our landholding to enhance biodiversity, as well as enabling access for recreation.

To this end, in recent years we’ve gathered data and evidence to better understand the value of our landholdings for biodiversity and the ecological impacts of our activities in order to plan the right actions for wildlife and our customers.

WISER requires us to contribute to meeting the government’s conservation and biodiversity objectives. There is a particular focus on designated sites (SSSIs, SPAs and Ramsar sites) and priority habitats and species.

What we will be doing to 2025

We will deliver the statutory obligations in the WINEP regarding fisheries and biodiversity. In addition we plan to go beyond the statutory minimum and enhance the biodiversity and natural capital of our landholding and the catchments where we work.

Fisheries and biodiversity investment in the WINEP includes:

- reducing risks from Invasive Non-Native Species (INNS) of seven raw water transfers
- improvement to eel passage identified as a result of our AMP6 investigations at two sites
- biosecurity measures at 12 sites
- company-wide biosecurity appraisals, measures and management options
- complementary biodiversity enhancement measures in six drinking water catchments
- investigating biodiversity opportunities in seven new drinking water catchments
- two further investigations and one improvement project to restore priority and protected habitats on our sites, building on previous work.

We propose to go beyond the statutory minimum. Additional measures include natural capital improvements on SSSI sites (300ha) and working with catchment partners to improve natural capital.
**Our strategy beyond 2025**
Investigations scheduled to be carried out by 2023 will be used to inform our ongoing programme of enhancements to fisheries and biodiversity.

**Carbon footprint**
Our performance commitments for this outcome

<table>
<thead>
<tr>
<th>Performance commitment</th>
<th>Units</th>
<th>Forecast for 2020</th>
<th>Target for 2025</th>
</tr>
</thead>
<tbody>
<tr>
<td>Greenhouse gas emissions</td>
<td>ktCO₂e</td>
<td>117</td>
<td>101</td>
</tr>
</tbody>
</table>

**The challenges we face**
Supplying water and processing sewage have an inherent energy burden, which has increased steadily since the mid-1990s, especially with the widespread use of aeration and tertiary treatment at sewage treatment works.

An increase in our greenhouse gas emissions persisted until 2010. Since then, we’ve seen a steady reduction in our electricity consumption and greenhouse gas emissions, due, in part, to national change in the form of decarbonisation of the electricity grid, and also our carbon management strategy, involving:

- avoidance of emissions, eg, through leakage reduction and catchment management
- energy efficiency, mainly by optimising existing treatment and network activities
- increasing use of renewable energy generated at Wessex Water sites – principally from anaerobic digestion, hydro power and solar.

However, we continue to face upward pressures. While the integrated supply grid brings numerous benefits, it’s likely to increase our electricity demand up to 4%. Investment at sewage treatment works under the PR19 river quality enhancement programme and the potential need to address priority substances and other emerging pollutants may increase power requirements, negating the benefits of efficiency work.

**What we will be doing to 2025**
Over the next five years we’ll continue to manage our physical assets efficiently, carry out catchment management work, and generally enhance stewardship of natural capital. The spin-off benefit, in terms of our carbon footprint, is preventing energy use from increasing as much as it would if we did not pursue a holistic and efficiency-led environmental programme.

In terms of renewable energy generation, we’ll work to ensure that the benefits of improvements to anaerobic digestion that we carried out during 2015-20 are fully realised through optimisation of the assets concerned. All other things being equal, the combined effect would be for our emissions to remain broadly flat from the current position. However, forecasts by the Department for Business, Energy, and Industrial Strategy and National Grid indicate ongoing decarbonisation of grid electricity. This will lead to our overall emissions falling by approximately one third. The table below gives our headline forecast.

<table>
<thead>
<tr>
<th>2017-18</th>
<th>2024-25 forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total grid electricity consumption (GWh)</td>
<td>213</td>
</tr>
<tr>
<td>Grid electricity emissions factor (kgCO₂ / kWh)</td>
<td>0.362</td>
</tr>
<tr>
<td>Emissions from grid electricity (ktCO₂e)</td>
<td>83</td>
</tr>
<tr>
<td>Emissions from other sources (ktCO₂e)</td>
<td>66</td>
</tr>
<tr>
<td>Total gross emissions (ktCO₂e)</td>
<td>149</td>
</tr>
</tbody>
</table>
We propose using gross emissions rather than net emissions as the basis of our performance commitment. This is because net emissions take into account exports of renewable energy, which are relatively unpredictable. As a function of wider group activity they are outside the management control of the regulated business.

**Our strategy beyond 2025**

We have a long-term ambition to become carbon neutral by 2040. We can foresee a raft of measures that will help us move in the right direction post-2025. For example:

- ongoing use of catchment management to defer more energy-intensive alternatives
- new technologies for predicting and locating leaks and prompting water efficiency behaviours
- improved modelling and control of sewage treatment processes
- widely deployed, small-scale, renewable energy for self-supply and/or export.

Even if we reduced our grid electricity use by a quarter (to around 1990 levels), our gross emissions are still likely to exceed 70 kilotonnes CO2e per year – principally from onsite gas use, process emissions (methane and nitrous oxide) and transport. The only option that we are aware of for significantly offsetting these remaining emissions (apart from purchasing carbon offsets) would be to turn biosolids into an inert form such as biochar, through pyrolysis. This has been implemented at a municipal scale in Asia, although only laboratory scale and pilot plants exist in the UK currently. We will continue to review the development of this technology.

**5.6.2 Resilient services**

Our approach to resilience is described in section 4 *Securing long-term resilience*.

Our resilient services outcome includes a mix of customer service, asset health measures and long-term planning metrics for water supply and wastewater.

In this section we set out our strategies for the following key outcomes:

- supply interruptions
- security of supply
- asset health.

The remaining resilience outcomes are covered under section 5.6.1 Environment or section 5.6.5 Sewer flooding.

**Supply interruptions**

**Our performance commitments for this outcome**

<table>
<thead>
<tr>
<th>Performance commitment</th>
<th>Units</th>
<th>Forecast for 2020</th>
<th>Target for 2025</th>
</tr>
</thead>
<tbody>
<tr>
<td>Water supply interruptions</td>
<td>Minutes/property</td>
<td>12:20</td>
<td>3:07</td>
</tr>
</tbody>
</table>

**The challenges we face**

Over the last seven years we’ve delivered significant reductions in supply interruptions – defined as planned and unplanned interruptions greater than three hours, and measured as average number of minutes lost per property.

However, we recognise that this is a measure where we have the most work to do to catch up with the industry leaders.

A significant proportion of our population lives in rural areas, often with only one pipe supplying the village. Reducing supply interruptions will require a significant programme of works over many years to improve the interconnectivity of our system. Innovation and new technology will be required to detect leaks before they become bursts, and to make repairs before customers go out of supply.

Our resilience reviews, as set out in section 4, have been used to identify vulnerabilities in our water supply system that have the potential to cause prolonged supply interruptions, in particular those arising from unlikely but high consequence hazards, such as failure of large works and cyber security.
What we will be doing to 2025

We are committed to reducing supply interruptions to the lowest possible level.

We will ensure that planned interruptions are all completed within three hours. We will change our mains replacement and rehabilitation techniques so that work on live mains is avoided and interruptions are minimised.

The greatest focus will be on unplanned interruptions, due to a burst main or third-party damage of our infrastructure. We will change the way we work, based on our experience that the first 30 minutes of any incident is critical in determining the response and the impact of the incident.

Currently, out of normal working hours (which is when more than 80% of interruptions occur), the initial assessment is completed by the distribution inspector when he or she arrives on site, after having been called to site by our control room.

We propose to provide a central resource that is able to determine re-zoning options, provide customer support and act as an incident manager. This will enable the analysis to be carried out while the distribution inspector is travelling to the site, saving valuable time and helping to ensure a better outcome.

As well as changing the way we work, we propose to:

- **improve our real-time data and knowledge management**: parts of our network have limited flow and pressure data with data only updated every 24 hours. Our first warning of a supply interruption is often when the customer calls to say they have no water. We will install live data monitors to alert us before customers experience a loss of service, managed through a data analytics and visualisation system. Data will be structured as our information strategy in supporting document 2.2
- **improve interconnection**: the more interconnection options we have, the greater our chance of quickly restoring supplies to customers. We’ll increase our network modelling capability, focused on exploring options to improve the interconnectivity of our system. Candidate projects will be prioritised through our mains replacement programme
- **increase equipment**: we will procure additional equipment and train our staff in their use, including network infusion by pumping into the network from a tanker, to maintain supplies. We have already successfully trialled this technique on a small scale (as photograph)
- **promote CALM networks**: all our staff will be trained to ensure they can operate valves without causing pressure transients, which can damage the network. We will extend this to other sources of transients such as a commercial customers and other users of the network
- **develop our operational modelling and drain-down analysis**: we already have good coverage of hydraulic models of our network for planning and design of network improvements. We plan to make more use of these models for post-event recovery, re-zoning assessments and mobile tanker deployments.

In addition, as discussed in section 4 Securing long-term resilience, we propose to:

- **improve the resilience of large standalone water treatment works**: we will improve the resilience of our largest works and, in the longer term, undertake a detailed study of the supply system to
assess all the options for reducing the number of customers at risk of a prolonged outage

- **continue to enhance our cyber security:** we plan to enhance the resilience of our operational control systems, initially by risk-assessing our sites against the impact of a cyber security breach. We will improve our resilience by defining appropriate operational control system zoning, improving network hardening, and by implementing system separation and architecture practices.

Our strategy beyond 2025

Our long-term plan is to have zero interruptions of more than three hours.

We will continue to replace older mains which, in the long term, will reduce the number of bursts and therefore the likelihood of supply interruption events. Prioritisation of water mains bursts will take into account the various potential drivers such as interruptions, leakage, mains bursts and water quality.

<table>
<thead>
<tr>
<th>Performance commitment</th>
<th>Units</th>
<th>Forecast for 2020</th>
<th>Target for 2025</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk of severe restrictions in a drought</td>
<td>%</td>
<td>n/a</td>
<td>0</td>
</tr>
<tr>
<td>Restrictions on water use (hosepipe bans)</td>
<td>Number of hosepipe bans</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

The challenges we face

Our Water Resources Management Plan demonstrates that we have sufficient water supplies to meet predicted demand for the next 25 years and beyond. We have not imposed a hosepipe ban since 1976.

We will deliver the following levels of service to our customers:

- resilience to prevent a repeat of any of the drought events experienced in the last 100 years without the need to require customers to restrict their use
- temporary use restrictions (hosepipe bans) no more than once every 100 years on average. We would not expect to impose non-essential use bans for commercial customers more than once in every 150 years on average.

This level of drought resilience is amongst the highest for all water companies in the UK and research with customers indicates they find it acceptable.

We are a long-term business and look to the future. We have good historical weather records in our region for the past 100 years. We’ve used these records to estimate the magnitude of more severe droughts that might happen only once in 200 years. Our modelling shows that we would not need to restrict essential water use (ie, implement rota cuts) at such times.
What we will be doing to 2025

Previous investments in our water supply grid, catchment management, leakage reduction water efficiency and metering have developed a robust water supply system that has enhanced our resilience to droughts whilst supporting environmental improvements.

Investments required to deliver the drought resilience and levels of service include the proposals outlined under the efficient use of water outcome later in this section, as well as continued maintenance of our water resources and treatment assets. We do not need to develop any new water resources.

Our strategy beyond 2025

Our plans for metering, leakage reduction and water efficiency are long term and will continue beyond 2025.

Asset health

Our performance commitments for this outcome

<table>
<thead>
<tr>
<th>Performance commitment</th>
<th>Units</th>
<th>Forecast for 2020</th>
<th>Target for 2025</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asset health: water mains</td>
<td>Number /1,000 km</td>
<td>&lt; 165</td>
<td>&lt; 163</td>
</tr>
<tr>
<td>bursts</td>
<td>mains</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Asset health: unplanned</td>
<td>%</td>
<td>&lt; 2.34</td>
<td>&lt; 2.34</td>
</tr>
<tr>
<td>outage</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Asset health: sewer</td>
<td>Number /1,000 km</td>
<td>&lt; 18.1</td>
<td>&lt; 18.1</td>
</tr>
<tr>
<td>collapses</td>
<td>sewers</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Asset health wastewater:</td>
<td>%</td>
<td>99.34</td>
<td>100</td>
</tr>
<tr>
<td>treatment works</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>compliance</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The challenges we face

Our approach to maintenance planning is summarised in section 4.9 above and more detail is provided in supporting document 5.6.

There are specific approaches for different asset groups:
- long-life assets (such as water mains and sewers)
- shorter-life assets such as mechanical and electrical equipment
- specialised assets or where the asset stock is not large, such as dams, boreholes and sea outfalls.

What we will be doing to 2025

We plan to continue replacing water mains and rehabilitating sewers although at a lower rate than the rate at which they are deteriorating because their performance continues to be good and we’re monitoring trends in asset performance closely. Whilst in the long run we need to increase the replacement rates, we recognise that customers and the environment will see minimal improvement in service from an increase in expenditure in the short term. We have established asset health outcomes for the next five years.

For above-ground assets we’ll replace and refurbish our assets so they continue to meet the overall objectives of maintaining capacity and meeting current quality obligations.

Our maintenance plan for sewage treatment works is focused on delivering the WISER target of 100% permit compliance every year. Similarly, our risk-based plan for water treatment work is aimed at minimising compliance failures, maintaining capacity and avoiding unplanned outages.

Our strategy beyond 2025

In the long term we foresee the need to increase rates of replacement and rehabilitation of our longest-life assets – water mains and sewers.
5.6.3 Efficient use of water

Minimising water wastage and supporting the continued growth in the efficiency of water use are cornerstones of our ambition to be a truly sustainable business.

Despite a 13% increase in population since 1995 we are abstracting around 21% less water from rivers and aquifers than we did 20 years ago. To achieve this we’ve halved the leakage of water from our network and encouraged customers and businesses to adopt water efficient behaviours. At the same time, we’ve invested in our integrated grid and catchment management so that we have been able to reduce abstraction at environmentally sensitive sources to improve the flow in rivers.

But there is more to be done. Our own operational resilience and the resilience of the catchments in which we operate (see also section 4.7) can be further enhanced by the delivery of demand management programmes that are focused on:

- reductions in consumption through customer and community participation in water efficiency and metering
- reductions in the leakage of water from the network.

Water consumption and customer participation in water saving

Our performance commitments for this outcome

<table>
<thead>
<tr>
<th>Performance commitment</th>
<th>Units</th>
<th>Forecast for 2020</th>
<th>Target for 2025</th>
</tr>
</thead>
<tbody>
<tr>
<td>Volume of water used per person</td>
<td>Litres/ person/ day</td>
<td>129</td>
<td>127.9</td>
</tr>
<tr>
<td>Volume of water saved by water efficiency engagement</td>
<td>Megalitres/ day (5 years cumulative)</td>
<td>4.5</td>
<td>5</td>
</tr>
</tbody>
</table>

The challenges we face

Our customers currently use an average of 131 litres of water every day. Recent data suggests this is one of the lowest averages, by water company area, in the country. Many people use less than this. And typical usage in other European countries is often lower too. This suggests more can be done to reduce per capita consumption.

We’ve seen average household water use fall since the early 2000s, but in recent years there is evidence that this trend is reversing. A growing population and social trends outside our control, such as the continued reduction in average household size, makes further reductions in consumption more stretching than ever before.

Since 2015 we’ve been encouraging greater participation by evolving our programme of domestic demand management. We have moved from one-way transactions with customers that provide advice and information to a tailored programme of Home Check visits that take place within the customer’s home and offer a high level of engagement.

The key to encouraging more customers to participate in water saving lies in understanding our customers’ beliefs, values and water-using habits, many of which are very personal to them. We are not alone in this challenge and we are keen to learn from organisations outside the water sector – such as the National Trust, for example. Some of these are making considerable progress in supporting people to make the transition from acting as ‘consumers’ of (water) services to ‘citizens’ of the (water) environment.

We are building the relationship our customers have with their local water environment and the relationship we have with our local community. By doing this we expect that more people will come to adopt water saving and other sustainable behaviours for the wider resilience of the whole water system. Our first citizen-based
engagement and participation trial, Project Chippenham, is covered in section 1.

What we will be doing to 2025

We will reduce average use per person per day to 128 litres. Customers have told us they want to be empowered to reduce their use and are keen to play their part in water saving. Our programme has been designed around our customers’ views.

Households with a meter tend to use less water than those without. Our tariff and metering study of 6,000 households shone a light on how metering in particular reduces water wastage. Customers who pay for the volume they use are more likely to fix dripping taps and leaky toilets and adopt water saving behaviours. We are mindful that no-one should have to ration their water use for affordability issues, and so we have industry-leading assistance programmes for those who struggle to pay.

Having a meter is the new norm for Wessex Water customers. More than two-thirds of households pay for water services based on the volume of water they use, compared to a UK wide average of 55%. We’re keen to extend metering further and launched a change of occupier policy in 2016. We also actively promote optional metering through targeted mailshots and social media campaigns using behavioural techniques to encourage take up.

In 2017 we launched our Money Back guarantee that encourages customers to switch to a meter by removing the financial risk. Put simply, we’ll help customers to compare their new metered charges with the bill they would have received if they’d remained unmetered and if they’ve paid more after two years, we’ll credit the difference and help them revert to unmeasured charges. The concept was developed through co-design work with our Young People’s Panel. We intend to pair this initiative with our water efficiency services to help customers make reductions in their water use and to minimise the number of customers wanting to revert.

By 2025 77% of households will be on a meter.

In parallel with our commitment to reduce per capita consumption we’re also setting ourselves a stretching performance commitment to encourage customers to participate in water saving programmes with us. Through this we aim to make savings of 1 Ml/d every year from 2020 to 2025.

In 2016 we launched our Home Check water efficiency service. During a 45-minute home visit, Water Safe qualified plumbers fit water saving devices, such as eco-showerheads; repair easy to fix plumbing leaks; and offer personalised advice at no charge to the customer. Each visit leads to savings of more than 40 litres per household, per day and has been very well received by customers. By 2020 we’ll have delivered the service to 20,000 homes in communities across our region.

We plan to expand the Home Check service to reach more customers and particularly those for whom the affordability of their water bill is a key concern. In the 2020 to 2025 period we will deliver the service to a further 40,000 customers.

Digital engagement is growing in its reach and importance to us and our customers. We are enhancing our online services to help customers better understand their water use and encourage repeat participation. Our digital services will enable customers to compare their usage with other similar households – a well-recognised approach to supporting
behavioural changes that leads to real reductions in consumption.

Experience from our smart meter trials suggests that personalised, online water-use engagement through social norming and self-reported water-use habits may deliver comparable water savings to smart metering programmes. While high-resolution, smart metering data is useful for this purpose, it is customer engagement leading to active participation that will lead to real water savings. More data does not mean more impact.

In combination, our water efficiency and metering programmes will ensure that by 2025 more than 6 Ml/d of water will stay in the environment and will not need to be abstracted to meet customer demands.

Our strategy beyond 2025

Our commitment to supporting reductions in per capita consumption through customer participation is part of our long-term vision for sustainable water use in our area. By 2045 we expect average water use to have fallen to around 123 litres per person, per day.

Smarter forms of metering will undoubtedly feature in our future strategy. At the present time, however, with a surplus of water resources over water demands the benefits do not outweigh the costs.

As technology improves, costs come down, and the water resource situation across the UK evolves, we anticipate a transition towards smarter metering in the next 10 years. We will continue to learn from the experience of others as well as undertake our own smart metering trials to fully appraise the benefits.

Leakage

Our performance commitments for this outcome

<table>
<thead>
<tr>
<th>Performance commitment</th>
<th>Units</th>
<th>Forecast for 2020</th>
<th>Target for 2025</th>
</tr>
</thead>
<tbody>
<tr>
<td>Volume of water leaked</td>
<td>%</td>
<td>n/a</td>
<td>- 15%</td>
</tr>
<tr>
<td>Customer reported leaks fixed within a day</td>
<td>%</td>
<td>90</td>
<td>90</td>
</tr>
</tbody>
</table>

The challenges we face

Since the mid-1990s we’ve halved the amount of water that leaks from our network. This is around 15% more than the industry average reduction over the same period.

With around 12,000km of water mains and 600,000 service pipes, we have 8,000,000 pipework joints, so it’s inevitable that leaks will occur. But our management and investment strategy ensures we respond rapidly and that we are always driving down overall leakage.

We spend £16m a year on managing and reducing leakage and a further £12m each year replacing older water mains.

Every year we mend around 12,000 leaks. Our leakage detection team is a highly skilled workforce that uses a range of modern technologies and analysis methods to accurately identify leaks and schedule prompt repairs.

Leakage is an important issue for customers and we welcome the recognition from so many that they can participate in helping us to tackle it by telling us about leaks that they spot. We fix more than over 75% of these customer reported leaks within one day and we are targeting 90% by 2025.

Our current level of leakage is significantly below the ‘sustainable economic level of leakage’, which means that reducing
leakage further will cost more than the cost of producing the water. This is, in part, due to our surplus situation.

We welcome the regulatory appetite for setting stretching performance commitments for leakage, providing these are: aligned with customer preferences; take account of the savings already delivered by current available technologies; and complement strategies to help customers reduce demand.

What we will be doing to 2025

We undertook in-depth research with our customers in June 2017 on the core issue of leakage and efficient water use, and found that:

- leakage has no direct negative impact on customers. Many could not recall ever having seen a leak and most have higher water priorities than leakage
- there is little appetite to see us invest to bring about further reductions in leakage over the next five years if this means that bills will rise for little overall leak reduction
- most customers are keen to see modest investments in innovation to help bring down leakage in the longer term
- there is interest in investment in education services with children and collaboration with customers to fix plumbing leaks in homes and improve awareness of water efficiency. Many customers recognise the role they can play in helping to manage the amount of water we take from the environment.

Our quantitative research techniques however suggested that there is customer willingness to pay for leakage reduction with a 15% reduction close to being cost beneficial.

Government and regulators (Defra, Ofwat and the EA) have since set an expectation that companies will reduce leakage by 15% by 2025 and continue to reduce leakage thereafter.

In 2018 we have undertaken further research to gauge our customers’ priorities. We found that, once leakage was set in the context of all the other service improvements we were proposing and the overall bill impact, customers accepted paying for further leakage reductions.

While we are ourselves in a surplus position for water resources it is clear from recently published Water Resources Management Plans that neighbouring companies would value this water more highly. Continued leakage reduction should enable greater resource to be traded with these companies in future, and this could help reduce bills for our own customers, further improving the cost-benefit ratio.

Taking all of this into account we will therefore reduce leakage by 15% by 2025.

This will require a step change in our activities, as well as innovation and continued customer support and engagement. Our proposals include:

- reducing losses from our distribution network through additional active leakage control, improved data collection and analytics, further sub-division of district meter areas, innovative pressure management
- reducing losses from customers’ pipes through our enhanced metering programme as it is easier to identify leaks on properties that are metered
- promoting ways in which customers can contact us to report a leak via our leak stoppers telephone hotline or our website.

In common with our approach to other performance commitments we have set the 15% reduction as a central target. Given that we have been a leading performer for leakage reduction (only Welsh Water has reduced leakage by a greater percentage since 1995) we accompany this with a cost adjustment claim for the cost-beneficial expenditure required.

Our strategy beyond 2025

We expect to reduce leakage by a further 14% by 2045. We will continue to innovate and optimise our working practices.
5.6.4 Drinking water quality

Our performance commitments for this outcome

<table>
<thead>
<tr>
<th>Performance commitment</th>
<th>Units</th>
<th>Forecast for 2020</th>
<th>Target for 2025</th>
</tr>
</thead>
<tbody>
<tr>
<td>Compliance risk index (CRI)</td>
<td>Index</td>
<td>n/a</td>
<td>0</td>
</tr>
<tr>
<td>Water quality customer contacts (appearance)</td>
<td>Number of contacts/10,000 population</td>
<td>0.89</td>
<td>0.69</td>
</tr>
<tr>
<td>Tackling water quality at home and in the work place</td>
<td>Index</td>
<td>16,634</td>
<td>18,297</td>
</tr>
<tr>
<td>Lead communications service pipes replaced (Wessex Water assets)</td>
<td>Number of pipes/5 years</td>
<td>2,984</td>
<td>9,000</td>
</tr>
<tr>
<td>Event risk index (ERI)</td>
<td>Index</td>
<td>13.72</td>
<td>13.72</td>
</tr>
</tbody>
</table>

The challenges we face

Providing high-quality drinking water is a fundamental and essential service for our customers and communities. For this reason, drinking water is governed by strict European and UK water quality legislation, overseen by the Drinking Water Inspectorate.

We have invested in additional water treatment and improved water mains, supported by improved quality and risk management systems and day-to-day management and monitoring of water supplies.

Our annual compliance with quality standards has averaged 99.96% over the past five years and not fallen below 99.95% since 2005. In 2016 the DWI introduced a new measure of compliance, called the Compliance Risk Index, which provides a broader view of compliance than numeric performance against the prescribed concentrations or values in the regulations. The new measure encourages rapid and efficient resolution of problems and focuses on the parameters with the greatest public health impact. We’re pleased that we are the leading water and sewerage company in the first two years of comparative data for the new measure (2016 and 2017).

Contacts about the acceptability of tap water in our area have fallen since 2009. We receive about 1,200 contacts each year, equivalent to nine per 10,000 people.

We need to continue delivering very high levels of compliance with drinking water standards. Customer research shows that the appearance of water is a priority issue and so we need to maintain a downward trend of customer contacts about the acceptability of the water they receive.

The DWI has provided guidance on long-term planning for drinking water supplies. It highlights that there are no new policy initiatives and no new UK legal obligations, and that the focus of water companies should be on the delivery of existing obligations using good practice within a long-term context.
However, the EU drinking water directive is being revised and this could give rise to additional requirements, such as a further reduction in the standard for lead and reduction in the limit for turbidity at customers’ taps.

The major themes of the guidance are not new to us. They include:

- source to tap risk assessment. Drinking Water Safety Plans are well embedded and are the main route for the prioritisation of investment to maintain drinking water quality
- long-term planning. We have always taken a long-term view. A prime example of our holistic and long-term approach is the grid project, which was completed in early 2018
- maximising the opportunities for catchment management to deal with raw water deterioration and pesticide contamination. For the last 12 years we’ve been working very closely with farmers in the areas around our reservoirs and boreholes
- further action on lead.

Delivery of excellent drinking water quality is achieved by a combination of our staff, culture, processes and assets. We have raised the awareness of the need for exemplary hygiene practice at our works through the Water Smart campaign. We were pioneers in using catchment management to address rising nitrates, and we are going to trial market tools to mitigate pesticide contamination.

For these reasons we will be happy to adopt the other new measure that the DWI is currently developing – the Event Risk Index. This measure is intended to reflect the behaviours of companies with respect to the mitigation and management of reportable events, both of which are a key focus for us anyway.

---

Case study: Water Smart

The Water Smart charter is part of our ongoing commitment to excellent drinking water quality.

Water Smart gives our supply sites the look and feel of a food factory and acts as a reminder to everyone of the importance of good hygiene and working practices.

Water Smart is not just aimed at operational staff. The key messages of: addressing quality, taking responsibility for personal actions and understanding potential impacts on final water quality are applicable to anyone who visits a site, including samplers, construction personnel, visitors and contractors.
What we will be doing to 2025

Our drinking water quality programme will include the following:

- **acting on rising nitrates and pesticides in the raw water at our sources**: trends in nitrate concentrations show that a further six sources may breach the standard before 2030. At three sites, despite working with farmers for 10 years, we have not seen any reduction in the concentration of nitrates. Now the most cost-effective solution is blending. Background catchment management will continue to minimise the risk of gross exceedances. Table 5-4 below provides a summary of our programme for the next five years which shows that over 200 Ml/d of our capacity is subject to catchment management.

- **lead**: we will continue a twin-track approach of: phosphate dosing, a process that safely coats the inside of lead pipes and lead pipe replacement, including working with customers to replace their lead service pipes. Our long-term ambition is to have a lead-free network by 2040. We aim to replace (or reline) all lead pipes (communication and service pipes) by that date. We propose to ramp up activity over the next five years and to work even more intensively with our customers to achieve replacement of lead customer service pipes.

- **water quality in the home and workplace**: we will engage with customers and stakeholders to improve and protect drinking water quality in the home and workplace, including schools and public buildings. We will continue to carry out water fittings inspection prioritised according to risk. We will engage with customers on safe water-hygiene behaviours and the importance of WRAS-approved fittings and appliances.

- **reducing contacts about appearance**: we will continue to replace mains in areas that give rise to elevated numbers of contacts. We will engage with customers to provide advice through our website and other channels.

Our strategy beyond 2025

Our long-term strategy will comprise a combination of the following approaches:

- proactive maintenance of our water treatment assets and distribution network
- protecting sources of raw water by preventing, rather than removing, contamination wherever possible, using catchment initiatives
- implementing source to tap drinking water safety plans
- continuing to replace lead pipes
- customer engagement on water quality and appearance.

### Table 5-4: Catchment management for drinking water quality

<table>
<thead>
<tr>
<th>Parameter</th>
<th>Sites</th>
<th>Deployable output Ml/d</th>
<th>Regulatory support</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current catchment management</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nitrates</td>
<td>13</td>
<td>107</td>
<td>Environment Agency through PR14 WINEP and DWI support</td>
</tr>
<tr>
<td>Pesticides (incl. metaldehyde)</td>
<td>4</td>
<td>69</td>
<td></td>
</tr>
<tr>
<td>Additional catchment management from 2020</td>
<td></td>
<td></td>
<td>Environment Agency through PR19 WINEP</td>
</tr>
<tr>
<td>Pesticides (incl. metaldehyde)</td>
<td>1</td>
<td>29</td>
<td></td>
</tr>
<tr>
<td>Nitrates</td>
<td>6</td>
<td>18</td>
<td></td>
</tr>
</tbody>
</table>
5.6.5 Sewer flooding

Our performance commitments for this outcome

<table>
<thead>
<tr>
<th>Performance commitment</th>
<th>Units</th>
<th>Forecast for 2020</th>
<th>Target for 2025</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer property sewer flooding (internal)</td>
<td>Number of incidents/10,000 sewer connections</td>
<td>1.6</td>
<td>&lt; 1.25</td>
</tr>
<tr>
<td>Customer property sewer flooding (external)</td>
<td>Number of incidents/10,000 sewer connections</td>
<td>17.42</td>
<td>&lt; 15.69</td>
</tr>
<tr>
<td>Sewer flooding risk</td>
<td>Index</td>
<td>50,651</td>
<td>50,651</td>
</tr>
<tr>
<td>North Bristol Sewer Scheme - Trym catchment</td>
<td>Scheme delivered/delayed/not delivered</td>
<td>n/a</td>
<td>Scheme delivered</td>
</tr>
<tr>
<td>Risk of severe flooding in a storm</td>
<td>% of population</td>
<td>8.37%</td>
<td>8.37%</td>
</tr>
</tbody>
</table>

As explained in section 4, we are also committed to developing a long-term plan for wastewater and sewerage, and improving the transparency of sewerage information.

Minimising sewer flooding

The challenges we face

Sewage flooding is one of the worst service failures for its effect on customers. Ensuring drainage services work effectively is one of our key targets.

We continuously engage with our customers about what can and cannot be flushed down the toilet. And we lobby manufacturers of so-called ‘flushable’ products about the blockages that result.

In addition, with a changing climate and an increase in impermeable areas connected to the sewer system, we need to make sure that our pipes have sufficient capacity to cope.

We already provide the best service in the industry for internal sewer flooding in terms of incidents per 10,000 properties. Our aim to is to remain the best performing company through to 2025, during which time we assume that the best performers will improve by 22%.

For external sewer flooding of roads and gardens our current performance is slightly better than the industry average. Based on customers’ willingness to pay, we are proposing a 10% reduction.

At PR14 we introduced an innovative way of assessing the overall risk of flooding from public sewers. The sewer flood risk score enables us to consider all types of sewer flooding and the varying probabilities of each type in a single score. When assessing solutions for providing additional capacity it allows us to balance reductions in consequence with reductions in probability. Our aim is to maintain the sewer flood risk score in a stable situation in every year.
What we will be doing to 2025

To deliver the sewer flooding targets that we have set ourselves, we will:

- **tackle sewer blockages**: we will continue to engage with our customers through targeted campaigns to encourage them to participate in behaviours that reduce sewer misuse. We will continue to proactively jet our sewers
- **provide adequate capacity**: we will invest where development occurs and where sewers are already at the limit of their capacity during heavy rainfall. Where our sewers are susceptible to infiltration due to the high groundwater in chalk areas, we will invest in sewer sealing
- **work with our partners**: we will maximise opportunities to work with partners in sustainable drainage systems and the separation of surface water from combined sewerage systems.

**Case study: sewer misuse and customer engagement**

We experience more than 13,000 blockages a year caused by items such as wet wipes, fats, oils and greases entering the sewer network. Reducing blockages caused by sewer misuse relies on an engagement strategy that begins with making customers aware of the issue.

Owing to manufacturers’ labelling practices, many people are unaware that flushing wet wipes and disposing of fats, oils and greases (FOG) down sinks and drains can cause blockages that may lead to problems in their own and their neighbours’ homes, and can result in pollution incidents in their local environment.

Wet wipes are used for many purposes around the home from personal hygiene to cleaning and child care. To reduce the number of wipes that are flushed, our strategy includes making customers aware of and/or providing alternative products (eg, gel sprays to moisten regular toilet paper) or alternative disposal methods (eg, bathroom bins) that encourage behavioural change.

Similarly, to encourage better disposal of fat from cooking, we provide ‘gunk pots’ for collecting fats.

We know from customer research that customers are keen to play their part in the resilience of our systems. From our experiences in encouraging the uptake of water efficient behaviours, we also know that the key to success often lies in the removal of barriers to change.

In recent years we’ve undertaken several localised engagement trials to further our understanding of how to reduce blockages caused by sewer misuse:

- In 2014 we undertook a project in Salisbury where, at the time, we were experiencing our highest blockage rate. We worked with engagement specialists at the University of Bath to develop the campaign and incorporate behavioural science methods such as social norming communications and co-creation to identify engagement channels. The campaign resulted in an immediate reduction in blockages during the promotional period and for a few weeks afterwards, but the trend was short-lived.
- In response to identifying an increase in blockage related sewerage incidents in north Tidworth, Wiltshire we engaged with the local council and mayor. Information was included in a community newsletter and on our own and community social media channels and local radio. The impact of this focused campaign was a significant reduction in sewerage incidents.
• In Swanage in late 2017 we launched our Stop the Block campaign and wrote to 62 businesses with advice on how to avoid blockages, as well as launching our Managing Kitchen Waste leaflet. We had a stand at a supermarket to meet domestic customers and we offered people free gunk pots. Our press release was published in three local newspapers and our targeted Facebook advert was seen by more than 4,000 people and ‘liked’ 60 times.

Our future strategy will use social media, digital and traditional print channels along with partnerships with national organisations such as City2Sea to engage with as many customers as possible. We will make use of data analytics to identify locations where repeated blockages occur. We will continue to tailor our approach in these communities to encourage and provide alternative products and disposal methods.

We also plan to align our sewer misuse engagement with a community-based citizenship programme (see section 1) that helps people in our region understand their wider water system and how sewer blockages can have an impact elsewhere.

Our strategy beyond 2025

As mentioned in section 4 we have ambitious plans to develop a long-term Drainage and Wastewater Management Plan, including an online portal of information about our sewerage system. One of the aims of this work is to provide appropriate price signals to developers to show where existing capacity is constrained.

Completing the North Bristol sewerage strategy

The challenges we face

Bristol is the largest conurbation in our region, and large areas of housing and employment land are being developed to the north of the city.

At PR14 we proposed a long-term sewerage strategy for the area to ensure that the new development could be accommodated, and to deal with existing sewer flooding problems.

The strategy comprises two parts:
• Frome Valley relief sewer phase 3
• Trym tunnel.

In accordance with the strategy agreed at PR14, construction of the Frome Valley relief sewer is well advanced and due to be completed by the end of 2018. The new sewer comprises a 5 km, large-diameter sewer from Iron Acton to Bradley Stoke. This will free up capacity in the existing Frome Valley sewer so that it can take the flows from development at Emerson Green and Harry Stoke.

We completed the design of Trym tunnel, which comprises the second part of the overall strategy, before March 2018 as required and have advanced the procurement and permissions so we are confident that the project can be delivered by the agreed date of March 2023.

What we will be doing to 2025

We will complete construction of the Trym tunnel by March 2023 to reduce flood risk, accommodate new development, improve overflow performance and future-proof the strategic sewers in North Bristol.

The new tunnel will transfer flows from the existing Frome Valley sewer at Bristol Golf Club, near Almondsbury and discharge into the Bristol trunk sewer at Saltmarsh Drive in Avonmouth. It will accept all dry weather flows from the existing sewerage network, as well as future development in the Filton area. The project consists of a 5 km long, 3 metre diameter tunnelled sewer, and a 1 km, 1.8 metre diameter sewer with five intermediate shafts up to 55 metres deep.

Following an extensive tender exercise, the design and build contract was awarded in March 2018, with tunnelling scheduled to commence in March 2020.
5.7 Accommodating growth and new development

The challenges we face

There is significant population growth (circa 1% per annum), and new housing in our area. Using data from the Office of National Statistics and the most recent local authority plans we have forecast population and housing levels to 2025 and beyond.

Our core duties as a water and sewerage undertaker include:

- allowing new development to connect to our water distribution network
- draining our area by providing, improving and extending a system of public sewers
- extending our deep infrastructure, such as sewage treatment works, to ensure that the load from new development can be treated without afffecting the environment.

As explained in section 4, our Water Resources Management Plan concludes that we have a surplus of capacity compared with predicted demand through to 2045. Ongoing investments will be in metering, leakage control and water efficiency.

Thus, the main challenges are water and sewerage network reinforcement to enable specific housing developments, and expansion of our sewage treatment works to meet the requirements of an increased population. We also need to take into account urban creep and a changing climate.

What we will be doing to 2025

We work closely with local authorities, planners, developers and other stakeholders to build a picture of where investment is required to accommodate new development.

Estimating the precise timing of new developments is challenging. New housing developments are affected by macro-economic conditions and site specific issues. Therefore, we take a twin track approach of:

- a bottom-up assessment, based on the water supply and sewerage needs of each development area in our region together with an assessment of the likelihood of the development occurring over the next five years
- a top-down assessment, based on historical expenditure levels.

Our current assessment of network reinforcement needs is summarised in the table below. It excludes the North Bristol sewerage strategy which is described in section 5.6 above.

<table>
<thead>
<tr>
<th>Schemes / areas</th>
<th>Investment £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Water network plus</td>
<td>12</td>
</tr>
<tr>
<td>Sewerage network plus</td>
<td>17</td>
</tr>
</tbody>
</table>

We will continue to develop and maintain our network models, so that we can rapidly assess the needs of new developer enquiries.

We need to make sure that the capacity of our sewage treatment works is set at the right level, so that they can reliably treat the incoming flows to the required standards without any detrimental impact on the environment. We’ve screened all of our works to identify which ones require expansion. We are also guided by the information provided by the Environment Agency about sites that are breaching their flow permits. The shortlist of sites includes major works such as Poole and Salisbury.
Our sewage treatment works capacity programme will provide additional capacity of 139,000 pe (population equivalent) at 20 works, involving:

- expansion of over-loaded sewage treatment works
- additional hydraulic and treatment capacity at sites where the EA require an increase in dry weather flow and tighter permit limits
- increases in full flow to treatment with sufficient capacity for a 15-year design horizon.

This programme is integral to our commitment to achieve 100% compliance with discharge permits.

Our strategy beyond 2025

As explained in section 4.11 we have developed a drainage portal for developers so that we can identify locations on our sewerage network with available capacity.
5.8 Totex investment summaries

This section provides a summary of the proposed investment for each of the wholesale price controls, based on the plans and strategies set out above. The tables also highlight where we have submitted cost adjustment claims, with further details provided in section 8.9.

In section 6 we describe the process we have followed to consider direct procurement and our conclusions, as well as how we intend to change our business model to one based around open systems in order to improve efficiency and deliver better outcomes.

In section 7 we show how the costs that we’ve allowed in our investment proposals are efficient.

Water resources and network plus water

For water supply, a number of the proposals required to deliver water resources outcomes – such as leakage control and metering – involve network plus water activities or assets. Similarly, for network plus outcomes, activities such as catchment management (to mitigate drinking water quality risks) are water resources investments.

Table 5-5 below summarises the investments by outcome and price control. It also includes an estimate of the expenditure in the subsequent five years (2025 to 2030).

Table 5-5: Totex summary for water resources and network plus water

<table>
<thead>
<tr>
<th>Outcome</th>
<th>Totex £m 2020 - 2025</th>
<th>Totex £m 2025 - 2030</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Water resources</td>
<td>Network plus water</td>
</tr>
<tr>
<td>Environment</td>
<td>11</td>
<td>-</td>
</tr>
<tr>
<td>Resilient services</td>
<td>-</td>
<td>14</td>
</tr>
<tr>
<td>Supply interruptions</td>
<td>-</td>
<td>14</td>
</tr>
<tr>
<td>Security of supply</td>
<td>-</td>
<td>19</td>
</tr>
<tr>
<td>Efficient use of water</td>
<td>-</td>
<td>14</td>
</tr>
<tr>
<td>Saving water</td>
<td>-</td>
<td>14</td>
</tr>
<tr>
<td>Reducing leakage ¹</td>
<td>-</td>
<td>25</td>
</tr>
<tr>
<td>Drinking water quality</td>
<td>11</td>
<td>21</td>
</tr>
<tr>
<td>Accommodating growth and new development</td>
<td>-</td>
<td>17</td>
</tr>
<tr>
<td>Maintaining existing service levels ²</td>
<td>65</td>
<td>468</td>
</tr>
<tr>
<td>Total</td>
<td>87</td>
<td>578</td>
</tr>
</tbody>
</table>

Notes:

¹ Includes Cost adjustment claim WSX04
² Includes Cost adjustment claim WSX03

Totex is gross totex excluding pension deficit recovery.
Network plus wastewater and bioresources

In the wastewater service there are limited activities that cross over between network plus and bioresources. The phosphorus removal programme included in the WINEP will give rise to additional sludge and therefore additional bioresources investments.

Table 5-6 below summarises the investments by outcome and price control.

Table 5-6: Totex summary for network plus wastewater and bioresources

<table>
<thead>
<tr>
<th>Outcome</th>
<th>Totex £m 2020 - 2025</th>
<th>Totex £m 2025 - 2030</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Network plus wastewater</td>
<td>Bioresources</td>
</tr>
<tr>
<td>Enhancement incremental totex:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Environment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>River water quality</td>
<td>434</td>
<td>4</td>
</tr>
<tr>
<td>Bathing water quality</td>
<td>31</td>
<td>-</td>
</tr>
<tr>
<td>Pollution reduction 4</td>
<td>28</td>
<td>-</td>
</tr>
<tr>
<td>Biodiversity and natural capital</td>
<td>1</td>
<td>-</td>
</tr>
<tr>
<td>Resilient services</td>
<td>3</td>
<td>-</td>
</tr>
<tr>
<td>Sewer flooding 3</td>
<td>87</td>
<td>-</td>
</tr>
<tr>
<td>Accommodating growth and new development 2</td>
<td>109</td>
<td>-</td>
</tr>
<tr>
<td>Completion of North Bristol sewerage strategy 1</td>
<td>47</td>
<td>-</td>
</tr>
<tr>
<td>Maintaining existing service levels</td>
<td>722</td>
<td>120</td>
</tr>
<tr>
<td>Total</td>
<td>1,461</td>
<td>124</td>
</tr>
</tbody>
</table>

Notes:
1 Includes Cost adjustment claim WSX01
2 Includes Cost adjustment claim WSX02
3 Includes Cost adjustment claim WSX05
4 Includes Cost adjustment claim WSX06

Totex is gross totex excluding pension deficit recovery.
6. **Markets and Innovation:** Open Systems and Direct Procurement for Customers
Section 6 Markets and innovation: open systems and Direct Procurement for Customers (DPC) - summary

Open systems approach

Building on our track record of innovative approaches, we will progress our open system model to deliver efficiencies for the appointed business, bring in additional revenues and deliver better outcomes for customers and stakeholders.

This is an approach that we have already taken with, for example, the creation of GENeco and EnTrade, but we see greater opportunities for other providers to take more active roles in finding solutions at the lowest cost.

Direct procurement

We support the promotion of markets to drive innovation and achieve efficiencies. Over the last 10 years we have led the industry in applying such arrangements, including:

- retail services – through BWBSL our joint venture business with Bristol Water
- sewage treatment and bioresources – through GENeco our commercial business.

We have reviewed the projects and programmes of work in our plan against the criteria for direct procurement for customers (DPC) – that is, discrete projects with a value of more than £100m whole-life totex.

Our conclusion is that there are no investment proposals in PR19 which meet the financial criteria or where direct procurement could add more value than our proposed delivery approaches. No programme is large enough to make DPC financially advantageous. Nor are projects sufficiently detached from our day-to-day operational activities to be able to ring fence them contractually in such a way that protects customers’ interests.

We recognise the potential of DPC and confirm that it will remain a part of our toolkit for assessing future programmes.
In this section we demonstrate how we intend to change our business model to one based around open systems. This will improve the efficiency of the appointed business, bring in additional revenues and deliver better outcomes for stakeholders. We also show how we have considered the use of direct procurement in our plans.

Section contents
6.1 Context
6.2 Adopting an open system model
6.3 Direct procurement for customers

Where to find further information
Supporting information for various aspects of this section are provided as below:

<table>
<thead>
<tr>
<th>Ref.</th>
<th>Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>Supporting document 6.1</td>
<td>Third party report on direct procurement assessment</td>
</tr>
</tbody>
</table>
6.1 Context

Behaving responsibly is a pre-condition for any private business – especially those holding a licence to operate as a state-sponsored monopoly. However, there is currently a wide-ranging debate about the performance, behaviour and future of the privately-owned utilities.

For our part, we want to show how private investors and markets can work better for utility customers, the environment and society. We’ve always aimed to strike a fair balance between the interests of customers and investors and to share outperformance. As a result, we’ve earned a good reputation with customers, regulators and stakeholders, and support for our innovative approaches, such as:

- the formation of GENeco in 2009
- the first social tariffs in our sector in 2007
- the first catchment permitting scheme in the sector, devised in partnership with the Environment Agency (EA), plus multi-stakeholder catchment initiatives in the Bristol Avon, and Poole Harbour
- a public health trial with Bath & North East Somerset CCG to reduce the use of pharmaceuticals.

These and other successes have created a platform for us to maintain and enhance our legitimacy, relevance and fitness-for-purpose in the face of external pressures. They are also making useful contributions to the implementation of the government’s 25-Year Environment Plan, as well as its Industrial Strategy and its Clean Growth Strategy.

6.2 Adopting an open system model

We aim to build on this position via a group strategy with three main strands:

1. an efficient and customer-focused, regulated business
2. businesses that pay for access to our assets and/or offer services that improve our efficiency and asset utilisation
3. non-regulated activities which contribute directly to shareholder value.

In particular, adopting an open system model will improve the efficiency of the appointed business, bring in additional revenues, and deliver better outcomes for customers and wider stakeholders.

This strategy is developing over two phases.
Phase 1 (2010-2020): demonstrating and testing new methods of delivery

We have been establishing or acquiring entities offering alternatives to the water sector’s standard model for delivering services and creating value more widely (see figure 6-1 below).

Already, we and our customers have benefited from increased efficiency. We’ve shown how entities such as EnTrade can act as an aggregator of market or community-based solutions, stimulating responses from a range of service providers by creating a marketplace.

Table 6-1 below expands on some of the benefits gained so far (also covered in sections 4.7 and 5.2 in the case of EnTrade). We foresee continuing profitable opportunity in existing and new markets, for both group companies and other providers.

Figure 6-1 Wessex Water group of companies
### Table 6-1 Examples of how benefits derive from an open system

<table>
<thead>
<tr>
<th>Outcome</th>
<th>Transaction</th>
<th>Customer benefit</th>
<th>Appointed business benefit</th>
<th>Societal benefit</th>
<th>Future opportunities</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>EnTrade</strong></td>
<td>Requirement within Poole Harbour for Wessex Water to offset 40 tonnes of nitrogen.</td>
<td>Either an asset cost of £6m and opex of £350k per year at Dorchester STW, or EnTrade and catchment management at £350k per year.</td>
<td>Following the EnTrade / catchment management route saves customers the £6m capex.</td>
<td>Costing the asset solution in our business plan would have delivered a £6m saving.</td>
<td>Accelerated improvement of water quality in the environment. Natural capital pricing established for nitrogen. Multiple commissioner model tested through joint procurement with Natural England. Progression of government’s 25-Year Environment Plan. Further nitrogen reductions with additional partners would increase operational efficiencies. Expanding beyond just nitrogen savings could allow for further optimisation.</td>
</tr>
<tr>
<td><strong>Albion Water</strong></td>
<td>Three new housing developments require sewerage services, and in some cases water.</td>
<td>Either an expensive connection to the incumbent’s network or an Albion Water on-site solution.</td>
<td>Incumbent’s customers do not have to fund the expensive connection charges up front for the future customers.</td>
<td>Avoided the recovery of income from customers over the medium-term and the need for short-term investment.</td>
<td>New provider established to innovate on alternative approaches to achieving the clean growth strategy, through reducing water demand and increased recycling. Allows for additional benefits such as non-potable supply.</td>
</tr>
<tr>
<td><strong>Albion Water</strong></td>
<td>New housing development in the Thames area requires water and sewerage connection.</td>
<td>Thames Water reduced their cost when Albion Water provided an alternative to the mains solution. Competition ensures incumbents keep their prices keen.</td>
<td></td>
<td>Alternative provider in the market leads to greater commercial pressure on monopoly incumbents, with lower costs to customers. Progression of government’s 25-Year Environment Plan.</td>
<td>Influencing the pricing of connection charges and access to incumbent in the future, to ensure that NAVs can compete on a level playing field and secure these contracts.</td>
</tr>
<tr>
<td><strong>GENeCo</strong></td>
<td>Resource recovery – bioresources.</td>
<td>Payment to appointed business for utilisation of regulated assets to process sludge and food waste into renewable energy (gas to grid).</td>
<td>Improved asset utilisation, and associated income contribute to lower bills. Reputational benefits.</td>
<td>Improved asset utilisation and income from a third party improves profitability. Improved efficiency in recycling of sludge. Reputational benefits from innovation.</td>
<td>Circular economy benefits contributing to clean-growth strategy. Progression of government’s 25-year environment plan. Innovate into other circular economy areas such as plastics and grey water. Increased asset utilisation benefits leading to additional revenues.</td>
</tr>
</tbody>
</table>
Phase 2: 2020 onwards – developing an open systems coordinator (OSC)

We will continue to develop the market-based approaches we began during phase 1. A key enabler will be to establish an open system coordinator and move towards a whole system approach, driven by defined outcomes for society, customers and the environment through management of the water, waste water and related services.

This approach allows the appointed business to assist businesses and/or communities in contributing to outcomes. It also allows us to extend arrangements for sharing outperformance and increases our ability to deliver services and value for money.

An open systems platform opens up markets within the existing regulatory framework (illustrated in figure 6-2 below):

- the existing regulators, and customer representatives continue to set the outcomes required from the system and the customer bills, but may engage with local authorities and others to specify wider outcomes
- the appointed business continues to be responsible for the outcomes, but procures activities and outcomes in the most effective, sustainable and cost-efficient way
- the appointed business provides information to the market through an open platform of data
- the markets can access the data and bid to provide outcomes, which may complement or replace the appointed business’ asset solution
- community partnerships may also compete alongside the markets to deliver outcomes in alternative ways.

Figure 6-2 Open systems structure for 2020 onward
What does the open systems approach enable?

The direct benefits of the open systems approach are that outcomes are delivered effectively and efficiently. It encourages better choices through a wider range of potential solutions. These may include conventional, asset-based measures, catchment management and other environmentally-based activities, and demand-side interventions led by customers and other end-users.

Some of the features that contribute to this are:

- clear outcomes in the context of a water system
- more potential solutions including innovative and enterprising approaches
- a reduced scope for the monopoly franchise and more scope for collaborative solutions
- greater community involvement.

The open systems coordinator (OSC)

The OSC is an evolution of the system operator concept. It sits between the regulated, appointed business and the delivery vehicles. Its purpose is to create value for customers, stakeholders and investors by reducing the costs of delivering services and improving asset utilisation and enhancing services. It does this by efficient procurement in the four service segments:

a) customers and communities
b) environment and place
c) circular economy
d) networks (physical assets).

By opening up network information and access, the OSC allows the appointed business to trade with suppliers of services across these four areas. In time, the OSC could be commissioned by the open system architects to add in additional functions of water, waste water and environmental systems management.

This in turn may lead to a role for the regulated business to be funded to invest in a wider range of infrastructure assets and more efficiently solve wider outcomes. It may also lead to wider opportunities for third-party market providers including group businesses.

Figure 6-3 Open systems markets potential, 2020 onwards
The benefits and efficiencies arise from enabling the appointed business and alternative providers to create opportunity and efficiency across the whole water and utility system, not just the water utility. This then opens up a range of new buying and financing models. These will enable outcomes to be delivered through a wider range of commissioners, allowing for personalisation and wider efficiencies. Figure 6-4 below is a potential example of how water quality might be improved in such a system.

**Figure 6-4 Alternative financing of environmental outcomes**

**Implications for our business plan**

Implementing the OSC model will be a crucial part of the commitment we made in our Strategic Direction. This was: ‘to deliver better services than our peers to all types of customer’. It is also crucial to our aspiration to ‘match organisations that have the best online service and those who are admired for their personal service, ethics, and value-for-money’.

Markets are key to delivering future water resilience. Our Open Systems approach will include consideration of how other parties can provide capacity at local level to deal with peaks in demand. Further information is provided in supporting document 5.8 Bid Assessment Framework.

High quality data and information will also be crucial for the success of the new business model. Our ongoing information strategy is covered in supporting document 2.2 Information strategy.
Having initiated modes of delivery that would feature in a formalised OSC model, we’ve demonstrated our capacity to act as a central coordinator. An OSC approach would feed into the work covered by our business plan in various ways:

<table>
<thead>
<tr>
<th>ACTIVITY</th>
<th>BENEFITS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk is transferred from the customer to the shareholder, including penalties for getting it wrong.</td>
<td>If innovation to achieve outcomes is undertaken in external businesses the risk of innovation is held outside the regulated business. Financial ODI penalties can also be back-to-backed with regulated business.</td>
</tr>
<tr>
<td>Assets and services are opened to the marketplace and other service providers - better outcomes at efficient cost.</td>
<td>Through efficient procurement, the OSC achieves efficiency savings or performance improvements against ODIs. Billing services may be opened to other retailers to increase customer choice. Capacity is provided by third parties which reduces the impact of activities on networks or on peak demand.</td>
</tr>
<tr>
<td>Communities are encouraged to participate and share in the benefits.</td>
<td>Community level schemes could include water recycling to reduce demand, reducing storm water input to sewers, and reducing sewer blockages. Savings or outperformance payments achieved from performance commitments are recycled into the community.</td>
</tr>
<tr>
<td>Water is recognised as a natural resource that is shared by many, including current and future generations.</td>
<td>Work across the system to protect and enhance the environment. Better collaboration with the farming sector to encourage its contribution to environmental improvement, based on source apportionment. Collaboration with other public services (eg, planning, health) to reduce impacts on the water environment. Wider environmental benefits (eg, biodiversity improvement, soil retention) beyond core water company outcomes.</td>
</tr>
<tr>
<td>Services are seamless and hassle free.</td>
<td>Facilitates the adoption of the best technologies in the digital environment. Developing business models.</td>
</tr>
</tbody>
</table>

Operating under an OSC model doesn’t mean that the appointed business is obliged to use market-based solutions in place of assets. Rather, it must consider and weigh up the potential benefits and risks, both financial and operational, before deciding on a solution.

The pace at which the appointed business places opportunities on the platform will also be dictated by the success of previous invitations for solutions and the complexity they incurred to deliver.

This is essentially the ‘most economically advantageous tender’ (MEAT) criterion used today in procurement and enables the contracting authority to take account of criteria that reflect qualitative, technical and sustainable aspects of the tender.
submission as well as price when reaching an award decision

**An example of an open system approach**

In the context of delivering a catchment outcome via working with farmers instead of an asset solution, the OS operator would weigh up, amongst other things:

- the price – what does an asset cost in comparison to the market deliverable?
- the sensitivities around the price – a market-based solution is potentially riskier with farmers being able to control the price more. At what price does it become less viable to follow a market solution? How likely is that price change?
- the likelihood of engagement – will farmers be interested in this offer? How many will drop out? The range of measures that are implemented may also be a consideration. A wider range of measures builds in flexibility rather than a single solution/offer
- the certainty over long-term delivery – the market solution should demonstrate buy-in and support from the relevant regulators, such as the Environment Agency and Natural England, over a defined and appropriate time period. This will negate the risk of a market closing as a result of regulatory changes.

The combination of the answers to these points will contribute to the decision whether to follow an asset or market solution, or a combination of both.

**Moving away from business as usual**

To establish this model, we’ll need to integrate new skills and approaches to risk management, commercial models and data management. To enable this, we propose to separate the system coordination and commercial function from network operation and management. This will help to ensure we achieve the cultural shift away from business as usual and apply some further commercial challenge on the network plus business.

6.3 Direct Procurement for Customers (DPC)

Our proposed adoption of an open system approach demonstrates that our focus is on delivering leading service levels and value for money to our customers through the use of market-based approaches. This is embedded in our culture and reflected in our past performance. The open system approach brings direct procurement into the centre of our procurement strategy, effectively reducing the threshold considerably below the £100m target.

The open system approach can also reduce the need for large scale engineering solutions. However, constructing assets remains a critical and necessary contribution to the infrastructure we require to deliver excellent and resilient services to customers and the environment.

In the past we’ve tried joint venture and partnering style arrangements with national contractors. However, we’ve found that we are too small as a client to drive best value from these arrangements.

We have found that, as a relatively small organisation, the best option is to develop a toolkit of approaches, and to apply these to specific parts of our investment plan in order to meet the delivery objectives of each and provide the best value for money.

The selection of the most appropriate approach is based on a number of factors including whether:

- we have full control and visibility of the planning and scope of works
- the works involve significant customer engagement and interaction
- the works require specialist contractors
- the project needs to be delivered by a defined external output date
- there is guaranteed future work of the same type for the supply chain
- the work can be batched together into larger programmes of work
- alternative ‘low-build’ options or innovative solutions are available.
In this way, each element of our investment plan is broken down into its constituent parts and the most appropriate delivery approach is applied. This can be anything from internal design and build to creating a separate standalone programme of works for an overlap programme.

In some cases, we've started with one approach and have had to change due to poor performance of the supply chain, insufficient contractor availability or high cost.

We therefore welcome DPC as a useful addition to our toolkit to be applied to any large, discrete projects or programmes that may arise.

For each price control, we will review the mix of work for the next 10 years and the most appropriate delivery approaches in order to maximise the value to customers.

**Our assessment of DPC**

We fully support the promotion of markets to drive innovation and achieve efficiencies. This is why we’ve led the industry over the last 15 years in applying such arrangements, where the business area can be sufficiently ring-fenced:

- retail services – through BWBSL – our joint venture business with Bristol Water
- sewage treatment and bioresources – through GENeco, our commercial business.

These innovative business developments have realised the following benefits:

- more focus on the discrete performance of that business area
- reduced direct costs
- promoted innovation.

We have reviewed projects and programmes of work commencing in AMP7 against the financial criteria of ‘greater than £100m whole life toetx’ to see whether DPC could be applied to our investment plans. As a result, we have drawn the following conclusions.

**Water resources / water network plus**

We have a large number of small assets spread across a rural area. The recent completion of the eight year integrated grid programme has provided an alternative supply to most of these rural communities. As a result of this investment there is a very limited programme of water resource / water supply investment initiatives proposed for PR19, none of which individually or combined are sufficiently large or discrete to make DPC appropriate.

Even the largest of these projects or programmes – at less than £10m – falls well short of the financial criteria for DPC. Looking ahead, it’s also difficult to see an obvious project or programme large enough for DPC in PR24.

**Sewerage network plus**

Our asset base consists of a large number of small, discrete networks, while our largest treatment works is already separated out in the GENeco business.

The WINEP programme requires improvements across many sites, none of which are substantial enough individually or together to make DPC a viable, cost-effective alternative. The decision to require more WINEP work to be progressed to a shorter timescale (by December 2024) comes even though a substantial portion of it will not be confirmed until 2021. This makes DPC unviable even if any single element of the programme were large enough to meet the DPC financial criteria.

For us, the largest benefit to customers is in finding low-build or no-build, catchment-based alternatives to engineering solutions. The ability to create these opportunities requires close liaison with the EA and local stakeholders. We lead the industry in developing these proposals and so we are best placed to maximise the benefits to customers. Our conclusion is that the benefits of DPC are not sufficient to counter the benefits of managing these catchment-based solutions locally.
In PR19 the largest programme of works is in the sewerage network plus price control. The largest projects – being in the range of £45-75m whole life toex - still do not meet the financial criteria for DPC.

The Trym tunnel, which is the second part of the North Bristol sewerage overlap programme, has already started on site as required by the PR14 performance commitment target. As this is a high-risk tunnel project, a specialist contractor is required and therefore it would not lend itself to DPC arrangements even if they had applied.

The Avonmouth STW project combines flow improvements in the WINEP with capacity improvements to minimise delivery costs. Much of this work will integrate with the existing site operation and therefore wouldn’t be possible to procure through DPC.

Looking to PR24 and beyond, it’s possible that we will have discrete projects where DPC may be more appropriate. This would be where a site has become land-locked by a new development such as at Poole STW or where the local network and existing performance of a site such as at Swanage STW could require a rebuild of the treatment works at a new location.

**Bioresources**

Ofwat has stated that DPC proposals should not include bioresources as they could conflict with the development of the market. Most of our bioresources assets are separated out in the GENeco business and already create maximum value to customers. Our programme for bioresources in PR19 is small and consists mainly of maintaining existing assets.

**Assessment outcome**

Our overall assessment is that there are no investment proposals in PR19 where DPC could add more value than alternative delivery approaches. No programme is large enough to make DPC financially advantageous, nor sufficiently discrete from our day to day operational activities to be able to ring-fence them contractually in such a way as to protect customers’ interests.

However, we do recognise the potential of DPC and note that portions of our recently delivered, integrated water supply grid or potential future greenfield STW projects could have DPC as a viable option. DPC will therefore remain as part of our toolkit for assessing future programmes.

Supporting document 6.1 provides a third party report on our Direct Procurement for Customers assessment.
7. MARKETS and INNOVATION: RETAIL
Section 7 Markets and innovation: retail – summary

Our approach

We have been consistently the best performing water and sewerage company for customer service.

We provide amongst the most efficient retail services in the industry, and our culture and structure enable us to innovate and learn from wider retail markets.

We also provide industry-leading support to those in vulnerable circumstances. We have longstanding partnerships with many debt and wider advice organisations in our region who help us reach and support customers often with complex needs.

This is a good basis from which to evolve our residential retail model.

Our plans

We expect that the traditional water retail experience will quickly become outdated. And our affordability work has taught us that looking at water and sewerage services in isolation limits our impact.

We’ve therefore looked wider to see what steps we can take to evolve the water retail model into one that gives customers greater choice over a wider scope of services, and that will generate further opportunities to engage with our customers to help deliver the outcomes in this plan.

As an example, we will shortly be launching a new free energy switching service, exclusively to Wessex Water customers.

Our largely outsourced delivery model leaves us well placed to apply lessons from wider retail markets to the services we provide for residential customers.

This will help us continue to provide a high quality and efficient core service, but we will also innovate and be open to the development of new products and services that can sit alongside residential water retail and which can help our customers better manage their homes and lifestyles.

We will continue to:

• ensure our services are inclusive and accessible to everyone
• expand our partnership working and social tariffs
• reduce the number of void properties
• harness data more effectively to improve customer service.

We will achieve this by:

• investing in new billing and Customer Relationship Management (CRM) systems
• offering incentives to third parties to help increase our billing accuracy
• making greater use of behavioural approaches when communicating with our customers
• using data more effectively, expanding the data sources and intelligence we use to segment our customer base, making better decisions, in particular to manage voids
• introducing artificial intelligence and robotics
• delivering our strategy for customers in vulnerable circumstances (supporting document 2.1).
In this section we demonstrate how our innovative, efficient, market-led retail services have already delivered results for customers, and we describe how we will build on this new model for retail and customer service.

Section contents

7.1 Introduction
7.2 Performance commitments for customer service
7.3 Performance commitments for those in vulnerable circumstances
7.4 Performance commitments for efficient services
7.5 Our retail vision
7.6 How we will get there
7.7 A billing system to deliver our vision

Where to find further information

Supporting information for various aspects of this section are provided as below.

<table>
<thead>
<tr>
<th>Ref.</th>
<th>Title</th>
<th>Area</th>
</tr>
</thead>
<tbody>
<tr>
<td>Supporting document 2.1</td>
<td>Strategy for customers in vulnerable circumstances – Every Customer Matters</td>
<td>Our past and current performance and proposals for assisting customers in both financial and non-financial vulnerable circumstances</td>
</tr>
<tr>
<td>Supporting document 3.1</td>
<td>Performance commitment overview</td>
<td>How we have prepared our performance commitments for residential retail</td>
</tr>
<tr>
<td>Supporting document 3.1.A</td>
<td>Performance commitment detail</td>
<td>How we have prepared our performance commitments for residential retail</td>
</tr>
<tr>
<td>Supporting document 3.1.B</td>
<td>Bespoke performance commitment methodology (Ofwat pro forma)</td>
<td>How we have prepared our performance commitments for residential retail</td>
</tr>
<tr>
<td>Supporting document 8.3</td>
<td>Residential retail expenditure</td>
<td>Assessing residential retail efficiency Evidence of residential retail efficiency, including other sector comparisons Learning from others, including business retailers Voids and gap sites – current performance, evidence of efficiency and future proposals Evidence and proposals for input price pressure Cost and revenue allowances for 2020-25</td>
</tr>
</tbody>
</table>
7.1 Introduction

Our vision to evolve the retail model

We want to provide exceptional, effortless experiences for our customers every day. Doing so will help us achieve our aim to be in the top 20 of all service providers in the UK.

We recognise that the traditional water retail model will become outdated and that we need to evolve it into a service that makes our customers’ lives easier.

We will therefore develop our wider retail offering, beginning by launching a new free energy switching service that will save our customers money and provide a new opportunity to encourage customers to use our own services wisely.

We have also proposed performance commitments (PCs) that will stretch us to achieve new levels of performance in the core retail service areas.

Improving customer service and efficiency

C-MeX – we aim to be in the top three of the new C-MeX mechanism.

Void sites – we will reach the industry upper quartile level by 2020 and remain there.

Gap sites – we will continue to intensively search for gap sites and will offer financial incentives for third parties that are able to identify them.

Improving affordability and supporting customers in vulnerable circumstances

We will greatly expand the magnitude of financial support to customers through our social tariffs.

We will increase the number of people we know of who require additional priority services.

We will continue to grow our debt advice partnerships.

We will continue to achieve the British Standard for Inclusive Service Provision and the Customer Service Excellence Award.

Strong foundations

We have a proven and long-term track record of providing a high-quality customer service at an efficient cost.

• We have been the 1st placed WaSC in the Service Incentive Mechanism (SIM) in all but one year
• Our contact centre holds the distinction for ServiceMark from the Institute of Customer Service – held by only 11 companies in the UK
• We consistently have the lowest level of complaints per household in the industry.

Our separate joint billing company

We were the first water company to create a separate joint billing company, Pelican Business Services, which we created with Bristol Water.

We did this initially to take advantage of the available benefits from economies of scope and scale: a single bill and a single point of contact. It has enabled us to deliver a high-quality retail service including:

• ‘warm voice’ answering of calls, a key part of our longstanding USP
• a wide range of customer communications channels: phone, email, web-based Live Chat, e-billing, automated payment lines and post
• a more authentic and personal customer experience that allows colleagues to use their initiative to do the right thing for the customer rather than following a strict process.

Since Pelican’s formation as a separate company it has created within it a distinct and vibrant culture open to new ways of delivery and which learns from the wider retail markets in which it operates. Pelican provides services to both the residential and business retail markets and so is well placed to apply the lessons from the competitive market to the services it provides to us for residential customers.

We have consulted business retailers as part of our customer research and have
considered their recommendations in our plans (the full results of the research can be found in appendix 1.1.O). For example, we are introducing incentive payments for finding void sites. Further information is available in supporting document 8.3.

As a company, our strong retail performance, a structure and culture that helps promote innovation and an openness to harnessing markets leaves us well placed to take the next steps.

7.2 Performance commitments for customer service

In the following sections we explain the core performance commitments that are related to the residential retail price control.

<table>
<thead>
<tr>
<th>Performance commitment</th>
<th>Units 2020 Forecast</th>
<th>Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>C-MeX Ofwat defined measure</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Why are we doing it?

C-MeX is the new comparative measure of customer experience for residential customers. It replaces the SIM.

What is the target?

We aim to be ranked in the top three over 2020-25, consistent with our historical SIM performance. We also aim to be in the top 50 of service providers nationally and in the top 20 by 2025.

Why have we chosen this target?

Since the introduction of SIM we’ve been the highest placed WaSC every year except one. While the underlying approach of C-MeX is different to SIM, we aim to continue our frontier performance over 2020-25.

How will we achieve this?

All our work up to 2025 will influence how we will achieve this. Our continuous improvement programme constantly seeks to improve our customer service. New billing and CRM systems will play a major role, as will our work creating partnerships and building community support for what we do.

7.3 Performance commitments to help those in vulnerable circumstances

Wessex Water was the first to recognise that our customers often need additional assistance – in affording their water bill, in providing them with additional channels of communication, or, in our longstanding commitment to ‘go the extra mile’. We are proud to lead our sector in this area.

Our strategy for customers in vulnerable circumstances is described in section 2 of this document and included in full in supporting document 2.1. In it, we demonstrate a holistic approach designed to materially improve the lives of our vulnerable customers.

In summary, we have:

- offered a form of social tariff for low income customers since 2007
- formed longstanding partnerships with many debt and wider advice organisations and are widely recognised as offering best practice
- developed three social tariffs, providing support to: customers with the lowest incomes; customers with unavoidably high water use; and to all customers of pensionable age with no independent income
- the sector’s widest range of affordability support including flexible payment plans, repayment agreements and debt write-offs through our offering tap.

We have long recognised that vulnerability takes many forms. Key examples of this approach are:

- our frontline and customer facing staff are trained in spotting signs of vulnerability
- a wide range of additional services for customers with different communication needs. For example: customers may request additional meter readings, or bills in different languages, font size and braille; a text relay service for customers who are hard of hearing; password set-up for vulnerable customers
• bespoke mental health training for our call centre and field-based customer facing staff.

The full list of our current and future initiatives can be found in supporting document 2.1.

Based on our in-depth knowledge of working with customers in vulnerable circumstances, customer feedback and research, advice from our stakeholders, partners and independent experts in this area, our performance commitments will incentivise us to further increase the industry-leading levels of support we and our partners provide. Further information on our performance commitments can be found in supporting documents 3.1, 3.1A and 3.1B.

To ensure a balanced approach, we propose two performance commitments focused on affordability and two on vulnerability. The following commitments focus on affordability.

<table>
<thead>
<tr>
<th>Performance commitment</th>
<th>Units</th>
<th>2020 forecast</th>
<th>2025 target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total bill reductions for customers on social tariffs</td>
<td>£ per 10,000 households</td>
<td>55,040</td>
<td>87,029</td>
</tr>
</tbody>
</table>

Why are we doing it?

Wessex Water was the first company to offer bill reductions to customers on the lowest incomes through win-win tariffs, and the first to offer social tariffs. Our experience working with our network of partners and independent experts in the sector allows us to recognise that affordability issues take many forms: there is no one-size-fits-all approach.

Our social tariffs are backed up with support from our customers and provide meaningful discounts to different groups. Providing an immaterial discount to a large number of customers does not solve any policy objectives. We currently operate three social tariffs: one which provides large bill discounts to customers with the lowest incomes; one to customers with unavoidably high water-use; and one to pensioners with no other income other than the state pension who are just about managing.

With the above in mind, our performance commitment for social tariffs has been constructed in a way to incentivise the company to maximise the benefit to vulnerable customers but also provide a meaningful comparison on our performance. A bill reduction in £ per 10,000 customers is therefore the most appropriate metric to use.

What is the target?

Underlying the forecast is an increase in the number of customers on a social tariff by 8,600 per year, resulting in 85,000 customers receiving a social tariff by 2025 – one in 15 of all customers. This results in a total bill reduction of £11.2m a year, expressed for the purposes of the performance commitment as £87,029 per 10,000 customers.

Why have we chosen this target?

This is a significantly higher growth rate compared to the past. We have purposefully set the target at a level that will be challenging to achieve. Our customer research mandates a total level of cross subsidy from the rest of the residential customer base. We expect to be at the limit of this amount by 2025, maximising the amount customers are currently willing to pay for social tariffs; however, we will conduct further research if required.

How will we achieve this?

Our work further strengthening our partnerships with the debt advice sector will be key to delivering the initiatives in our vulnerability strategy. We will also be adopting behavioural approaches to encourage customers to contact us when they experience affordability problems. Our plans to increase how we use data on day-to-day and strategic bases will also play a
major role, as will our work improving how we engage with our customers.

<table>
<thead>
<tr>
<th>Performance commitment</th>
<th>Units</th>
<th>2020 forecast</th>
<th>2025 target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Successful applications for assistance received by the independent advice sector and third parties</td>
<td>Number of applications each year</td>
<td>2,300</td>
<td>2,300</td>
</tr>
</tbody>
</table>

Why are we doing it?

We have developed effective partnerships with the debt advice sector over the last decade to deliver our industry-leading offering. These partners include all Citizens Advice offices in our region as well as major debt advice organisations and a very large number of local, independent debt advice agencies including cultural, faith and niche organisations.

We fund and signpost to these agencies. It is essential that customers receive holistic debt advice and support along with services that help them maximise their income. It is never just about water. Customers generally have multiple debts to multiple creditors. These trusted third parties are far better able to determine a sustainable offer of payment, however small, based on true ability to pay. Further information on our proposals are in section 2 of this document and supporting document 2.1.

What is the target?

We will achieve 2,300 successful applications received from our debt advice agency partners each year over 2020-25.

Why have we chosen this target?

This will incentivise us to maintain the effectiveness of our partnership working and expand our funding further if necessary at a time when the resources of the independent advice sector are very constrained. We currently fund our debt advice partners by £365,000 each year. The majority of this funding is provided as a payment for referrals scheme, designed in partnership with Citizens Advice and aims to incentivise the number of applications to our schemes. Our advisory group of independent experts and our customer research supports this approach.

How will we achieve this?

We will be improving how we work with our existing partnerships and forging new ones, as well as using data to better identify where our partners can focus their efforts.

The following performance commitments focus on addressing vulnerability.

<table>
<thead>
<tr>
<th>Performance commitment</th>
<th>Units</th>
<th>2020 forecast</th>
<th>2025 target</th>
</tr>
</thead>
<tbody>
<tr>
<td>New customers added to the Priority Services Register</td>
<td>Number of customers added</td>
<td>2,200</td>
<td>2,200</td>
</tr>
</tbody>
</table>

Why are we doing it?

Priority Services is a scheme which offers extra support to customers with a wide range of additional needs including those from age, ill health, disability, poor literacy or mental illness. Priority Services exists to provide support to customers in vulnerable circumstances, and so it is appropriate to develop a performance commitment specifically in this area that is easily measurable.

The water industry is currently working with the energy sector to launch full data sharing for Priority Services by April 2020. The intention is for any customer who wishes to register for Priority Services to do it only once, either with their water or energy provider, and for that information to then be shared between participants – we plan to be an early adopter.

What is the target?

The performance commitment will report the number of customers who are added to the Priority Services Register in each year and
will incentivise the company to increase take-up. We will increase the number of additional customers added to the register to 2,200 per year over 2020-25. This target will be over and above any large increase we will achieve through data sharing with the energy sector before 2020.

Why have we chosen this target?

Our central forecast is based on our most recent growth in Priority Services. This appears to be the most appropriate forecast given the current uncertainty whether data sharing with the energy sector will proceed or not; or whether the difficulties with data sharing will make it more, rather than less difficult to get customers onto Priority Services in the future.

How will we achieve this?

Achieving our vulnerability strategy (supporting document 2.1) will be key to achieving the target. Our work strengthening our debt advice partnerships and forging new ones; using evidence and techniques from behavioural science to remove the stigma of asking for help; and improving our customer engagement and use of data will be important.

### Performance commitment

<table>
<thead>
<tr>
<th>Performance commitment</th>
<th>Units</th>
<th>2020 forecast</th>
<th>2025 target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Delivering for customers in vulnerable circumstances</td>
<td>British Standard (BS18477) and Customer Service Excellence Award.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Why are we doing it?**

Customers in vulnerable circumstances often find it more difficult to communicate with their water company than other customers. As we detail above we have a comprehensive range of services, ensuring all our staff have the right skills and training, and are empowered to fully support our customers in whatever help they need.

The British Standard BS18477 is designed to signal that a company is inclusive and accessible to all customers, including those who are most vulnerable due to low income and/or particular needs including disability.

The Customer Excellence Award tests in great depth the areas that are a priority for customers.

**What is the target?**

Achievement and retention of this standard is one element of an existing performance commitment over 2015-20. We have reshaped it for 2020-25, to purely focus on supporting customers in vulnerable circumstances.

**Why have we chosen this target?**

We were one of the first utilities to achieve the standard and we continue to believe it is an excellent way of publicly showing our services are accessible and inclusive to all and are held in high regard by stakeholders.

**How will we achieve this?**

Our work further improving our customer engagement, such as investing in a new CRM system, and our work co-creating and learning from our stakeholders will ensure we continue to meet the standard.

**Case study: our customer contact approach**

We don’t produce any set scripts for our customer facing employees, thanks to our comprehensive training programme that gives staff the ownership and knowledge to deal with difficult and often complex customer queries immediately. This also improves our capacity to identify customers in vulnerable circumstances and resolve queries sensitively the first time. Our “Going the Extra Mile” ethos encapsulates this approach.

**7.4 Performance commitments for efficient retail services**

Providing consistently high levels of service is only part of the picture of delivering results for customers and the environment. We also need to ensure we deliver value for money. Controlling costs and providing an
efficient service is imperative for any business. More than this, efficient services deliver effortless services to customers and result in improved buy-in from communities. Section 8 and supporting document 8.3 provide evidence of our efficiency in providing retail services and our proposal for a robust and justifiable efficiency assessment at PR19.

We have consistently been assessed as operating at the efficient frontier of the water industry. At PR14, under an average cost-to-serve approach, Ofwat assessed Wessex Water as among the most efficient providers of retail services.

The costs of running our retail business are consistent each year, showing appropriate allocation of costs between price controls and consistent management practice.

Section 4 of supporting document 8.3 provides more information on our current performance and approach to managing voids and gap sites, evidence of our efficiency and our future proposals.

The following performance commitments focus on voids and gap sites.

<table>
<thead>
<tr>
<th>Performance commitment</th>
<th>Units</th>
<th>2020 forecast</th>
<th>2025 target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Void sites</td>
<td>% of properties</td>
<td>2.1%</td>
<td>2.0%</td>
</tr>
</tbody>
</table>

Why are we doing it?

We have always kept a keen focus on ensuring as many properties as possible connected to our water and sewerage systems are billed for services that are used, while not inefficiently expending large amounts of resource on chasing a small number of unbilled properties.

At PR19 Ofwat has challenged companies to improve their void performance. The voids performance commitment will incentivise us to further reduce the number of voids in our area.

What is the target?

We will achieve the industry upper quartile level of performance by 2020 and then maintain this.

Why have we chosen this target?

We currently operate just below the upper quartile for void performance based on industry data. We have compared our void performance to council tax data and we appear to perform comparatively or slightly better, though such conclusions are difficult to make between the different sectors. Nonetheless, Ofwat has challenged us to improve our void performance and we are responding now rather than waiting for 2020.

How will we achieve this?

Our proposed new billing system and the additional capabilities it provides will allow us to further reduce our voids, by using better data management, for example, and tracing gone away customers, as well as an improved ability to use external data.

<table>
<thead>
<tr>
<th>Performance commitment</th>
<th>Units</th>
<th>2020 forecast</th>
<th>2025 target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gap sites</td>
<td>Number of sites found</td>
<td>112</td>
<td>112</td>
</tr>
</tbody>
</table>

Why are we doing it?

We are committed to ensuring the company is aware of all customers connected to its water and sewerage networks, because this ensures water quality compliance and network management performance is maximised. We are then able to bill all customers that use our services.

The difficulty in setting a performance commitment for gap sites is the lack of evidence that there is a material number of properties connected to our systems that the company is unaware of.

- Our external liaison team is incentivised to find gap sites as part of their activities and
only a very small number are found each year.

- A few years ago we employed a specialist consultant to search for gap sites in our area. This was not value for money as nothing of any note was found.
- We routinely trace our network, looking for unconnected properties that are close to our network and send inspectors where we think there is a chance they are connected. This rarely leads to any positive finds.
- We believe the most appropriate type of performance commitment in this area is reputational. If we gain a reward we would have an incentive to not report newly connected properties within two years of being connected. Gaining a reward for not accurately reporting our data does not seem appropriate. If we gain a penalty, we would be dis-incentivised from reporting any gap sites as we would be financially worse off from the effort of finding such sites.

What is the target?

We already report the number of properties newly connected to our systems that are brought onto charge, varying by time. We propose to report the total number of properties that were connected more than two years before the current reporting year. This is the most appropriate proxy to use for reporting gap sites. Newly built properties will always be immediately recorded on our system, and so this captures properties that we reasonably should have brought onto charges before.

The five-year average number of properties brought onto charge that were connected over two years ago is 112 per annum. We propose this as the central value.

Why have we chosen this target?

We will continue to expend effort in this area as we have an incentive to ensure we know about all properties that are connected to our system. This target assumes a constant level of effort undertaken.

How will we achieve this?

Improving our ability to utilise data will potentially improve how we understand whether there are any properties in our area we don’t know about that are actually connected to our networks.

We strongly want to encourage others to adopt innovative approaches to finding gap sites in our region. We will be introducing a financial incentive scheme to incentivise third parties, including business retailers to find them.

7.5 Our retail vision

There is scope to improve and learn from other industries and to realise opportunities to shift the frontier. For example, PwC research into customer strategy and the principles that organisations must practice to be truly leading on customer service, identified three trends reshaping customer expectations and creating new opportunities:

1. technological breakthroughs
2. changing customer preferences and expectations
3. increasing competition and speed of change.

Our Strategic Direction Statement published in 2017 recognised the need for change and why we must stretch ourselves:

- there are areas where we can catch up with other industries to provide tailored services, utilising data to empower customers
- we can use our experience in providing market-based and collaborative solutions to provide meaningful improvements to our customers
- we can improve and do more in providing innovative products and services that improve customer service levels and create further efficiencies.

We currently provide high quality and low-cost retail services using traditional technology. However, to meet the challenges of the future we must:
We continue to provide great, affordable retail services, and continuously improve our core business offering, investing where appropriate.

- innovate to develop services and products that are market-leading, building on our reputation
- use new and existing markets to deliver better outcomes more efficiently
- help our customers and communities better manage their homes, businesses and lifestyles.

We believe our retail vision can break new ground for the water industry.

**Delivering inclusive and accessible services**

Our customer service vision is “every customer matters”. Our services will be inclusive and accessible to all our customers.

- We will continue to expand our communication channels so customers will have freedom to choose how they interact with us and we will always be there for them in the moments that matter.
- Our services will not be rationed because of affordability.

**Developing our partnership working to maximise our impact**

- We will create partnerships with other service providers to improve our customers’ welfare.
- We will further strengthen our affordability and vulnerability partnerships to assist even more of our customers.
- We will work with new partners to widen the service offering outside the water sector to offer greater saving opportunities to customers.

**Being an efficient provider**

We will be an efficient service provider, compared to other sectors as well as our peers.

This step-change in efficiency may only be delivered if we incorporate water retail into a wider service offering that uses new technology to make customers’ lives easier.

---

**Harnessing data to improve customer experience**

We will use data, analytics and interactions to empower customers to use our services wisely and to pay their bills in a timely way.

**7.6 How we will get there**

We have a range of plans designed to deliver our vision for retail and our overall vision. Amongst these is the adoption of a new billing system that will greatly enhance our retail services as a whole.

While we are at or near the frontier of efficiency in retail services in the water sector, we recognise that new technology will enable us to make savings as well as enrich the customer experience. We are therefore not making a claim for additional expenditure on information technology. We consider this will be the enabler for us to continue at the frontier of efficiency up to 2025.

**Further improvements to the Wessex Water customer experience**

Later this year we will launch our new energy switching service for customers. This will be free and will take the hassle out of making sure customers are signed up to the cheapest energy retailer. We intend to recycle any net commissions earned into our affordability work and we expect this service will help us engage more meaningfully with customers about water saving and reducing water bills. This is one example of looking more widely at how water retail can fit into a wider retail space.

Between 2020 and 2025 we also expect to:

- invest in a new billing system
- invest in a new operational CRM system that will deliver a single view of customer and support our vision of being the best customer service company across all sectors to all our customers. It allows us to manage our incidents and be pro-active in dealing with our customers. It brings contact history, customer feedback, live data and a view of what is happening in a customer’s area into one place, enabling
our call centre, scheduling teams and other customer-facing staff to deliver the vision.

• greatly enhance our online self-service capability, allowing customers much greater ability to interact with us through the internet. It will also collect more information to improve understanding of our customer base, tailoring the information we send or show them and allowing us to better chase debt

• expand the hours we are open. We believe our customers should have the freedom to call us when they choose. We plan to extend the hours of our call centre, and the times when Live Chat is available to facilitate this

• achieve the ICS ServiceMark for Pelican, to demonstrate commitment to excellent customer service across our retail service providers

• further expand direct take-up of payment by direct debit, which currently stands at more than 65% of our customers.

Case study: introducing the Wessex Water skill on Amazon’s Alexa

The popularity of conversational platforms such as Amazon’s Alexa device and Google Home continues to grow and we will be launching our own Wessex Water skill on Alexa this year. The first release will include a range of answers to help customers with common problems. Working with our customers, future versions will extend to include support for those receiving Priority Services.

Further improvements to how Wessex Water engages with customers

We are committed to:

• making greater use of behavioural approaches in bill and customer communications with the new billing and CRM systems, encouraging and ‘nudging’ our customers

• encouraging:
  - ‘can’t payers’ to take up our social tariffs and seek advice from ourselves and our partners
  - ‘won’t payers’ to pay their bills

• water efficiency and behaviour change in the use of our services and systems

• making it as easy as possible for our customers to access the services that are available to them. To this end, we are extending telephone sign-ups to social tariffs, direct debt and repayment schemes. The customer can therefore sign up over the phone as quickly and efficiently as possible

• segmenting our customer base and taking advantage of multiple data sources when making decisions on how we engage with customers, from deciding whether a customer can afford their bill or not, to assisting with vulnerability and social tariff advice

• using artificial intelligence and robotics. We will use new technology to expand further into channels such as WhatsApp and Facebook Messenger and increase our use of existing ones, such as Twitter, enabling customers to interact with us in whichever way they choose

• enhancing our in-house, outbound dialling capacity, to ensure vulnerable customers are contacted by our experts, for example, when chasing debt.

Case study: using behavioural science approaches to reduce home water usage

We’ve undertaken a trial using a digital service that enables customers to compare their usage with other similar households, helping them better understand their water use and encouraging repeat participation. We will be further expanding these approaches over the coming years.

Case study: using data to identify customers experiencing affordability problems

Since 2014 we regularly perform spatial analysis utilising the Indices of Multiple Deprivation among other datasets. We do this to identify where, at a granular level in our region, our social tariffs are over and under-subscribed relative to different levels of deprivation.
Using this analysis, we’ve worked with our debt advice partners to further incentivise their focus in areas of under subscription; undertaken specific work to increase take-up in under-subscribed areas; and shared learning and best practice from the top-performing areas.

**Our use of automation to drive efficiencies**

We will:

- automate renewal of our social tariffs, to save our customers time, effort and uncertainty
- invest to reduce manual processes
- make further enhancements to management information systems to allow more timely and informed decision-making.

**Working with partners**

We will:

- introduce a free multi-utilities tariff switching service to all our customers
- increase the scope of the trials we do with our partners in areas of our region where we can improve the penetration of our assistance
- develop an accredited agency scheme with our affordability partners
- consider the costs and benefits of sharing data with credit reference agencies, to improve the breadth of data we are able to base decisions on, and better incentivising customers to pay their bills on time.

**7.7 A new billing system**

A billing system that meets customer needs is essential for a successful retail business. We installed our current billing system 16 years ago and, while it does mainly provide the required functionality for how we have operated in the past, it does so in a disjointed and inefficient manner. Embedding change has proven to be challenging, so in summary:

- both our billing and debt management systems are approaching the end of their useful life; we need to act now to minimise the risk
- we need to invest in modern technology to drive further efficiencies and our vision for customer service.

**Benefits of a new billing system**

- A customer-centric billing system will be designed around the customer journey and experience, benefiting customer service and improving management information.
- We aim to achieve lower ongoing costs from the licence fees for a single system that manages all facets of billing.
- Lower change costs: a modern system will allow new ideas and technology to be implemented more cheaply and quickly.
- Management information. Greater opportunities to harness data will allow improved decision-making through the business.
- Improved data quality ensures accurate bills and reduced contacts, billing-related complaints and improved collections.
- Lower reliance on print mail. The opportunity to better run and track the impact of cost-saving and service-enhancing trials delivers efficiencies.
- Integrating and expanding data-driven decision-making into our billing system enables us to make better decisions.
- Better understanding of our own data and connecting it with third-party data gives us behavioural insights that enable us to vastly improve the profiling of our customers. We can use it to apply different strategies and tailor interactions eg. to promote prompt payment and social tariffs.
- Develop bespoke user interfaces for different staff to improve efficiency and customer service.
- Capitalise on the opportunity to integrate web-based services with the billing system, ensuring seamless customer processes and greater efficiencies.
8. SECURING COST EFFICIENCY
Section 8 Securing cost efficiency – summary

Our customers need to know they are getting good value for money and that we are being efficient. Efficiency requires effective service delivery as well as low expenditure. We have set ourselves stretching performance targets that will make us the best in the industry, and tough cost reduction targets that will keep us at the efficiency frontier.

We’ve found alternative ways to deliver better environmental outcomes that are more sustainable and lower carbon, prioritising them based on rigorous science. We have agreed these approaches with the Environment Agency and incorporated up-front savings of more than £100m into this plan.

We've set ourselves a demanding target for ongoing efficiency improvements, well in excess of the UK’s recent productivity growth. Some of this will be achieved by delivering environmental improvements in innovative ways.

We already deliver big projects effectively and efficiently. We are unique in the industry in having an in-house engineering and construction delivery team that reduces our reliance on major sub-contractors.

We use a separate company that has developed its own dynamic culture to deliver residential retail services. Pelican also provides services in competitive markets and through it we deliver high quality service to our customers at a low cost to serve.

As an industry, we need to keep pushing the boundaries, and so we assume the ‘frontier’ in the industry improves by 1% each year.

To do this, we will have to keep innovating, finding new ways of doing things more cheaply and/or more effectively.

Our open system business model will help us to champion disruptive ideas from within Wessex Water and beyond. This will enable us to capitalise on new technology to make further step-changes in cost reduction, in service improvement and, therefore, in efficiency.

Ofwat’s modelling of cost allowances can’t be expected to account for everything. So, as part of this business plan we are highlighting six areas and activities where adjustments may be required.

- The completion of our North Bristol sewerage scheme.
- The small size and large number of our water supply assets.
- Waste water capacity investment.
- Reducing leakage.
- Reducing pollutions.
- Minimising sewer flooding incidents and flooding risk.
In this section we explain how our proposals are efficient across wholesale water and waste water, water resources, bioresources and retail price controls and represent good value for customers. We also explain the rationale for our cost adjustment claims.

Section contents

8.1 Section introduction and summary
8.2 Assessing our current efficiency
8.3 Setting levels of catch-up efficiency
8.4 Assessing the scope for frontier shift
8.5 Forecasting changes in input prices
8.6 Estimating efficient costs for our new capital projects
8.7 Qualitative evidence of efficiency in capital delivery
8.8 Qualitative evidence of efficiency in retail
8.9 Cost adjustment claims
8.10 Transition programme

Where to find further information

Supporting information for various aspects of this section are provided as below.

<table>
<thead>
<tr>
<th>Ref.</th>
<th>Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>Supporting document 8.1</td>
<td>Input cost and frontier shift assumptions</td>
</tr>
<tr>
<td>Supporting document 8.2</td>
<td>Wholesale cost modelling and the calculation of catch-up</td>
</tr>
<tr>
<td>Supporting document 8.3</td>
<td>Residential retail expenditure</td>
</tr>
<tr>
<td>Supporting document 8.4</td>
<td>Cost adjustment claims covering letter</td>
</tr>
<tr>
<td>Supporting document 8.5</td>
<td>Claim WSX01 summary – North Bristol sewerage strategy</td>
</tr>
<tr>
<td>Supporting document 8.6</td>
<td>Claim WSX02 summary – Sewage treatment works capacity programme</td>
</tr>
<tr>
<td>Supporting document 8.7</td>
<td>Claim WSX03 summary – Number of non-infrastructure water supply assets</td>
</tr>
<tr>
<td>Supporting document 8.8</td>
<td>Claim WSX04 summary – Reducing leakage by a further 15%</td>
</tr>
<tr>
<td>Supporting document 8.9</td>
<td>Claim WSX05 summary – Flooding programme</td>
</tr>
<tr>
<td>Supporting document 8.10</td>
<td>Claim WSX06 summary – Pollution reduction strategy</td>
</tr>
<tr>
<td>Supporting document 8.11</td>
<td>Assessing the costs of our enhancement programme</td>
</tr>
</tbody>
</table>
8.1 Section introduction and summary

Our customers need to know they are getting good value for money. Efficiency is a function of service delivery as well as expenditure. Companies who are not delivering against their obligations may be low cost. They cannot, however, be judged to be efficient, nor do they necessarily represent good value for customers.

As part of the development of this business plan we have assessed our current level of efficiency compared to our peers. We’ve set stretching targets to catch up where we think there is evidence that others are more efficient so that by 2025 we will be a ‘frontier’ performer.

At more than 10%, we’ve embedded a challenging target for greater efficiency into our plan. This target is well in excess of the UK’s recent productivity growth, which has been flat for the last 10 years.

<table>
<thead>
<tr>
<th>Expenditure type</th>
<th>Current modelled cost performance</th>
<th>Current operational performance</th>
<th>Annual input costs</th>
<th>Annual frontier shift</th>
<th>2020 step-change</th>
<th>Final modelled cost performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Water - base</td>
<td>2nd quartile</td>
<td>Leading WaSC (CRI)</td>
<td>+3.0%</td>
<td>-1.0%</td>
<td>-8.9%</td>
<td>Upper quartile</td>
</tr>
<tr>
<td>Waste water - base</td>
<td>Frontier</td>
<td>Leading (EPA)</td>
<td>+3.0%</td>
<td>-1.0%</td>
<td>-</td>
<td>Frontier</td>
</tr>
<tr>
<td>Investment to enhance the environment and improve service</td>
<td>Upper quartile</td>
<td>100% of regulatory outputs met</td>
<td>+3.1%</td>
<td>-1.0%</td>
<td>-11.1%</td>
<td>Upper quartile</td>
</tr>
<tr>
<td>Retail</td>
<td>Upper quartile</td>
<td>Leading (SIM)</td>
<td>+2.5%</td>
<td>-0.5%</td>
<td>-</td>
<td>Frontier</td>
</tr>
<tr>
<td>Bad debt</td>
<td>Upper quartile</td>
<td>Leading (SIM)</td>
<td>+1.5%</td>
<td>-0.5%</td>
<td>-6.0%</td>
<td></td>
</tr>
<tr>
<td>Overall (weighted)</td>
<td>Upper quartile</td>
<td>Leading</td>
<td>+3.0%</td>
<td>-1.0%</td>
<td>-6.2%</td>
<td>Frontier</td>
</tr>
</tbody>
</table>

Change in costs due to efficiency: -10.7%
We have consulted with customers and set the outcomes we wish to, or are obliged to, achieve and we have considered a range of options in everything we do. In each case we’ve chosen the most cost-efficient method available to us to deliver these options. We have set ourselves challenging efficiency targets on enhancement, just as we have with base costs.

Our open system strategy, as described in section 6, will enable us to achieve our efficiency targets. The scope for savings is clearly uncertain, but if we are able to achieve greater savings than those assumed in our business plan these will be shared between investors and our customers.

We have worked alongside the Environment Agency throughout 2017 and 2018 to identify where we are able to take different approaches to deliver better outcomes at lower costs. This process has allowed us to incorporate more than £100m of savings into this plan.

8.2 Assessing our current efficiency

We’ve worked collaboratively with Reckon LLP and Economic Insight to develop a set of econometric benchmarking models covering our operating and maintenance costs in:

- water resources and treatment
- water distribution
- sewerage (sewage collection)
- sewerage treatment
- bioresources
- household retail.

The following principles and findings have informed our strategy for assessing cost-efficiency.

- The key to robust models is a set of appropriate explanatory variables.
- Regional wages are not found to be an intuitively sound, or statistically sound driver of cost.
- There are additional potential drivers of cost that may be overlooked in all price controls:
  - In wholesale, these additional potential drivers include the size of works and the associated economies of scale.
  - In household retail, these additional potential drivers include the type of housing stock, and population transience.
- When converting econometric results into efficiency challenges, the assumptions should be considered holistically and the resulting challenges sense-checked for appropriateness.
- Particular care is needed when defining the frontier, so that the results are not dependent on a single outlying company. The sensitivity of the results to different definitions of the frontier should be considered.
- Service quality should also be taken into account when setting the frontier, given it is difficult to incorporate such measures in the econometric modelling.
- Efficiency frontiers should generally be defined at the service level, not the individual activity level because of trade-offs between the activities that cannot be fully accounted for in explanatory factors.

Assessed at service level, our estimates of comparative efficiency are illustrated in figures 8-1 and 8-2 below.
Figure 8-1: Wholesale base operating costs efficiency assessment (2012-13 to 2016-17)

<table>
<thead>
<tr>
<th>Wastewater Environmental performance (EPA 2016)</th>
<th>4th quartile</th>
<th>3rd quartile</th>
<th>2nd quartile</th>
<th>1st quartile</th>
</tr>
</thead>
<tbody>
<tr>
<td>Leading</td>
<td></td>
<td></td>
<td></td>
<td>Wessex</td>
</tr>
<tr>
<td>Above average</td>
<td></td>
<td></td>
<td></td>
<td>Yorkshire</td>
</tr>
<tr>
<td>Average</td>
<td></td>
<td></td>
<td></td>
<td>S-Trent</td>
</tr>
</tbody>
</table>

Note that Welsh Water is not assessed against the EPA and is therefore not included in the analysis above but according to our analysis they are not in the 1st quartile for expenditure.

Key: = Frontier

Figure 8-2: Retail base operating costs efficiency assessment

<table>
<thead>
<tr>
<th>Retail Customer Service (SIM 2016-17)</th>
<th>4th quartile</th>
<th>3rd quartile</th>
<th>2nd quartile</th>
<th>1st quartile</th>
</tr>
</thead>
<tbody>
<tr>
<td>1st quartile</td>
<td></td>
<td></td>
<td></td>
<td>Northumbrian</td>
</tr>
<tr>
<td>UU</td>
<td></td>
<td></td>
<td></td>
<td>Anglian</td>
</tr>
<tr>
<td>2nd quartile</td>
<td>South East</td>
<td></td>
<td>S-Staffs</td>
<td>S-Trent</td>
</tr>
<tr>
<td>3rd quartile</td>
<td></td>
<td></td>
<td></td>
<td>Yorkshire</td>
</tr>
<tr>
<td>4th quartile</td>
<td>Southern</td>
<td></td>
<td>Thames</td>
<td>SES</td>
</tr>
</tbody>
</table>

When assessing the frontier level of efficiency, we exclude:
- companies who perform poorly in the key compliance measures
- very small companies.

In the wholesale areas we assess the benchmark to be the average of the frontier performers. For retail we have used Northumbrian as the frontier performer.
In retail we have also considered efficiency comparisons with other comparable sectors. The data available is limited. However, it does not suggest that there is an efficiency gap. Figure 8-3 is taken from analysis conducted for us by Economic Insight and compares our costs with those of energy retailers and mobile phone operators. More information can be found in supporting document 8.3, and Economic Insight’s full report is available as appendix 8.3.D.

Figure 8-3: Retail cost to serve

![Retail cost to serve chart]

Source: Economic Insight

8.3 Setting levels of catch-up efficiency

We set a benchmark expenditure level at the average of the frontier group of companies in wholesale.

No modelling approach is perfect, and so before we set a level of catch-up efficiency we also consider whether there are clear reasons why our models may give inaccurate results.

Our analysis suggests that they do not take sufficient account of the number of small assets in our water supply business. However, we are not able to create robust models that account for these factors due to data availability. Further details of this are included in our cost adjustment claim in supporting document 8.7 and its associated appendix 8.7.A.

Therefore, our gaps to the frontier in each case are as follows.
Table 8-2: Efficiency gaps

<table>
<thead>
<tr>
<th></th>
<th>Wholesale water</th>
<th>Wholesale waste water</th>
<th>Retail</th>
</tr>
</thead>
<tbody>
<tr>
<td>Initial gap to frontier</td>
<td>+15.1%</td>
<td>0%</td>
<td>+2.8%</td>
</tr>
<tr>
<td>Allowance for cost adjustment claims</td>
<td>(4.0%)</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>Final gap</td>
<td>+11.1%</td>
<td>0%</td>
<td>+2.8%</td>
</tr>
</tbody>
</table>

We have assumed that we should catch up in retail to the frontier performer. In wholesale water we have assumed that we will catch up to the level of an upper quartile performer throughout 2020 to 2025. This would mean we would be the only company in the first quartile for both cost and performance. Under this approach we would be considered the frontier performer. We have therefore applied a catch-up efficiency assumption as follows from 2020.

Table 8-3: Catch-up assumption

<table>
<thead>
<tr>
<th></th>
<th>Wholesale water</th>
<th>Wholesale waste water</th>
<th>Retail</th>
</tr>
</thead>
<tbody>
<tr>
<td>Catch-up</td>
<td>+8.9%</td>
<td>0%</td>
<td>+2.8%</td>
</tr>
</tbody>
</table>

Some approaches to modelling retail expenditure suggest that bad debt is the area where we lag behind the most efficient retail companies. We also recognise the general challenge for the industry on bad debt being high compared to other sectors of the economy. We have therefore assumed that we will focus our catch-up efficiency challenge in the area of bad debt. We have applied a 6% efficiency improvement from 2020.

Table 8-4: Retail catch-up

<table>
<thead>
<tr>
<th></th>
<th>Doubtful debt costs</th>
<th>Other retail costs</th>
<th>Total retail</th>
</tr>
</thead>
<tbody>
<tr>
<td>Catch-up</td>
<td>+6.0%</td>
<td>0%</td>
<td>+2.8%</td>
</tr>
</tbody>
</table>

8.4 Assessing the scope for frontier shift

As an industry we must continue to show how we are giving value for customers. It is important that, over and above any catch-up in efficiency applied, we set a challenging target for future productivity.

We have assumed a frontier shift of +1% in our business overall. That is 0.5% in retail and +1.0% in our wholesale business which is much larger in scale. There is strong evidence that the water sector outperformed productivity growth in the rest of the economy after privatisation and through the 1990s. More recently, the evidence is less clear. A 2017 study by Frontier Economics showed that UK productivity growth has been stagnant since 2007 and, under the same analysis, the water industry has likewise shown little productivity growth. We note, however, that during that time our largest investments have been in improving supply and waste water resilience which are difficult to factor into a traditional productivity
On balance, there is no evidence to suggest that the water industry should outperform productivity growth in the UK economy as a whole over the long-term. We commissioned Economic Insight to consider what level of productivity growth might be achievable in the water sector between 2020 and 2025. Their report to us is included within supporting document 8.1. We have also considered other recently-used estimates, and historical analysis of the UK economy.

### Table 8-5: Estimates of annual productivity growth (actual and forecast)

<table>
<thead>
<tr>
<th>Information source</th>
<th>Retail</th>
<th>Wholesale</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic Insight (for WSX)</td>
<td>+0.4%</td>
<td>+0.4%</td>
</tr>
<tr>
<td>Ofwat press release (2018)</td>
<td>n/a</td>
<td>+1.0% to +3.7%</td>
</tr>
<tr>
<td>KPMG (for Ofwat 2018)</td>
<td>0.8% - 1.8%</td>
<td>+0.4% to +1.2%</td>
</tr>
<tr>
<td>UK economy 2007-2015</td>
<td>-0.3%</td>
<td>-0.3%</td>
</tr>
<tr>
<td>UK economy 1999-2015</td>
<td>+0.4%</td>
<td>+0.4%</td>
</tr>
<tr>
<td>CMA - Bristol Water determination</td>
<td>n/a</td>
<td>+1.0%</td>
</tr>
<tr>
<td>Ofgem</td>
<td>n/a</td>
<td>+1.0%</td>
</tr>
<tr>
<td>Ofwat PR09</td>
<td>+0.3%</td>
<td>+0.4%</td>
</tr>
<tr>
<td>ORR (2007)</td>
<td>n/a</td>
<td>+0.7%</td>
</tr>
</tbody>
</table>

More recent regulatory precedent is c.1% a year, matching the very long-term rates achieved in the UK economy. However, the UK economy has not achieved any productivity growth since 2007 and growth averages 0.4% since 1998. The OBR revised down UK growth forecasts in November 2017 citing a significant downward revision to potential productivity growth in the UK economy. Our assumptions on frontier shift are, therefore, well in excess of recent growth in the UK economy. This is an acknowledgement that we need to show how privately-owned utilities can continue to deliver value to the UK consumer and contribute to wider UK productivity growth.

### 8.5 Forecasting changes in input prices

We commissioned Economic Insight to consider the likely level of input price increases that we should expect throughout the period 2020 - 2025. Further information is provided as part of supporting document 8.1 for wholesale and supporting document 8.3 for retail. Economic Insight’s full reports are provided in appendix 8.1.A and appendix 8.3.D.

### Table 8-6: Input price increases

<table>
<thead>
<tr>
<th>Expected increase in input prices per year</th>
<th>Retail</th>
<th>Water</th>
<th>Waste water</th>
</tr>
</thead>
<tbody>
<tr>
<td>Base costs</td>
<td>+2.0%</td>
<td>+3.0%</td>
<td>+3.0%</td>
</tr>
<tr>
<td>New assets</td>
<td>+2.0%</td>
<td>+3.1%</td>
<td>+3.1%</td>
</tr>
</tbody>
</table>

We have applied these estimates to our future cost projections. Broadly, this analysis is based on the values contained in table 8-7.
Table 8-7: Source of input price data by category

<table>
<thead>
<tr>
<th>Input cost</th>
<th>Annual change</th>
<th>Form of analysis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Labour</td>
<td>+2.4%</td>
<td>Modelled v GDP and UK wage growth</td>
</tr>
<tr>
<td>Power</td>
<td>+2.9%</td>
<td>Government forecast (BEIS - low growth scenario)</td>
</tr>
<tr>
<td>Chemicals</td>
<td>+3.3%</td>
<td>Modelled v GDP and oil prices</td>
</tr>
<tr>
<td>Capital expenditure</td>
<td>+3.1%</td>
<td>Using the average historical difference to CPI</td>
</tr>
</tbody>
</table>

8.6 Estimating efficient costs for our new capital projects

We set out in section 5 how, through intensive collaboration with the Environment Agency and Natural England, we have sought: to ensure that there is scientific evidence of the need for an environmental improvement; to always consider alternative ways of achieving similar objectives (such as catchment solutions rather than asset based solutions); and to challenge the timescales for delivery.

This process has reduced our projected total expenditure to enhance the environment and service to customers by more than £100m between 2015-20.

Accurate estimation of project costs, risks and project duration are essential because we need to:

- constantly assess that our delivery approach is getting the best value for money and ensure we maximise the utilisation of our resources
- accurately compare a range of no-build, low-build and construction options on a whole life totex basis to ensure the best value is delivered
- use the information to combine projects into programmes of work to deliver maximum efficiencies
- test the effectiveness of our framework contract prices to ensure they remain competitive.

The nature of the works dictates the basis of cost estimation as follows.

**Volume-driven activities**

We use unit rate comparisons from consultants as well as our framework rates.

This can also be compared against our historical out-turn costs for similar works, for which we have cost curves built from more than 10 years’ data.

**Individual projects**

We break each project down into its constituent parts and build bottom-up estimates. For this we use either market tested framework rates from our 1,100 individual frameworks which are competitively procured and regularly re-tendered or by obtaining project-specific tendered rates.

**All projects**

Every project is then reviewed technically and financially as part of our financial governance processes before the project can proceed to contract award and delivery. Projects greater than £2m in value require approval by the board. The financial and programme progress of each project is reviewed every month and reported to senior managers with corrective action taken if risks materialise or third-party delays require an escalation to the executive.

This standard process is applied to each project as business as usual and feeds straight into the estimation of the projects assessed for each business plan. However, further assessments of efficiency are carried out for business plan estimates. This is because projects are sometimes assessed prior to the completion of appraisal and outline design. This will then happen during
the price control in which the work is planned to be delivered.

These additional efficiency assessments include:

- site visits to confirm the exact scope of works and to determine any specific environmental, third-party, land or planning constraints that could affect a project cost or more likely the programme
- an assessment and risk-based prioritisation of maintenance works, using our risk management database to ensure we optimise the programme to address the highest risks to customer service, environment and asset health
- an assessment of options for delivering the outcome (eg. catchment-based solutions or the use of innovative technologies)
- an independent assessment by a cost consultant of the non-work rates applied to projects, such as project management and design fees
- the development of the programme and working method of delivery which defines the required supervision and preliminaries
- market testing of work item costs using four independent cost consultants, covering mechanical and electrical items from quotations, and civils work based on quantities of materials
- a review of the opex impacts of the delivery of new capital works, assessed using latest framework rates.

All this information is prepared using a comprehensive cost estimating sheet which generates the breakdown of the works by asset lifespan, as well as a project plan confirming the cost profile required to meet the output date. A central record is then compiled, with the appropriate taxonomy applied to allow the population of the totex business plan data tables.

Having developed the programme of works, we identified a small number of projects with early regulatory outputs or investigations that require set-up in 2019-20. Prior to inclusion in our plan, these projects have been scrutinised and their programmes challenged to minimise the amount of transition investment required.

A final series of scenarios has then been run to test the optimisation of the plan and the totex profile to ensure it provides the best opportunity to deliver the outcomes that customers require and within the defined regulatory dates.

8.7 Qualitative evidence of efficiency in capital delivery

Multi-faceted delivery model

We have been successful in delivering non-capital-intensive solutions.

However, where an asset solution is required we are unique in the industry in maintaining a sizeable in-house engineering and construction delivery team, Wessex Engineering & Construction Services (WECS), thus reducing our reliance on major sub-contractors.

Since formation in 2005, WECS has programme managed and delivered in excess of £2.5bn of complex infrastructure projects safely and within time, cost and quality requirements. It has also helped the company meet other objective criteria such as: SIM score; leakage targets; performance commitments; regulatory completion dates; and KPIs relating to safety, waste management, pollution avoidance and whole-life cost.

Efficient, high-quality delivery is paramount. More than 80% of the value of engineering and construction expenditure is competitively tendered by WECS, either through the supply chain or frameworks which leverage our position in the market or in our supplier/hub arrangements.

Recently benchmarked projects have demonstrated that WECS’ costs are more competitive than those obtained in the external market. This competitiveness is shown in supporting document 8.11 which summarises the external benchmarking exercise undertaken as part of this submission.
WECS as programme manager

Our in-house delivery function both programmes and project manages main contractors. This is done using the NEC form of contract, working to build-only designs separately procured through design consultants.

As programme manager, WECS’ role encompasses: concept, outline and detail design; planning approval, consents, land access and acquisition; site investigation; public, press and stakeholder consultation (including EA, DEFRA, DWI, English Nature); overall project management and coordination of design consultants and contractors.

Internal designs

In addition, an element of the programme is carried out by WECS using designs it has produced internally and then constructed using a mix of our own direct labour, labour-only subcontractors and tendered packages to smaller subcontractors and suppliers of process equipment.

Our design delivery model for WECS

Our approach brings greater rigour to ensuring we select the ‘optimum scope of works’ for capital investment and this guarantees Wessex Water’s customers’ needs are met in a cost-efficient manner.

The output is a jointly-prepared technical brief outlining the preferred solution, that is more explicit and descriptive of the investigations and services we seek from the consultant. This reduces ambiguity, de-risks the deliverable, and provides greater cost and outcome certainty to a solution that delivers best value.

Examples of how WECS has shaped efficiencies

Below are some examples of the benefits and influence that this relatively new capability has provided in shaping efficiencies.

Example 1: The 3 challenge process

The 3 challenge process is embedded within our delivery plans to promote challenge in day-to-day decisions and processes. It is applied at the very outset of a project to challenge the fundamental scope, and throughout a project to challenge specific issues.

It ensures we deliver the best value for our customers and aligns our standardised solutions with our company values and commitments. Where appropriate, challenges may be incorporated within the relevant Design Standards.

The process uses three considerations:

- meeting the need: Do we need to do it at all? If so, what solution delivers just enough?
- standard: Apply the standard where appropriate
- enhanced: Can an enhanced solution provide a beneficial whole life cost?

Example 2: Advanced procurement – visibility for the supply chain

WECS’ Early Procurement Initiative (EPI) identifies specific groups of equipment, materials and plant that can be bulk-procured, strategically and centrally. Its objectives are to:

- take the learning and benefits from early procurement from past projects and apply them at a programme level
- evaluate the benefits of advance procurement in preparation 2020-25
- be more resilient to market pressures
- ensure programme resilience and risk mitigation
- develop greater understanding for delivery in future years
- support the transition between price reviews.

EPI has led to bulk-procuring sewage works inlet screens, ready-mixed concrete and plastic pipes and packaged ferric dosing units.
Case study: Cured In-Place Pipeline (CIPP) team

We have the only bespoke CIPP rehabilitation team amongst the WaSCs and take a lead on advising others on standards and techniques.

The CIPP team is internationally recognised for excellence and won the International Society of Trenchless Technologies World Innovation Award in Rome 2007 and Toronto 2009.

More recently, the team instigated the first Styrene Protocol on behalf of WaterUK and won the sector award from ROSPA in 2017.

Maintaining a dedicated CIPP team has delivered the following benefits:

- £8-10m is saved annually by avoiding open-cut techniques (individual schemes have seen savings of more than £2m)
- 95% reduction in carbon footprint compared to open-cut avoiding 230,000 tonnes of exported muck and imported bedding per year (equivalent of 20,000 fewer lorry movements on our roads)

Furthermore, the dedicated team has fostered an attitude of research and development which has led to the following innovations.

The MAC extensometer: for non-destructive testing of tunnel linings in order to establish structural capacity and longevity. The system is undertaken in conjunction with geological investigations and sample crushing of tunnel lining cores to establish a finite element analysis of the tunnel.

CIPP lining for rising mains: Pressurised rising mains normally require replacement when they are at or near end of life condition. Lining of pipes subjected to fluctuations of pressure has not, until now, been technically possible. However, we have recently completed the first rising main liner:

400mm in diameter, 120m long and designed to the new international standard. This innovation avoided replacing the pipe which would have been significantly more expensive.

Re-rounding robotics: Sewers beyond 10% deformation require re-rounding prior to lining. As there were no known devices worldwide that could restore a pipe’s circularity where it had substantially deformed for long enough to enable a permanent liner to be inserted and cured, the team designed and developed its own re-rounding and temporary lining robot, bringing significant efficiency savings.

8.8 Qualitative evidence of efficiency in retail

In this section we present evidence regarding the cost management and efficient practices of our separated retail business, Pelican Business Services. We
provide case studies and examples of where we generate efficiencies and remove cost from our business. Pelican benchmarks against external data sources on a regular basis. We provide more information in supporting document 8.3.

**Debt collection**

While our household debt collection rate of 97% is good for the water industry it can be improved. That is why we are investing in new systems, processes and technology up to 2025.

We are part of a benchmarking forum in the utilities sector and also attend the water industry’s Debt Strategy Network forum to understand how our processes and performance compare to others.

**Collecting gone-away debt**

A large proportion of uncollected debt occurs when the customer moves property and fails to pay the balance on their account. In the past, Pelican has used specialist debt collection agencies. The collections from this activity have often been modest and liable for significant collection payments.

By using a Bulk Trace solution, Pelican is able to trace large volumes of customers on a monthly basis with a typical match rate of 65%.

This approach currently provides address details for £750k-£1m of debt per annum, which would otherwise have largely gone uncollected.

**Customer service**

We are critically aware of the need to balance efficiency in customer service with high service levels. The focus of the customer service department is to be best in class – not just in the water sector. For example, the ‘warm voice’ answering of calls has long been part of our USP.

The following are examples of how we deliver an efficient service without sacrificing high service levels.

- We multi-skill many back-office functions in order for these colleagues to move to a frontline position in times of high call volumes.
- Customers have the option of calling automated payment lines or using our online e-billing service.
- We provide a wide range of channel choices to customers: phone, email, web-based live contact, e-billing, automated payment lines and post.
- Shift patterns have been adapted to meet a dynamic mix of calls, web-based contact and emails. The contact centre now operates a rolling eight-week shift pattern, which is the most efficient from a staff management perspective.

**Case study: Gaining value for money from the print mail contract**

Pelican has worked with its current print mail supplier for a number of years and benefited from developing a strong working relationship, from the proximity of the two companies’ head offices, and from well-established business rules.

While Pelican has consistently negotiated a degree of cost savings at each contract renewal, a full benchmarking exercise had previously been avoided, due to the transition cost of moving to a new supplier.

While the risks of moving to a new supplier still existed, Pelican conducted a benchmarking exercise to validate whether the price offered by the supplier was competitive. The outcome of the exercise was that Pelican could realise greater savings elsewhere, albeit by incurring some upfront costs.

Instead it used the benchmarking data to negotiate and was able to agree a significantly improved deal saving 27% of the previous print cost.
8.9 Cost adjustment claims

Ofwat’s methodology allows us to identify where their approach to cost assessment may not adequately remunerate us for the necessary investment and to make a cost adjustment claim.

Some of these are regional differences – a result of historical development, geography, geology or topography. Others are things that we need to do over and above the norm – investments that are critical to us meeting our performance commitments but not accounted for in our business as usual expenditure.

We are making six claims.

<table>
<thead>
<tr>
<th>Claim</th>
<th>Capex (£m)</th>
<th>Opex (£m)</th>
<th>Associated ODIs</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Completion of North Bristol Sewerage Strategy (Trym tunnel)</td>
<td>47.2</td>
<td>0</td>
<td>Trym tunnel</td>
</tr>
<tr>
<td>2. Sewage treatment works capacity programme</td>
<td>60.0</td>
<td>1.1</td>
<td>Treatment works compliance</td>
</tr>
<tr>
<td>3. Small size and number of water supply assets</td>
<td>42.0</td>
<td>0</td>
<td>CRI</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>ERI</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Unplanned outage</td>
</tr>
<tr>
<td>4. Reduce leakage</td>
<td>19.8</td>
<td>5.5</td>
<td>Leakage</td>
</tr>
<tr>
<td>5. Reduce pollutions</td>
<td>23.8</td>
<td>4.1</td>
<td>Pollutions</td>
</tr>
<tr>
<td>6. Minimise sewer flooding incidents and flooding risk</td>
<td>80.0</td>
<td>6.8</td>
<td>Internal flooding</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>External flooding</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Sewer flooding risk grid</td>
</tr>
</tbody>
</table>

Number 1 relates to the completion of the North Bristol sewerage strategy that was agreed as a special cost factor claim at PR14 and as an overlap programme that would continue into PR19.

Numbers 2 and 3 relate to areas where, based on our current understanding, we believe it is unlikely that the cost models will finance our efficient functions.

These are:

- the scope of our sewage treatment works capacity programme
- the number of assets in our water supply business and their relatively small size.

Numbers 4, 5 and 6 are claims for additional costs related to enhanced service levels. We’ve limited these claims to areas where we consider we are already at or near the frontier of performance in the industry. Each of the three is a part of our delivery of the common performance commitments. We are seeking, with customer support, to further improve the industry frontier. However, we are claiming only for the incremental costs of further improvement, not for the embedded, ongoing costs of delivering frontier levels of performance.

We have identified the full amount of expenditure for enhancement projects and not sought to estimate the value that may be implicitly allowed in Ofwat’s models as we have no visibility of how they might work.

In assessing our claims, wherever possible, we’ve sought to benchmark our costs to ensure that they are as efficient as possible, and it is therefore only un-modelled costs that we are seeking to gain an allowance.
for, not inefficiency. We’ve also considered different delivery options to ensure that our business plan represents the best value for our customers.

We have also proposed outcome delivery incentives to ensure that customers are protected if we do not successfully deliver them.

Our measured approach to cost adjustment claims assumes that, where cost increases compared to the historical values that are common across the industry (in EA charges and in cyber security for example), these values are accommodated elsewhere in the cost assessment framework.

Full details of our six claims can be found in supporting document 8.4 to supporting document 8.10.

8.10 Transition Programme

We have set out in supporting document 5.1 our proposals for expenditure in 2019-20 that will allow us to efficiently deliver our statutory environmental obligations by the required dates.

£20m is included in the waste water network plus control, with £0.6m required in water resources to undertake investigations that need a number of years’ data to complete. These are investments that were not known at the time of PR14.

The investment during 2019-20 will not have any impact on our PR14 performance commitments and in particular will generate no outperformance payments against measure B3: River water quality improved or any other measure.
9. ALIGNING RISK AND RETURN
This business plan will provide excellent and resilient services to our customers. To do this we need to ensure that:

- we always have robust access to capital markets at reasonable costs
- our existing investors are willing to accept the returns our plan delivers.

When viewed as a package our proposals give us the opportunity to deliver reasonable value to investors over the next five years commensurate with the risks faced.

We propose an ‘uncertainty mechanism’ that will protect customers in the event that the final environmental requirements agreed with regulators in 2021 are materially different to the level in our plan. We don’t at this stage propose any further uncertainty mechanisms.

Our financial structure is simple and transparent. We expect our gearing to continue to be higher than Ofwat’s notional gearing assumption but within its deadband at around 68%.

We are not proposing a sharing mechanism for any embedded debt outperformance in this business plan as this would cut across our own sharing proposals described in section 3.

Our owner has demonstrated its own commitment to long-term investment and growth in the UK, accepting that dividends will fall up to 2025 even though the scale of the investment over the same period will be increasing.

We have updated the principles by which our executives are rewarded to make it clearer that bonuses are paid primarily according to their success in delivering for customers and the environment.

We have updated our dividend policy to make it clearer how delivery for customers, the environment and the fair interests of employees are considered. We will explain each year how these factors have been taken into account.

We adopt a straightforward approach to tax. We have a good relationship with HMRC and have always had a low risk rating, indicating a good level of trust and transparency in our tax affairs. Our approach continues to be simple and transparent as documented in our tax strategy included as supporting document 9.5.

We have assessed the risks and mitigations in place on the delivery of this plan. We consider that they are broadly in balance. Our good history of delivery is balanced by the challenging efficiency and performance targets we are setting as described in sections 3 and 8 of this document.

Based on our scenario modelling we assess our overall RORE range to be broadly in balance at +/- 3.4% on Ofwat’s notional gearing structure.

On a like-for-like basis this range is c.2.5% wider than that assumed for the current five-year period. This reflects the greater opportunity for payments and penalties for service performance we are proposing in this plan.

### RORE Range

<table>
<thead>
<tr>
<th>P10 Water Trading</th>
<th>P10 OOs</th>
<th>P10 Toses</th>
<th>P10 Financing impact</th>
<th>P10 OOs</th>
<th>P10 Toses</th>
<th>P10 Financing impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>4.0%</td>
<td>3.0%</td>
<td>2.0%</td>
<td>1.0%</td>
<td>0.0%</td>
<td>-1.0%</td>
<td>-2.0%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
In this section we demonstrate how we have assessed the appropriate balance of risk and reward for our investors.

**Section contents**

9.1 Section introduction – overall balance of risk and return  
9.2 Our macroeconomic assumptions  
9.3 The cost of capital  
9.4 Modelling assumptions  
9.5 Our approach to risk mitigation and our range of equity returns (RORE)  
9.6 Revenue adjustments  
9.7 Embedded debt outperformance  
9.8 Dividend policy  
9.9 Remuneration for Executive Directors  
9.10 Uncertainty mechanisms  
9.11 Taxation  
9.12 Revenue and bill smoothing

**Where to find further information**

Supporting information for various aspects of this section are provided as below:

<table>
<thead>
<tr>
<th>Ref.</th>
<th>Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>Supporting document 9.1</td>
<td>Financial model</td>
</tr>
<tr>
<td>Supporting document 9.2</td>
<td>Range of return on regulated equity (RORE)</td>
</tr>
<tr>
<td>Supporting document 9.3</td>
<td>Risk governance and process</td>
</tr>
<tr>
<td>Supporting document 9.4</td>
<td>Uncertainty mechanism for unconfirmed WINEP requirements</td>
</tr>
<tr>
<td>Supporting document 9.5</td>
<td>Tax strategy</td>
</tr>
</tbody>
</table>
9.1 Section introduction - overall balance of risk and return

When viewed as a package our proposals give us the opportunity to deliver reasonable value to investors over the next five years, commensurate with the risks faced, while at the same time maintaining a strong investment grade credit rating.

The equity value generated is distributed and accrued through:

- a base dividend assumption
- growth in our capital value
- reasonable opportunity to generate additional returns if we are able to outperform the stretching efficiency and performance targets in this plan.

The tables below show the financial consequences of our plan on our cashflows, income statement and regulatory capital value.

The financial statements shown are created from the company’s own financial model rather than directly from the completed Ofwat revenue model which is also a part of this submission. This is because there are minor differences in accounting treatment in the two models, largely related to income from developers.

**Table 9-1: Income statement**

<table>
<thead>
<tr>
<th>Income statement (at out-turn values)</th>
<th>2020-21 (£m)</th>
<th>2021-22 (£m)</th>
<th>2022-23 (£m)</th>
<th>2023-24 (£m)</th>
<th>2024-25 (£m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turnover</td>
<td>513</td>
<td>537</td>
<td>561</td>
<td>585</td>
<td>605</td>
</tr>
<tr>
<td>Opex</td>
<td>-192</td>
<td>-200</td>
<td>-208</td>
<td>-217</td>
<td>-226</td>
</tr>
<tr>
<td>IRE (repairs)</td>
<td>-24</td>
<td>-25</td>
<td>-27</td>
<td>-26</td>
<td>-26</td>
</tr>
<tr>
<td>EBITDA</td>
<td>296</td>
<td>312</td>
<td>327</td>
<td>342</td>
<td>353</td>
</tr>
<tr>
<td>Depreciation</td>
<td>-117</td>
<td>-120</td>
<td>-122</td>
<td>-125</td>
<td>-128</td>
</tr>
<tr>
<td>EBIT</td>
<td>180</td>
<td>192</td>
<td>204</td>
<td>217</td>
<td>225</td>
</tr>
<tr>
<td>Interest</td>
<td>-98</td>
<td>-103</td>
<td>-108</td>
<td>-111</td>
<td>-115</td>
</tr>
<tr>
<td>PBT</td>
<td>82</td>
<td>89</td>
<td>96</td>
<td>106</td>
<td>110</td>
</tr>
<tr>
<td>Current tax</td>
<td>-9</td>
<td>-7</td>
<td>-7</td>
<td>-7</td>
<td>-8</td>
</tr>
<tr>
<td>Deferred tax</td>
<td>-6</td>
<td>-9</td>
<td>-11</td>
<td>-12</td>
<td>-12</td>
</tr>
<tr>
<td>PAT</td>
<td>66</td>
<td>73</td>
<td>79</td>
<td>87</td>
<td>90</td>
</tr>
<tr>
<td>Dividends</td>
<td>-30</td>
<td>-30</td>
<td>-31</td>
<td>-32</td>
<td>-32</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>36</td>
<td>43</td>
<td>47</td>
<td>55</td>
<td>58</td>
</tr>
</tbody>
</table>
Table 9-2: Cashflow statement

<table>
<thead>
<tr>
<th></th>
<th>2020-21 (£m)</th>
<th>2021-22 (£m)</th>
<th>2022-23 (£m)</th>
<th>2023-24 (£m)</th>
<th>2024-25 (£m)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>EBITDA</strong></td>
<td>296</td>
<td>312</td>
<td>327</td>
<td>342</td>
<td>353</td>
</tr>
<tr>
<td><strong>Capex (excluding IRE repairs)</strong></td>
<td>-303</td>
<td>-275</td>
<td>-298</td>
<td>-275</td>
<td>-251</td>
</tr>
<tr>
<td><strong>Working capital</strong></td>
<td>25</td>
<td>-12</td>
<td>-3</td>
<td>-11</td>
<td>-10</td>
</tr>
<tr>
<td><strong>Operating cashflow</strong></td>
<td>18</td>
<td>25</td>
<td>26</td>
<td>56</td>
<td>92</td>
</tr>
<tr>
<td><strong>Pension payment</strong></td>
<td>-12</td>
<td>-12</td>
<td>-13</td>
<td>-13</td>
<td>-13</td>
</tr>
<tr>
<td><strong>Interest paid</strong></td>
<td>-72</td>
<td>-83</td>
<td>-82</td>
<td>-87</td>
<td>-91</td>
</tr>
<tr>
<td><strong>Tax paid</strong></td>
<td>-9</td>
<td>-7</td>
<td>-7</td>
<td>-7</td>
<td>-8</td>
</tr>
<tr>
<td><strong>Dividends paid</strong></td>
<td>-44</td>
<td>-30</td>
<td>-31</td>
<td>-32</td>
<td>-32</td>
</tr>
<tr>
<td><strong>Net cash outflow</strong></td>
<td>-118</td>
<td>-108</td>
<td>-106</td>
<td>-83</td>
<td>-52</td>
</tr>
<tr>
<td><strong>Accruals</strong></td>
<td>-24</td>
<td>-25</td>
<td>-25</td>
<td>-24</td>
<td>-24</td>
</tr>
<tr>
<td><strong>Gross cash outflow</strong></td>
<td>-142</td>
<td>-132</td>
<td>-131</td>
<td>-107</td>
<td>-76</td>
</tr>
<tr>
<td><strong>Opening debt</strong></td>
<td>-2184</td>
<td>-2326</td>
<td>-2458</td>
<td>-2590</td>
<td>-2696</td>
</tr>
<tr>
<td><strong>Closing debt</strong></td>
<td>-2326</td>
<td>-2458</td>
<td>-2590</td>
<td>-2696</td>
<td>-2772</td>
</tr>
<tr>
<td><strong>Closing RCV (Ofwat)</strong></td>
<td>3432</td>
<td>3617</td>
<td>3812</td>
<td>3979</td>
<td>4119</td>
</tr>
<tr>
<td><strong>Gearing (Ofwat)</strong></td>
<td>67.8%</td>
<td>68.0%</td>
<td>67.9%</td>
<td>67.8%</td>
<td>67.3%</td>
</tr>
</tbody>
</table>

9.2 Our macroeconomic assumptions

Our plan is necessarily underpinned by some base assumptions on the wider macroeconomy. These are broadly in line with forward forecasts from the Office for Budget Responsibility (OBR) where available. These figures suggest a recovery in performance, although in recent years the OBR has tended to progressively push back the date at which this occurs.

There remains some uncertainty in this assessment, so it is possible that low growth and low productivity will continue. The OBR also notes that labour productivity growth rates come with some caveats and may be driven by a reduction in hours worked.

Table 9-3: Macroeconomic assumptions

<table>
<thead>
<tr>
<th></th>
<th>2020-21</th>
<th>2021-22</th>
<th>2022-23</th>
<th>2023-24</th>
<th>2024-25</th>
</tr>
</thead>
<tbody>
<tr>
<td>RPI</td>
<td>3.0%</td>
<td>3.0%</td>
<td>3.0%</td>
<td>3.0%</td>
<td>3.0%</td>
</tr>
<tr>
<td>CPIH</td>
<td>2.0%</td>
<td>2.0%</td>
<td>2.0%</td>
<td>2.0%</td>
<td>2.0%</td>
</tr>
<tr>
<td>Average earnings growth</td>
<td>2.6%</td>
<td>2.8%</td>
<td>3.0%</td>
<td>3.0%</td>
<td>3.0%</td>
</tr>
<tr>
<td>Productivity growth (labour)</td>
<td>1.0%</td>
<td>1.0%</td>
<td>1.0%</td>
<td>1.0%</td>
<td>1.0%</td>
</tr>
<tr>
<td>Base rates</td>
<td>1.0%</td>
<td>1.5%</td>
<td>2.0%</td>
<td>2.25%</td>
<td>2.5%</td>
</tr>
<tr>
<td>LIBOR (6 months)</td>
<td>1.25%</td>
<td>1.75%</td>
<td>2.25%</td>
<td>2.5%</td>
<td>2.75%</td>
</tr>
</tbody>
</table>
9.3 The cost of capital

Ofwat’s duty to ensure water companies can finance their functions has, to date, been fulfilled primarily through the calculation of an allowed weighted average cost of capital (WACC).

This business plan will provide excellent and resilient services to our customers. To do this we need to ensure that:

- we always have robust access to capital markets at reasonable costs
- our existing investors are willing to accept the returns our plan delivers.

We believe that is the case. We do not believe, therefore, that we need to undertake a detailed analysis and critique of a CAPM model or any other such approach to calculating the WACC.

The calculation of the WACC has been the subject of much academic and regulatory debate over the decades. Even under the generally favoured method of CAPM there are ongoing debates about how the component parts should be estimated: the total market equity return; the risk-free rate; the asset beta that reflects the relative risk of the asset in question compared to the market, and so on.

Much of the recent debate has centred on what time period should be used to derive a forward-looking allowance for the cost of equity and how much weight should be placed on more recent evidence.

We note that recent contributions on the subject have calculated or implied a wide range for the cost of equity for a UK water company. The table below shows our view of how these different studies and regulatory statements could be interpreted for the setting of a cost of equity.

<table>
<thead>
<tr>
<th>Table 9-4 Views on the cost of equity</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total equity market return (real RPI)</strong></td>
</tr>
<tr>
<td>Ofwat PR19 – early view</td>
</tr>
<tr>
<td>Ofcom</td>
</tr>
<tr>
<td>Ofgem</td>
</tr>
<tr>
<td>UK Regulators’ Network</td>
</tr>
<tr>
<td>Oxera</td>
</tr>
<tr>
<td>Irish Commission for Regulated Utilities2</td>
</tr>
</tbody>
</table>

---

2Figures converted to RPI basis from HCIP assuming 1% wedge. Cost of equity assumes 60% gearing as per Ofwat assumption. At 45% gearing the value is 4.9%. In December 2017 the CRU signalled that it may use this WACC in its extension of price controls up to 2019.
When we responded to Ofwat’s indicative calculation (published in July 2017) we were clear in our view. We considered that, for the long-term health and resilience of the industry, greater weight should be placed on approaches that consider the cost of equity over the long term.

As a sector we also need to take a coherent and consistent view on all the economic assumptions. It would be wrong to take a shorter-term analysis on the cost of equity without recognising other macro-economic impacts such as the recent stagnation in UK productivity. And we note that Ofwat’s approach to funding pension deficits in 2009, carried forward into its PR19 methodology, expected that markets would play their part in closing the funding gaps.

9.4 Modelling assumptions

Our modelled values for wholesale WACC, retail margins and pension deficit recovery

Ofwat published its early view on the cost of capital in December 2017. This was, in part, so we could engage with customers consistently on the likely path of bills in advance of finalising our plans, which we have done. Alongside this, it has created incentives (both financial and reputational) for us to use this estimate in our final plans.

Since Ofwat’s December 2017 publication some analysts, including both Moody’s and Fitch have evidenced that the sector has become less stable and predictable. From Ofwat’s credible range published in December 2017 we have therefore taken 2.6% (on a post-tax, RPI basis) to calculate the cashflows that accrue from the RCV. We have used this value in each of the wholesale price controls.

We have, in addition, applied a margin (pre-tax) of 1% to our retail household business. For more information on the calculation of the retail margin see supporting document 8.3 and the associated appendix 8.3.E.

In total these values are at the upper end of the plausible range proposed by Ofwat at the appointee level in December 2017 (2.2%-2.6%) and allow for a further uplift for a plan which is exceptional and stretching. In the event that Ofwat considers our plan to be in this category and eligible for an incentive payment we will therefore have already tested its acceptability with customers.

Ofwat has also created incentives for companies to retain the funding assumption for pension deficits agreed in 2009. This is what we have done in calculating our allowed revenues, but it should be noted that this is not consistent with our current agreement with the pension trustees. Our cashflow statement above therefore reflects our actual payments rather than the values funded through customers’ bills.

The values we have used in our modelling are consistent with the values we have used when engaging with our customers about future bills and service levels.

Our proposals, when viewed as a package, give us the opportunity to deliver reasonable value to investors over the next five years.

9.5 Our approach to risk mitigation and the range of potential equity returns (RoRE)

Risk governance and process

Our processes are designed to respond flexibly to a changing risk environment so that the appropriate controls and mitigations are put in place.

The responsibility for risk management rests with the board which is supported by a predictability of the regulatory regime, and Fitch press release, “Fitch Revises Outlook on 3 UK Water Holding Companies to Negative”, 5th July 2018

---

3 See Moody’s, May 2018, Regulated water utilities – UK: Regulator’s proposals undermine the stability and...
senior management risk & resilience management group (RMG). This group coordinates the risk assessment and mitigation, resilience and business continuity arrangements. Assurance of the process is performed by the company Audit and Risk committee which is made up of all the independent non-executive directors.

Tactical risks are aggregated into the corporate risk register coordinated by the RMG, and each risk is assigned an owner from within the board executive. At any one time there tends to be between 80 and 100 individual risks.

The effectiveness of each mitigation is regularly assessed against a five-point scale. If mitigations are deemed ‘very low’ or ‘low’ effectiveness actions to improve the effectiveness are required and the risk scores are reviewed.

Significant risks are assigned an appropriate tolerance level. The tolerance level is based on likelihood where if the likelihood increases beyond the stated tolerance level, the risk is deemed ‘out of tolerance’. In such cases, the risk is escalated by the RMG through the executive to the Board.

We use the corporate risk register, and the scorings of impact and likelihood to make regular assessments of financial resilience as discussed in section 10.

More details on our risk governance arrangements and mitigations are included in supporting document 9.3.

Our RORE range is +3.4% to -3.4%

Figure 9-1: Range of Return on Regulated Equity (RORE)

For comparability this range is expressed as a variation around the notional gearing structure of 60%. Our RORE assessment is underpinned by the ongoing risk assessment described above. We take into account the mitigations and sharing arrangements inherent in the regulatory framework as set-out in the PR19 methodology and assume any future regulatory mechanisms and incentives that are introduced are not skewed in either direction. We also draw on our historical performance to assess RORE and so the range reflects the levels of risk mitigation that we already have in place.

We have applied different assumptions based on the types of expenditure in our plan, drawing on our historical performance and on our efficiency analysis. For totex our ongoing risk mitigations include:

- pay deals linked to the regulatory price index
- strong budgetary control
- a focus on innovation in particular on finding new approaches to delivering environmental improvements
- integrated tactical investment planning that can identify where single investments can deliver multiple outcomes
• an in-house construction capability that mitigates against short-term fluctuations in labour availability
• remuneration targets linked to totex performance
• a focus on high levels of operational performance that mitigate risks of prosecution or regulatory enforcement action.

On ODI performance our analysis is based on Monte Carlo scenario modelling rather than the additive approach used in previous price controls. On a like-for-like basis our quoted range for ODIs would be c.1.5% higher in each direction than the values in figure 9-1.

Our risk mitigations include:
• an integrated investment and risk management team that assesses ODI performance alongside investment requirements
• an engaged workforce that is able to go the extra mile for customers and a strong culture that promotes excellence and high levels of service
• clear ownership for delivery and remuneration arrangements that promote the delivery of performance commitments
• monthly review and challenge of performance by the executive and senior management teams, challenge from board and our customer challenge group.

On financing our mitigations include:
• keeping a significant proportion of instruments at fixed, floating and index-linked rates
• maintaining good relationships with bond markets and credit rating agencies
• continuing to operate within prudent financial parameters, and a flexible dividend policy.

At the P90 level we allow for potential additional equity return through water traded with neighbouring companies who have identified the need for additional resources in future. We are exploring these opportunities in the light of published Water Resource Management Plans and have published a bulk water trading and procurement code that complies with Ofwat’s updated guidance.

As evidenced in section 8, our current levels of service performance in the key measures are comparatively high and we assess our efficiency to be upper quartile. Despite this our forward looking RORE range is assessed to be broadly in balance. This is because of the stretching nature of the future efficiency and targets that we have applied and the stretching performance commitments.

For further information on how we have analysed our RORE range see supporting document 9.2.

9.6 Revenue adjustments

Measures to adjust allowed revenues for higher gearing

Our business plan implies a gearing level of 67%-68% which is above Ofwat’s notional gearing assumption, but below 70% which Ofwat has concluded is the level that would trigger the need for an adjustment. Our business plan passes the tax benefit – ie, the additional debt shield compared to the notional gearing assumption of 60% – in its entirety to customers in the form of lower bills and we do not propose any further revenue adjustment mechanism below the 70% threshold.

It is the board’s firm intent that regulatory gearing will not exceed 70%, as articulated in an updated dividend policy for the 2020 to 2025 period. We recognise that for due process Ofwat is likely to require a mechanism in place in the very unlikely event that this policy changes and gearing does increase above the threshold. We are content for this mechanism to be as described in Ofwat’s document “Putting the sector back in balance” published in 2018.
9.7 Embedded debt outperformance

**Sharing the benefits of embedded debt outperformance**

We have carefully considered Ofwat’s suggestion that companies share the benefits of any embedded debt outperformance. We are not proposing a formal sharing mechanism in this plan.

Our plan incorporates our actual embedded debt costs in its financial projections. Our assessment of our financial resilience incorporates the costs of our existing stock of debt. Our analysis implies that revenues and bills are therefore already set at a level which passes these benefits to customers.

We also agree with Ofwat that a formal mechanism may lessen the incentives for us to manage financing risks and the board is concerned about the potential erosion of incentive-based regulation.

A formal mechanism to share embedded debt costs would also cut across our own proposals to more transparently share any future outperformance payments with the community.

Our Wessex Community Foundation proposal is specifically designed to mitigate some customers’ concerns about incentive payments for performance being used to increase dividends. As a simple 20% of a number published by an independent regulator it is clear and transparent. It will also help to improve resilience in the long term, for instance by funding schemes that improve household financial skills and widen the future pool of skilled labour we can draw from. We provide further details in supporting document 3.6.

Customers meanwhile have not told us of any concerns about embedded debt, and any mechanism to calculate the value would be complex, requiring consideration of the impacts of floating and fixed, indexed and non-indexed debt. It is unlikely therefore to increase customer trust. That being the case, greater value is gained from our own sharing proposals.

9.8 Dividend policy

Boards need to continue to be fully accountable for dividends and dividend policy. Dividends will continue to be calculated on a bottom-up basis, taking account of all available information. We should avoid any perception that investors could be prevented by regulators from benefiting fully from upsides while always suffering all the downsides as this will increase costs in the long term for customers.

This plan assumes a dividend yield of c.2.7% which is broadly consistent with Ofwat’s assumptions at PR14 where 70% of the real equity return was assumed to be distributed as dividend. The board has also updated its dividend policy for the period 2020 to 2025.

The board’s dividend policy is to be as follows:

*The board recognises the great responsibility and opportunity the company has been afforded in providing such an essential public service. The water industry is fundamental to the health and wellbeing of its citizens, its environment and its economy, and we plan on the basis of stewardship in perpetuity. The company dividend policy has been set as part of an agreed long-term plan. This plan includes detailed commitments and investment requirements up to 2025. The company will pay dividends between 2020 and 2025:*

- consistent with prudent management of the economic risk of the business, in particular by keeping regulatory gearing below 70%
- taking into account the company’s performance, including performance for customers and the environment
- having due regard to the company’s performance against the regulatory contract as agreed for the period 2020 to 2025
• having considered the fair interests of employees.

The company will report each year how each of the above factors has been taken into account when determining the level of dividend as well as any changes to the dividend policy.

9.9 Remuneration for executive directors

The remuneration packages for directors and senior executives will be set by benchmarking against the appropriate national median levels as determined by independent remuneration consultants.

This will include salary range, target and maximum bonus and other benefits.

All senior remuneration packages will be reviewed and approved by the Remuneration Committee. Our remuneration strategy:

• balances reward with affordability, taking into account the performance of the company and the median levels of remuneration in the market
• rewards individuals based on results and demonstrated behaviours
• has stretch in incentive/bonus plans to drive the right behaviours and reward top performers
• ensures poor performance is not rewarded.

At the end of each financial year, the Remuneration Committee will review company and individual performance. Only if the committee judges that customer and environmental targets have been achieved, will directors and senior executives be eligible for their target bonus. In awarding up to the target bonus, the committee will also take into account performance against employee, financial and personal targets.

Payments in addition to target bonus will only be made if the company has outperformed against the stretching PR19 performance targets.

The executive bonus plan is designed to:

• ensure that customer and environmental performance has the greatest weighting of all measures
• structure rewards to reflect an individual’s degree of influence
• encourage and reward individuals for achievement and outperformance of targets
• attract and retain talented senior executives.

In total, and for every director, the majority of the bonus paid in each year will be explicitly tied to measures associated with stretching delivery for customers and the environment.

The company will report each year on how it has met these guiding principles.

9.10 Uncertainty mechanisms

The regulatory framework contains a number of uncertainty mechanisms that share risk between investors and customers. These include:

• adjustments to allowed revenues following material changes in legal obligations or substantial unforeseen effects
• CPI indexation of revenues
• sharing of expenditure under or overspends
• indexation of future debt costs.

The final scope of the statutory environmental programme will not be confirmed until December 2021, although we are required to allow for all the potential outputs required in this plan. If the legal requirement is amended we will restate the ‘km of river improved (WINEP)’ performance commitment target to reflect this.

In addition, we will protect customers through an uncertainty mechanism that returns money to them for outputs that are no longer required.

Further detail is available in supporting document 9.4.
While there is scope for increased costs in some other areas, most notably the Traffic Management Act, we consider that this can be accommodated within the existing regulatory framework and that we remain best placed to mitigate the risk.

If the balance of risk contained within this plan is substantively altered we may need to consider these issues again.

9.11 Taxation

As disclosed in the company’s annual accounts tax policy, Wessex Water adopts a straightforward and cautious approach to tax. We will seek to maximise the tax relief and allowances due and only engage in tax planning activities which are aligned with the wider business objectives.

We have a good relationship with HMRC and have always had a low risk rating, indicating a good level of trust and transparency in our tax affairs. Our approach continues to be simple and transparent.

Modelling taxation

Although Wessex Water has a statutory year-end of 30 June and tax returns are based on the results for that period, the company also prepares statutory and regulatory accounts as at 31 March each year. These accounts include current and deferred tax calculations which are prepared, based on the results as at March. These accounts are subject to external audit.

We have prepared our tax position on a standalone basis with no allowances from group relief and based on our actual level of gearing. As a result, we have completed our tax position for this plan on a 31 March basis for the inputs to the price control.

The largest item affecting the current tax charge is the level of tax relief on the capital expenditure. To mitigate risk of error we continue to be supported in the tax categorisation of our capital expenditure by Chandler KBS (CKBS), an independent consultancy. CKBS are fully involved in reviewing all capital projects and independently advising on the tax categories. Their report is included as supporting document 12.10.

We have prepared this submission on the basis of the currently enacted tax rates and legislation, case law and its interpretation, and current agreements with HMRC on the treatment of expenditure. We have no reason to believe that these agreements will be changed in the short term. In the medium term we understand that proposals from the Office of Tax Simplification, if adopted, may increase the overall tax liability of the company. We have not incorporated these changes into our central plan estimates, but the plan considers that they would be captured by the tax true-up mechanism with Ofwat’s PR19 methodology.

Allocation of taxation between price controls

The brought-forward tax balances have been split as at March 2020 in line with the RCV determined as at that date for each of the price controls.

Capital expenditure incurred in each period has been allocated between each of the price controls.

Relief for interest cost

Our modelling assumes full tax relief for the interest charged in each of the years in question.

Further information on our tax strategy is available in supporting document 9.5.
9.12 Revenue and bill smoothing

Our customer engagement shows that customers prefer stability in bills and are content not to pay for all expenditure in the year that it is incurred to avoid a rollercoaster from one year to the next. We know that this is particularly important to customers on fixed incomes or who are reliant on state benefits. See supporting document 1.1 for further information of our engagement in this area.

In smoothing revenues we have also been mindful of the level of revenue required to maintain interest covers as discussed in section 10, Financeability. Our bill profile balances these priorities as follows:

Table 9-5: Revenue and bill smoothing

<table>
<thead>
<tr>
<th></th>
<th>2020-21</th>
<th>2021-22</th>
<th>2022-23</th>
<th>2023-24</th>
<th>2024-25</th>
</tr>
</thead>
<tbody>
<tr>
<td>Initial bill profile (before inflation)</td>
<td>-7.2%</td>
<td>+0.5%</td>
<td>+3.4%</td>
<td>+0.2%</td>
<td>+1.0%</td>
</tr>
<tr>
<td>Final bill profile (before inflation)</td>
<td>-6.3%</td>
<td>+0.9%</td>
<td>+1.0%</td>
<td>+1.0%</td>
<td>+0.3%</td>
</tr>
<tr>
<td>Revenue change (£m)</td>
<td>+4.4</td>
<td>+6.3</td>
<td>-5.0</td>
<td>-1.2</td>
<td>-5.0</td>
</tr>
</tbody>
</table>

The final profile recognises the efficiencies achieved up front in a bill cut and then requires small, but smoother real terms increases as a result of the significant investment programme.

We have smoothed revenues in a value neutral way. To keep the calculation of the PAYG rate simple and transparent we have not used the PAYG lever to make these changes.

Our method for calculating average household bills for the purposes of this document differs from that used in the final Ofwat financial model. We provide supporting calculations for our methodology in the commentary to the associated data table (App7).
10. Financeability
Section 10 Financeability – summary

The board targets the retention of a robust investment grade rating.

This business plan is consistent with that target and retains sufficient headroom in the key credit metrics to deal with shocks in the short term.

Similarly, if we restate our balance sheet to Ofwat’s notional gearing level of 60% our existing rating would become stretched.

We have stress tested our business plan in detail until 2025, in a way that is consistent with our long-term viability statement in our annual accounts. As part of this plan we have also considered the period to 2030. The results of our stress testing show that while existing debt covenants are not threatened, under some more extreme circumstances some financial metrics may not always be consistent with an investment grade rating. The board has considered these circumstances in detail and has concluded, however, that this plan gives it sufficient opportunities to mitigate the impacts of these risks should they crystallise.

Our pay as you go (PAYG) and run-off rates have each been calculated in a way that is consistent with regulatory precedent and are designed to match revenues to the economic benefits that customers receive. PAYG rates include all infrastructure renewals expenditure and the RCV run-off rates aim to match the current cost depreciation rates that would be implied by our asset base and our future investment plans. We found that our customer research on resilience was consistent with this approach.
In this section we demonstrate that the business plan we propose is financeable on both on our actual capital structure and a notional capital structure set by Ofwat where the gearing is 60%.

We show how the board is able to confirm that the plan delivers sufficient financial resilience to cost and revenue.

Section contents

10.1 Introduction
10.2 Credit metrics
10.3 Stress testing
10.4 Pay as you go allowance
10.5 Run-off rates

Where to find further information

Supporting information for various aspects of this section are provided as below:

<table>
<thead>
<tr>
<th>Ref.</th>
<th>Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>Supporting document 10.1</td>
<td>Third party report on financial resilience, viability and stress testing</td>
</tr>
<tr>
<td>Supporting document 10.2</td>
<td>PAYG ratios</td>
</tr>
<tr>
<td>Supporting document 10.3</td>
<td>Run-off rates</td>
</tr>
</tbody>
</table>
10.1 Introduction

In the previous section *Aligning risk and return* we explain how our plan proposals, when viewed as a package, give us the opportunity to deliver reasonable value to investors over the next five years, commensurate with the risks faced while at the same time maintaining a robust investment grade credit rating.

This is the key test for financeability and the board is willing to assure the plan as financeable on that basis.

In this section we show the credit metrics that our plan delivers and we also explain how we have stress tested the plan. We consider the impact of, and our likely response to, adverse impacts in line with our principal risks and have also had due regard to scenarios proposed by Ofwat. This has enabled the board to assure the plan as financially resilient.

Ofwat, as part of its plan assessment, asks companies to assure that the plan would also be financeable under its notional capital structure so we also cover this in this section.

10.2 Credit metrics

Our business plan accepts that allowed returns to investors will be falling. At the same time it proposes significant new investment to improve the environment and services to customers.

The board targets the retention of a robust investment grade rating. The financial ratios shown in table 10-1 are consistent with that target and the board considers that they retain sufficient headroom to deal with shocks in the short term.

In doing so we have also taken a long-term view and expect credit metrics to improve after 2025 when we anticipate that investment requirements will return to long-term levels and that returns will be increasingly remunerated on a real-CPIH basis as opposed to RPI.

### Table 10-1: Financial ratios

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Gearing (regulatory)</td>
<td>67.8%</td>
<td>68.0%</td>
<td>67.9%</td>
<td>67.8%</td>
<td>67.3%</td>
<td>67.4%</td>
</tr>
<tr>
<td>Gearing (Moody’s)</td>
<td>71.0%</td>
<td>70.8%</td>
<td>70.4%</td>
<td>70.0%</td>
<td>69.2%</td>
<td>69.1%</td>
</tr>
<tr>
<td>AICR (Moody’s)</td>
<td>1.6</td>
<td>1.5</td>
<td>1.5</td>
<td>1.5</td>
<td>1.5</td>
<td>1.6</td>
</tr>
<tr>
<td>FFO/Debt (S&amp;P)</td>
<td>7.8%</td>
<td>7.9%</td>
<td>7.9%</td>
<td>8.0%</td>
<td>8.1%</td>
<td>8.6%</td>
</tr>
<tr>
<td>PMICR (Fitch)</td>
<td>1.9</td>
<td>1.7</td>
<td>1.8</td>
<td>1.8</td>
<td>1.7</td>
<td>1.9</td>
</tr>
</tbody>
</table>

Ofwat also asks us to consider the financeability of our business plan having restated our balance sheet to match its assumed levels. Table 10-2 shows what we consider to be the key metrics under those conditions.

We consider that the company would be financeable under both scenarios and could be considered to be likely to retain a robust investment grade rating.

We note that under both actual and notional gearing structures not all ratios are consistent with the thresholds that the ratings agencies apply to our current ratings.
In particular AICR ratios are tighter, driven by lower returns and a substantially increased investment programme.

Table 10-2: Financial ratios (with notional gearing of 60% at 1st April 2020)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>AICR (Moody’s)</td>
<td>1.8</td>
<td>1.9</td>
<td>1.8</td>
<td>1.8</td>
<td>1.8</td>
</tr>
<tr>
<td>FFO/debt (S&amp;P)</td>
<td>9.3%</td>
<td>9.2%</td>
<td>9.0%</td>
<td>9.0%</td>
<td>8.9%</td>
</tr>
</tbody>
</table>

10.2 Stress testing

Financial resilience is in the interests of both the company and our customers. When agreeing this business plan the board has considered carefully whether the resulting financial position gives sufficient headroom to deal with the consequences of credible shocks and concludes that it has.

We publish a long-term financial viability statement each year in our Annual Review. Our 2018 publication specifically covers the period up to 2025 and was based on a draft of this business plan. In making this statement the board considered a report from Oxera Consulting LLP who reviewed and commented on our analysis.

The board considered these matters again when confirming this plan. Figure 10-3 shows how the analysis that aided the board was constructed. The analysis itself can be seen as part of appendix 9.2.A.
Figure 10-3: Stress testing
Our risk identification, assessment and mitigation process is long established and kept constantly under review by the board. This process is set out each year in our Annual Review and Accounts publication.

We take a structured approach to modelling the financial consequences of the risks contained in our risk register. We also consider the impact that more general macroeconomic factors can have on our performance. We have used all of this information to develop a series of combined scenarios and modelled their impact on the company.

After modelling a series of individual risks from our risk register we then created a series of credible but severe combined scenarios that could threaten the financial health of the company. In its recent “putting the sector back in balance” proposals Ofwat described a series of additional events and scenarios that we have also used as part of our PR19 financial resilience assessment.

In total we modelled 22 events and scenarios. However, on the basis of their materiality the key scenarios are as follows:

### Table 10-3 Key scenarios

<table>
<thead>
<tr>
<th>Nr.</th>
<th>Scenario considered</th>
<th>Link to Principal risk</th>
</tr>
</thead>
<tbody>
<tr>
<td>11</td>
<td>The potential immediate and follow-on consequences of extreme weather conditions such as higher expenditure, lower revenues and regulatory fines</td>
<td>Regulatory action, severe pollution incident</td>
</tr>
<tr>
<td>12</td>
<td>The potential immediate and follow-on consequences of a catastrophic service failure such as higher expenditure and doubtful debt</td>
<td>Outcome delivery incentive failure, unfit water, information management</td>
</tr>
<tr>
<td>16</td>
<td>Macroeconomic shock - including lower productivity, lower demand, lower inflation, higher energy and construction costs, higher finance costs</td>
<td>Availability of new finance</td>
</tr>
<tr>
<td>17</td>
<td>Inflation at a sustained low level for five years</td>
<td>Ofwat</td>
</tr>
<tr>
<td>19</td>
<td>Sustained overspend</td>
<td>Ofwat</td>
</tr>
<tr>
<td>22</td>
<td>Combined service failures and overspend</td>
<td>Ofwat</td>
</tr>
</tbody>
</table>

Our impact analysis takes into account the risk mitigations inherent in the regulatory regime proposed in the PR19 methodology document, such as the ability to regain wholesale revenue in a future year where there is a year of under-recovery. It also includes the business as usual risk mitigation outlined in the previous section of this document.

Our stress-testing analysis also considers the range of actions open to the company that could ameliorate the financial consequences of those risks if they crystallise. In this analysis we assumed:

- that our flexible dividend policy continues
- maintenance expenditure could be reduced in the short term without immediate consequences for customers
- we should not include improved efficiency as a mitigating factor given the stretching targets incorporated into the base plan.

Our dividend policy has been and continues to be flexible and considers the financial resilience of the business before payments are confirmed. In 2008 for instance we did not pay a final dividend as unexpectedly low inflation rates increased the level of gearing
above what was considered economically prudent at that time.

The board has considered the covenants on our existing debt stock and the factors that could lead to a requirement to repay bonds in advance of their maturity date. None of the modelled scenarios would trigger such a repayment.

The company has a legal duty to use all reasonable endeavours to maintain an investment grade credit rating and this has served as a useful yardstick.

When comparing the resulting ratios with those that we would consider are required to maintain an investment grade rating, we see that interest covers are threatened under some of the scenarios even after taking the mitigating actions above. We show the most severe scenarios in the graph below.

**Figure 10-2: AICR under key scenarios**

Given these results, we have considered the circumstances that would give rise to these modelled scenarios more deeply. In some scenarios the impact can be shown to be short-lived and would not reflect the underlying viability of the company.

In scenarios where the strain on ratings has more longevity we consider it would be highly probable that a significant proportion of the adverse impact would have been caused by an unforeseen circumstance that could not have been avoided by prudent management action. Scenarios 19 and 22 in particular are driven primarily by substantial and sustained totex overspends of 10%.

We have had strong success in controlling costs over successive five-year price control periods. A 10% overspend could therefore be a value that would trigger a
redetermination of price limits. The “substantial effects” clause of the licence requires the company to show that the circumstance that led to the expenditure was unforeseen and could not have been avoided by prudent management action. The directors would in these circumstances seek an adjustment to allowed turnover.

In the case of scenario 12 reduced cash receipts would have a short-term impact on the company, but this would not change the medium-term fundamentals of the business. In this scenario we assumed a revenue impact of ODI penalties equal to 3% of equity in the relevant price control which is in close to our view of the likely maximum penalty. This plan, however, proposes to limit the revenue penalty suffered in any one year to 2% of regulated equity. Any additional penalty would be rolled into an RCV penalty to be applied at the end of the price control period. This mechanism is explained in section 3 of this document, including why this is in line with our customer engagement and in consumers’ interests.

Scenario 16, Macroeconomic shock, combines sustained lower inflation with higher input costs, negative productivity, higher costs of finance and low demand. While these factors may occur simultaneously in a single year it is highly improbable that they can expected to occur simultaneously over a prolonged period of time. While therefore the scenario is valid for more short-term modelling of shocks, less weight should be applied to the results on a long-term basis.

An explanation of the analysis that underpins the assessment of financial resilience can be seen in supporting document 10.1. This analysis was reviewed by Oxera Consulting LLP. Their report to us is included as appendix 10.1.A.

We also considered the same scenarios extended to 2030. The financial metrics are, in general, marginally improved compared to the period up to 2025 as shown in figure 10-3. In particular, the adverse impacts suffered in the period to 2025 in the most severe scenarios result in upward adjustments to the companies’ revenues after 2025 through the regulatory sharing mechanisms for expenditure. After considering this analysis the board has assured the long-term financial resilience of the company under this plan. The assurance statement is in section 12 of this document.
10.4 Pay as you go (PAYG) allowance

Table 10-4: PAYG rates as a % of expenditure

<table>
<thead>
<tr>
<th></th>
<th>Water Resources</th>
<th>Water network+</th>
<th>Total water</th>
<th>Bioresources</th>
<th>Wastewater network+</th>
<th>Total wastewater</th>
<th>Total wholesale</th>
</tr>
</thead>
<tbody>
<tr>
<td>AMP7</td>
<td>64.1%</td>
<td>69.1%</td>
<td>68.4%</td>
<td>71.1%</td>
<td>35.9%</td>
<td>38.7%</td>
<td>47.4%</td>
</tr>
<tr>
<td>AMP6</td>
<td>56.2%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>53.0%</td>
</tr>
</tbody>
</table>

In total our PAYG rates are lower than those applied at PR14 for AMP6 reflecting the larger wastewater capital programme against which they have been assessed.

Between 2015 and 2020 there was a large amount of investment in water supply planned as we completed our grid project. There are no equivalently sized capital projects in this area planned between 2020 and 2025 so the PAYG rate has increased for water supply.

This plan assumes that the company is funded for all wholesale operating expenditure and all infrastructure renewals and repairs expenditure on a PAYG basis. This is in line with practice since industry privatisation. We have used this approach for all wholesale price controls.

We provide more information on our choice of PAYG rate in supporting document 10.2.

When revenues were agreed for the period between 2010 and 2015 the PAYG rate was also used to ensure that the bills paid by customers were smoothed and did not fluctuate from year to year unnecessarily. We set out our proposals for bill smoothing in section 9 of this document.
10.5 Calculation of RCV run-off rates

Similarly, our approach to run-off of the RCV is designed to be neutral for customers’ bills, financing and to maintain intergenerational equity. This is in line with customers’ views in our resilience research that bills should be paying for long-term maintenance to the assets.

Over the period the percentage run-off of legacy RCV is calculated to match the actual current cost depreciation that would be calculated by our corporate asset register on assets existing at March 2020 (adjusted for expected expenditure up to 2020). As expected, this is a very similar value to the amounts calculated at PR14.

We provide more information about the calculation of run-off rates in supporting document 10.3.
11. ACCOUNTING FOR PAST DELIVERY
Section 11 Accounting for past delivery – summary

We have been a leading company for both customer service and environmental performance since revenues were last set in 2015.

This has resulted in net performance payments of £44.5m that are due between 2020 and 2025.

In some cases we have had to forecast our performance in 2018-19 and 2019-20. If our forecasts are incorrect these values will be adjusted at a later date.

<table>
<thead>
<tr>
<th>Performance area</th>
<th>Adjustment value (2017-18 prices CPIH deflated)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer service</td>
<td>+£11.0m</td>
</tr>
<tr>
<td>Sewer flooding</td>
<td>+£31.2m</td>
</tr>
<tr>
<td>Customer contacts about water quality</td>
<td>-£1.4m</td>
</tr>
<tr>
<td>River water quality improved</td>
<td>+£1.5m</td>
</tr>
<tr>
<td>Length of rivers with improved flows</td>
<td>+£2.2m</td>
</tr>
</tbody>
</table>

Up to 2020, we also expect to outperform the expenditure allowances agreed in 2014.

Customers benefit from this efficiency through a reduction in our allowed revenues and our capital value at March 2020, both of which result in lower bills.

<table>
<thead>
<tr>
<th>Efficiency adjustments</th>
<th>Value (2017-18 prices CPIH deflated)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue reduction</td>
<td>-£12m</td>
</tr>
<tr>
<td>RCV reduction</td>
<td>-£109m</td>
</tr>
</tbody>
</table>

Our record when dealing with major incidents such as severe cold weather shows how we put customers and their services at the heart of everything we do.

Our history of delivery gives us confidence that we can deliver on our stretching commitments where delivery is within management control.

We recognise though, that the scope and scale of what is required between 2020 and 2025 is of a different order.

We have set out in section 6, *Open Systems* the changes we will be making to our business model that will enable continuous improvements to be made.
In this section we show how we have accounted for our performance (actual and forecast) between 2015 and 2020 through the mechanisms that were defined at the previous price review (PR14).

We also evidence how our ethos of putting the customer first puts us in a strong position to deliver on this ambitious plan.

Section contents
11.1 Introduction and summary financial values
11.2 Customer service (SIM)
11.3 Operational performance and delivery (ODIs)
11.4 Regulatory targets we have not met
11.5 Forecasting our performance up to 2019-20
11.6 Adjusting for performance in 2014-15
11.7 Evidence of customer support for the adjustments we are making
11.8 Putting customers first – dealing with major incidents
11.9 Managing escalated complaints
11.10 Delivery of this plan

Where to find further information
Supporting information for various aspects of this section are provided as below:

<table>
<thead>
<tr>
<th>Ref.</th>
<th>Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>Supporting document 11.1</td>
<td>2014-15 adjustments</td>
</tr>
<tr>
<td>Supporting document 11.2.1</td>
<td>AMP6 reconciliation – RCV adjustments model</td>
</tr>
<tr>
<td>Supporting document 11.2.2</td>
<td>AMP6 reconciliation – revenue adjustments model</td>
</tr>
<tr>
<td>Supporting document 11.3</td>
<td>Third party report on AMP6 reconciliation</td>
</tr>
<tr>
<td>Supporting document 11.4</td>
<td>Putting customers first when dealing with major incidents and events</td>
</tr>
</tbody>
</table>
11.1 Introduction and summary financial values

The bills our customers will pay after 2020 are affected by our performance against the plan that we agreed for the five years up to 2020. This is because we are subject to a series of regulatory mechanisms that are designed to either provide incentives to improve performance, penalise for poor performance, or to ensure risk is allocated appropriately between ourselves and our customers.

We also need to adjust for our performance in 2014-15. This is because when Ofwat last set prices they had to do so based on a forecast of our performance in that year. Ofwat calls this the ‘blind year adjustment’.

This section explains and gives evidence to show:
- how we have performed in the first three years, including in major incidents
- where relevant, our forecasts of performance in the final two years up to March 2020
- how 2014-15 out-turn values are incorporated
- how this affects our revenues and customers’ bills after 2020
- how customers support the adjustments made
- how our performance gives confidence about our ability to deliver this plan.

The table below shows how we expect our performance up to 2020 to impact our allowed returns between 2020 and 2025.

### Table 11-1 Revenue adjustments

<table>
<thead>
<tr>
<th>Area</th>
<th>Retail (£m)</th>
<th>Water (£m)</th>
<th>Wastewater (£m)</th>
<th>Total (£m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer service (SIM)</td>
<td>+11.0</td>
<td>-</td>
<td>-</td>
<td>+11.0</td>
</tr>
<tr>
<td>Operational performance and delivery (net of tax)</td>
<td>-</td>
<td>-0.0</td>
<td>+32.7</td>
<td>+32.7</td>
</tr>
<tr>
<td>Savings passed back to customers</td>
<td>-</td>
<td>-3.9</td>
<td>-7.9</td>
<td>-11.8</td>
</tr>
<tr>
<td>2014-15 revenue corrections</td>
<td>-</td>
<td>-5.1</td>
<td>-9.9</td>
<td>-15.0</td>
</tr>
<tr>
<td>2014-15 expenditure adjustments</td>
<td>-</td>
<td>-0.6</td>
<td>0.2</td>
<td>-0.4</td>
</tr>
<tr>
<td>Adjustment for our actual retail customer base</td>
<td>-2.4</td>
<td>-</td>
<td>-</td>
<td>-2.4</td>
</tr>
<tr>
<td>Total (2017-18 prices deflated using CPIH)</td>
<td>+8.6</td>
<td>-9.6</td>
<td>+15.1</td>
<td>+14.0</td>
</tr>
</tbody>
</table>

Additionally, where we have made savings against the allowed expenditure, some of this is passed back to customers by reducing our Regulatory Capital Value (RCV). Some performance commitments also impact on the RCV rather than revenues. This is shown in the following table which is presented in 2017-18 prices deflated by CPIH.

Our expenditure forecasts that result in the adjustments are in line with the most recently approved company budget (March 2018). The ODI forecasts are in line with those approved by the Board as part of the 2018 Annual Review publication. Independent assurance on these forecasts is contained in supporting document 11.3.
### Table 11-2: RCV adjustments

<table>
<thead>
<tr>
<th>Area</th>
<th>Water (£m)</th>
<th>Wastewater (£m)</th>
<th>Total (£m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operational performance and delivery (ODIs)</td>
<td>+0.9</td>
<td>-</td>
<td>+0.9</td>
</tr>
<tr>
<td>Savings passed back to customers</td>
<td>-17.9</td>
<td>-93.8</td>
<td>-111.7</td>
</tr>
<tr>
<td>PR14 inflation correction</td>
<td>-32.2</td>
<td>-32.8</td>
<td>-65.0</td>
</tr>
<tr>
<td>2014-15 adjustments</td>
<td>3.4</td>
<td>-0.3</td>
<td>3.2</td>
</tr>
<tr>
<td>Land sales</td>
<td>-1.0</td>
<td>-0.2</td>
<td>-1.2</td>
</tr>
<tr>
<td><strong>Total (2017-18 prices deflated by CPIH)</strong></td>
<td><strong>-46.8</strong></td>
<td><strong>-128.0</strong></td>
<td><strong>-174.8</strong></td>
</tr>
</tbody>
</table>

### 11.2 Customer service (SIM)

#### Table 11-3 SIM score

<table>
<thead>
<tr>
<th>Area</th>
<th>3-year average</th>
</tr>
</thead>
<tbody>
<tr>
<td>SIM score</td>
<td>87.2</td>
</tr>
<tr>
<td>Rank (water and sewerage companies)</td>
<td>1</td>
</tr>
<tr>
<td>Rank (all companies)</td>
<td>2</td>
</tr>
<tr>
<td>Standard deviations above average</td>
<td>1.1</td>
</tr>
</tbody>
</table>

We have been the leading water and sewerage company in the time since SIM was piloted in 2010-11 and have remained so in the three complete years of the current price review period.

As our performance is more than one standard deviation above the mean we have incorporated the full reward available under this measure into our revenue projections. Ofwat’s guidance states that this is 6% of retail household revenues. Our plan uses our estimate of the allowed revenues once adjusted for differences in our customer base over the five years of £179m and therefore the reward claimed is £11m.

When Ofwat makes its final determination in December 2019, the performance in 2018-19 will be known. SIM will no longer be measured after this date.

#### 11.3 Operational performance and delivery (ODIs)

Table 11-4 shows our performance (actual and forecast) against our other performance commitments between 2015 and 2020. It shows that we have met the majority of our targets in the three completed years. There are some targets we have not been able to meet and this is due in part to the challenging nature of the targets that were agreed at the PR14 price determination. We forecast a similar pattern of performance in the remaining two years.
<table>
<thead>
<tr>
<th>Type of measure</th>
<th>2015-16</th>
<th>2016-17</th>
<th>2017-18</th>
<th>Reward</th>
<th>Penalty</th>
</tr>
</thead>
<tbody>
<tr>
<td>F1: Volume of water leaked</td>
<td>Financial</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>F2: Customer reported leaks fixed within a day</td>
<td>Non-financial</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>G1: Customer contacts about drinking water quality</td>
<td>Financial</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>G2: Compliance with drinking water standards (MZC)</td>
<td>Financial - penalty only</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>B4: Compliance with abstraction licences</td>
<td>Non-financial</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>B5: Abstractions at Mere exported</td>
<td>Financial – penalty only</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>B7: Length of rivers with improved flows</td>
<td>Financial</td>
<td></td>
<td></td>
<td></td>
<td>Yes</td>
</tr>
<tr>
<td>B6: BAP landholding assessed and managed for biodiversity</td>
<td>Financial - penalty only</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>D2: Restrictions on water-use (hosepipe bans)</td>
<td>Financial - penalty only</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>D3: Water supply interruptions (&gt; 3 hours)</td>
<td>Financial</td>
<td></td>
<td></td>
<td></td>
<td>Yes</td>
</tr>
<tr>
<td>D4: Properties supplied by a single source</td>
<td>Financial – penalty only</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>D5: Water main bursts</td>
<td>Financial - penalty only</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A1: Agreed schemes delivered (named outputs with bathing water drivers in the NEP)</td>
<td>Financial – penalty only</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A2: Beaches passing EU standards</td>
<td>Non-financial</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>B1a: The EA’s Environmental Performance Assessment (reward mechanism based on pollution incidents)</td>
<td>Financial</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>B2: Monitoring CSOs</td>
<td>Financial - penalty only</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>B3: River water quality improved</td>
<td>Financial</td>
<td></td>
<td></td>
<td></td>
<td>Yes</td>
</tr>
<tr>
<td>Type of measure</td>
<td>2015-16</td>
<td>2016-17</td>
<td>2017-18</td>
<td>Reward</td>
<td>Penalty</td>
</tr>
<tr>
<td>-----------------</td>
<td>---------</td>
<td>---------</td>
<td>---------</td>
<td>--------</td>
<td>---------</td>
</tr>
<tr>
<td>C1: Internal flooding incidents</td>
<td>Financial</td>
<td></td>
<td>Yes</td>
<td></td>
<td></td>
</tr>
<tr>
<td>C2: Risk of flooding from public sewers due to hydraulic inadequacy</td>
<td>Financial</td>
<td></td>
<td></td>
<td>Within deadband</td>
<td>Within deadband</td>
</tr>
<tr>
<td>C3a: North Bristol Sewer Scheme - Frome catchment</td>
<td>Financial - penalty only</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>C3b: North Bristol Sewer Scheme - Trym catchment</td>
<td>Financial - penalty only</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>D1: Collapses and bursts on sewer network</td>
<td>Financial - penalty only</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>E1: Greenhouse gas emissions (annual greenhouse gas emissions from operational services)</td>
<td>Non-financial</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>E2: Proportion of energy self-generated</td>
<td>Financial - penalty only</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A2: Percentage rating service good/very good</td>
<td>Non-financial</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A3: Percentage rating good value for money</td>
<td>Non-financial</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A4: Percentage rating ease of resolution</td>
<td>Non-financial</td>
<td></td>
<td>n/a</td>
<td></td>
<td></td>
</tr>
<tr>
<td>A5: Accessible communications</td>
<td>Non-financial</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>B1a: Volume of water used per person</td>
<td>Non-financial</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>B1b: Volume of water saved by water efficiency promotion</td>
<td>Non-financial</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>B2: Bill as a proportion of disposable income</td>
<td>Non-financial</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
11.4 Regulatory targets we have not met

Where we have not been able to meet our targets we have explained clearly both to our Customer Challenge Group the Wessex Water Partnership, and to customers and stakeholders through our annual reporting the reasons why we have failed. A summary of the reasons follows, but more detail can be found in our annual reports for 2015-16 to 2017-18 which are available on our website.

Customer contacts about drinking water quality

In our business plan in 2014 we proposed a 10% reduction by 2020 from our 2014-15 performance. The PR14 determination tightened this target to Ofwat's view of the industry upper quartile, reducing our target to a challenging 1,608 contacts from the expected 3,000 contacts in 2014-15. We accepted this target as part of our overall determination in the round, and we have improved our performance considerably, achieving 2,031 contacts in 2017-18. This is an improvement of close to one third from our expected 2014-15 starting position. We always expected that it would take longer to deliver the required performance improvement than the determination allowed. Despite continuing improvement we still anticipate missing the tightened target until the end of 2020.

Drinking water quality

We did not meet the 2016 target of 99.98% Mean Zonal Compliance. Whereas compliance of samples taken at our assets did meet this target, compliance taken at customers’ taps in this year was 99.95%. Of our 23 failures, 20 were due to domestic plumbing and service pipe issues such as lead pipes, nickel taps and copper plumbing. The target for 2017 and each year thereafter is set at 100%, a level that we have never achieved, largely due to sample failures at customers’ taps. We are therefore forecasting that we will not meet this target up to 2020. The DWI has moved to a new measure (CRI) as the key measure of industry performance on water quality as they recognised that a focus on Mean Zonal Compliance was creating inappropriate incentives. We are amongst the leading companies under this measure for the three published years.

Abstractions at Mere

We did not meet the performance commitment to reduce our abstraction at our Mere source to the target of 100ML per year at times of lower river flows in either 2015-16 or 2016-17. Despite this, our use of the source was significantly lower than in previous years. We needed to use this source to respond to dry weather conditions in the autumn of 2016. In the previous year, work on our Grid meant that we needed to use this source to supplement those that had been taken out of service. We met the commitment in 2017-18 despite another drier than average autumn and completion of the Grid means that we can be confident of meeting this commitment in future years.

Risk of flooding due to hydraulic inadequacy

While the number of flooding incidents fell further during both 2015-16 and 2016-17 we narrowly missed this target in both years due to prolonged third-party constraints on specific projects which are now complete. We have invested to ensure this target is met in 2017-18 and expect that planned further investment means that we will continue to meet it up to 2020.

Percentage rating ease of resolution

We aimed to show a positive trend in the number of customers who said that it took little or no effort to resolve any issues with us. Despite scoring highly on this measure and showing a very small improvement in the period to date we are not able to show that, statistically, this represents an improving trend. We therefore do not believe we will be able to meet this performance commitment for the remainder of this price control period.
Volume of water used per person

While we have over-delivered on our commitments to help customers reduce their water use we have not met the target to reduce water-use overall. Each of the three summers and autumns from 2015-16 to 2017-18 has been drier than average. We consider this to be the primary factor in our failure to achieve a target that has been set assuming an average weather year. We continue to accelerate our help for customers to use less water, to fit meters on change of occupier, and to promote optional metering so that we would meet this target in a normal weather year.

11.5 Forecasting our performance up to 2019-20

Where performance commitments have a financial consequence or where the measure is continuing in future price control periods it is important that we explain how we have forecast our performance against them in the final two years of this price control period.

Our explanations have been reviewed by a third party and their report is available in supporting document 11.3. If we do not achieve this level of performance adjustments would be made within the 2020 to 2025 period to correct for this.

A summary of our expected performance in our PCs for 2018-19 and 2019-20 is shown in table 11-5. We expect performance rewards will be earned for internal sewer flooding, improving river water quality and lengths of river improved. We expect a penalty will apply for customer contacts about drinking water quality. We give more detail about the basis of our forecasts in our table commentaries as part of this submission.

Table 11-5: Forecast performance levels (excluding SIM)

<table>
<thead>
<tr>
<th>Area</th>
<th>2018-19</th>
<th>2019-20</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reputational targets met</td>
<td>7</td>
<td>7</td>
</tr>
<tr>
<td>Reputational targets not met</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Financial targets met – no reward due</td>
<td>17</td>
<td>16</td>
</tr>
<tr>
<td>Financial targets not met – no penalty due</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Financial targets met – reward due</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Financial targets not met – penalty due</td>
<td>1</td>
<td>1</td>
</tr>
</tbody>
</table>
11.6 Adjusting for performance in 2014-15

Our business plan accepts and uses in full the outcome of the blind year adjustment process undertaken in 2016. This has led to the following adjustments to our revenue and to the RCV.

Table 11-6: Adjustments for 2014-15

<table>
<thead>
<tr>
<th>Blind year adjustments (£m 2017-18 prices)</th>
<th>Wholesale water</th>
<th>Wholesale wastewater</th>
<th>Total</th>
<th>Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td>CIS revenue</td>
<td>-0.6</td>
<td>0.2</td>
<td>-0.4</td>
<td>Expenditure was different to PR14 estimate</td>
</tr>
<tr>
<td>CIS RCV</td>
<td>3.4</td>
<td>-0.3</td>
<td>3.2</td>
<td>Correction of an indexation error made at PR14</td>
</tr>
<tr>
<td>CIS RCV correction</td>
<td>-32.2</td>
<td>-32.8</td>
<td>-65.0</td>
<td>Correction of an indexation error made at PR14</td>
</tr>
<tr>
<td>Revenue correction model</td>
<td>-4.0</td>
<td>-10.1</td>
<td>-14.1</td>
<td>Revenues were higher and 2014-15 RPI was lower than expected</td>
</tr>
</tbody>
</table>

11.7 Evidence of customer support for the adjustments we are making

The net adjustments for our past performance (totex and ODIs) mean future bills are lower for customers than they would otherwise be without a consequential reduction in service level.

Correction adjustments, for instance for revenue over-recovery and for inflation assumptions on the RCV at PR14 are also in customers’ favour and result in lower bills.

Our wider engagement with our customers has taught us that they are broadly content with the concept of payment by results and that customers understand that higher levels of service tend to cost more on their bills.

We provide evidence of this in section 2, Addressing affordability and vulnerability, and the associated supporting documents.

Our engagement also shows that customers prefer lower bills as long as service levels are not reduced as a consequence. For further information see section 3, Delivering outcomes for customers.

We have taken a proportionate approach to our customer engagement on this issue as expected in Ofwat’s customer engagement principles.

Our engagement gives us a good basis from which to be confident that customers support both the application of adjustments for our past performance and those related to corrections. This is because in each case they reduce future bills without reducing the levels of service received.
11.8 Putting customers first - dealing with major incidents and events

We do our very best to avoid major incidents and events that affect service, and we have been successful in doing so through careful investment to maintain our assets in good condition and robust operational processes.

Overall, we know that we retain the trust and confidence of the vast majority of our customers. We also receive high levels of customer satisfaction whenever we deal with a major event and manage it well. Research we commissioned from Decision Technology, who specialise in behavioural sciences, has shown that an upwards spike in satisfaction is not uncommon when a company manages a service failure well.

Repeat service failures, however, lead to reduced trust and satisfaction and that is why we learn from every incident to see how we might manage it better or how we could have avoided it completely. This learning process occurs after every incident with an incident review and with the company executives informed of the improvements identified.

We are always prepared to act and to put customers’ interests first when things do go wrong or where we are faced with challenging situations. The actions of the company and its management in the face of events is one of the key factors in our high performance against the DWI’s ERI (Events Risk Index).

Sometimes things do go wrong and our regulators take enforcement action against us. It is important that we take swift action in these cases, take responsibility and learn from events. In 2017, the EA accepted an enforcement undertaking following a pollution of Dodham Brook in Yeovil, stating that our response to the incident was “prompt and effective” and noting that we had established a “comprehensive inspection and maintenance programme to prevent future incidents”. EA has since confirmed we have completed these actions satisfactorily.

We received a caution in 2015 related to an incident at Wick St Lawrence. The EA noted that we fully co-operated with their investigation, accepted responsibility for the offence, and self-reported the incident. It assessed the actions we offered to ensure that the offence does not recur and concluded that they should be effective. We have now completed these actions.

In 2017, we managed a major incident following a leaking sewage pumping main under the River Axe. The repair to the main was made quickly and we kept our stakeholders updated throughout the process. An Environment Agency investigation is ongoing.

In March 2018, we had a high profile event associated with the freeze and quick thaw, known as the Beast from the East, where our region was hit by the first ever red weather warning and severe snow and ice. We managed the event without any material disruption to our services and with no customer experiencing any supply interruption that lasted longer than three hours. This was achieved through:

- prior investment, including our water grid and its optimiser systems which allowed us to react more quickly to changes and move water to where it was needed
- planning for every winter in August
- forward planning in advance of the cold weather once it was forecast and through communications with customers
- our people who were willing to go the extra mile for customers following the activation of our ‘adverse weather continuity plan
- the active involvement of the executive team, in particular through chairing the incident response team.
Further details of our response to the Beast from the East can be found in supporting document 11.4.

Wessex Water’s approach to emergency planning is to have a number of generic, and some specific, plans in place to respond to a range of possible emergencies. We have clear emergency response and business continuity plans.

The severity of the incident dictates the level of management required to deal with the situation. Wessex Water follows Cabinet Office good practice guidance for integrated emergency management which details three levels of response:

- operational
- tactical
- strategic.

Many incidents are dealt with on an operational basis, with escalation to form a tactical incident management team if required. Although the level of management, type of incident and impact will be different, every incident benefits from being managed in a structured way by a trained incident manager.

Following a set of specific plans and actions for managing an incident improves the response and recovery process. In line with the good practice guidelines, incident management facilities, processes and procedures have been agreed in the organisation.

For multi-agency incidents Wessex Water is an active member of any response where our involvement is required and contributes to the external debriefing process.

We are independently audited each year and certification is provided to Defra that the company meets the requirements of the Security and Emergency Measures Direction (SEMD). Since April 2015 we’ve formed a tactical incident management team seven times. For a brief summary of these events see supporting document 11.4.

In line with our procedures, all these incidents were debriefed to identify learning points and make any improvements to the company’s emergency planning process.

11.9 Managing escalated complaints

We have been very successful in keeping the number of complaints down and the numbers of complaints per customer we have received since April 2015 is the lowest of all water and sewerage companies.

We work hard to resolve problems first time and in 2017-18 increased our first-time resolution rate to more than 95%.

The managing director personally agrees all complaints escalated to second stage through our complaints procedure as well as all complaints that are addressed to him personally.

The third stage in our complaints procedure is CCWater and we have had no CCWater investigations opened since April 2015 and
for a number of years before that. Similarly, we have had only four customers go to the industry ombudsman, WATRS, for a determination since the scheme was launched. Three of these have been disputes of a legal nature.

These statistics show our success in managing complaints when they are escalated.

**11.10 Delivery of this plan**

The targets we have set ourselves in this plan are stretching, and this is deliberate.

We are seeking to:
- extend the industry frontiers of performance on sewer flooding and pollutions
- reduce supply interruptions by 75%
- reduce leakage by 15%
- deliver our largest ever capital investment programme to improve the local environment
- deliver greater productivity improvement than the UK economy has produced for a significant length of time
- reduce water use per person, despite an underlying upward trend.

We have always met our leakage targets and have an excellent record in meeting our statutory outputs from our environmental programme.

Our history of delivery means that we are confident we can deliver our commitments whenever delivery is within management control. We will, however, expect some variation in our performance levels caused by factors outside our control such as when hotter and drier weather increases garden watering and has an impact on a per capita consumption target. This is factored into the acceptable level of risk associated with the delivery of this plan.

We recognise though that the scope and scale of what is required between 2020 and 2025 is of a different order. We have outlined in section 6, *Open systems*, the changes we will be making to our business model that will enable us to make continuous improvements.

We also understand that we will not be able to deliver these stretching commitments without a highly engaged, highly skilled and resilient workforce.

We give evidence of our ongoing people programme in section 4, *Securing long-term resilience*. Close to 10% of our colleagues are undertaking long-term learning and development through apprenticeships, further or higher education. Our employee engagement is high at 80% and 84% rated us a good company to work for. We treat our people well and empower them so that they are able to do the same for our customers. 86% say that they are able to go the extra mile for our customers or to support their colleagues in doing so.
This plan sets out our commitments for the period 2020 to 2025. It is endorsed by Wessex Water’s full board as consistent with our vision, our aims and our strategy for the long term. The board has worked alongside company management over a period of two years both to develop the proposals within it and to challenge the level of ambition and stretch in our future targets. The board has also engaged directly with customers, investors and other stakeholders so that we can be sure this plan meets the needs of customers and of wider society both now and in the long term.

This section describes the process that the board has followed to be able to make this statement and the following assurances.

- That the submission is a high-quality and deliverable plan.
- That it is consistent with, and will allow the company to deliver against, its statutory obligations now and up to 2025.
- That the company's ongoing governance processes are fit for purpose and will enable us to hold company management to account for the delivery of this business plan.
- That it enables trust and confidence by ensuring a fair balance between customers and investors, and transparency on corporate and financial structures.
- That it is informed by customer engagement and the views of the Wessex Water Partnership (WWP), and that the performance commitments contained within it reflect customer priorities, is stretching and reporting is robust.
- That it is affordable for all including in the long term, and includes appropriate assistance for those struggling, or at risk of struggling to pay.
- That it is informed by a systematic assessment of the resilience of the company’s systems and services, customers’ views on resilience and an objective assessment of interventions to manage resilience in customers’ long-term interests.
- That the expenditure projections contained within this business plan are robust and efficient, and that large investments are deliverable and best for customers.
- That it has identified the risks associated with the delivery of the business plan and has appropriate mitigation plans in place.
- That its data submissions and, in particular, the allocation of costs and assessment of taxation, are accurate, reliable and complete.

And also, that if the business plan is accepted in full by Ofwat with no material adjustments to expenditure or committed performance levels, or otherwise to the balance of risk and reward:

- That the plan is financeable on both Ofwat’s notional capital structure and on the company’s actual capital structure, and that in that regard that the plan protects customers’ interests in the short and long term.
- That, consistent with the long-term viability statement in the 2018 company accounts, the company remains financially resilient in the long term.
Section 12 Securing trust, confidence and assurance

This plan sets out our commitments for the period 2020 to 2025. It is endorsed by Wessex Water’s full board as consistent with our vision, our aims and our strategy for the long term.

The board has worked alongside company management over a period of two years both to develop the proposals within it and to challenge the level of ambition and stretch in our future targets. The board has also engaged directly with customers, investors and other stakeholders so that we can be sure this plan meets the needs of customers and of wider society both now and in the long term.

This section describes the process that the board has followed to be able to make this statement and the following assurances. The board assures:

- that the submission is a high-quality and deliverable plan.
- that it is consistent with, and will allow the company to deliver against, its statutory obligations now and up to 2025.
- that the company’s ongoing governance processes are fit for purpose and will enable us to hold company management to account for the delivery of this business plan.
- that it enables trust and confidence, through appropriate measures to provide a fair balance between customers and investors (which include outperformance sharing, dividend policies and any performance related element of executive pay) and high levels of transparency on issues that matter to customers including corporate and financial structures.
- that it is informed by customer engagement and the views of the Wessex Water Partnership (WWP), and that the performance commitments contained within it reflect customer priorities, are stretching and reporting is robust.
- that it is affordable for all including in the long term, and includes appropriate assistance for those struggling, or at risk of struggling to pay.
- that it is informed by a systematic assessment of the resilience of the company’s systems and services, customers’ views on resilience and an objective assessment of interventions to manage resilience in customers’ long-term interests.
- that the expenditure projections contained within this business plan are robust and efficient, and that large investments are deliverable and best for customers.
- that it has identified the risks associated with the delivery of the business plan and has appropriate mitigation plans in place.
- that its data submissions and, in particular, the allocation of costs and assessment of taxation, are accurate, reliable and complete.

And also, that if the business plan is accepted in full by Ofwat with no material adjustments to expenditure or committed performance levels, or otherwise to the balance of risk and reward:

- that the plan is financeable on both Ofwat’s notional capital structure and on the company’s actual capital structure, and that in that regard that the plan protects customers’ interests in the short and long term.
- that, consistent with the long-term viability statement in the 2018 company accounts the company remains financially resilient in the long term.
Section 12 Securing trust, confidence and assurance – summary

In this section we give a description of the Wessex Water governance structure, the roles played by various board level committees in the compilation of this business plan and give the board’s assurances on the plan’s quality, deliverability, accuracy, consistency and resilience.

For the avoidance of doubt this section should be taken to be the Board’s statement of assurance.

Section contents

12.1 A high quality and deliverable plan
12.2 Meeting our statutory obligations
12.3 Governance processes that are fit for purpose
12.4 Enabling trust and confidence
12.5 Informed by engagement, reflecting customer priorities, stretching and can be reported against
12.6 Affordable for all
12.7 Informed by a systematic assessment of resilience
12.8 Efficient expenditure projections
12.9 Risks and their mitigation
12.10 Financeable
12.11 Financially resilient
12.12 Accurate, reliable and complete data
12.13 Board endorsement

Where to find further information
Supporting information for various aspects of this section are provided as below:

<table>
<thead>
<tr>
<th>Ref.</th>
<th>Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>Supporting document 12.1</td>
<td>Information about the Wessex Water Partnership</td>
</tr>
<tr>
<td>Supporting document 12.2</td>
<td>Assurance map</td>
</tr>
<tr>
<td>Supporting document 12.3</td>
<td>Third party report on reportability of our PCs</td>
</tr>
<tr>
<td>Supporting document 12.4</td>
<td>Statement from the Affordability Advisory Group</td>
</tr>
<tr>
<td>Supporting document 12.5</td>
<td>Corporate service resilience policy</td>
</tr>
<tr>
<td>Supporting document 12.6</td>
<td>Third party report on resilience</td>
</tr>
<tr>
<td>Supporting document 12.7</td>
<td>Report from our technical auditor</td>
</tr>
<tr>
<td>Supporting document 12.8</td>
<td>Report from our financial auditor</td>
</tr>
<tr>
<td>Supporting document 12.9</td>
<td>Third party report on allocation of costs</td>
</tr>
<tr>
<td>Supporting document 12.10</td>
<td>Third party report on tax assumptions</td>
</tr>
<tr>
<td>Supporting document 12.11</td>
<td>Third party report on statutory obligations</td>
</tr>
<tr>
<td>Supporting document 12.12</td>
<td>Strategic direction statement</td>
</tr>
</tbody>
</table>
12.1 Section introduction

The Wessex Water board assures this as a high-quality and deliverable plan and endorses it as consistent with our long-term vision for the company and our strategy.

We, the board of Wessex Water, understand our accountability for this business plan. We are unequivocal in our assurance that the plan is both high quality and deliverable. We endorse it and confirm that it is consistent with our long-term vision for the company and our strategy.

We can make these statements because we considered in detail the governance arrangements for the development of the plan, in particular the role of our independent non-executive members in:

- developing the long-term strategy and ensuring it is embedded into the PR19 submission
- challenging the executive and senior company management throughout, including direct engagement with members of the company PR19 steering group.

In 2016 we agreed a governance structure for the development of the business plan and the submission as follows.

Figure 12-1: PR19 Governance Structure (Internal)
### 12.2 The role of the board in the production of this business plan

As a board, we are responsible for setting the long-term vision of Wessex Water and its strategic direction. The approval of this business plan is a matter reserved to the board.

The key activities of the board in the development of this business plan have been as follows.

**March 2016**
- Strategic Direction Statement considered and approved for publication.

**April 2016**
- Publication of Strategic Direction Statement, included as supporting document 12.12

**July 2017**
- Consideration of Ofwat’s draft methodology.

**August 2017**
- Approval of the response to Ofwat’s methodology from the senior independent director and managing director.

**September 2017**
- Approval of the submission of Wessex Water’s proposed bioresources RCV and draft Water Resources Management Plan.

**January 2018**
- Approval of the submission of the company’s proposed water resources RCV.

**March 2018**
- Review of the outline plan submission including approval of the draft performance measures. Approval of the publication of the information assurance plan.

**May 2018**
- Consideration of the draft final plan narrative.

**July 2018**
- Approval of submission and endorsement of the plan subject to due alterations for detail.

### 12.3 The role of the Audit and Risk committee in the production of this business plan

The Audit and Risk committee is comprised of all the independent non-executive board members. Its role in this context is to:

- scrutinise the company’s proposals, information and data submissions
- ensure that these submissions are accurate, reliable and complete, and consistent with the company’s statutory obligations
- report at each board meeting the outcome of its activity at the previous meeting. It may also recommend to the board whether we can approve the submission of regulatory information.

The Audit and Risk committee considered and recommended for approval the publication of the company Strategic Direction Statement in March 2016 and then took the following actions.

**November 2016**
- Review and approval of the assurance and governance strategy.

**September 2017**
- Scrutiny of the company’s proposed bioresources RCV and its submission at the subsequent board meeting recommended.

**November 2017**
- Scrutiny of the company’s water resources RCV and its submission at the January board meeting recommended.

**March 2018**
- Approval of the company’s assurance plan, and proposals for PR19 plan assurance considered and approved. The assurance map is shown as supporting document 12.2.

**July 2018**
- Scrutiny of the plan submission, recommending approval at the subsequent board subject to due alterations for detail.
August 2018

Review of the final plan submission by the chair of the committee confirming any changes were alterations for detail.

12.4 The role of the PR19 non-executive meetings

YTL is a long-term investor and consequently understands it must ensure the long-term health and resilience of the Wessex Water business. It considers that the independent non-executive directors are particularly important in making sure we always maintain the right balance between customers and investor. YTL has been clear that it will never do anything that does not have the support of the independent non-executives.

This group, made-up of five non-executive directors, including all the independent directors, met on four separate occasions to consider the business plan and elements of the PR19 submission.

These meetings were attended by executive directors and other company senior managers as required, including the director of regulation and reform. Due to their limited lifespan these have not been included as part of the company’s formal governance and control arrangements.

At these meetings the non-executive directors worked alongside the company’s management team to develop the company’s approach and to increase and better convey the ambition contained within the business plan, its alignment with the board’s strategy and the deliverability of its proposals.

<table>
<thead>
<tr>
<th>Meeting</th>
<th>Topics considered</th>
</tr>
</thead>
<tbody>
<tr>
<td>November 2017</td>
<td>Customer engagement</td>
</tr>
<tr>
<td></td>
<td>Company vision, strategy and long-term direction</td>
</tr>
<tr>
<td>January 2018</td>
<td>Company vision, strategy and long-term direction</td>
</tr>
<tr>
<td></td>
<td>Summary business plan and ambition</td>
</tr>
<tr>
<td></td>
<td>Assurance plan</td>
</tr>
<tr>
<td>May 2018</td>
<td>Affordability</td>
</tr>
<tr>
<td></td>
<td>Resilience</td>
</tr>
<tr>
<td></td>
<td>Cost efficiency</td>
</tr>
<tr>
<td></td>
<td>Financeability and financial resilience</td>
</tr>
<tr>
<td>June 2018</td>
<td>Financeability and financial resilience</td>
</tr>
</tbody>
</table>
12.5 The role of the PR19 non-executive subject matter experts

At an early stage in the PR19 process the non-executive directors understood that, in order to work alongside and challenge company management and the executive effectively, they needed to understand in greater detail the building blocks of the business plan. The board agreed to assign individual non-executive directors to specific subject matter areas, based on their areas of expertise.

<table>
<thead>
<tr>
<th>Non-executive director</th>
<th>Subject</th>
<th>Experience</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gillian Camm</td>
<td>Customers</td>
<td>Gillian has had a lifelong career in change management, ranging from the implementation of significant change programmes through to the coaching and development of senior leaders in a variety of sectors. She has worked with organisations to improve their diversity and had significant involvement in the recruitment of both executive and nonexecutive directors. Gillian is chair of the Leadership Foundation for Higher Education, a vice-president of Quartet Community Foundation, a member of the Merchant Venturers and the Honourable Gloucestershire Company and a deputy lieutenant of Gloucestershire.</td>
</tr>
<tr>
<td>David Barclay</td>
<td>Financeability</td>
<td>As an investment banker, David assisted YTL Corporation with its acquisition of Wessex Water in 2002, and since then has been a director of Wessex Water Services Limited. His aim is to promote and defend high standards of integrity and corporate responsibility in the boardroom. David is also a director of Wessex Water Limited, the holding company for Wessex Water Services, and YTL Land and Property Limited. David is currently deputy chairman of the British Library and a senior independent director of Wates Group Limited. His previous roles include vice chairman of Dresdner Kleinwort and non-executive deputy chairman of John Lewis plc.</td>
</tr>
<tr>
<td>Dame Fiona Reynolds</td>
<td>Environment</td>
<td>Dame Fiona has run or chaired large and small charities, many of which were going through change; she has campaigned for progress on conservation and environmental matters; engaged millions of people in conservation causes, and had a wide range of experience in public speaking, writing and the media. She became Master of Emmanuel College, Cambridge in 2012 after a long career in the voluntary conservation movement, latterly as Director-General of the National Trust. She was formerly Director of the Women's Unit in the Cabinet Office.</td>
</tr>
</tbody>
</table>
12.6 Meeting our statutory obligations

The board assures that, in our collective view, the proposals within the business plan are consistent with, and will allow the company to deliver against, its statutory obligations now and up to 2025.

The business plan also enables the company to exceed these obligations where this is in the interests of the people, customers and communities we serve and of wider society.

In making this statement we considered independent reports from Mott MacDonald on the compliance of the plan with statutory obligations and licence conditions. See supporting document 12.11 for further information on this.

The company senior independent non-executive director also engaged directly with representatives of DWI and the EA at a working level.

12.7 Our ongoing governance processes that are fit for purpose

The board of Wessex Water confirms that, in our collective view, the company’s ongoing governance processes are fit for purpose and will enable us to hold company management to account for the delivery of this business plan.

Organisation and Control Arrangements

As a board we annually review and approve the company’s Organisation and Control Arrangements (O&CA) which set out the framework for control of the company’s affairs.

The O&CA set out requirements for the competency of board members and its committees, for effective management of the company and for the granting of delegated powers and authorisations. The principal duties of the board, the matters reserved for its decision and the terms of
The day to day business of the board will continue to be supplemented by committees that consider audit & risk, corporate responsibility and remuneration in greater detail. These committees operate under the authority of the board and assist us in carrying out our duties. The committees report back to the board on decisions and actions taken together with any specific recommendations.

Customer Challenge Group
The Wessex Water Partnership (WWP) will continue to act as our Customer Challenge Group. It will bring the voice of the customer direct to members of the board. It will continue to challenge company management on both policy and performance against the proposals in this plan and on any adjustments to bills that result from this. It will also scrutinise the way the company has shared any outperformance with the Wessex Water community foundation. Its independent chair will continue to have direct access to both the company senior independent director and the company managing director.

Water Catchment Panel
During AMP6 we have supplemented the WWP with the Wessex Water Catchment Panel so that we can continue to bring varied parties together to find the best solutions to our problems at a catchment level and bring a wider environmental voice to the board. During AMP7 we intend to explore taking this approach a step further by operating at an individual catchment level.

Employee interests
This plan has been developed following wide engagement with employees at all levels of the business. Regular surveys show a high level of employee engagement and strong alignment with the company strategy. Taking into account the recommendations of the Wates review we will take further measures to ensure that the voice of staff continues to be heard at board level.

Information assurance
The board considers that the company has a strong track record of providing high-quality and accurate data. The company
has consistently met Ofwat’s expectations, and other stakeholders and regulators consistently praise the openness and transparency of the company when providing information to them.

The board and Audit and Risk committee review and approve the company’s strategy and approach to regulatory data assurance annually. The company Regulatory Assurance Manual is updated each year and published on the company website alongside the Assurance Plan.

The approach to data assurance for PR19 was agreed by the Audit and Risk committee. The board is, therefore, confident that the data assurance strategy has delivered high-quality, accurate data and information as part of this submission and will continue to do so for the lifetime of this plan.

12.8 Enabling trust and confidence

The board assures that this plan enables trust and confidence by ensuring a fair balance between customers and investors, and transparency on corporate and financial structures.

As a board we are clear that the long-term interests of the company’s owners must continue to be aligned with a wider social and public purpose. It follows that the value created will continue to be shared between investors and the people, businesses and communities we serve.

Greater transparency in the way that success is shared with others will aid trust. We will, therefore, more visibly share a greater proportion of this success by reinvesting transparently in the resilience of our local communities.

We intend to do this by creating and investing in a charitable trust. This community foundation will be independent of Wessex Water Services Ltd and its purpose will be to invest in the resilience of the local community, through investment in financial capabilities, STEM skills and environmental projects that will benefit wider society, thereby benefiting WWSL in the long run.

Underpinning our approach is the ethos of YTL, our long-term shareholder. YTL has shown its commitment to investment and growth in the UK and the building of more sustainable communities.

YTL’s ethos means we have always been structured and financed in a simple and transparent way, and that we have always paid our fair share of tax. The company has recently engaged on these issues with all of its customers through the customer magazine, that is delivered to all addresses in our area of supply. Our simple corporate structure is published each year in our Annual Review.

As part of this plan we have updated our dividend policy to more clearly articulate how delivery for customers, the environment and the fair interests of employees are taken into account when setting the level of dividends alongside financial resilience. We will publish each year how our level of dividend is in line with that policy.

The company will continue to be fully transparent on executive pay. In particular we will ensure that the calculation of any performance related element is substantially linked to stretching delivery for customers and the environment through service performance and cost efficiency.

12.9 Informed by engagement, reflecting customers’ priorities, is stretching and can be reported against

The board assures that this plan is informed by customer engagement and the views of the Wessex Water Partnership (WWP), and that the performance commitments contained
within it reflect customer priorities, are stretching and reporting is robust.

The PR19 non-executive committee reviewed the approach to customer engagement at its November 2017 meeting.

The executive presented the results and interpretation of that engagement and the resulting performance commitments were presented to the board in March 2018. The board approved these commitments for early submission.

The senior independent director has taken a particular role in this area and has:

- been briefed on the results of the key PR19 customer research project
- attended the meetings of the WWP. The terms of reference of the WWP (the company Customer Challenge Group) are included as supporting document 12.1
- been directly available to the WWP chair, Dan Rogerson
- met with Ofwat alongside company management on this subject
- attended customer research events to hear customers’ views first hand.

The chair of the WWP attended both board and Audit and Risk committee meetings. The draft report of the WWP was considered by the Audit and Risk committee at its July 2018 meeting where the chair was in attendance.

The Audit and Risk committee has considered a report from the company technical auditor on the reporting of future performance commitments (supporting document 12.3).

12.10 Affordable for all

The board confirms that this plan is affordable for all including in the long term, and includes appropriate assistance for those struggling, or at risk of struggling to pay.

We can be confident that our business plan is more affordable for the generality of customers and that it is affordable for all individual customers.

This business plan proposes that bills fall, in real terms, up to 2025. Current OBR economic forecasts imply that, by 2025, our charges will be a lower proportion of average incomes than at any time for the last 20 years. As a board we have achieved this by:

- working alongside company management to find ways to reduce the impact on bills of environmental improvements including through innovation
- accepting lower returns for investors
- setting challenging efficiency targets
- passing savings achieved from innovation in this period back to customers.

Members of the board reviewed advice from our independent Affordability Advisory Group, contained in supporting document 12.4, which confirms their view that our customer offering remains leading and that our proposals for improvements are building on strong foundations.

Our Assist tariff, which has now been operating for more than 10 years, sets charges at an affordable level for all customers, with no other eligibility requirements above a genuine affordability need. The company analyses data on take-up to understand where it may not be succeeding in reaching customers in need and uses this to target our funding. In this plan the company has committed to extending the reach of its social tariffs significantly up to 2025. It also has proposals to improve utility affordability more generally.

12.11 Informed by a systematic assessment of resilience

The board confirms that the plan is informed by a systematic assessment of the resilience of the company’s systems and services, customers’ views on resilience and an objective assessment
of interventions to manage resilience in customers’ long-term interests.

Providing resilient water and waste water services to our customers is not a new issue for Wessex Water. Guided by our Business Resilience Policy, business areas have focused on developing business continuity arrangements and emergency planning procedures. We also adopt best practice approaches to managing the risks to service posed by our asset systems through ongoing implementation of ISO55001.

In 2017 the Audit and Risk committee reviewed how resilience planning was integrated into the corporate governance of risk identification and management. The business created a new corporate service resilience policy with ownership assigned to the chief operating officer (supporting document 12.5).

The Audit and Risk committee has reviewed the results of an independent report on the company’s approach to systematically assessing operational resilience, conducted as part of this policy. This review uses the BS65000 framework to assess the maturity of resilience planning of the company, to inform business-wide actions (supporting document 12.6).

The company is making sure that it has the staff and skills it needs for the future, through its education programme and workforce planning. This is evidenced by the company’s membership of the 5% club, a government backed scheme signifying that more than 5% of our workforce is in formal training or apprenticeship schemes. In fact nearly 10% of our workforce in such schemes.

The board has also considered the results of our customer engagement on resilience, in particular that resilience is not a term readily understood by customers. They are more engaged by the use of the term ‘future-proofing’. We understand, therefore, that customers:

- are willing to pay more now to reduce the risk to services for future generations
- consider that their bills already cover the costs of dealing with current risks
- understand that new risks to service will require investment and increases in bills
- are willing to play their part in increasing resilience.

The board considers that the measured proposals in this business plan for increased resilience are in line with customers’ views. We understand that, while the assessment shows that our resilience is generally good, this process has identified proposed improvements to service and systems resilience during the next price control period. These improvements will ensure that: we are better able to maintain supplies from our largest water treatment works; that we remain resilient to cyber-attack; and that assets are protected from flooding.

Noting the willingness of customers to play their part, the board considers that additional investment in helping customers to change the way they use our services is recognition that resilience is not just about building assets. These will increase the resilience of the company’s services in the long run, reducing pollutions, sewer flooding and maintaining its strong water resource position.

Catchment-based approaches to protecting the natural resources that the company relies on are also an important part of this story and this business plan retains a strong focus on delivering catchment solutions wherever possible.

Often these solutions are lower cost and have lower environmental impact and are therefore in customers’ long-term interests.

12.12 Efficient expenditure projections

The board confirms that the expenditure projections contained within this business plan are robust and efficient, and that large investments are deliverable and best for customers.
The board has considered the outputs from work conducted by and with economic consultancies to develop models to assess the efficient level of retail and wholesale operating expenditure and maintenance costs and the way these have been incorporated into our plan projections. We have also considered external forecasts of input price pressure and productivity improvements, as well as specific research on energy prices.

Where the business plan proposes large investments and/or specific adjustments to modelled costs, the board has reviewed reports from independent consultants to challenge and validate those cost estimates that are produced internally by company management. The board has also challenged company management on their deliverability and received assurances on this subject.

These assurances included that the company continues with its in-house engineering and construction provision that has successfully delivered projects ranging in value from a few thousand pounds up to a £228m water grid. Projects in AMP7 are of a similar nature and scale to those delivered in AMP6 and previous AMPs.

Internal cost estimates for our investment programme have been validated by external consultants and the Audit and Risk committee has had access to these reports.

The chair of the Audit and Risk committee, Huw Davies has taken a particular role in this area, meeting with company management through 2017 and 2018 to review the size, scope and efficiency of the investment programme.

12.13 Risks and their mitigation

The board confirms that it has identified the risks associated with the delivery of the business plan and has appropriate mitigation plans in place.

Risk identification and mitigation is a business as usual process, and the company has reviewed the corporate risk register and considered the quantum of risks within the context of PR19 and the five-year period to 2025 and has identified mitigation plans where these risks are material. In line with the company O&CA these risks and their mitigations have been exposed to and considered by the full board.

This work has identified that the key risk is the uncertainty over the quantum of the environmental programme, which will not be fully defined until after final determination. This plan proposes a mechanism that protects customers from significant changes in our statutory environmental requirements.

The board supports strong incentives for performance delivery and the application of financial adjustments for performance delivery within the price review period. The board notes however the potential negative impacts for customers in the short and long-term if these adjustments are too great in any one year. This plan mitigates this risk by proposing to cap the total level of adjustment in any one year with any remaining adjustment made at the end of the price control period.

12.14 Financeable

The board confirms that, if the business plan is accepted in full with no material adjustments to expenditure or committed performance levels, or otherwise to the balance of risk and reward that the plan is financeable on both Ofwat’s notional capital structure as described in December 2017 and on the company’s actual capital structure, and in that regard that the plan protects customers’ interests in the short and long term.

The board has reviewed the outputs of Ofwat’s financial model and the company’s own corporate financial model to assess whether the plan is financeable.

The board considers that the plan gives us the opportunity to deliver reasonable value to investors up to 2025, commensurate with
the risks faced while at the same time maintaining a robust investment grade credit rating.

This is the key test for financeability and the board is willing to assure the plan as financeable on that basis.

The board notes that the notional gearing structure proposed by Ofwat is lower than that contained in the plan and the board therefore considers that this structure would also be financeable.

12.15 Financially resilient

The board confirms that, if the business plan is accepted in full with no material adjustments to expenditure, committed performance levels or otherwise to the balance of risk and reward that, consistent with the long-term viability statement in the 2018 company accounts, the company remains financially resilient.

We agree with Ofwat’s view that financing strategy is a matter for company boards. We note that under the plan and its associated dividend policy the actual level of regulatory gearing is to be kept below 70% in all years. We also note that, while interest cover ratios are expected to be lower than in the current period, they remain substantially above the required levels to raise additional capital to finance future investment at a reasonable cost.

Taking the company risk register into account, plus the regulatory environment, the impact of the wider group and the wider economic situation and outlook, the directors considered the impact of individual risks. They also considered a series of scenarios linking back to one or more risks that would place financial stress on the company over a number of years. The scenarios took into account some of the mitigations inherent within the regulatory framework and the company extended these scenarios to 2030.

This analysis, alongside an independent review from Oxera LLP consulting, included as appendix 10.1.A has been reviewed by the board.

The key areas considered by the directors were: the compliance with financial covenants in respect of gearing and interest cover and the ability to maintain an investment grade rating.

In making its assessment of financial viability over this extended time period the directors noted that in some instances not all metrics are held above a level that is required to maintain an investment grade rating, even with the most available mitigating actions having been taken, including restriction of dividends.

Where this is the case the directors considered the circumstances that would give rise to these modelled scenarios more deeply. Some of these scenarios have not been designed to reflect likely conditions over the long term and therefore it would not be appropriate to assume the adverse effects are maintained over a period of longer than one or two years. In some of these scenarios the impact on the ratios is itself short lived and would not reflect the underlying viability of the company.

In scenarios where the strain on ratings has more longevity, and this longevity of impact has credibility, the directors consider it would be highly probable that a significant proportion of the adverse impact would have been caused by an unforeseen circumstance that could not have been avoided by prudent management action. The directors would in these circumstances seek an adjustment to allowed turnover through the regulatory framework.

In making this assurance statement the board also takes particular note of:

- our active and long-term shareholder, YTL, and its commitment to long-term stewardship
- our continued flexible dividend policy, and
• Ofwat’s duty to finance the company functions, in particular by allowing it to earn a reasonable return.

Following these assessments, and subject to the appropriate performance of Ofwat’s statutory duties, the directors confirm that they have a reasonable expectation that, consistent with the view published in the annual accounts 2018, the company will be able to continue in operation and meet its liabilities as they fall due up to 31 March 2025.

The board also considered the same scenarios extended to 2030. It noted that the financial metrics up to 2030 showed no less resilience than in the period up to 2025. In particular, the adverse impacts suffered in the period to 2025 in the most severe scenarios result in upward adjustments to the companies’ revenues after 2025 through the regulatory sharing mechanisms for expenditure.

In making its assessment post 2025 the company has had to make reasoned and reasonable assumptions on the availability of finance capital and the size of the statutory investment programme which is more uncertain than for the period to 2025. It has also assumed the continued appropriate performance of Ofwat’s statutory duties. Having done so the board considers and provides a level of assurance that the plan is consistent with financial resilience in the long term.

12.16 Accurate, reliable and complete data

The board confirms that its data submissions and, in particular the allocation of costs and assessment of taxation, are accurate, reliable and complete.

Data table submissions and their associated commentaries have been subject to the highest-assurance level under the Regulatory Assurance Manual including:

- certification from compilers that they are accurate, reliable and complete and that any forecasts are reasoned and made in good faith
- certification from owners who are senior managers in the business that they can confirm information is accurate, reliable and complete and forecasts are reasoned
- external technical audit, with particular attention paid to information where judgement is required. (supporting document 12.7).

The Audit and Risk committee has also considered a report from Mott MacDonald on the allocation of our costs between price controls (supporting document 12.9) and an agreed procedures report from Ernst & Young on the input of financial data (supporting document 12.8).

The Audit and Risk committee separately considered an independent report confirming that assumptions on corporation tax are robust and reasonable. (supporting document 12.10)

12.17 Board endorsement

On 23rd July the full board of Wessex Water Services Ltd following a recommendation from the company Audit and Risk committee, agreed a resolution to endorse the business plan and this assurance statement.
This business plan and the assurance statements contained in section 12 are therefore endorsed by the full board of Wessex Water Services Ltd:

Francis Yeoh CBE  
(Chairman)

Gillian Camm  
(Senior Independent Director)

Colin Skellett OBE  
(Chief Executive)

David Barclay

Dame Fiona Reynolds

Hann Yeoh

Huw Davies

James Rider

Hong Yeoh

Richard Keys

Mark Watts

Mark Yeoh

Andy Pyner