

Elements of the plan

Accounting for Past Delivery



South West
Water



Bournemouth
Water

Elements of the plan



Engaging Customers



Addressing Affordability & Vulnerability



Delivering Outcomes for Customers



Securing Long-Term Resilience



Targeted Controls, Markets & Innovation



Securing Cost Efficiency



Aligning Risk & Return



Accounting for Past Delivery



Securing Trust, Confidence & Assurance

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Introduction

Performance against cost and service targets agreed with customers for 2015-20 have, largely been delivered. We are on track for delivery of all our commitments by 2020, with additional action being taken in the few areas where performance has been below expectations. In many areas we are achieving sector leading performance. Customers have told us that is the least they expect.

This document set outs our actual and forecast performance to 2020 against all aspects of our PR14 business plan and 2014 Final Determination that have been continually reviewed and scrutinised by our customers and the WaterFuture Customer Panel (WFCP) including:

- Board pledges and commitments
- Service targets and performance commitments
- Investment and operating costs
- Bournemouth Water integration
- Operation of the retail non-household market.

This document also sets out the adjustments we have proposed and tested with our customers to the 2020-25 revenue controls including

- PR09 regulatory adjustment
- 2014/15 blind year
- Totex outperformance
- Outcome delivery incentives (ODIs)
- Land sales.

The purpose of this document is to provide strong evidence of our engagement with customers on our proposed PR14 reconciliation adjustments. Evidence is also presented to confirm the proposed adjustments to the PR14 reconciliation rulebook methodology and allocated correctly to the separate price controls for the 2020-25.

In addition, this document provides strong evidence that we have a robust approach to delivering our PR19 business plan, which will ensure the delivery of all our promises made to customers for 2015-20. In the few areas where performance has fallen below expectations we have identified the reason for this and taken swift, proactive action to resolve by 2020.

Business plan navigation

This document is part of the overall business plan providing key information about our proposals and how it answers the initial assessment of business plan tests.

Accounting for Past Delivery

- PD 1** How well has the company given evidence for its proposed reconciliations for the 2015-20 period, and has it proposed adjustments by following the PR14 reconciliation rulebook methodology?
- PD 2** How well has the company performed, and is forecast to perform, over the 2015-20 period and, taking into account this overall performance, how well has it put measures in place to ensure that it maintains confidence that it can successfully deliver its PR19 business plan?





Answers to these questions are summarised in the **Summary** chapter of this document, with signposts to further detail and evidence within this document, and where appropriate, other documents forming part of the overall business plan submission – see **Document map**.

Business plan navigation continued











Document map

The primary documents within the business plan submission are illustrated below. Other supplementary information, reports and documents are also referenced within these documents and can be accessed using a link in the document, where appropriate.



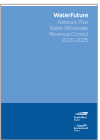



Business plan to 2025

	Business Plan		WaterFuture Customer Panel Report		Customer Summary		Investor Summary
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Elements of the plan

	Engaging Customers		Addressing Affordability & Vulnerability		Delivering Outcomes for Customers		Securing Long-Term Resilience		Targeted Controls, Markets & Innovation
	Securing Cost Efficiency		Aligning Risk & Return		Accounting for Past Delivery (this document)		Securing Trust, Confidence & Assurance		Board Assurance Statement

Revenue controls

	Appointee Summary + Tables and commentary		Water Resources Wholesale Revenue Control + Tables and commentary		Network Plus Water Wholesale Revenue Control + Tables and commentary
	Network Plus Wastewater Wholesale Revenue Control + Tables and commentary		Bioresources Wholesale Revenue Control + Tables and commentary		Residential Retail Revenue Control + Tables and commentary

Business plan to 2050

	2050 Vision		2050 Environment Plan		Draft Water Resources Management Plan		Drainage and Wastewater Management Plan
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Executive summary

Since the submission of our PR14 business plan, the Board of South West Water has been monitoring and scrutinising performance against the promises and commitments made to our customers.

Continuous and extensive Board led governance and oversight of performance

Through our customer driven culture, values and innovative WaterShare mechanism, we have empowered our customers to hold us to account on our promises, ensuring the provision of outstanding service to communities, while keeping bills as low as possible.

We are on track to deliver all of our promises made to customers and regulators in PR14 including:

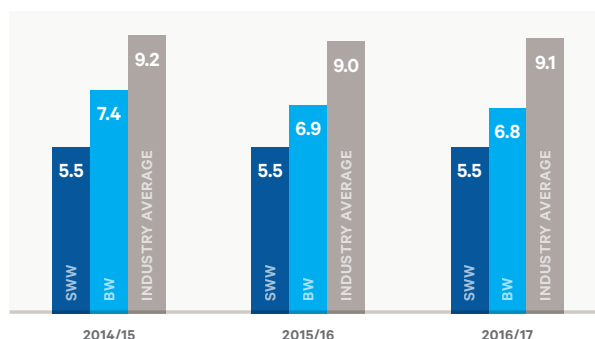
- Performance commitments (see service targets section)
- Statutory and licence obligations (see statutory and legislative obligations section)
- Cost allowances and efficiency (see expenditure and efficiency section)
- Board pledges (see Board pledges section)
- Entering and operation of the retail non-household competitive market (see retail non-household market opening and operation section)
- Bournemouth Water integration (see Bournemouth Water integration section)
- Responding to and providing timely communication to regulators and customers during incidents (see management of events and incidents response section)
- Efficiently responding to customer complaints (see 'responsiveness' outcome included within the service targets section).

PR14 Board pledges delivered

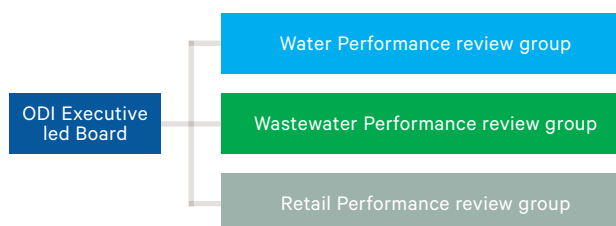
✓ Keep price rises well below inflation
✓ Deliver efficiency through innovation to keep costs and customers' bills as low as possible
✓ Share the benefits of success fairly between customers and investors
✓ Make significant improvements to frontline customer services
✓ Deliver service and environmental improvements
✓ Support sustainable regional growth

Our **extensive Board governance and their oversight of performance**, ensures **all employees in our business are focused on strategic priorities and delivering for customers**. All performance related pay for our employees is dependent on achieving the stretching service commitments in our business plan. This alignment has helped deliver sector leading performance in many areas e.g. leakage.

Water sector leakage performance (m³/km of main/day)



An embedded outcome delivery incentive (ODI) governance framework which tracks performance and is reported to Board on a monthly basis, ensures reasons are understood for any deviations from performance and actions are implemented to address.



For more information, see



Board Assurance Statement



Securing Trust, Confidence & Assurance

Executive summary continued

A good example of this is seen in our event management planning and response procedures, applied during any event or incident. We undertake post event surveys with customers to understand their experience at the time, in order to learn lessons for future events which are discussed through the ODI governance framework. The most notable one being the recent Freeze and Thaw event resulting from 'Storm Emma'.



For more information, see **South West Water response to Storm Emma**

Learning from the last cold weather event we experienced in 2010/11, we were well prepared for the weather impacts of Storm Emma. Our Board provided leadership and oversight in the lead up, during and after the event.

Ofwat acknowledged our response to the event noting in the 'Out in the cold' report that



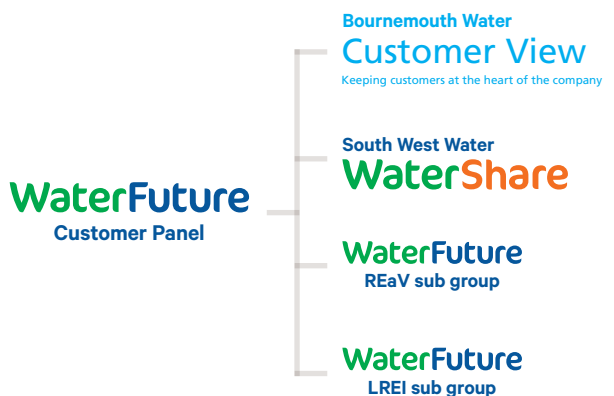
“South West Water demonstrated good communication with wider stakeholders to respond to the needs of customers in vulnerable circumstances, including their customer service team receiving training from the charity MIND and the British Red Cross supporting their effort to distribute bottled water to customers. Precautionary tankers were provided to hospitals in the areas confirmed to be without 24 hour storage.”

Paul Netherton
Deputy Chief Constable
Devon & Cornwall Police
Chair of the Local Resilience Forum'

Nevertheless, despite our preparedness and effective response to the incident, inevitably there were lessons to be learned. Following the event, internal workshops and customer surveys identified areas of improvement if such an extreme event occurred again. These improvements focused on improving communication channels with retailers outside of normal working hours, increased telemetry at service reservoirs and additional interconnections providing greater flexibility for moving water around the network to areas most in need. These have already been incorporated into community resilience improvement programmes of work, already reaping benefits in response to the prolonged dry weather being experienced since the beginning of June 2018.

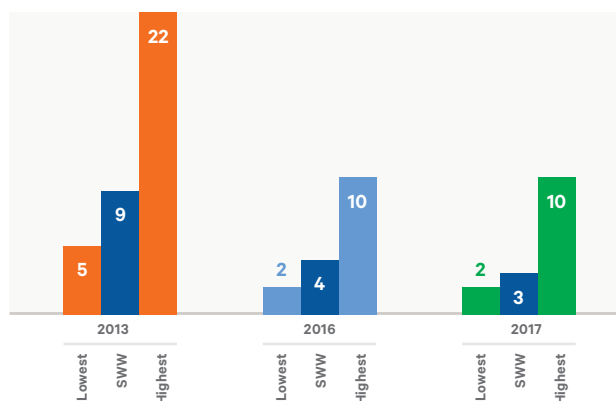
Additional independent panel oversight

The continuous focus, review and oversight of performance has also been enhanced by the challenge provided by the independent South West WaterShare Panel and Bournemouth Water Customer View Group which have been in operation since the submission of the PR14 business plan.



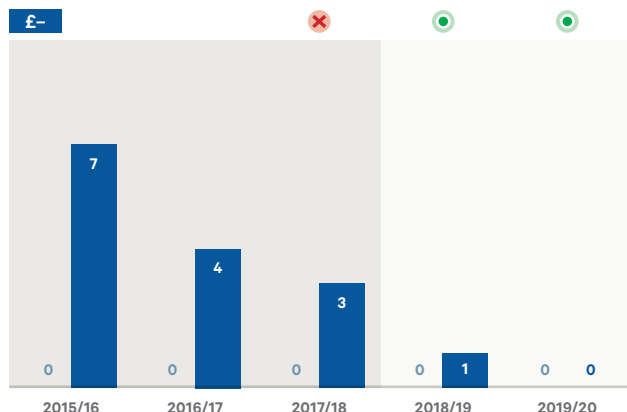
Forecast performance has been extensively challenged internally by our own Board and also by the independent WaterFuture Customer Panel. Key challenges raised on our forecast performance to 2020 included:

- Supply interruptions
- Cat 3-4 water pollutions
- Customers paying a metered bill
- Wastewater operational contacts resolved first time
- Cat 1-2 wastewater pollution incidents
- Cat 3-4 wastewater pollution incidents
- River water quality
- Customer satisfaction with value for money
- Contribution to the community.



Executive summary continued

Pollution incidents – category 1 and 2 (number)



We have fully responded to all of the challenges raised (see **Service targets** chapter) demonstrating robust plans are already being implemented to secure forecasted levels of performance. One example has been the implementation of a Pollutions Reduction Improvement Strategy agreed with the Environment Agency reducing our serious pollutions toward our target zero. We believe serious pollutions should be eradicated.



For more information, see **WaterFuture Customer Panel Report**

Reports of the independent WaterShare Panel are published annually and reported to the Board of South West Water and Ofwat on the Panel's assessment of performance. A WaterShare scorecard is published, transparently reporting performance across all aspects of our business. This is used with customers to test different options over the sharing of in-period financial incentives resulting from service performance and other factors within the WaterShare mechanism.

As a result, customer surveys and engagement are routinely undertaken throughout the year on performance and options for sharing of benefits. This engagement has transformed the relationship with our customers and openly held us to account on our performance.

Beyond 2020, we are enhancing the WaterShare reporting and governance framework to reinforce the confidence to customers over our service delivery. This framework will be applied to Bournemouth Water operations and the Isles of Scilly (if NAV application accepted) for the first time.



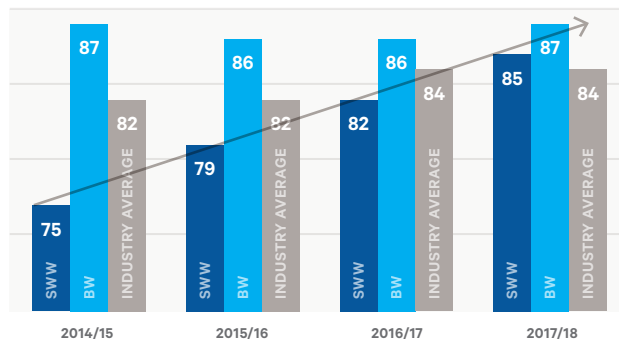
For more information, see **Aligning Risk & Return**

Consistent and reliable delivery

The strong governance and assurance framework, embedded into our business, has ensured consistent and reliable delivery of the stretching PR14 commitments agreed with our customers. We have made significant improvements in performance and are on track to deliver 39 out of 40 ODIs for South West Water customers and 14 out of 15 ODIs for Bournemouth Water customers (see **Service targets** chapter).

This has helped contribute to the rapid improvement seen in overall customer service levels as assessed by the SIM measure.

Service incentive mechanism (SIM)



Executive summary continued

We have been able to improve performance and deliver further cost reductions leading to strong outperformance on all areas of RoRE package. As a result we are the only company to outperform all elements of RoRE every year.

RoRE



RoRE outperformance has been driven by:

- Totex outperformance of c. £170m cumulative to 2017/18
- Net ODI rewards every year indicating overall outperformance on customer service
- Fastest rate of SIM improvement in the industry delivering 2020 target two years early
- Leakage targets met every year
- Best ever wastewater compliance and pollutions incident numbers, going further than our PR14 commitments
- Lowest cost of debt in the sector
- WaterShare operation yielding c. £12m of additional benefits available for sharing with customers at 2017/18
- Successful integration of Bournemouth Water.

And finally, all of the commitments set out in the rationale document presented to Ofwat and the Competition and Markets Authority (CMA) during the acquisition of Bournemouth Water in 2015 have been delivered ahead of time.

This has delivered a better comparator (service and cost) for the sector from the following:

- ✓ Retail synergies resulting from combining of retail operations
- ✓ Wholesale operational synergies
- ✓ Applying best practice from Bournemouth Water to SIM and debt collections
- ✓ Applying best practice from South West Water to leakage and cost efficiency
- ✓ Reduced overhead
- ✓ Return of small company premium to Bournemouth Water customers
- ✓ Introduction of social tariff to Bournemouth Water customers



For more information, see **Securing Cost Efficiency**



For more information, see **Pennon Plc Acquisition of Bournemouth Water**

Executive summary continued

Substantial customer benefits derived

This efficient delivery of services to customers will result in substantial benefits following the application of the 2015-20 reconciliation adjustments.

Customers benefit from this outperformance with lower long term costs.

	Revenue adjustment £m	Opening RCV adjustment £m
PR09 regulatory adjustment	0.0	(44.4)
2014/15 blind year	(17.5)	(5.8)
2015-20 totex outperformance ¹	(11.8)	(162.6)
2015-20 ODIs ²	11.8	8.3
2015-20 land sales	0.0	(3.6)
Total adjustments	(17.5)	(208.1)

¹ Includes retail revenue

² Includes Service Incentive Mechanism (SIM)

Independent external assurance

All inputs into the reconciliation adjustments and the final outputs are independently assured. The adjustments are based on externally assured performance as reported in statutory and regulatory submissions published annually. All proposed adjustments are made in accordance with the PR14 reconciliation handbook with adjustments being applied to revenues and regulatory capital value (RCV) for 2020-25. This takes account of all PR14 incentive mechanisms.

Far reaching customer engagement

We have undertaken extensive engagement with customers and stakeholders in all aspects of our business plan. Different bill profiles resulting from reconciliation adjustments have been tested with customers to understand their preferences for changes in their bill over the period.

Annually we seek views from our customers on their preference for bill changes as a result of ODI in period performance.

The result of this research is used to determine our final decision to change customers' bills immediately or defer to future periods to allow for a smoother bill. **Results from customer research with respect for PR14 reconciliation adjustments show strong support for smoother bills and this has been reflected in our business plan.**

Affordability is an overarching priority for our customers and we believe our approach for smoothing bills aligns with this principle.

The **strong track record of delivery** we have demonstrated against our stretching PR14 commitments provides trust and confidence to customers that the stretching targets and commitments proposed in our PR19 business plan will be delivered.



For more information, see
Delivering Outcomes for Customers



For more information, see
Engaging Customers

Executive summary continued**Key messages**

- ✓ All inputs into PR14 reconciliations independently assured
- ✓ Proposed adjustments made in accordance with the PR14 reconciliation rulebook methodology
- ✓ All adjustments proposed have been tested with and supported by customers
- ✓ All stretching cost, service and bill commitments made to customers in PR14 are on track to be delivered by 2020
- ✓ All elements of RoRE outperformed every year of current regulatory period
- ✓ All Board pledges made to customers including Bournemouth Water integration have been delivered
- ✓ Track record of delivery gives confidence over credibility of stretching PR19 plans
- ✓ Extensive Board oversight and governance on performance
- ✓ Understanding of drivers of performance and action taken to address any areas where improvement required
- ✓ WaterShare governance BAU framework has held us to account on all areas of performance (cost and service) – being retained post 2020
- ✓ Customer focus and contact resolution improvement driven SIM scores

Board pledges

In 2014 we submitted a high quality and assured business plan, founded on what customers had told us.

The Board committed to keeping customer priorities central to our planning and decision making process and a number of Board pledges. All of the pledges have either been delivered or are well on track for delivery by 2020.

- ✓ **Keep price rises well below inflation**
- ✓ **Deliver efficiency through innovation to keep costs and customers' bills as low as possible**
- ✓ **Share the benefits of success fairly between customers and investors**
- ✓ **Make significant improvements to frontline customer services**
- ✓ **Deliver service and environmental improvements**
- ✓ **Support sustainable regional growth**

Keep price rises well below inflation

In 2014/15 we passed savings to customers early by freezing tariffs for 2014/15. Every year since 2013/14 we have kept bill rises for customers below inflation with the most recent year having a price decrease, meaning that customer bills are lower now than they were in 2009. In addition to keeping bills as low as possible, we have continued with sector leading support for any customer who cannot afford or struggle to pay their bill.

Deliver efficiency through innovation to keep costs and customers' bills as low as possible

With relatively low incomes in our region, keeping costs as low as possible is essential to ensure customer bills are kept as low as possible. We have delivered over £170m totex efficiencies so far this period and are forecast to deliver further efficiencies by 2020. Savings have been made across the business and throughout the value chain, through our cost customer and focused culture, innovative ways of working and integration with Bournemouth Water. Stretching efficiency targets of 2.5% p.a. on operating costs and 5.5% on capital costs have been delivered which will reinforce our PR14 assessment as the leading water company on cost efficiency, setting the benchmark for the industry.

Share the benefits of success fairly between customers and investors

In our PR14 business plan we created an innovative WaterShare mechanism to transparently report performance and share the benefits of success fairly between customers and investors. Following the business plan submission in December 2013, we established the independent WaterShare panel.

The WaterShare Panel was tasked with regularly reviewing and scrutinising company performance against performance commitments agreed with customers. In addition the Panel challenged company proposals over the sharing of net gains resulting from company performance annually.

WaterShare has operated successfully ever since the PR14 business plan was submitted, overseeing the operation of the WaterShare mechanism resulting in c. £12m of accrued benefits to date being shared via reinvestment in services and bill reductions. In addition, it has given customers a greater visibility of performance and returns, as well as a greater say in the decision making over the different options for the receipt of any benefit share.

Make significant improvements to frontline customer services

Stretching service improvements were targeted in PR14 in the areas that mattered most to customers. A new Board led outcome delivery incentive governance framework reviewing and scrutinising performance on a monthly basis has ensured all of the ambitious targets set are on track for delivery.

This oversight has been supplemented by the additional review and scrutiny by the independent South West WaterShare Panel and Customer View Group in Bournemouth. This has resulted in our best ever SIM results in both South West Water and Bournemouth Water, and South West Water achieving overall first place in the industry in one of the qualitative quarterly SIM surveys and its 2020 target two years early.

We have significantly improved customer response times and first time customer contact resolution rates. We have also achieved accreditation to the Institute of Customer Service.

Board pledges continued

Deliver service and environmental improvements

In addition to the stretching improvements targeted in frontline customer services, ambitious targets were set for environmental improvements. We have made significant improvements across all areas of our environmental performance including:

- Lowest ever number of serious cat 1 – 2 wastewater pollutions and on track for zero by 2020
- Zero serious cat 1 – 2 water pollutions every year
- Industry leading leakage control and leakage targets met every year
- 100% wastewater descriptive compliance achieved and targeting 100% numeric compliance at 2020
- Industry leading drinking water quality results
- Significantly reduced risk of sewer flooding
- Excellent bathing water and improving river water quality
- Significantly reduced likelihood of water supply interruptions.

We are also already delivering part of the Defra 25 year environment plan through our peatland restoration work.

Support sustainable regional growth

Supporting our regional economy and community is an essential part of our operation. We work collaboratively with a number of partners to ensure effective investment in the region and efficient delivery of service outcomes for customers. This has included:

- Partnership working at catchment level through our flagship 'Upstream Thinking' and 'Downstream Thinking' projects
- Supporting local tourism businesses with significant investment to protect bathing and shellfish waters
- Ongoing support for educational and apprenticeship opportunities with over 100 apprentices appointed in the last four years
- Using our regional supply chain to support local economic growth during the delivery of our investment programme supporting over 5,000 local jobs
- Partnership working to ensure our affordability measures are acceptable to customers in hard to reach communities.

The delivery of all Board pledges has not only enhanced the service our customers receive but also gives them trust and confidence we will deliver the commitments we make to them for PR19.



new
deal

Service targets

We have come a long way since privatisation. We have transformed the water and wastewater services our customers rely on, undertaken major improvements of our assets to protect and enhance the natural environment and, in turn, helped to underpin the vibrant, growing economy of a region with unique characteristics and an enviable quality of life.

The investments we have made have ensured a reliable and resilient service being maintained to customers even in the face of extreme weather events such as 'Storm Emma' that impacted on water and wastewater services nationwide during March 2018.

Our extensive Board governance and oversight of performance ensures all employees in our business are focused on strategic priorities and delivering for customers. An embedded service delivery governance framework which tracks performance and reported to Board on a monthly basis ensures reasons are understood for any deviations from performance and actions implemented to address.

This oversight and review of performance has also been enhanced by the challenge provided by the independent South West WaterShare Panel and Bournemouth Water Customer View Group which have been in operation since the submission of the PR14 business plan.

The company has consistently outperformed its overall service commitments agreed with customers during PR14 resulting in the annual achievement of net rewards across the basket of ODIs.

We have made significant improvements in our performance and are on track to deliver 39/40 and 14/15 in South West Water and Bournemouth Water respectively.

Our ambitious target of customer perception of value for money in South West Water is lower than targeted. In Bournemouth Water the number of volunteer days is lower than planned but this has been mitigated by monetary donations to local charities and community groups.

We have not stopped there, with further stretching improvements being targeted where customers and stakeholders indicate willingness for continued improvements. We have agreed, and are already seeing the benefits of minor pollutions incident improvement programme as part of a wider 2050 environment plan.

This has already resulted in a 19% reduction since the start of the five year period (2015-20) and we are confident in our ability to bring the number of incidents down further during 2018/19 and 2019/20.

Water supply interruptions performance is generally very good. We were adversely impacted by the 1 in 60 year event (Storm Emma) in March 2018. Prior to that event performance was on track to meet the performance commitment for that year. Multipurpose vehicles have already been purchased to provide a rapid response to complex bursts in order to reduce the risk of customer supplies being interrupted. Although statistically it is not anticipated that another 1 in 60 year event will occur again during this regulatory cycle, improvements and investments have also been made to better protect customers from the risk of their supplies being interrupted by extreme weather (e.g. additional telemetry to give extra visibility of the network enabling extra warning of issues).

39/40 commitments to be delivered by 2020 for South West Water customers

14/15 commitments to be delivered by 2020 for Bournemouth Water customers

Service targets continued

Performance against individual performance commitments has driven net outperformance payments every year and this trend is forecasted to continue.

Total revenue & RCV ODIs	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m	Total £m
Wholesale water	0.608	2.696	1.243	2.021	2.261	8.829
Wholesale Wastewater	1.221	0.925	1.414	1.055	0.157	4.772
Retail household	0.000	0.000	0.000	0.000	0.000	0.000
Retail non-household	0.000	0.000	0.000	0.000	0.000	0.000
Total	1.829	3.621	2.657	3.076	2.418	13.601

Individual ODI performance measures are summarised by outcome are in the remainder of this chapter using actual performance to 2017/18 and forecasted performance to 2019/20. Actual performance has been assured and published in the 2017/18 Annual Performance Report. Forecasted performance is based after considering 2018/19 in year performance and activities planned for the remainder of the regulatory period. Forecasts have been challenged extensively by our internal ODI governance framework and also independently by the WFCP and external assurance providers, Jacobs.

For more information, see



WaterFuture Customer Panel Report



Annual Performance Report 2018

Service targets continued

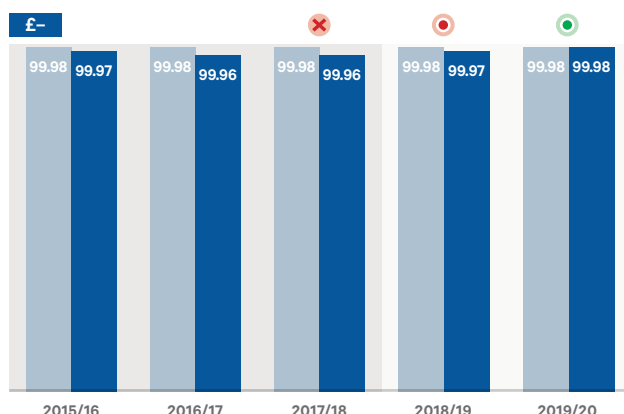
Clean, safe and reliable supply of drinking water

Providing an uninterrupted supply of fresh clean water that not only meets the highest water quality standards but is also free from unwanted taste, colour or odour.

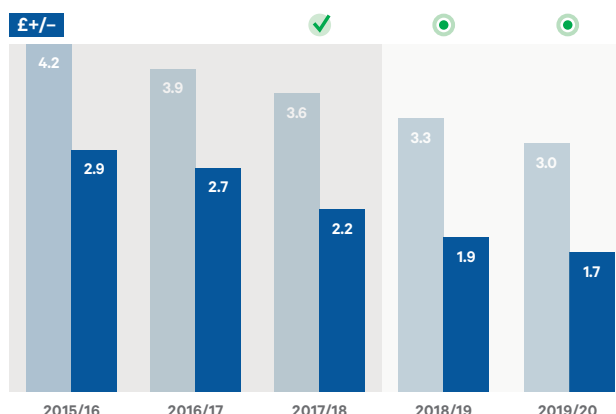


Clean, safe, reliable supply of drinking water	2015/16	2016/17	2017/18	2018/19	2019/20
Compliance with water quality standard	99.97	99.96	99.96	99.97	99.98
Taste, smell and colour contacts per 1,000 population	2.9	2.7	2.1	1.9	1.7
Asset reliability (pipes)	Stable	Stable	Stable	Stable	Stable
Asset reliability (process)	Stable	Stable	Stable	Stable	Stable
Duration of interruptions to supply (hours per property)	0.42	0.22	0.37	0.19	0.16

Compliance with water quality standard



Taste, smell and colour contacts



The quality of our drinking water has consistently remained as some of the best in the industry despite falling marginally below the 99.98% stretching target we set ourselves. With additional investments being made in granular activated carbon and ultraviolet disinfection processes being commissioned at various water treatment works, we anticipate compliance levels to return to 99.98% and above by 2020.

In addition to achieving excellent water quality standards, we are committed to minimising any taste, smell or discolouration issues. At PR14 we set stretching service improvements in this area and we have seen a significant reduction of 36% from 2014/15. These improvements have been driven through a combination of upgrades to water treatment works and additional flushing of our water mains. We remain focused on driving further improvements before 2020 and as such anticipate 23% reduction from 2014/15 levels.

■ Target
 ■ Actual/Forecast
 ✔ Met
 ○ On target
 ○ Not on target
 ✘ Not met
 Incentive types: £- Penalty only £+/- Reward and penalty

Service targets continued

Asset reliability

Asset reliability – pipes

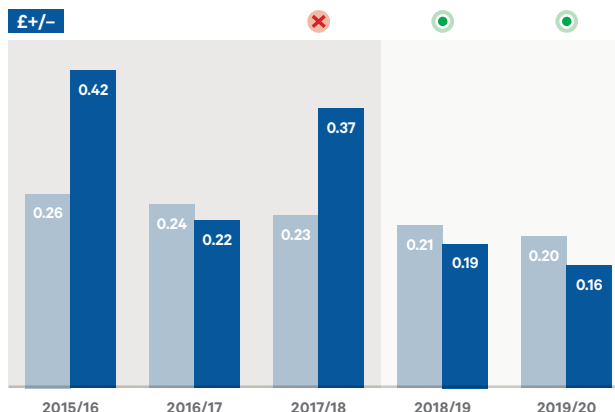
£-		✓	●	●
Stable	Stable	Stable	Stable	Stable
Stable	Stable	Stable	Stable	Stable
2015/16	2016/17	2017/18	2018/19	2019/20

Asset reliability – process

£-		✓	●	●
Stable	Stable	Stable	Stable	Stable
Stable	Stable	Stable	Stable	Stable
2015/16	2016/17	2017/18	2018/19	2019/20

Our goal is to maintain the ability of our assets to deliver reliable and robust services to customers. The technical assessment of long-term reliability uses a range of measures established under our long-standing serviceability assessment processes. In every year of this regulatory period South West Water has delivered stable asset reliability and is forecasted to continue to 2020 and beyond.

Duration of interruptions in supply (hours/property)



We believe no customer should experience interruptions to their water supply. Our focus has been to find innovative ways of ensuring a continuous supply of water is maintained for our customers. Investment in rapid response multi-purpose vehicles capable of undertaking repairs to burst water mains whilst maintaining supplies to customers have been deployed over our region to improve performance in this area. The extreme freeze and thaw weather in March 2018 caused an unprecedented level of main bursts in the region that did result in some 'atypical' supply interruptions for customers. Had this 1 in 60 year weather event not occurred we would have achieved our performance commitment in 2017/18, as we anticipate doing for 2018/19 and 2019/20.

The supply interruptions forecast performance for 2019/20 was challenged by the WFCP given the 2017/18 reported position. We were able to demonstrate that prior to that event performance was on track to meet the performance commitment for that year and how improvements and investments have been made to better protect customers from the risk of their supplies being interrupted by extreme weather (e.g. additional telemetry giving advance warning of issues).

Legend: Target (light blue), Actual/Forecast (dark blue), Met (green check), On target (green circle), Not met (red X).
 Incentive types: £- Penalty only, £+/- Reward and penalty

Service targets continued

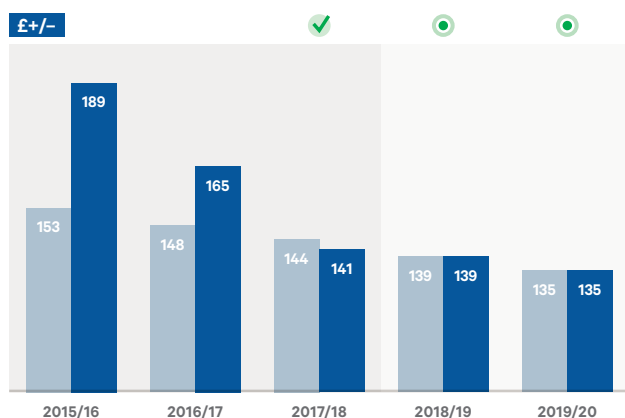
Reliable wastewater service

Ensuring our customers can rely on us to remove and dispose of wastewater safely and efficiently, and that the likelihood of sewer flooding on customers' property is minimised.



Reliable wastewater service	2015/16	2016/17	2017/18	2018/19	2019/20
Number of internal sewer flooding incidents	189	165	141	139	135
Number of external sewer flooding incidents	3,702	3,504	2,924	2,894	2,825
Number of odour contacts from wastewater works	230	278	242	240	238
Asset reliability (pipes)	Stable	Stable	Stable	Stable	Stable
Asset reliability (process)	Stable	Stable	Stable	Stable	Stable
Compliance with sludge standard %	99.9	100.0	100.0	100.0	100.0

Internal sewer flooding incidents (number)

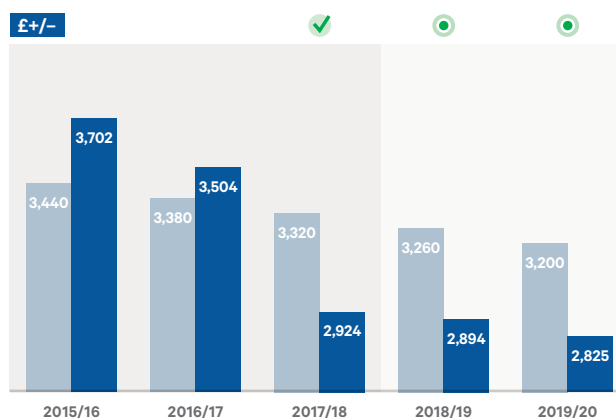


We outperformed our internal sewer flooding target in 2017/18 resulting in a £0.2m reward and we are on track to achieve our 2020 target.

Repeat internal sewer floodings remain less than half the numbers compared to the beginning of 2015.

This follows a strategy of prioritising sewer maintenance and improvements in areas most at risk of flooding.

External sewer flooding incidents (number)



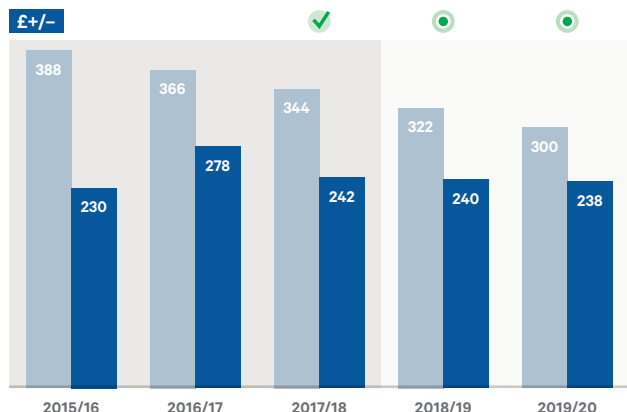
External sewer floodings have seen a significant reduction in 2017/18, and this has brought the number within our annual target as well as within the targeted number to be achieved by 2020.

Operating model changes within our customer services and networks teams, as well as investments in new equipment, have helped prevent sewer flooding and improve our pollutions performance.

Legend: Target (light blue), Actual/Forecast (dark blue), Met (green checkmark), On target (green circle).
 Incentive types: £+/- Reward and penalty

Service targets continued

Odour contacts – Wastewater Treatment Works (number)



The number of contacts we have received relating to odour issues in respect of our wastewater assets has fallen and was well within our 2017/18 target.

This reduction follows improvements to the primary tanks at the Countess Wear wastewater treatment works in Exeter, significantly reducing the number of contacts concerning the site during periods of dry weather. Other improvements are being targeted to reduce odour impacts at key sites.

Asset reliability

Asset reliability – pipes



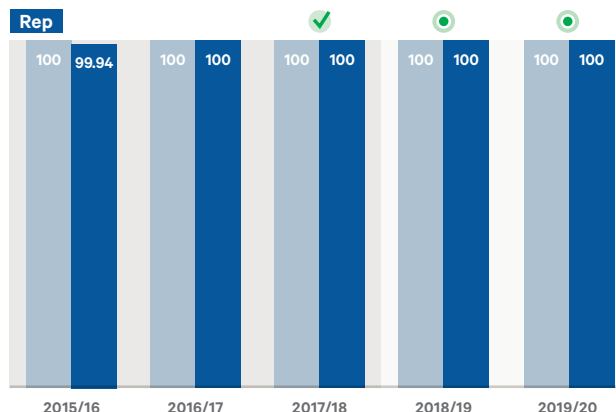
Asset reliability – process



Wastewater asset reliability comprises a number of sub-measures in respect of both pipes and processes. These are detailed in table 3B of the Regulatory Reporting section of South West Water APR 2017/18 (see page 108).

Each sub-measure has remained within or below its reference level performance throughout the AMP to date and as a result the overall measure is assessed as ‘stable’.

Compliance with sludge standard (%)



South West Water recycles all of its biosolids for use as an organic fertiliser on agricultural land. Biosolids are processed through conventional anaerobic digestion processes, lime treatment systems and composting.

Biosolids recycling is a regulated and closely monitored practice. South West Water continually improves its quality assurance processes, in order to ensure the guidance and regulations are fully met.

Operational practices which returned our 2016/17 performance to 100% have been maintained in 2017/18 and has resulted in continued 100% compliance.

Legend: Target (light blue), Actual/Forecast (dark blue), Met (green checkmark), On target (green circle).
 Incentive types: £- (Penalty only), £+/- (Reward and penalty), Rep (Reputational)

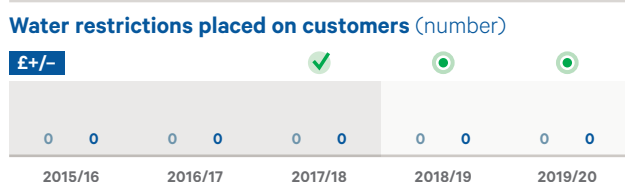
Service targets continued

Available and sufficient resources

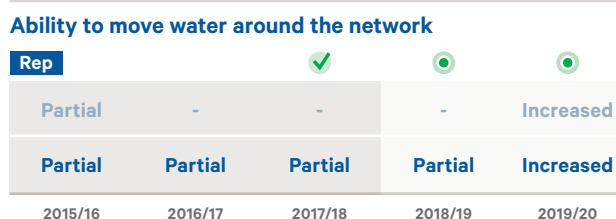
Preventing restrictions on water use and managing and delivering the region’s supplies as efficiently as possible.



Available and sufficient resources	2015/16	2016/17	2017/18	2018/19	2019/20
Number of water restrictions placed on customers	0	0	0	0	0
Ability to move water around the network	Partial	Partial	Partial	Partial	Increased
Leakage levels (megalitres per day)	84	82	83	84	84
Days taken to fix significant leaks	2.8	2.2	2.9	2.1	1.9
Security of Supply Index	100	100	100	100	100



Avoiding restrictions on the water our customers rely and depend on is a strategic priority. Through effective long-term planning and investment, 2017/18 represents the 21st consecutive year of avoiding any restrictions for our customers. Despite population growth and the impact of climate change this trend is forecast to continue with innovative behavioural change demand side initiatives aimed at reducing water consumption across the region.



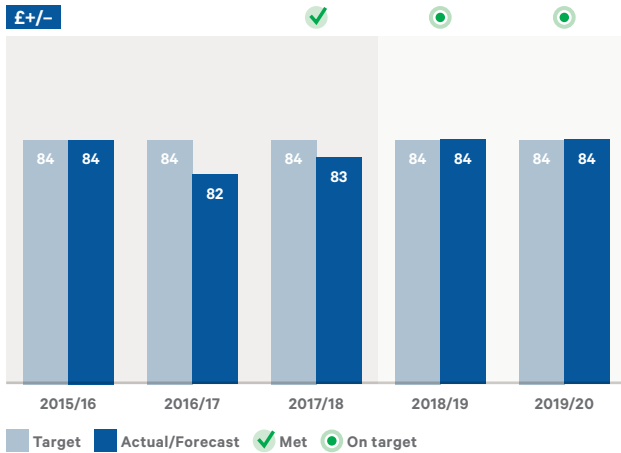
Our ability to move water around the network is an essential part to ensuring a continuous supply of water to our customers. Risks to the supply of water to customers due to water scarcity issues are not from overall reservoir storage levels but often due to local issues resulting from lack of rain in a particular area or the impact of a significant burst. The greater our ability to move water around the network the better able we are to manage this risk. Investment in interconnections and central remote control has improved the resilience of our supply through having more than one supply option for the majority of our region.

This was demonstrated by our response to Storm Emma where we were able to move limited supplies of water around our network to minimise the impact of the interruptions to customers supplies to an absolute minimum.

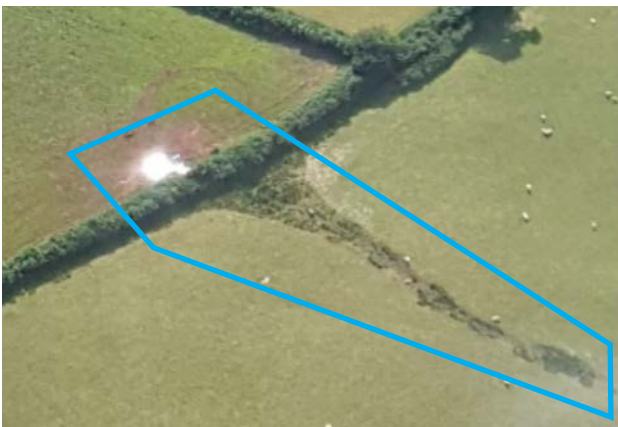
Legend: Target (grey square), Actual/Forecast (blue square), Met (green checkmark), On target (green circle).
 Incentive types: £+/- (blue square), Reward and penalty (white square), Rep (blue square), Reputational (white square).

Service targets continued

Leakage levels (megalitres per day)

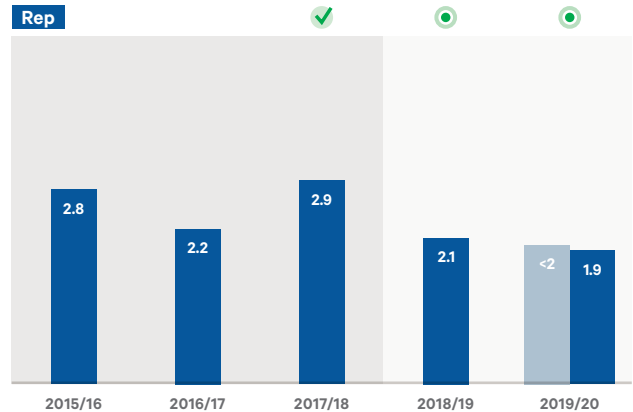


Leakage levels are an important element of managing water resources effectively. Irrespective of the severity of the weather we have met our leakage target every year through effective leakage management. In 2016/17 a decision was taken to in-source additional leakage resource which has benefited our performance through more alignment of priorities. Data collections and data analytics enhancements have enabled better targeting of our leakage effort. With c. 20% of all leaks being from customer owned infrastructure, we have focused on working with customers to reduce this through co-creation workshops and also behavioural change water efficiency incentive schemes. More recently, with the benefits of easier identification of leaks that dry weather brings we have been flying over our region in a helicopter with Western Power Distribution to identify leaks from the air, which has also been hugely successful.



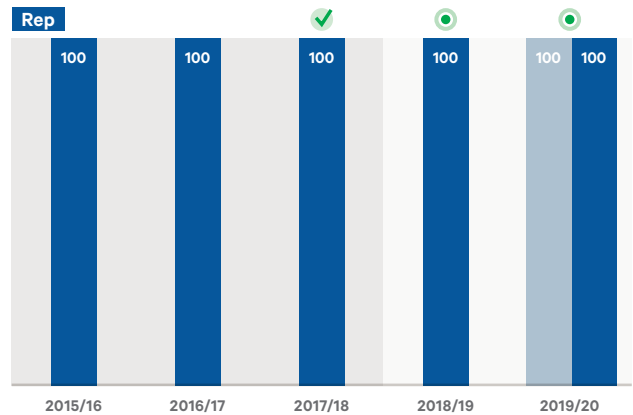
Leak identified from WPD helicopter

Time taken to fix significant leaks (days)



New innovative technologies are allowing leak detectors to pinpoint leaks more quickly which not only contribute to reducing leakage levels but also help us to ensure leaks are fixed as quickly as possible. With the continued implementation of technology we remain on track to meet our 2020 commitment.

Security of supply index (SoSI)



The SoSI considers water resource, leakage and demand management elements. Our behavioural change initiatives, installation of free water meters and promotion of water efficiency effectively target and also seek to influence customers to reduce their water consumption.

Legend: Target (light blue), Actual/Forecast (dark blue), Met (green check), On target (green circle)
 Incentive types: Rep Reputational

Service targets continued

Resilience

Making sure our water and wastewater services are resilient to a range of risks and we are able to respond quickly and effectively to extreme events.



Resilience	2015/16	2016/17	2017/18	2018/19	2019/20
Water supplies interrupted due to flooded SWW site	0	0	0	0	0

Supplies interrupted due to flooded South West Water sites

£+/-	2015/16	2016/17	2017/18	2018/19	2019/20
	0	0	0	0	0

With our changing climate and unpredictable weather we need to ensure our sites are sufficiently protected and that systems are in place to enable a rapid recovery should a flooding event occur. It is our aim to find the most sustainable solutions to dealing with flood risk using an integrated multi-agency approach.

Annual rainfall levels were slightly higher than in 2016/17, but broadly in line with the long-term average. March 2018 saw extreme adverse cold weather with rapid freeze and thaw conditions. There were no interruptions of greater than 24 hours caused by flooding at our sites in 2017/18.

In March, when one site (Allers near Tiverton) was impacted by flooding, we worked promptly to ensure any disruption was minimised. This included rapidly dealing with the flood, whilst diverting drinking water to the impacted area from other treatment works.

During 2017/18 South West Water has invested in innovative temporary flood defence barriers which can be deployed quickly for use in our communities either by us to protect our assets, or for use by other agencies such as the Environment Agency (EA) to prevent or reduce storm and flood damage.

These flood defence barriers provide us with a flexible approach to flood protection, as they can be deployed to any site, adapted to a variety of terrain and can also be used to divert river flows. This provides us with a cost-effective and flexible way to protect our assets rather than undertaking large scale capital schemes at a number of our sites. They can also be deployed to partner organisations if required.

Other ongoing activities include:

- Working closely with the EA and other stakeholder groups, including local councils, to identify and mitigate multi-agency potential flooding issues
- Using advanced computer modelling techniques and historical data for planning purposes
- Reviewing flood risk assessments to underpin PR19 investment proposals
- Installation of sustainable urban drainage solutions in high risk flooding areas.

■ Target
 ■ Actual/Forecast
 ✓ Met
 ○ On target
 Incentive types: ■ £+/- Reward and penalty

Service targets continued

Responsive to customers

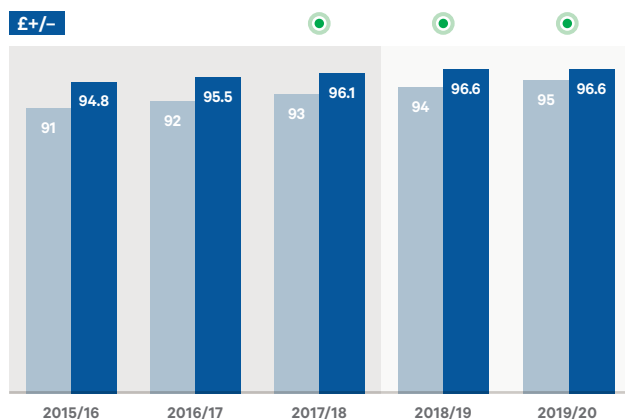
Dealing with customer requests, problems and queries quickly and efficiently, and ensuring the service our customers receive represents value for money.



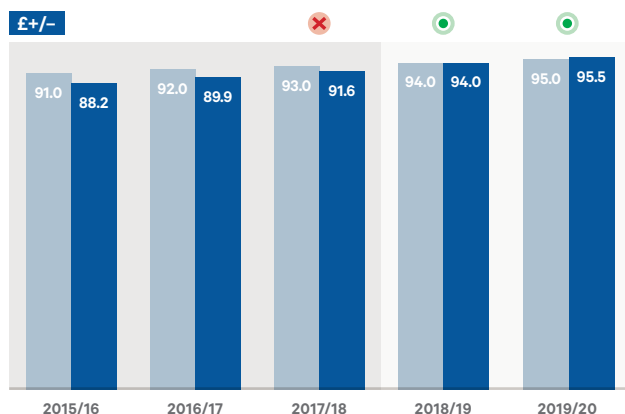
Responsive to customers	2015/16	2016/17	2017/18	2018/19	2019/20
Water operational contacts resolved first time %	94.8	95.5	96.1	96.6	96.6
Wastewater operational contacts resolved first time %	88.2	89.9	91.6	94.0	95.5
Customer overall satisfaction %	89	89	91	90	90
Service incentive mechanism	79	82	85	86	87
Customer satisfaction with value for money	59	61	62	62	63

Operational contacts resolved first time

Operational customer contacts resolved first time – water (%)



Operational customer contacts resolved first time – wastewater (%)



Our goal is to prevent issues and problems occurring, avoiding the need for customers to contact us.

However, when a customer does need to get in touch, our aim is to resolve all contacts as quickly and professionally as possible.

In 2017/18 we successfully increased the proportion of contacts resolved first time in both the water and wastewater areas, with overall performance reaching 95% (2016/17: 94%).

Our water team again performed especially well, exceeding both the 2017/18 and 2020 targets, with 96.1% of contacts now being resolved first time. This was their second successive year achieving performance in excess of the 2020 target.

The volume of wastewater contacts resolved first time has also improved from 89.9% to 91.6% and although still behind the annual and end of period targets, further initiatives are planned to achieve the 2020 target of 95%.

In October 2017, a new wastewater journey, co-created with customers, was implemented which included the in-sourcing of staff who initially respond to issues stemming from small diameter sewers (assets transferred from private into company ownership in October 2011).

This positive step has facilitated the move to single-man operations which has increased our footprint in the field and ability to react to problems, significantly improving attendance timescales. The purchase of new vehicles and equipment has also enabled an increased opportunity for doorstep (first time attendance) resolution. The impact of the new wastewater customer journey introduced, in the latter half of 2017/18 saw a 22.5% reduction in unwanted repeat/chase contacts from customers.

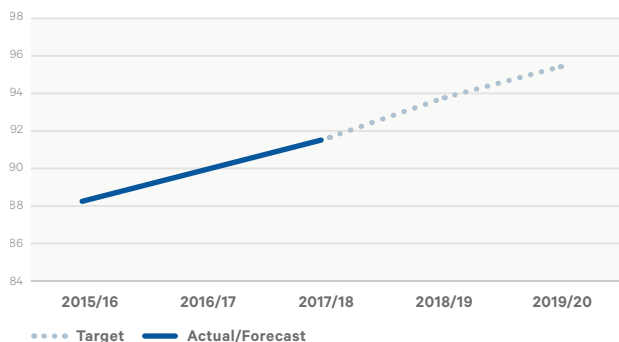
Legend: Target (light blue bar), Actual/Forecast (dark blue bar), Met (green checkmark), On target (green circle), Not met (red X)

Incentive types: £+/- Reward and penalty

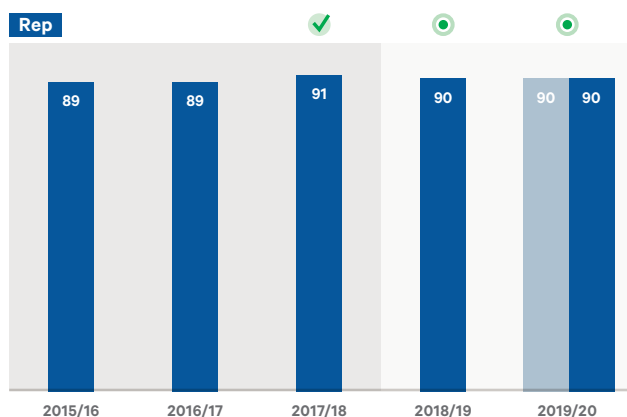
Service targets continued

As the process embeds and further iterative improvements are made alongside continued improvements across wastewater in regards to asset performance and speedier resolution of ongoing and more complex issues, it is forecast that the improving trend will continue, leading to the achievement of 2020 target, as shown in the graph below.

Operational customer contacts resolved first time – wastewater (%)

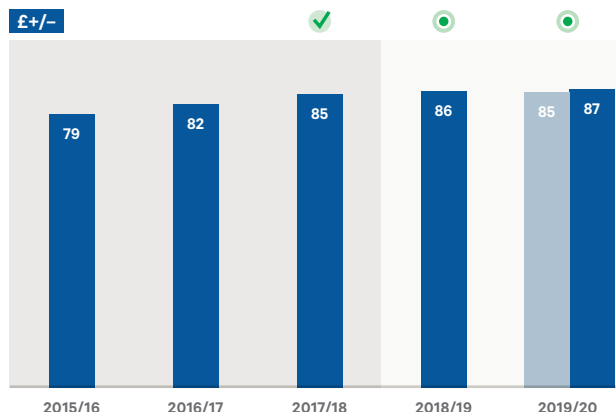


Customer overall satisfaction (%)



Customer satisfaction is a key focus for South West Water and pleasingly levels have continually met targeted levels. In 2017/18 customer satisfaction levels increased to 91% and these are expected to continue to 2020.

Service incentive mechanism (SIM)



South West Water achieved its highest performance to date against the Service Incentive Mechanism (SIM) – the industry-wide measure of customer satisfaction – and is forecast to reach 87, exceeding our target of 85 by 2020.

Our continued year-on-year improvement in customer satisfaction, which includes a reduction in written complaints and the largest industry qualitative performance improvement, follows significant investment and focus on recruitment, training and developing the best people for our business. We have undertaken co-creation workshops with customers and are using ‘Voice of the Customer’ (VoC) technology to better understand how we can meet their needs.

During 2017/18 we introduced a number of proactive customer service improvements. These included the in-house development of our VoC technologies, designed for use as a transactional (retail) survey and customer engagement tool. This has been innovatively adapted to fit with the unique needs of the wholesale area of the business.

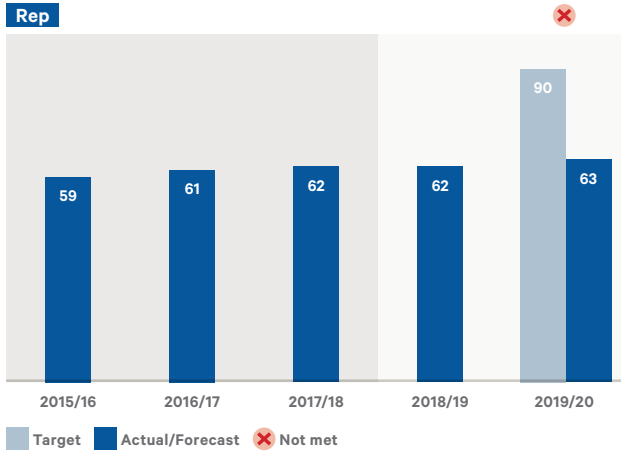
The technology has helped us to increase the speed and quality of our responses through a more proactive and tailored approach. In conjunction with a wide-ranging number of process, people, technology and proactive customer service improvement initiatives implemented during the year, this has helped South West Water achieve a larger in-year increase in its Customer Experience Survey score (which is an industry comparison of customer service) than any other water company.

Our strategy is to be increasingly more proactive in the way we interact with customers, notifying them when issues may arise and ensuring we communicate with them in the most appropriate channel to meet with their needs and preferences.

Legend: Target (grey square), Actual/Forecast (blue square), Met (green checkmark), On target (green circle).
 Incentive types: £+/- (Reward and penalty), Rep (Reputational)

Service targets continued

Customer satisfaction with value for money (%)



South West Water’s customer satisfaction with value for money improved slightly during 2017/18.

We continued with our pledge to ensure any rise in average household bills would remain less than inflation over 2015-20. Indeed, the average household bill has not risen for 2018/19, and is lower than it was nine years ago.

The South West Water overarching business plan commitment was for the majority of our customers to find our service as delivering value for money. In the detailed business plan tables this was incorrectly assumed to be the same as customers satisfied with our services which had a target of 90%. The customer satisfaction is on track to achieve 90% and value for money 62% (i.e. majority) improving from the 44% level observed when the business plan was submitted.

Legend: Target (light blue bar), Actual/Forecast (dark blue bar), Not met (red X)
 Incentive types: Rep Reputational

Service targets continued

Protecting the environment

Minimising our impact on the world around us and taking steps to protect and enhance it where possible.



Protecting the environment	2015/16	2016/17	2017/18	2018/19	2019/20
Sustainable abstractions (EA/WFD classification)	0	0	0	0	0
Sustainable abstractions (EA water stress status)	Moderate	Moderate	Moderate	Moderate	Moderate
Catchment management (acres)	5,673	7,568	7,997	8,500	9,054
Catchment management (farms)	847	1,056	1,290	1,447	1,550
Water cat 1 - 2 pollution incidents	0	0	0	0	0
Water cat 3 - 4 pollution incidents	5	9	18	7	2
Water operational carbon emissions (KtCO2e)	62	67	57	49	48
Energy from water renewable sources %	7	6	9	10	12
Wastewater treatment numeric compliance %	95.8	98.4	97.1	99.1	100.0
Wastewater population equivalent sanitary compliance %	99.1	99.9	99.9	100.0	100.0
Wastewater descriptive works permit compliance %	99.1	99.4	100.0	100.0	100.0
Wastewater cat 1 - 2 pollutions incidents	7	4	3	1	0
Wastewater cat 3 - 4 pollutions incidents	222	252	237	208	198
Wastewater operational carbon emissions (KtCO2e)	98.6	85.9	83.2	72.7	70.9
Energy from wastewater renewable sources %	2	3	4	6	8

Sustainable abstractions

Sustainable abstractions (EA/WFD classification)

Rep	2015/16	2016/17	2017/18	2018/19	2019/20
0	0	0	0	0	0

Sustainable abstractions (EA water stress status)

£-	2015/16	2016/17	2017/18	2018/19	2019/20
Moderate	Moderate	Moderate	Moderate	Moderate	Moderate
Moderate	Moderate	Moderate	Moderate	Moderate	Moderate

We are committed to managing our licensed abstraction activities in an effective and sustainable way, taking care to minimise any impact on the local environment and working closely with the EA to ensure this remains the case.

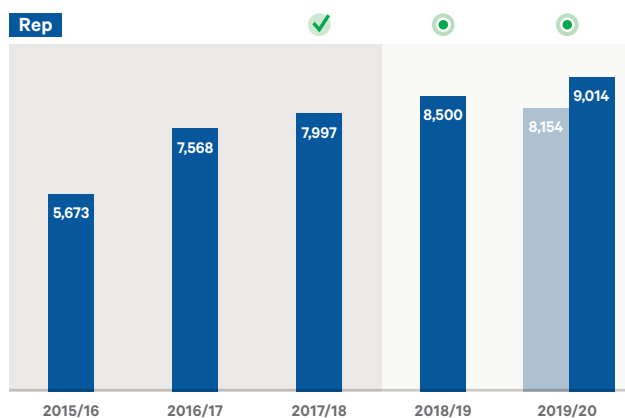
In 2017/18 the EA had not identified any improvements at any of our abstraction sites in respect of sustainability which were not complete at the end of the year.

Target
Actual/Forecast
✔ Met
 ○ On target
 Incentive types: £- Penalty only Rep Reputational

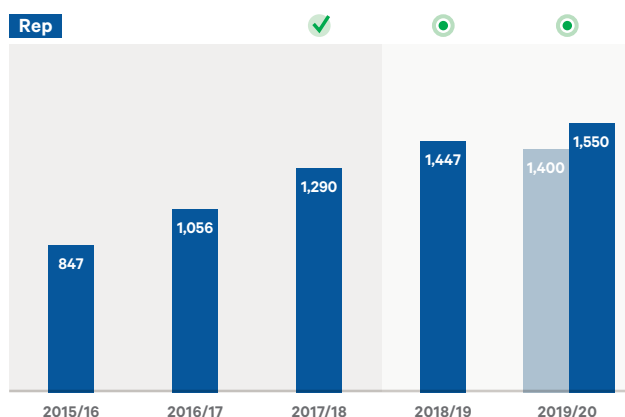
Service targets continued

Catchment management

Catchment management (number of acres)



Catchment management (number of farms)

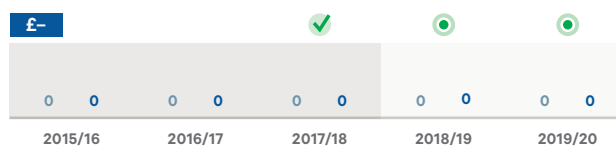


Upstream Thinking is supporting farmers to access capital grant funding in order to make improvements, comply with legislation and reduce the risk of pollution.

Since 2010, South West Water has worked to improve the water quality at 1,290 farms upstream of drinking water reservoirs and river abstractions. It has also restored 7,997 acres (3,236 hectares) of moorland, culm grass and other semi-nature habitats. We are therefore already nearing our 2020 targets for number of farms and area of habitat restored.

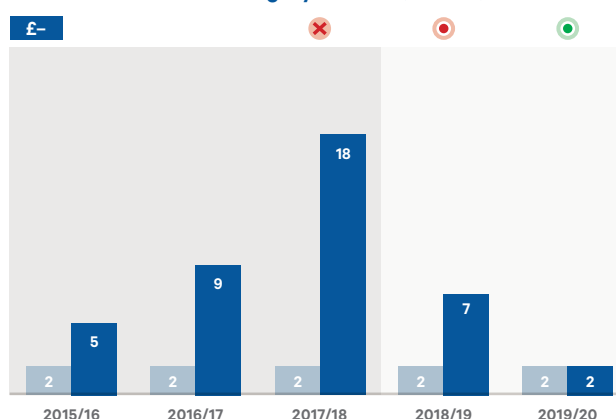
Pollution incidents - water

Pollution incidents – category 1 and 2 (number)



We have a long track record of avoiding the most serious pollutions and remain on track to avoid any serious water pollutions by the end of 2020.

Pollution incidents – category 3 and 4 (number)



Despite achieving zero serious water pollutions there has been an increase in pollutions in 2017 as a result of a drive to improve self reporting. South West Water has launched a training programme for our staff and suppliers supported by the EA to emphasise both the importance of preventing such incidents and the techniques to be applied to ensure they do not occur, such as appropriately diverting flows from burst mains and utilisation of settlement tanks and where necessary de-chlorination techniques. Improvement initiatives have been implemented and include:

- Environmental awareness campaign for all production and networks staff. This covered pollution risks, regulatory requirements, reporting and escalation processes
- Reviewed our pollution risk assessments at all of our production sites and implemented new controls, such as carrying out drainage surveys to confirm routes of drainage pipes
- Modifications to a number of chemical storage systems to provide additional protections against overflows and spills, and improvements to sludge storage facilities
- Repair crews routinely using settlement tanks and de-chlorination equipment to minimise environmental damage from burst mains

Legend: Target (light blue), Actual/Forecast (dark blue), Met (green check), On target (green circle), Not on target (red circle), Not met (red X). Incentive types: £- (Penalty only), Rep (Reputational).

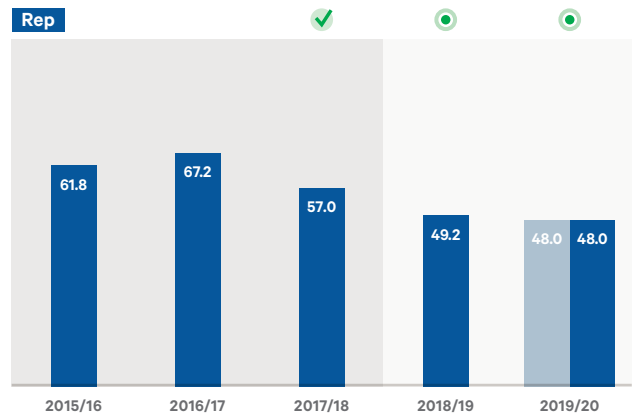
Service targets continued

- Joint workshop with the EA with a focus on maintaining a consistent approach on preventing pollutions from construction work adjacent to watercourses. At the same workshop advice was given by the EA officers on how South West Water can better demonstrate the typically low levels of environmental damage from burst main pollutions
- Inspection and audit of operational sites to ensure environment risk arising from operations are documented and mitigated.

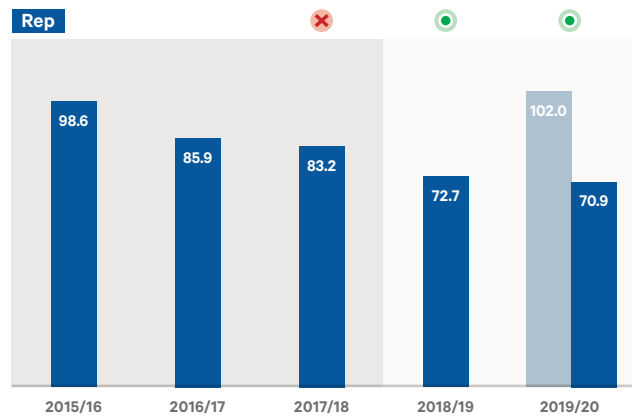
2018 pollution events to date have reduced, indicating the success of the measures above.

Operational carbon emissions

Operational carbon emissions – water (ktCO₂e)



Operational carbon emissions – wastewater (ktCO₂e)



South West Water’s carbon emissions reduced in both our drinking water and wastewater areas in the year. South West Water is certified to the ISO 50001:2011 standard, which commits us to continual improvement in respect of energy management. Site audits have been undertaken at large sites and as a result a number of measures have been implemented to reduce energy usage including the sub-metering of assets which use the most energy to help identify opportunities to reduce consumption.

In addition to internal measures taken, there has been a further reduction in the UK ‘electricity grid emissions factor’ which is a measure of the carbon emissions required for each unit of electricity purchased from the grid.

South West Water is on track to significantly outperform its 2020 target for carbon emissions on a combined basis. We have, and will continue to prioritise projects which provide the biggest overall reduction in emissions. This has resulted in greater reductions in the wastewater business than initially forecast and as a result the individual target for drinking water emissions may not be met.

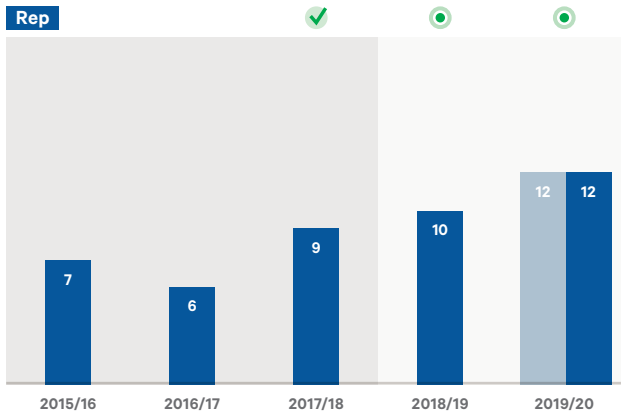
Target
 Actual/Forecast
 Met
 On target
 Not on target

Incentive types: Rep Reputational

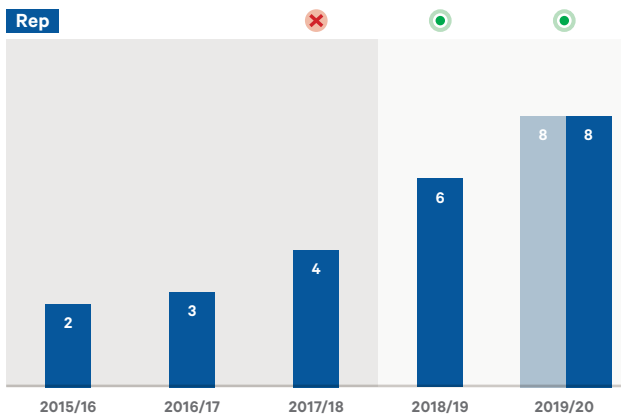
Service targets continued

Energy from renewable sources

Energy from renewable sources – wastewater (%)



Energy from renewable sources – water (%)

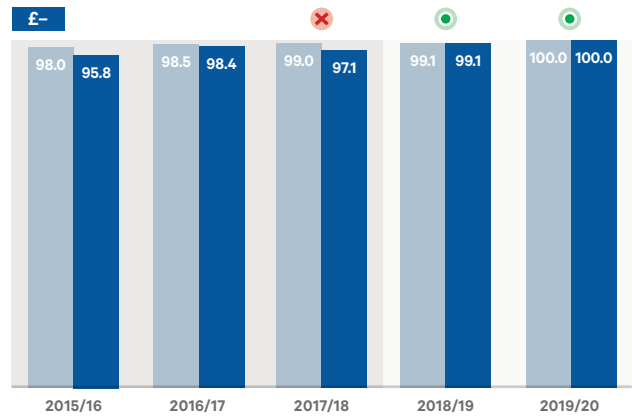


Energy sourced from renewable sources has increased in both the drinking water and wastewater areas during 2017/18.

The majority of the renewable energy which South West Water sources is self-generated through a combination of hydro power, combined heat and power (CHP), photovoltaic (PV) solar and wind.

In addition to this self-generated energy, South West Water participates in the ‘Renewable Energy Guarantees of Origin’ (REGO) market purchasing certificates that demonstrate that electricity has been produced from renewable sources.

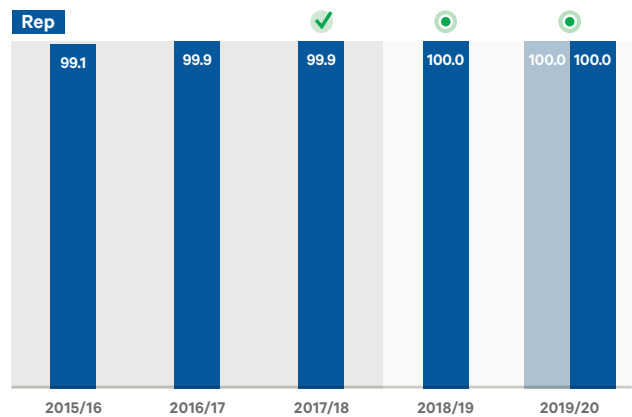
Wastewater treatment numeric compliance (%)



Nine out of the 301 sites at which South West Water holds permits which impose numerically measurable conditions upon outflows, were deemed non-compliant sites and samples by the EA during 2017/18. This marked a disappointing increase from five during the previous year.

The majority of sites measured as non-compliant were identified during the first half of 2017 at comparatively small wastewater treatment works. We reviewed the reasons for these non-compliances and implemented a series of measures, resulting in a significant reduction in the number of non-compliant sites in the second half of 2017. This has also been sustained into the first half of 2018.

Wastewater population equivalent sanitary compliance (%)

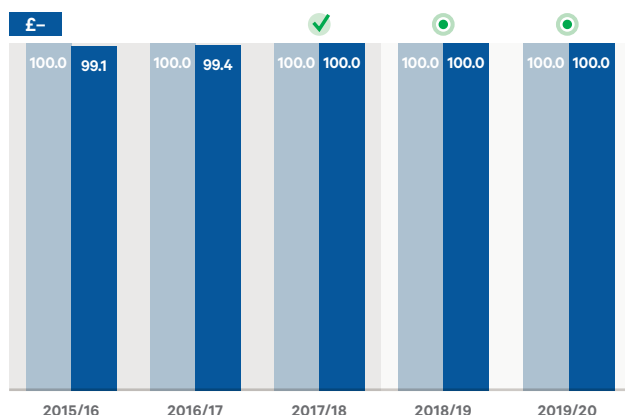


Population equivalent sanitary compliance has improved further during the year. This reflects our improvements made at our largest sites.

Legend: Target (light blue), Actual/Forecast (dark blue), Met (green check), On target (green circle), Not met (red X). Incentive types: £- Penalty only, Rep Reputational.

Service targets continued

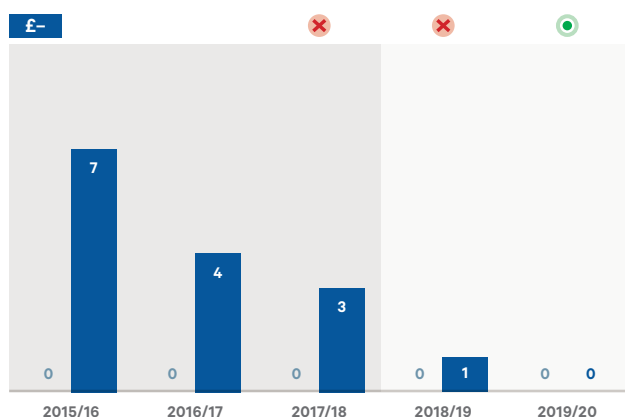
Wastewater descriptive works permit compliance (%)



Compliance at our smaller descriptive permitted sites was 100% for 2017 based upon the sites sampled by the EA. This follows the investments made during the AMP to increase descriptive compliance, which has resulted in the improving trend in recent years.

Pollution incidents - wastewater

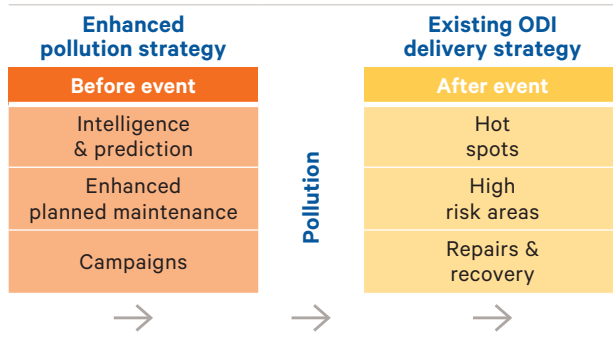
Pollution incidents – category 1 and 2 (number)



We are on track to reduce serious pollution incidents to zero. We have some of the lowest absolute number of serious pollutions in the sector and in 2018 have only incurred one to date. We believe any serious pollution to the environment is unacceptable and we are achieving further improvements to deliver this ambitious target through a combination of a planned pollution strategy and our enhanced pollution strategy. These work together, combining both operational activities (how and what we do – the love your loo and think sink campaigns as examples) and capital improvements to improve the reliability and resilience of our wastewater assets, including treatment works, sewage pumping stations (SPS) and sewers.

The enhanced pollution strategy brings a focus to prediction of pollution risk and the prevention of events.

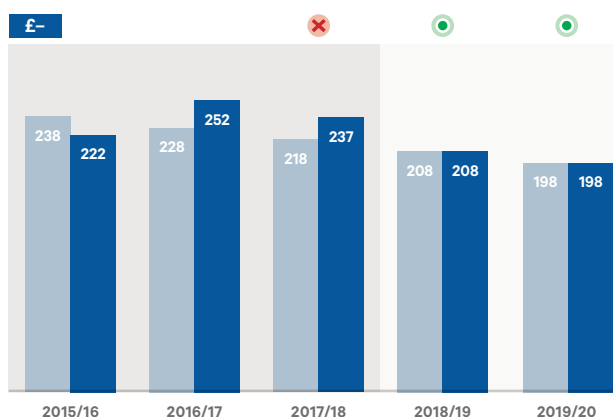
Legend: Target (light blue), Actual/Forecast (dark blue), Met (green check), On target (green circle), Not met (red X). Incentive types: £- Penalty only.



Key Components of the enhanced pollution strategy include:

- Implementation of 28 day pollution response programme
- Rigorous root cause analysis and application of lessons learnt
- Installation of SPS air locking prevention equipment
- Investment in vacators (vacuum equipped tankers) to deliver enhanced planned cleansing programmes
- Commercial fat, oils and grease (FOG) campaign – blockages are the largest (>30%) causal factor for pollutions and FOG is a key factor in blockages
- Development of network intelligence capabilities – monitoring for early detection of problems
- Enhanced capital maintenance for the sewer network
- Refocusing our maintenance and operational sewerage strategy towards pollution hot spots, not just flooding
- Additional environmental scientists to support root cause analysis and understanding environmental impact
- Enhancement of planned cleansing data analytics to optimise and manage sewer cleansing
- Working with Water UK on influencing national policy on blockage issues like wet wipes, cotton buds etc.

Pollution incidents – category 3 and 4 (number)



We are on track to deliver our stretching performance commitment on Cat 3-4 pollutions by 2020 through the same strategy included above for Cat 1-2 pollutions.

Service targets continued

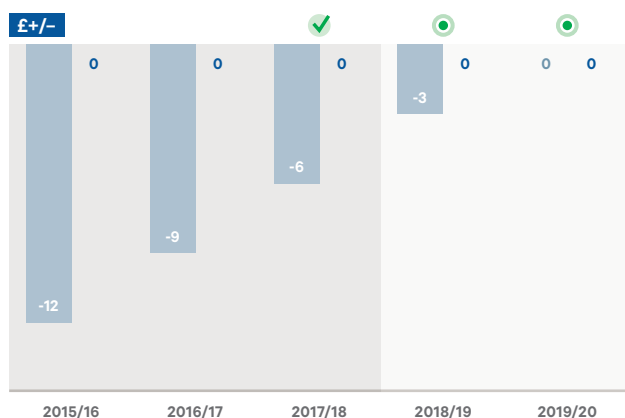
Benefiting the community

Having a positive long-term effect on people and quality of life in the region.



Benefiting the community	2015/16	2016/17	2017/18	2018/19	2019/20
Number of failing bathing waters due to SWW assets	0	0	0	0	0
River water quality improved (km)	62	68	156	227	885

Bathing water quality (number)



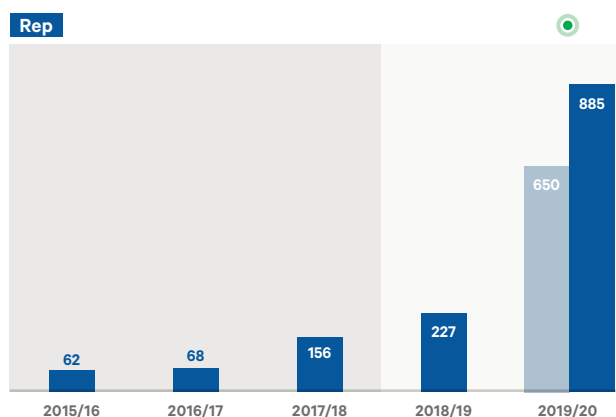
Devon and Cornwall’s designated bathing waters again performed extremely well against EU water quality standards.

Assessments were made by Defra at 143 designated bathing waters. Across the two counties 140 (97.9%) were rated as ‘sufficient’ or better, including all of Cornwall’s bathing waters. 107 beaches (75.4%) were classed as ‘excellent’. The only failures to meet the ‘sufficient’ standard were at Combe Martin, Instow (which has since been de-designated) and Ilfracombe (Wildersmouth) in Devon. None of these failures were attributed to any failure of South West Water’s assets.

Bathing water quality can be affected by many factors including rainwater running off from roads and roofs, run-off from agricultural land, water company infrastructure, sewage from privately owned treatment works and septic tanks, boats or even animals such as dogs or seabirds on the beach. This can be made worse by heavy rain.

Through our regional Bathing Water Liaison Group, independently chaired by Michael Bell, CEO of Visit Cornwall, we continue to work alongside partners including local councils, community groups, landowners and conservationists to tackle bathing water quality issues in a holistic and sustainable way.

River water quality improved (km)



To protect river water quality and ecosystems we aim to ensure the wastewater we return to the environment is treated to high standards.

21 sites have been identified during 2015-20 for improvement schemes, most commonly to reduce the levels of phosphorus in treated wastewater.

During 2017/18 South West Water’s focus has been to ensure compliance with new and/or tighter permits upon our wastewater treatment works and other assets. Schemes were completed at Fluxton (Ottery St Mary) and Nanstallon.

As many improvements are planned to be completed between 2018 and 2020 due to WINEP deadlines the length of river water quality improved will increase significantly by 2020.

Legend: Target (grey bar), Actual/Forecast (blue bar), Met (green checkmark), On target (green circle).
 Incentive types: £+/- (Reward and penalty), Rep (Reputational)

Service targets continued

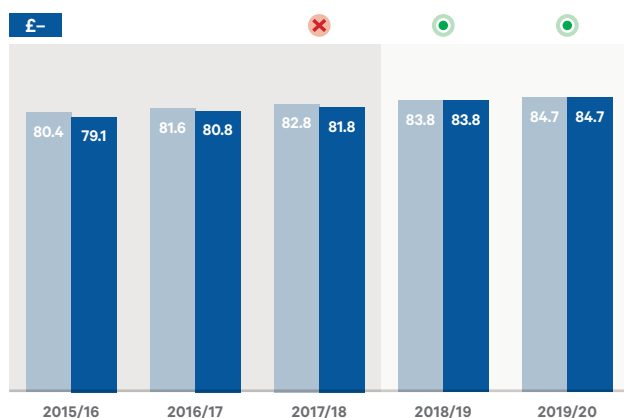
Fair charging and affordable bills for all

Fair charging and affordable bills for all – keeping our costs as low as possible to keep our bills affordable and offering support to those who need help with their bills.



Fair charging and affordable bills for all	2015/16	2016/17	2017/18	2018/19	2019/20
Customers paying a metered bill %	79.1	80.8	81.8	83.8	84.7
Number of customers assisted by water poverty initiatives	26,837	28,409	29,631	30,759	32,229

Customers paying a metered bill (%)



South West Water has some of the highest levels of metering within the industry, which have again risen to see 81.8% of our customers now paying a bill based upon actual usage. This remains slightly below our target for 2020.

In 2016/17 South West Water’s policy was revised to give household customers 24 months instead of 12 months following a meter being installed in order to decide whether they wish to remain on metered charges going forward. The vast majority of customers opt to remain on meters following this period.

The change to policy led to an increase in switching in excess of the long-term trend in 2016/17, however the increase in 2017/18 has been a more typical 1%.

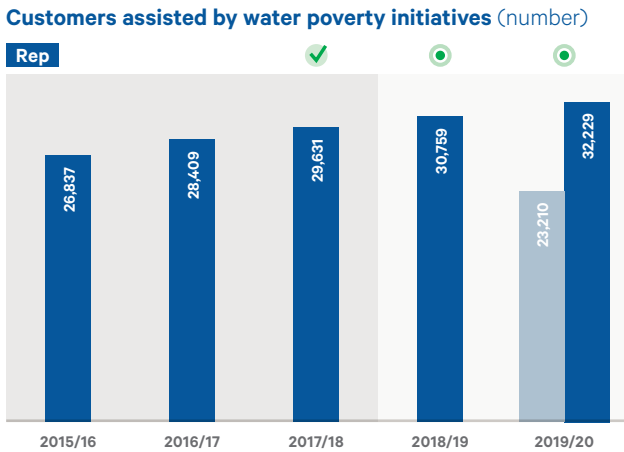
The forecast to 2020 is based on actual volumes from historical meter option installation trends. The reducing trend in customer appetite (applications) will continue across the remainder of the AMP as the company reaches saturation point. It should also be noted that in terms of household meter penetration, as a % of all connected household properties, the company remains at the frontier of the industry. This is based on year end 2016/17 industry comparable data.

Business delivery plans are in place to maintain and improve the successful number of meter installations following a meter option survey. Should the forecasts for customer applications not materialise there is also an opportunity to increase the number through targeted proactive marketing (e.g. bill inserts).

This planned activity is in line with our commitment to increase and promote metering across our wider customer base focusing on those customers who may be in vulnerable circumstances, have affordability challenges and those who have not to date interacted with the promotion of metering and the savings that can be achieved.

Legend: Target (light blue), Actual/Forecast (dark blue), Met (green check), On target (green circle), Not met (red X). Incentive types: £- Penalty only.

Service targets continued



We take our social responsibility seriously, and whilst we will continue to deliver services as efficiently as possible, we recognise that some customers may struggle to pay their bills.

We offer a wide range of assistance measures and work in partnership with trusted third party organisation to reach out to customers who may need help. With Plymouth Citizens Advice we established the Water Debt Gateway, which has supported over 7,000 customers. Plymouth Citizens Advice also administers our Freshstart Fund and our WaterCare tariff. We also work closely with social housing providers, food banks, job centres and children’s centres to reach customers who may be nervous about contacting us directly to seek help.

Through the implementation of our WaterCare programme, South West Water was the first water company to introduce affordability measures to help customers. This continues to provide a tariff check, benefit check (realising c. £43/week in additional income for eligible customers), money-saving advice and the fitting of water-efficiency devices in homes.

To date we have provided affordability measures which have helped around 52,000 customers.

Target
 Actual/Forecast
 Met
 On target

Incentive types: Rep Reputational

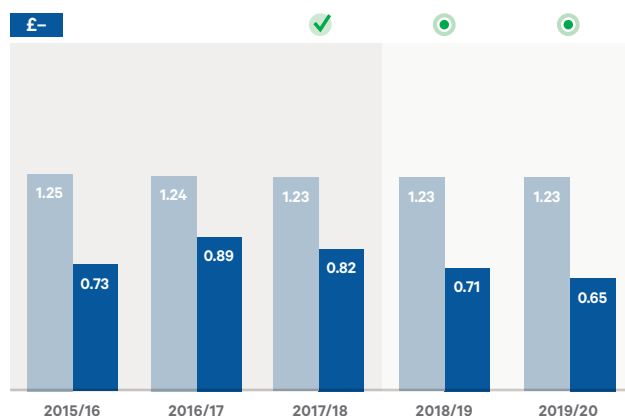
Service targets continued

Bournemouth Water



Bournemouth Water	2015/16	2016/17	2017/18	2018/19	2019/20
Number of customer water quality contacts	0.73	0.89	0.82	0.71	0.65
Water mean zonal compliance %	100	99.98	100	99.99	100
Reduce leakage to less than 20 megalitres per day	20	19	19	19	19
Minimise risk of large scale interruptions to 12k properties	0	0	4.3	4.3	17.1
Decrease average interruptions to less than 3 hours	2.5	1.9	0.7	1.8	1.7
Maintain serviceable assets	Stable	Stable	Stable	Stable	Stable
Continue current metering strategy	2,553	4,647	6,298	7,853	9,303
Reduce PCC to 140 litres per head per day by 2020	134	144	141	140	139
Repair visible leaks	79	80	62	80	85
Reduce energy used in water delivery	589	650	633	567	530
Help support a natural healthy water environment	Met	Met	Met	Met	Met
Number of volunteer days	202	80	28	57	57
Service Incentive Mechanism	86	86	88	88	89
New customer relationship system	0.34	0.68	1.08	1.43	1.76
Efficient debt management (% of average bill)	3.71	3.23	3.03	3.03	3.01

Customer contacts: taste and appearance (per 1,000 population)



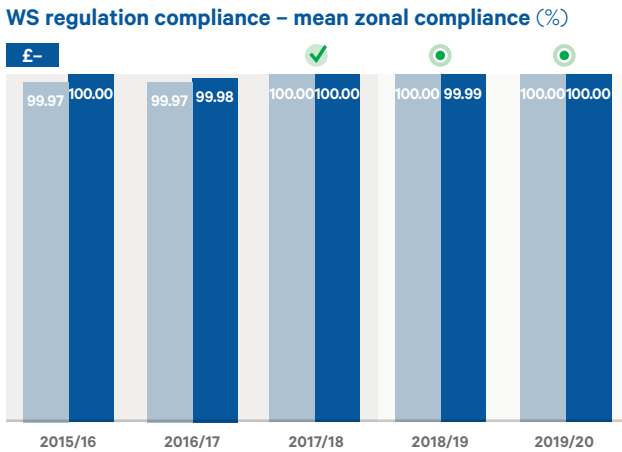
Customer contacts relating to the taste, appearance and odour of drinking water remained within our committed performance level and were lower than the previous year. The number fell from 0.89 per thousand customers to 0.82 per thousand customers.

Most instances of this type of contact do not have health implications and are of short duration.

In South West Water, we are focused on using innovative technologies and systems to better model, manage and maintain our drinking water network. We have been applying these technologies and systems in the Bournemouth area to continue to remain within the committed performance levels.

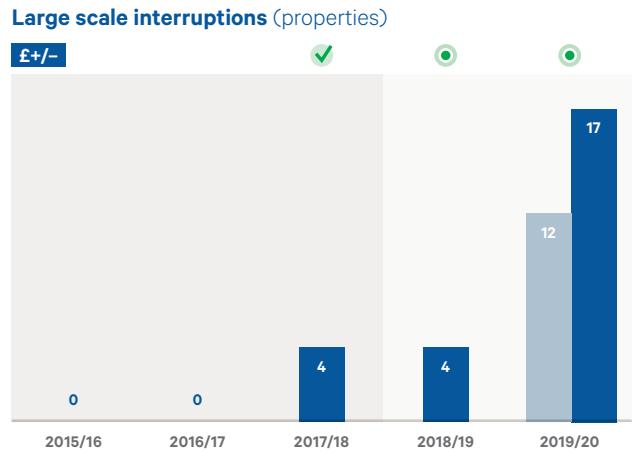
Legend: Target (light blue), Actual/Forecast (dark blue), Met (green checkmark), On target (green circle).
Incentive types: £- Penalty only

Service targets continued



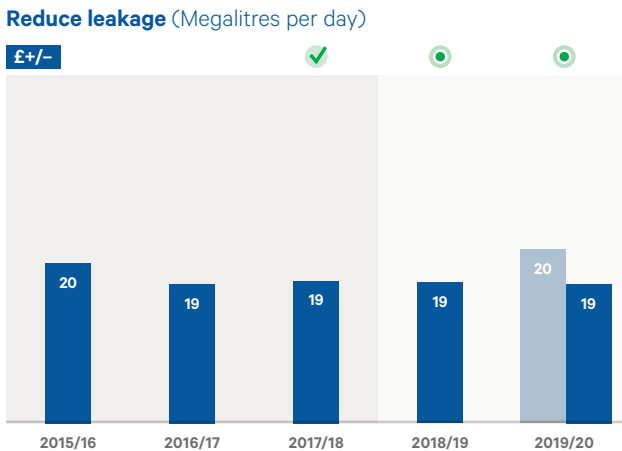
Bournemouth Water achieved 100.0% compliance (as measured by mean zonal compliance) in 2017/18. This continues to represent a high standard for drinking water quality and is in line with our committed performance level of 100%.

Improvements such as ultraviolet (UV) treatment have contributed to the high standard in recent years, and we continue to invest to ensure that 100.0% compliance is achieved.



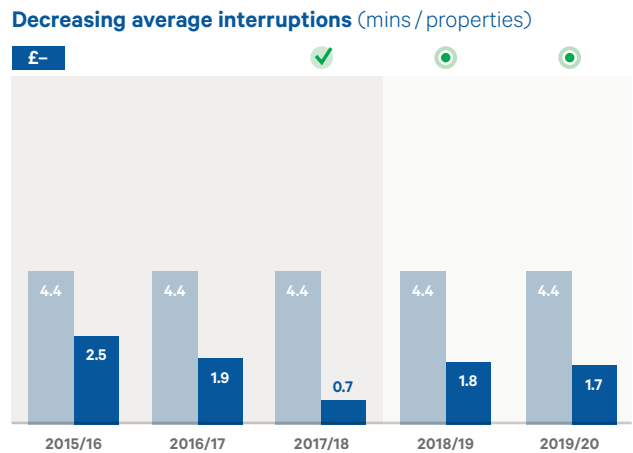
During 2017/18, we completed a resilience scheme covering 4,324 properties in the Wimborne area. This involves the use of an alternative trunk main in the event of failure of the usual pipe.

We are on track to complete a similar scheme in Bournemouth and, as a result, will exceed our target of 12,000 properties by providing an alternative trunk main supply to c.18,000 properties by 2020.



Leakage levels of 19Ml/d in the Bournemouth Water area are consistent with last year and remain well within our performance commitment target.

This outperformance has been delivered through comprehensive pressure management coverage as well as network modelling across the area.



In 2017/18, there has been a further reduction in the duration of supply interruptions (in excess of three hours) to customers, with an average length of 0.7 minutes per property, compared to our target of 4.4 minutes per property. The reduction in this measure, which is an average across all properties in the Bournemouth Water supply area, reflects both a reduction in the number and length of interruptions when they have occurred.

All interruptions are carefully managed, with emphasis on completing work as soon as possible to restore supplies.

Legend: Target (light blue bar), Actual/Forecast (dark blue bar), Met (green checkmark), On target (green circle).
 Incentive types: £- Penalty only, £+/- Reward and penalty

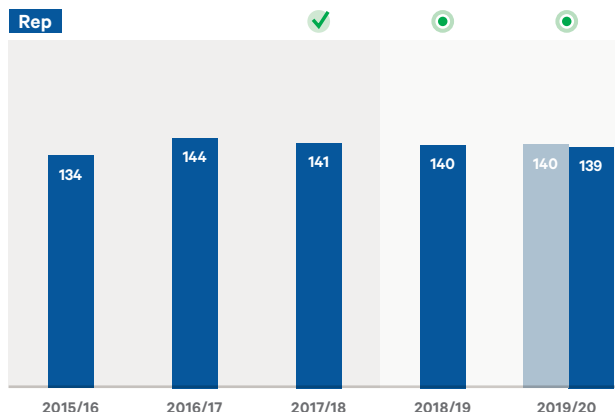
Service targets continued

Maintain serviceable assets

£-	✓	○	○
Stable	Stable	Stable	Stable
Stable	Stable	Stable	Stable
2015/16	2016/17	2017/18	2018/19
			2019/20

Consistent with the position in the South West Water area, Bournemouth Water's asset reliability also continued to be deemed stable against all of the sub-measures, which underlie our serviceability measure (see table 3B on page 108 of the 2017/18 APR for performance against each sub-measure).

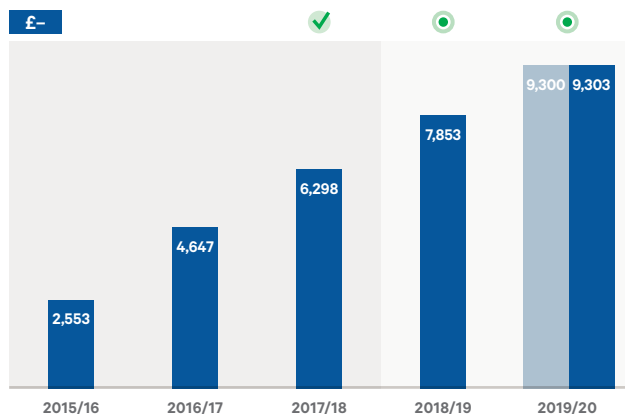
Reduce per capita consumption (litres/head/day)



Bournemouth Water's per capita consumption fell in comparison with 2016/17 performance following an increase during 2016/17, due in part to the reallocation of a number of large blocks of flats to a household categorisation following non-household retail market opening.

The reduction in the current year follows a continuation of customers opting to have a water meter installed and a movement towards more water efficient fixtures and fittings. This is in line with our long-term expectation of a steady reduction over time.

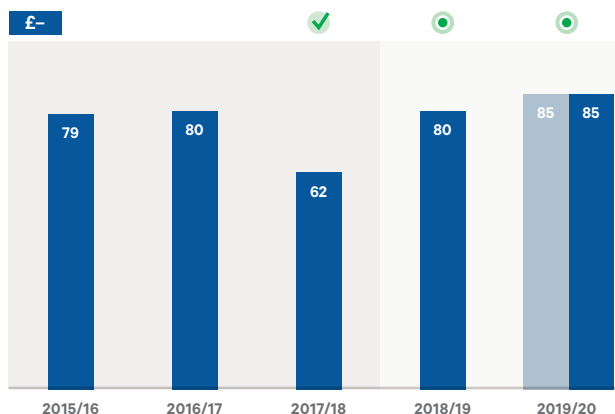
Metering – continue current strategy (meters)



Bournemouth Water's strategy to install 9,300 meters by 2020 has been maintained through customer application and selective metering where an unmetered property is vacant.

We have now installed 6,298 meters and remain on track to achieve the 2020 target.

Repair visible leaks (%)



The percentage of visible leaks fixed within seven days has decreased in 2017/18 to 62%.

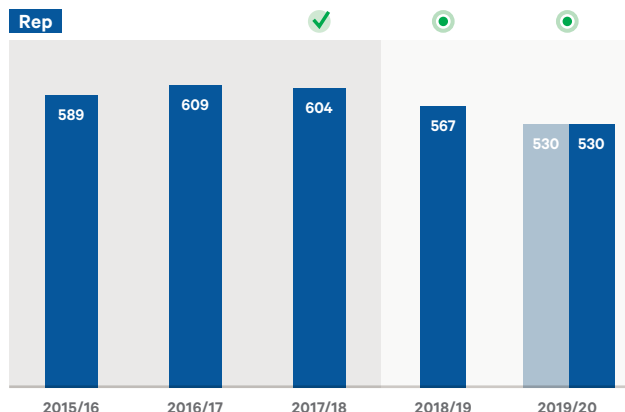
Despite our best efforts, not all leaks can be dealt with promptly as some require road or lane closures for the work to be carried out safely. We liaise closely with the highways authorities so that work can be done at a time that causes the least amount of disruption.

South West Water is working with its contractors to ensure that targeted measures are implemented to ensure that this measure improves in 2018/19.

Legend: Target (light blue), Actual/Forecast (dark blue), Met (green check), On target (green circle).
 Incentive types: £- (Financial), Penalty only, Rep (Reputational)

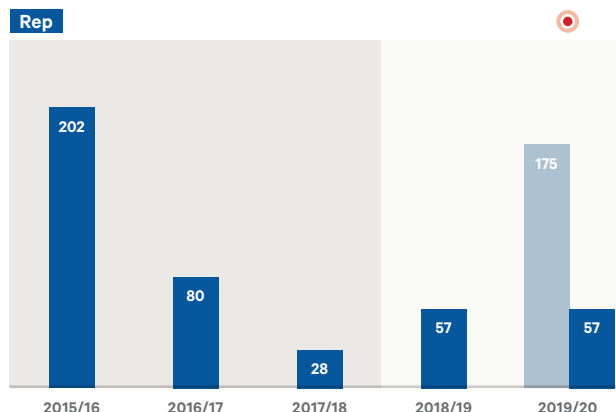
Service targets continued

Reduce energy used in water delivery (kWh / Megalitre)



South West Water remain committed to reducing the energy used within water delivery in all areas, and sites within the Bournemouth Water area are now included within the ISO 50001:2011 audit programme and measures are being identified to reduce energy usage.

Contribute to our community (number of volunteer days)



With the integration of South West Water and Bournemouth Water the number of people available for volunteer days has halved. The value customers placed on staff volunteer days was £100 per day. The shortfall in volunteer days will be added up over the regulatory cycle and be paid to a charity of the Customer View Groups choice at the end of the 2020.

Help support a natural healthy water environment

(in addition to NEP statutory obligation work)

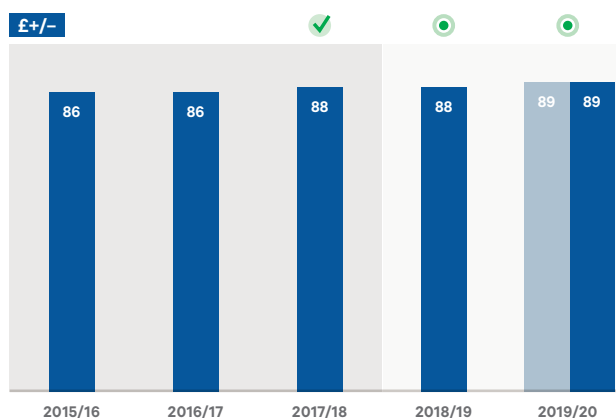
Year	Annual Review	Annual Review	Annual Review	Annual Review	Annual Review
2015/16	Met	Met	Met	Yes	Yes
2016/17	Met	Met	Met	Yes	Yes
2017/18	Met	Met	Met	Yes	Yes
2018/19	Met	Met	Met	Yes	Yes
2019/20	Met	Met	Met	Yes	Yes

In return for taking water from the environment, we give back what we can by promoting biodiversity at our sites and leaving the environment in an improved condition.

We are committed to going above and beyond our statutory obligations and have provided an annual review of environmental projects in the Bournemouth Water area to Natural England and the EA, including progress made and further activities to be undertaken by 2020. This includes statutory Water Industry National Environment Programme (WINEP) work and projects beyond this programme.

As part of our commitment to the environment, we have been certified to the most recent ISO 14001:2015 Environmental Management Systems standard, well ahead of the deadline.

Service Incentive Mechanism (score)

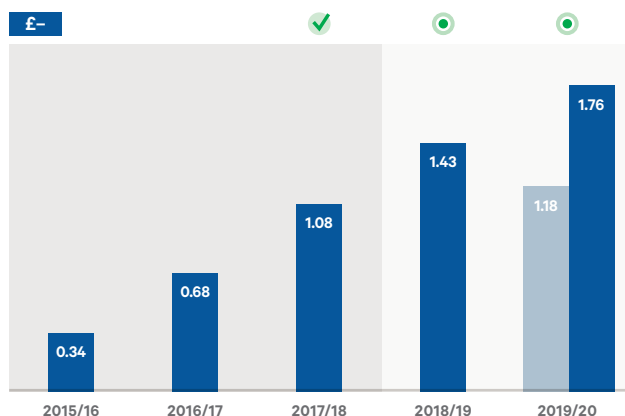


At 88, Bournemouth Water's strong SIM performance is the highest for three years. Bournemouth Water has consistently performed well against the SIM measure of customer service. 2017/18 performance has included upper quartile drinking water customer experience and a 40% reduction in residential written complaints.

Legend: Target (light blue), Actual/Forecast (dark blue), Met (green check), On target (green circle), Not on target (red circle). Incentive types: £+/- (Reward and penalty), Rep (Reputational).

Service targets continued

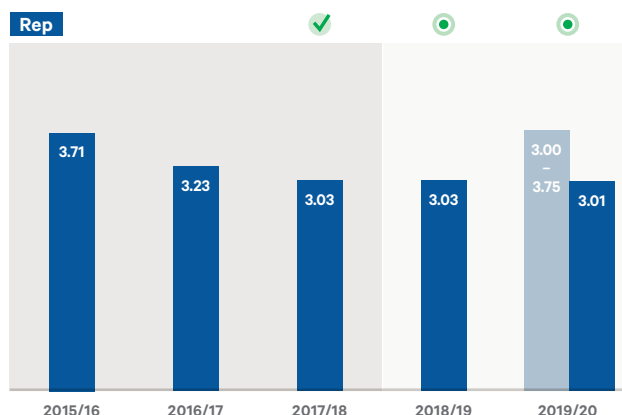
New customer relationship management system
(£million cumulative depreciation)



The new billing system for the Bournemouth Water area was successfully implemented in 2015/16.

Depreciation of the system (reflective of the amount invested) is in line with the target proposed as part of the 2015-20 business plan for cumulative depreciation of £1.08m over the period.

Fair customer bills (% of average bill)



This performance commitment relates to efficient debt management for the benefit of all paying customers in the Bournemouth Water area which both ensures a very high percentage of debt is collected and that expenditure on debt collection is efficient.

Sound debt practices continue to be used with management experience shared with South West Water. As a result, we have been able to reduce costs spent in this area to the lower end of the target whilst maintaining good debt collection performance.

This year we also introduced a social tariff, WaterCare, to help and support our very low income households in the Bournemouth area. Working in partnership with Bournemouth and Poole Citizens Advice and jointly sponsored with Wessex Water, we were pleased to announce an in-house 'Water Guru' within the Citizens Advice who can assist with financial issues regarding water.

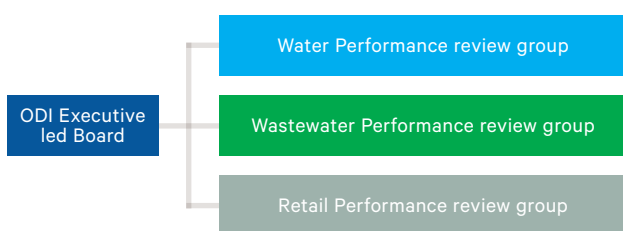
Legend:
 ■ Target
 ■ Actual/Forecast
 ✓ Met
 ● On target
 Incentive types:
 £- Penalty only
 Rep Reputational

Measurement and monitoring of performance

Following the change from output to outcomes based regulation South West Water adapted its already strong governance structure to include new forums with a dedicated focus on ODIs, totex and innovation.

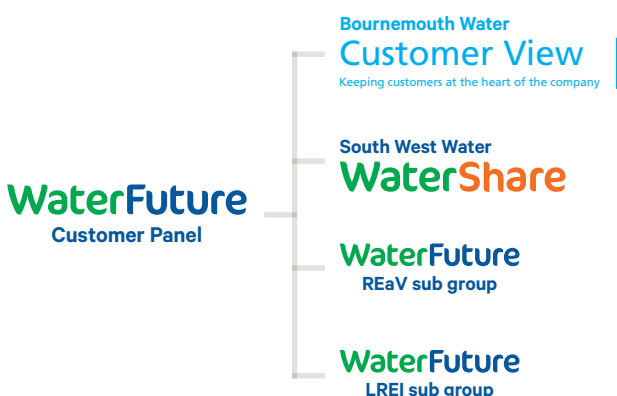
ODIs

South West Water introduced a new governance structure to review and challenge the company's ODI performance. Performance Review Groups (as shown below) meet monthly, identifying how improvements can be made to meet customers' priorities.



Overall ODI performance is reviewed by the ODI Board which also meets monthly and reports to South West Water's Executive Management. This governance process ensures that performance against customers' priorities through the ODIs are reviewed and challenged at all levels of the organisation.

Further independent scrutiny and challenge on ODI performance has also been enhanced by the challenge provided by the independent South West WaterShare Panel and Bournemouth Water Customer View Group which have been in operation since the submission of the PR14 business plan submission.



Furthermore, a WaterShare scorecard is published annually, transparently reporting performance across all aspects of our business. This is used with customers to test different options over the sharing of in-period financial incentives resulting from service performance and other factors within the WaterShare mechanism.

As a result, customer surveys and engagement is routinely undertaken throughout the year on performance and options for sharing of benefits resulting from our performance. This engagement has transformed the relationship with our customers and truly held us to account on our performance.

Looking forward to post 2020 we are enhancing the WaterShare reporting and governance framework to provide the confidence to customers over our service delivery. This framework will be applied to Bournemouth Water operations and the Isles of Scilly (subject to NAV application) for the first time from 2020.



For more information, see [Aligning Risk & Return](#)

The strong governance and assurance framework embedded into our business has ensured consistent and reliable delivery of the stretching PR14 commitments agreed with our customers. We have made significant improvements in performance and are on track to deliver 39 out of 40 ODIs and 14 out of 15 in South West Water and Bournemouth Water respectively.

Totex

The governance framework for investment decisions and operating costs did not change as a result of the move to totex based regulation in PR14 – this is because expenditure decisions were already scrutinised on a whole life cost basis through already established Investment Planning Committees and the Quarterly Review process.

The slight change of focus and additional flexibility allowed for in the PR14 methodology resulted in the creation of an iOPS Board whose focus was on identifying and implementing operational service improvement and / or cost efficiency change projects. This iOPS Board has overseen the development of c. 50 projects costing £5m resulting in over £2m per annum operating cost savings and numerous improved service levels.



For more information, see [Securing Cost Efficiency](#)

Measurement and monitoring of performance continued

Innovation

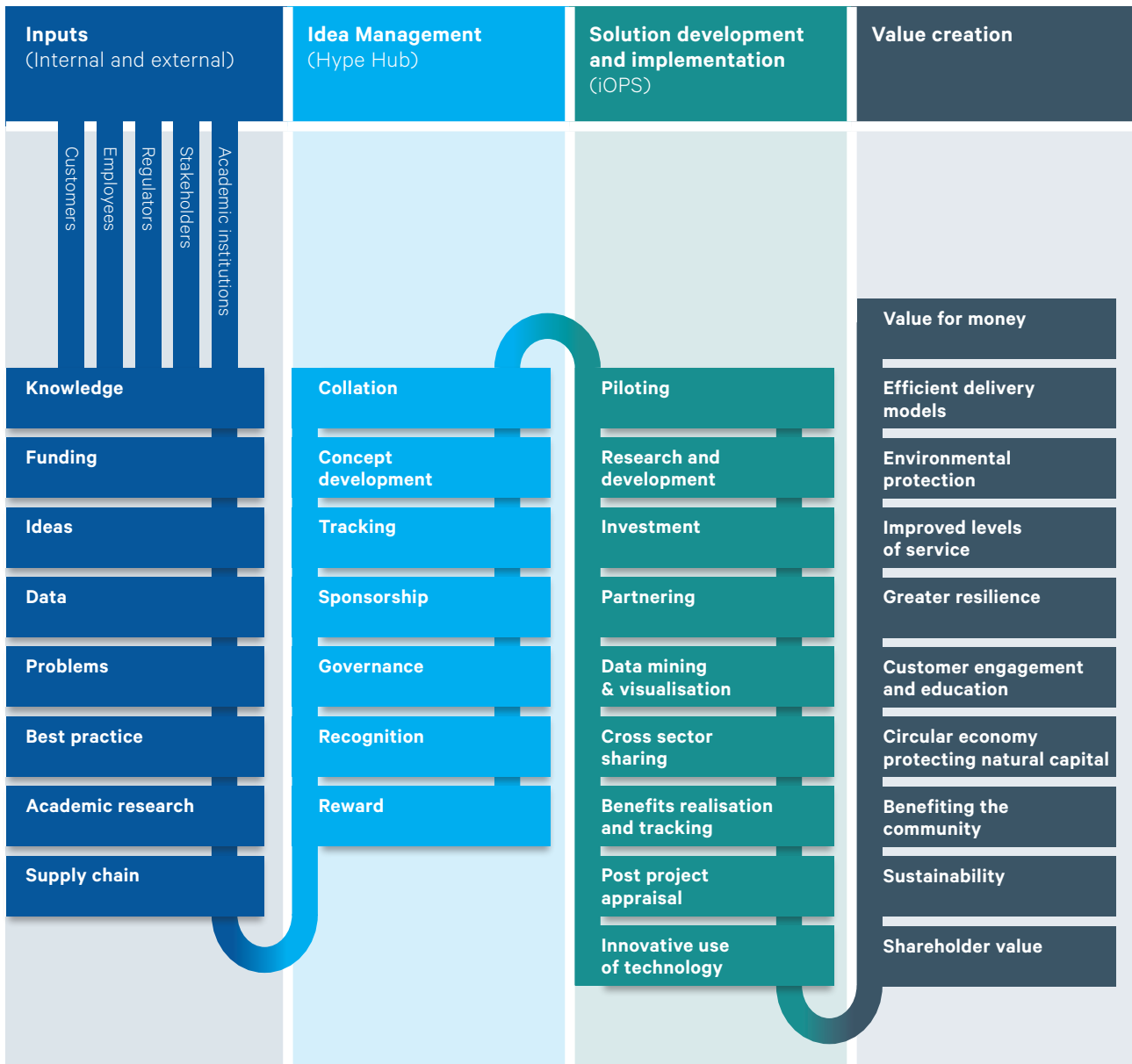
South West Water has always been committed to driving efficiency through innovation to deliver services our customers and stakeholders value, at a price they are willing to pay and can afford. We have structured the business to reflect this commitment and the iOPS Board is responsible for overseeing the innovation cycle within the business. This role includes both internal and external engagement and horizon scanning to ensure that we are well placed to take advantage of ideas and emerging trends regardless of their origin.



For more information, see [Innovation](#)

Working alongside academic partners, as well as our technology providers and supply chain, South West Water is firmly committed to embracing innovation across all business areas. As a member of the South West Partnership for Environmental & Economic Prosperity (SWEEP), alongside University of Exeter, Plymouth Marine Laboratory and Plymouth University among others, South West Water is tapping in to environmental science excellence to address issues in areas such as pollution prevention. Elsewhere, South West Water has embarked on a number of strategic and collaborative partnerships with companies such as Hitachi Consulting to look at how Internet of Things (IoT) technologies and analytics can help deliver a better customer experience and to protect the environment.

Innovation model



Measurement and monitoring of performance *continued*

Innovation *continued*

As a water and wastewater business during any year there is a huge amount of data received and / or generated. South West Water is in the process of harnessing the value of that data to give near real-time insight into the efficiency and effectiveness of the business operating models. Previous investment in mobile field technologies (PUROS) now offers a highly effective visualisation platform to better inform decision makers and service providers alike.

This integrated business model for seeking out new approaches and solutions is putting the challenge of continuous improvement at the forefront of many of our business change decisions.

South West Water has developed an innovation strategy which underpins future plans – ensuring that South West Water does not just harvest novel ideas but has an agile model and the infrastructure to develop an idea and realise the maximum benefit from it.

South West Water recognises the weaknesses in the traditional model of linear innovation from academia to industry, with consumers assumed to only be concerned with the price they pay. Therefore, new ways will be found to overcome the innovation barrier between academic development of an idea and full scale industrial application. South West Water will horizon scan globally both inside and outside our sector to ensure that we are aware of any development which could be used to make operations more efficient or effective.

South West Water's innovation delivery model is shown above. This illustrates how we are able to take ideas through a structured process to assess, develop and deliver tangible outputs in a number of key areas. South West Water will ensure that this process is applied in planning for PR19 and that all investment cases are tested against the model to provide assurance that proposed solutions will deliver outcomes that are valued by customers and aligned to our regulator expectations.

iOPS is South West Water's change programme through which all South West Water innovation and change projects are taken from concept through to delivery and embedded within the business. The iOPS vision is one of enhanced operational capability designed to deliver services efficiently and effectively and to excel in an ever changing business environment.

To achieve this the iOPS programme:

- Draws upon the expertise of our workforce and supply chain to maximise potential opportunity
- Collaboratively delivers and embeds continuous improvement, adopting best practice
- Makes best use of business intelligence systems to influence and understand performance.

The programme improves capability by;

- Realising benefits through improving our performance in managing controllable costs - particularly in the areas of equipment hire and purchasing
- Better understanding and control of our productivity, work demand, work priorities and levels of risk associated with our decisions
- Re-engagement of Work Management systems and tools so that they work for us in a controlled way to achieve our outcomes
- Supporting the workforce to continuously improve the way we do things through enhancing our processes and engagement in this area
- Establish the correct working relationships and commercial terms with our supply chain delivery partners to innovate and achieve targeted efficiency.

Activity is overseen by the iOPS Board which offers the following benefits:

- Creates a centre of excellence for change management expertise
- Offers diverse skills, experience and operational knowledge
- Provides a service to capture, explore and manage the development of ideas
- Manages sustainable change delivery and measurement of benefits.



For more information, see
Targeted Controls, Markets & Innovation

Management of events and incidents

South West Water has detailed and robust incident management procedures which have a number of trigger points depending on the type and scale of the event that dictates the requirement for centralised formal incident management. This procedure, along with all supporting processes and arrangements across the business, is designed to complement the knowledge and experience possessed by company personnel.

The process is used as the framework for the way in which the company responds to, and manages all incidents, documenting the way in which structures, systems and processes should be applied from the point at which an incident is called.

The gold / silver / bronze system of management is used to clarify the roles performed within the management of an incident, and aligns with the system used by the emergency services to facilitate joint agency working during an incident:

- Gold – strategic response
- Silver – tactical response
- Bronze – operational response.

The scale and severity of the incident dictates whether gold / silver / bronze command structures are used. Different command structures are bolstered with additional resources as required at all levels to provide resilience and allow for welfare considerations of our people throughout.

A good example of our incident management is seen in the Freeze and Thaw incident in March 2018 where we received very positive feedback from our customers and our WFCP who led by Professor Ian Bateman, prepared a report on the performance of the company in response to this extreme weather event.

For more information, see



Ofwat 'Out in the cold' report



South West Water response to Storm Emma



“The South West Water response appears to have been one of excellence across a wide range of inter-related and extreme challenges. The procedures and preparations made prior to this event seem to have worked well and the efforts of the staff appear to have been consistently exemplary.”

Professor Ian Bateman, University of Exeter

In the event where services fall below customers' expectations, whether routine business as normal service or that experienced in an event or incident, our procedures are aimed at resolving any concern or complaint as quickly as possible.

Our incident management response policy and procedure requires hot and cold debrief sessions to be undertaken with the business after any event or incident.

The resultant learning, lessons learned and actions identified by these sessions are disseminated to the business with a clear action plan allocated to relevant directors and senior managers to deliver.

The progress is reported on a monthly basis through the relevant water, wastewater and retail ODI sub group and subsequently the Board ODI Sub-Committee.

The lessons learned and our action plan to address the recent freeze and thaw event are published on our website to share this important learning with the rest of the sector.



For more information, see
Freeze and Thaw: lessons learned and action plan

Co-creation workshops are routinely conducted with customers to improve their experience by understanding reasons for dissatisfaction with our service. A good example of this was seen in our leakage customer experience survey that has been improved significantly following customer feedback and involvement in improving our service.



For more information, see
Customer leakage and co-creation workshops

Our 'responsiveness to customers' outcome highlights the importance we place on this area of our business. South West Water has well established processes for dealing with customer contacts and since 2015 has seen dramatic improvement in reducing the number of customer complaints whilst increasing customer contact first time resolution. We pride ourselves on having some of the fewest number of escalated complaints in the industry.

We regularly carry out post-event surveys to understand customer impacts around temporary or one-off events and incidents. This confirms the continuous development of our incident plans, especially around vulnerable customers.

Statutory and legislative obligations

In line with Ofwat's Regulatory Reporting requirements, we prepare an annual risk and compliance statement which details the South West Water Board's approach to governance, and compliance with its obligations to stakeholders.

Throughout the regulatory period, the Board of South West Water has overseen a well established and effective set of policies and processes covering corporate governance, internal control and risk management.

This has resulted in compliance with all statutory, legislative and regulatory obligations throughout this regulatory cycle.

Statutory obligations

We have a number of statutory obligations including those detailed within the Water Industry Act, the Companies Act, the South West Water Licence, and the Competition Act.

Since privatisation, the company has developed and established processes and procedures for ensuring obligations are adhered to in all material aspects. Compliance with obligations and performance against targets are outlined through our routine regulatory reporting. Each year our performance is summarised in our Annual Performance Report.



For more information, see [Annual Performance Report 2018](#)

The South West Water Board has received reports from the business detailing the applicable statutory licence and regulatory obligations (for which Ofwat is the relevant enforcement authority) and the means by which compliance in all material aspects with those obligations is assured within South West Water for this regulatory period.

Customer expectations

We have developed approaches and appropriate processes for engaging with customers to ascertain priorities and expectations. We continually gather customer feedback and engage with our customers in order to understand their expectations.

We have considered how communications adhere to Ofwat's information principles with the aim of ensuring information is accurate, transparent, clear, accessible and timely. Our Codes of Practice meet licence conditions G, H and I, providing information to customers describing the nature of the services to domestic customers, giving guidance to domestic customers who have difficulty paying their bills and advising customers of their options and rights about the help available when they have a leaking supply pipe.

Our approach for producing and reviewing customer information is consistent with Ofwat's information principles. Customer research and feedback is acquired through our quarterly tracking survey and on specific topic areas to support the quality of our communications.

Company performance

The South West Water Board monitors and controls the performance of the Company against the targets and expectations within the Final Determination and statutory obligations by:

- Setting targets and reviewing performance against key levels of performance indicators and financial measures on a monthly basis at Board and Executive Management level
- Implementing Investment Planning & Control procedures to ensure that the principles of proper financial control are applied throughout the inception, evaluation, implementation and handover of capital investment
- Encouraging a culture of openness, where issues can be openly discussed, continuing to support a 'Whistleblowing' policy. Performance against targets is measured and reported using key performance indicators which are aligned with those highlighted in the Annual Performance Report.

There are appropriate systems and processes in place to identify, manage and review any potential material exceptions to the delivery of outputs or changes in circumstances to that assumed within our 2014 Final Determination. These include those which might lead to an adjustment to price limits through the revenue price caps or performance measures.

South West Water has not identified any circumstances that have resulted in a material variance to the Final Determination expectations.

Statutory and legislative obligations *continued*

Board transparency and governance

The South West Water Board is dedicated to developing and improving the governance structures and activities in accordance with best practice and Ofwat's Board Transparency and Governance requirements.

Throughout this regulatory period South West Water had a fully functioning and standalone Board and Committees. The business of the Board with associated Audit, Sustainability, Remuneration and Nomination Committees covers a full range of corporate issues including strategy, performance, delivery, compliance and governance.

In accordance with the governance framework, and as approved by Ofwat, the South West Water Board convenes before each Pennon Group Board meeting to consider South West Water strategy, performance and regulatory planning.

The Board has a 'matters reserved' schedule setting out its responsibilities. Each Committee has detailed terms of reference setting out its responsibilities and accountabilities. These committees, together with the risk management and internal controls frameworks form an effective and robust governance structure.

We will continue to review our governance structures regularly in accordance with Ofwat's Board Transparency and Governance guidelines, ensuring we continue to carry out our business in a transparent way, designed to secure the company's long-term success and profitability.

The South West Water Board of Directors comprised of the Chairman (Non-Executive), two Executive Directors, six, further Independent Non-Executive Directors (including a Senior Independent Director), three of whom are also Non-Executive Directors of the Pennon Group plc and Chris Loughlin, Pennon Group Chief Executive Officer as a non-independent Non-Executive Director. Susan Davy, Pennon Group Chief Financial Officer and Helen Barrett-Hague, Pennon Group General Counsel and Company Secretary also attend the South West Water Board. The Board considers that the Chairman and each of the Non-Executive Directors were independent throughout the year. They are considered by the Board to have the appropriate skills, experience in their respective disciplines and personality to bring independent and objective judgment to the Board's deliberations and to represent customers' interests. We have complied with the UK Corporate Governance Code 2014 subject to a number of exceptions which relate to certain responsibilities being reserved by the Board and Committees of Pennon Group Plc (the parent company), which itself fully complies with the UK Corporate Governance Code.

South West Water Board statement

The South West Water Board confirms that in its opinion sufficient processes and internal systems of control were in place to meet our obligations during 2015-20 ensuring that we complied in all material respects with its legal and regulatory obligations as a water and sewerage undertaker.



For more information, see [Board Assurance Statement](#)

Expenditure and efficiency

Our customers have consistently told us they want a reliable and resilient service and a fair price that is affordable to them.

With relatively high wastewater bills and comparatively low incomes in the South West affordability has always been an issue for many of our customers.

We have worked hard to deliver service improvements whilst driving significant efficiency savings. As a result customer's bills are now lower than they were in 2009.

In PR14, South West Water were assessed by Ofwat to be one of the leading water companies in the industry. Since then, we merged with Bournemouth Water (see Bournemouth Water integration section) and implemented a number of efficiency programmes, which have resulted in us outperforming the final determinations and maintaining our leading efficiency position.



For more information, see
Securing Cost Efficiency

Outcome based regulation and the shift to totex based cost assessments was one of the major innovations in the 2014 Price Review. This shift has undoubtedly helped us to focus more on what matters most to customers and delivering those services at the most efficient cost, whether that be a capital investment item or operating expenditure item.

We have welcomed the flexibility of this approach which has enabled the business to make decisions that are more responsive to customer needs (especially driven by in-period ODIs), ultimately resulting in improved customer service and more efficient cost delivery.

Underpinned by innovation, the totex framework has helped us to deliver efficiencies and service improvements over and above those already included in the PR14 business plan submission.



For more information, see
Totex, ODIs and innovation submission to Ofwat

South West Water has delivered significant efficiencies both in lowering the operating cost base and in delivering our capital programme in an innovative and efficient way. The key areas of delivery across all areas of the value chain have been:

- Lower than expected wholesale power prices by hedging certain volumes through to 2020, although third party costs have increased over this period
- Operating cost savings from the integration of Bournemouth Water combining support and back office functions
- Efficiencies from ongoing iOPS improvement programme including general savings above the 1% assumed in the PR14 business plan were targeted
- In 2014/15 the Pennon Group Pension Scheme (of which South West Water accounts for c.80%) was restructured to change the benefits of pensioners – this resulted in savings on ongoing contributions
- Lowering the cost of doubtful debts through targeted collections improvements and supporting customer affordability initiatives
- Efficiencies in the delivery of maintenance schemes, which a higher proportion being through efficient planned investment schemes (which are therefore capital in nature).



For more information, see
Targeted Controls, Markets & Innovation

Expenditure and efficiency continued

Wholesale totex savings

	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m	Total £m
Water Allowance FD14*	162.6	168.8	168.3	151.7	144.6	796.0
Actual / Forecast water costs	127.7	150.9	149.4	115.9	107.3	651.2
Totex savings	34.9	17.9	18.9	35.8	37.3	144.8

* Including Bournemouth Water

Total wholesale totex savings are forecast to be £310 over 2015-20.

Wastewater Allowance FD14*	191.5	193.0	176.6	158.5	155.6	875.2
Actual / Forecast wastewater costs	146.6	163.3	148.3	131.9	124.7	714.8
Totex savings	44.9	29.7	28.3	26.6	30.9	160.4

Residential retail cost base

	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m	Total £m
Residential Retail Cost to serve (FD14)*	32.5	33.0	33.4	33.6	34.0	166.5
Actual / Forecast retail costs	33.4	30.2	29.1	29.6	29.6	151.9
Retail cost savings	(0.9)	2.8	4.3	4.0	4.4	14.6

* Including Bournemouth Water

Bournemouth Water integration

We have delivered over and above what we promised when we presented the integration with Bournemouth Water to Ofwat and the Competition and Markets Authority.

The integration of two successful businesses has resulted in a better comparator for the sector with improved services and lower costs benefiting our own customers.

The regulatory regime has also benefited from the integration. Based on our calculations, the integration has given rise to a total net benefit of c. £70m as a result of

- The **creation of a better comparator** which is more likely to be available as part of the benchmark for the industry as whole
- Improvements into the precision of the econometric models used by Ofwat in the price review, which will **benefit all customers through lower bills.**

This is exactly the type of integration that the Cave Review considered to be beneficial, noting that small water company integrations would provide benefits, including but not limited to increased pressure on companies to improve their performance and delivering economies of scale.

Highlights of the integration that have either been delivered or planned to be delivered by 2020 include:

- **Return of the small company premium** to Bournemouth Water customers
- **Introduction of a social tariff** for Bournemouth Water customers and other support measures
- **Reduced corporate costs** of operating a single rather than two separate companies
- **Retention of Bournemouth Water Customer View Group** to oversee and scrutinise Bournemouth Water performance
- **Tariff differential** between South West Water and Bournemouth Water customers retained
- **Enhanced customer service levels** across the combined entity with no deterioration in either of the companies individual performance areas
- **Enhanced resilience** through ability of merged entity to respond more effectively during incidents, emergencies or peak periods. This was extremely advantageous during Storm Emma where Bournemouth Water resources could be redeployed to help areas in the South West that experienced more severe weather
- **Knowledge sharing** and innovation delivering long term efficiency and customer service (catchment management, bad debt management, leakage and SIM)
- **Synergies** including economies of scales in the following areas:
 - Reduced overheads
 - Reduced group charges
 - Combined retail business
 - Wholesale operational savings
 - Business rates
 - Procurement and contracting
 - Capital expenditure efficiencies.

The integration has clearly generated significant efficiency savings pushing the efficiency benchmark for the industry even further and creating a better comparator. This not only benefits our customers but also all customers in the sector by lowering cost baselines against which all companies are assessed.

The integration has delivered wider customers benefits. The strong South West Water resilience has allowed the delivery of new water treatment works to improve water quality to customers. This also helped drive a new water transfer to Southern Water, improving resilience in the South East.

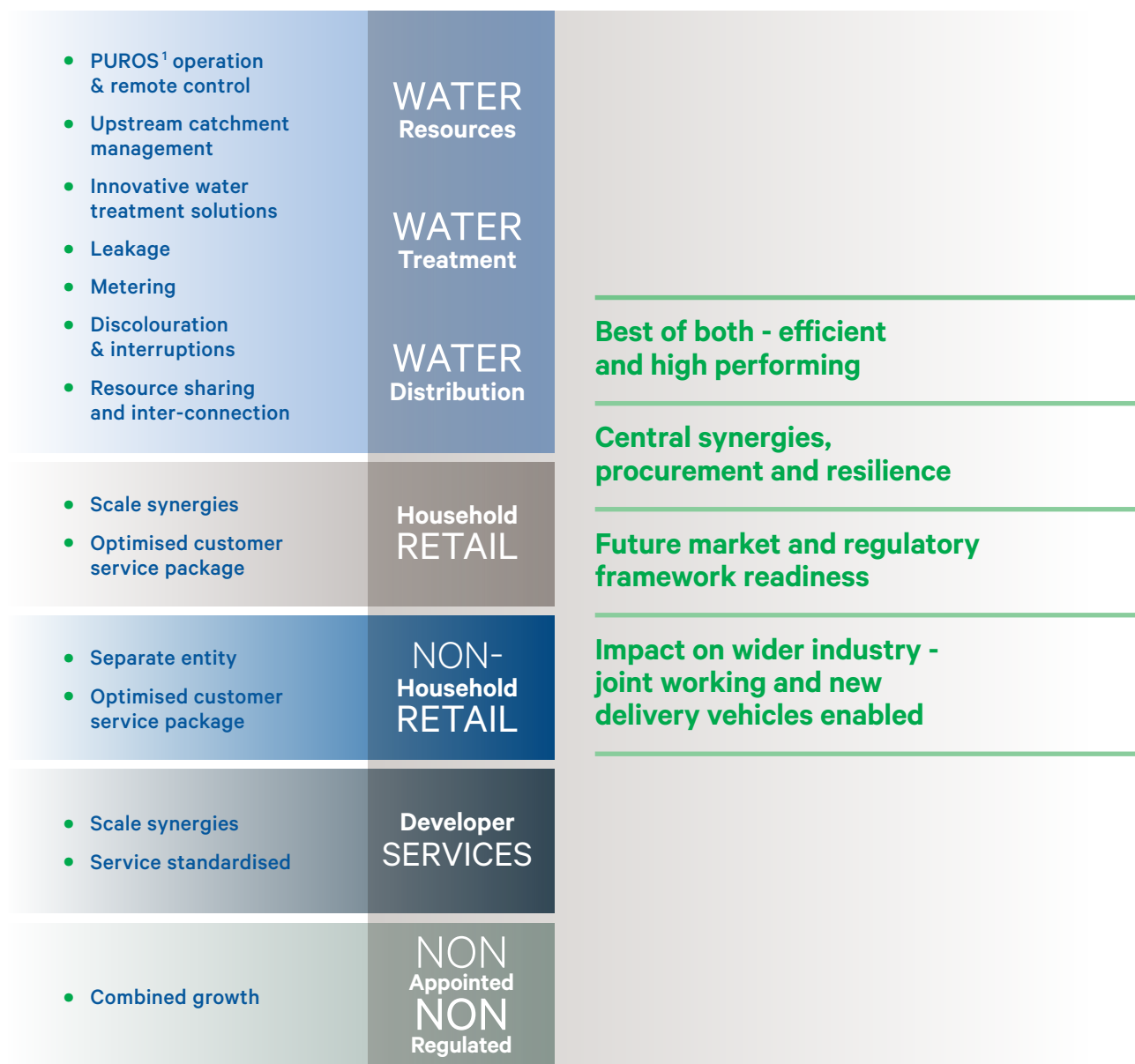
Bournemouth Water integration continued

We have delivered on our commitments and are on track to deliver the c.£27m of cumulative savings identified over 2015-20. A significant proportion of these savings have been delivered through operational changes and improvements.

These changes have not impacted the service within the Bournemouth Water region with 14 out of the 15 ODIs targeted for 2020 on track to be delivered and Bournemouth Water being at the top of the industry for the Service Incentive Mechanism for customers.

Key areas of delivery have been:

- Integration and centralisation of all support services functions
- Successful combining of non-household retail activities prior to exiting the business retail market in 2017
- Merged the retail activities including call centre
- Fully combined and managed wholesale water activities, joint systems and processes and approaches to operational management, including leakage strategy and responsiveness to incidents
- Driving savings from procurement and the supply chain, including South West Water’s H5O Alliance for delivering the capital programme.



1 Phase Utilisation of Remote Operating Systems (PUROS)

Opening of retail non-household competitive market

On 1 April 2017 the business retail market for water and wastewater services opened for competition, allowing more than 1.2 million businesses, charities and public sector organisations in England to choose who they buy their water and wastewater retail services from, for the first time.

South West Water embarked upon a 'market ready' change programme, involving the entire business, well in advance of market opening to enable successful entry into the market. All policies and procedures were reviewed and streamlined prior to shadow operation in October 2016. This enabled many processes to be updated and optimised realising benefits for household customers as well as non-household customers. A good example of this was the reduction in 'hand offs' between functions for responding to leaks and bursts out of hours.

We continue to see improvements from performance resulting from the transparency and visibility of performance from the management of strict SLAs driven by market codes that have been applied to household operations as well.

Our wholesale performance reported by MOSL continues to be amongst the best in the industry with consistently low number of performance charges compared to other wholesalers.

Case Study

Retail non-household market

In a developing market South West Water proactively work with all new retail entrants to deliver initiatives which help create real value. As part of our Retail Advocacy Programme this includes providing guidance on where information can be found, helping understand our tariffs and policies and setting up retailer specific reporting packs on performance and monthly financial settlements.



“South West Water providing quick and simple reference points helps our operations department more easily manage customer expectations, supporting our delivery of great customer service.”

Pritesh Patel
Commercial Director, First Business
Water Limited



Case study

South West Water has fully engaged with the opening of the non-household market. To promote good working relationships with all retailers we proactively introduced our Retail Advocacy Programme and implemented systems and processes aimed to make it as easy as possible for Non-Household Retailers to access information and provide great customer service in the developing market. As a result by the end of 2017/18 South West Water were amongst the top performing wholesale companies as measured through the Market Performance Standards (MPS).

We intend to continually improve the level of service that we provide through truly understanding Retailer needs and views. To do this we directly engage with our Retailers to explore and understand the priorities for end customers, the needs and expectations of Retailers for our services and their priorities as a Retailer in the wider market for the period 2020-25 and beyond.



For more information, see
Engaging Customers

Our non-household retailers have told us what they want from South West Water in particular is:

- Open pro-active communication
- Innovation around water efficiency and water audits, including data flow
- Excellent customer service, for some that means 24 hour availability.

By communicating and listening to feedback we can be certain to reflect the needs of the market and deliver the best service across our regions. The lessons we have learnt through market opening have also benefited the service we provide to our household customers as best practice is shared across the entire customer base to add maximum value.

We have used the learning from operating in the non-household market to apply to our wider market work.

Adjustments to 2020-25 revenue controls

K6 outperformance is reflected in adjustments directly in revenue and through opening adjustments to RCV.

Substantial customer benefits derived

This efficient delivery of services to customers will result in substantial benefits following the application of the 2015-20 reconciliation adjustments.

	Revenue adjustment £m	Opening RCV adjustment £m
PR09 regulatory adjustment	0.0	(44.4)
2014/15 blind year	(17.5)	(5.8)
2015-20 totex outperformance ¹	(11.8)	(162.6)
2015-20 ODIs ²	11.8	8.3
2015-20 land sales	0.0	(3.6)
Total adjustments	(17.5)	(208.1)

¹ Includes retail revenue

² Includes Service Incentive Mechanism (SIM)

PR09 regulatory adjustment

This reflects an inflation correction identified across the industry post the PR14 price review, with the balance confirmed by Ofwat.

2014/15 blind year

This reflects the final outturn position for 2014/15 and makes adjustments where performance differs from that assumed for FD14. For South West Water this reflects a difference in the capital programme and operating costs in this year.

2015-20 totex outperformance

Over the 5 year period South West Water is forecast to deliver over £300m of totex savings. The PR14 Reconciliation model allocates this savings between a reduction in opening RCV and a revenue adjustment. These savings have been delivered from operating cost savings and across the capital programme through innovative solutions and efficient delivery.

2015-20 ODIs

South West Water ODI performance for 2015-20 is forecast to be a net reward of £15.894m. £2.293m of in-period ODI net penalty has already been reflected in customer bills. The remaining balance is adjusted at PR19 through adjustments to RCV or revenue

WRFIM

South West Water is forecasting to meet the expected revenues for 2018/19 and 2019/20 and therefore no WRFIM (Wholesale Revenue Forecast Incentive Mechanism) adjustment is proposed for 2015-20. However during 2014/15 revenue recovered was higher than expected and therefore an adjustment to revenue is required under the Revenue Correction Mechanism.

Whilst these adjustments retain value when considered over the K6 and K7 period and are NPV positive for an outperforming company, they do impact on the K7 position in isolation.

Adjustments within the business plan reflect those relating to 2014/15 (referred to as the blind year of K5) and outperformance during K6 through totex and ODIs. The legacy adjustments for K6 have been updated to reflect confirmation from Ofwat on the approach to totex outperformance in K6. This has resulted in lower revenue and an increase in the midnight adjustments to RCV – which has reduced the opening RCV further.

Totex is the largest element of outperformance with delivery of c. £300m identified over the five years, shared with customers at 55% for company and 45% for customers. This outperformance impacts customer bills by:

- Lowering the operational cost base from FD14 assumptions (through significant efficiencies delivered, including the synergies with Bournemouth Water)
- Revenue impact based on the regulatory pay-as-you-go and customer sharing
- RCV opening adjustments, reducing the RCV on which South West Water receives a return and changing the RCV run-off included in bills.

ODIs have delivered £10.4m of rewards in the first three years of K6 which are adjusted at the end of the period – with the majority impacting RCV. A forecast to 2020 has been made in the financial modelling.

There are also some adjustments relating to 2014/15 (referred to as the blind year). This includes the revenue correction mechanism and a downward adjustment to RCV identified during PR14 but not included within FD14.

Adjustments to 2020-25 revenue controls continued

Independent external assurance

All inputs into the reconciliation adjustments and the final outputs are independently assured. The adjustments are based on externally assured performance as reported in statutory and regulatory submissions published annually. All proposed adjustments are made in accordance with the PR14 reconciliation handbook with adjustments being applied to revenues and regulatory capital value (RCV) for 2020-25. This takes account of all PR14 incentive mechanisms.

Strong customer engagement

We have undertaken extensive engagement with customers and stakeholders in all aspects of our business plan. Different bill profiles resulting from reconciliation adjustments have been tested with customers to understand their preferences for changes in their bill over the period.

Annually we seek views from our customers on their preference for bill changes as a result of ODI in period performance.



For more information, see
Engaging Customers

The result of this research is used to determine our decision to change customers' bills immediately or defer to future periods to allow for a smoother bill. **Results from customer research with respect for PR14 reconciliation adjustments show strong support for smoother bills and this has been reflected in our business plan.**

Affordability is an overarching priority for our customers and we believe our approach for smoothing bills aligns with this principle.

The **strong track record of delivery** we have demonstrated against our stretching PR14 commitments provides trust and confidence to customers that the stretching targets and commitments proposed in our PR19 business plan will be delivered.



For more information, see
Delivering Outcomes for Customers

Summary – Initial assessment of plan questions

We have clearly identified and reported our 2015-20 performance, and identified where improvements need to be made. Areas for improvement to deliver stretching performance levels aligned to customer and regulator priorities are targeted for our 2020-25 plan.

Adjustments arising from 2015-20 performance are indicated, and these have been calculated in accordance with the PR14 reconciliation rulebook and applied in accordance with customer preferences.

The strong track record of delivery we have demonstrated against our stretching PR14 commitments, the evidence of how we have handled recent events; the evidence of our robust governance and oversight of performance, the Business Plan and price review reconciliations; and our reliance on independent assurance and customer engagement, underline the credibility of our business and our plan, and provide trust and confidence to customers that

- The stretching targets and commitments proposed in our PR19 business plan will be delivered, including our legal obligations and ODIs; and
- We will handle events transparently and robustly, and with strong communication with customers, will ensure learnings and actions taken will moderate customer impact.

There are two challenges included within the Initial Assessment of Plans for ‘accounting for past delivery’. These are set out below together with a summary of how we have responded to the challenges and how we demonstrate how we have met these requirements.

PD 1 How well has the company given evidence for its proposed reconciliations for the 2015-20 period, and has it proposed adjustments by following the PR14 reconciliation rulebook methodology?

This is summarised in the ‘adjustment to 2020-25 revenue control’ section of this document.

All inputs into proposed PR14 reconciliation are based on actual performance to 2017/18 that has been externally assured. Forecast performance used as inputs into the PR14 reconciliation adjustment calculations are based on current performance trends, forecasted to 2020, taking account of known initiatives and interventions. These forecasts approved by management have been challenged by the Board and faced extensive challenge and scrutiny from our WaterFuture Customer Panel (WFCP) and external assurance providers. The WFCP and assurance providers have provided assurance reports validating the robustness and credibility of these forecasts used to input into the reconciliations.

Reconciliation calculations have been prepared in accordance with the PR14 reconciliation methodology. This has been internally and externally assured.

For more information, see



WaterFuture Customer Panel Report



Securing Trust, Confidence & Assurance

Summary – Initial assessment of plan questions continued

PD 2 How well has the company performed, and is forecast to perform, over the 2015-20 period and, taking into account this overall performance, how well has it put measures in place to ensure that it maintains confidence that it can successfully deliver its PR19 business plan?

This is summarised in the executive summary of this document where we explain the continuous and extensive Board led governance and oversight of performance.

Through our customer driven culture, values and innovative WaterShare mechanism, we have empowered our customers to hold us to account on our promises, ensuring the provision of outstanding service to communities, while keeping bills as low as possible.

We are on track to deliver all of our promises made to customers and regulators in PR14 including:

- Performance commitments (see service targets section)
- Statutory and licence obligations (see statutory and legislative obligations section)
- Cost allowances and efficiency (see expenditure and efficiency section)
- Board pledges (see Board pledges section)
- Entering and operation of the retail non-household competitive market (see retail non-household market opening and operation section)
- Bournemouth Water integration (see Bournemouth Water integration section)
- Responding to and providing timely communication to regulators and customers during incidents (see management of events and incidents response section)
- Efficiently responding to customer complaints (see 'responsiveness' outcome included within the service targets section).

All elements of RoRE have been outperformed every year. Our integrated governance framework (where all areas of performance are reviewed on a monthly basis) has ensured and will continue to ensure action is taken in any area where performance has fallen or at risk of falling behind customer expectations.

The extensive Board oversight and governance of performance and strong incentives will continue to ensure our customer commitments are delivered. The independent WaterShare Panel (South West Water) and Customer View Group (Bournemouth) provide additional levels of scrutiny and review of performance, as they have done so since the PR14 business plan was submitted, to ensure we are held to account.

High quality, ambitious and innovative plan

In addition to the summary responses to each of the initial assessment of plan questions noted here, we have provided further information evidencing the high quality, ambitious and innovative nature of our plan in the following section.

Further evidence can be located in a number of publications:

- South West Water PR19 suite of documents
- Other sources including South West Water documents and third party reports.

Summary – High quality, ambitious and innovative plan

High quality plan features	Evidence & activities	Evidence location within plan
<p>The company will present strong evidence that it has derived its proposed reconciliation adjustments following the PR14 reconciliation rulebook methodology and that its proposals for applying the adjustments in the 2020-25 price controls follow the PR19 final methodology.</p>	<p>Board led integrated governance and assurance framework</p> <p>Externally assured by independent assurance providers</p> <p>Customer research on proposed options for applying the reconciliation adjustments post 2020</p> <p>Customer support for proposed adjustments</p> <p>Customer acceptability testing</p> <p>Customer focus groups</p> <p>WaterShare annual customer research</p> <p>Customer research suggests support for share ownership</p> <p>Customer share ownership scheme proposed for additional WaterShare outperformance</p> <p>WFCP review and challenge</p>	<ul style="list-style-type: none"> ● Accounting for past delivery ● WaterFuture Customer Panel report ● Engaging customers ● Aligning risk and return ● Securing trust, confidence and assurance
<p>The company will present strong evidence that it has a robust approach to delivering its PR19 business plan. This should demonstrate that the company has delivered and is forecast to deliver its promises to customers over the 2015-20 period. Or where it has or will not, its understanding of the drivers of its performance over the 2015-20 period, the lessons it has learnt and the additional measures it has put in place to ensure that it can maintain confidence that it can successfully deliver its 2020-25 plan.</p>	<p>Board led integrated governance and assurance framework</p> <p>Track record of delivering promises and stretching commitments made to customers</p> <p>Oversight and challenge by independent WaterShare Panel embedded into business and applied to Bournemouth area and extended until 2025</p> <p>WaterShare+ governance framework</p> <p>New customer ownership plan giving customer even power to hold us to account on delivery</p> <p>Embedded ODI governance framework reviewing and scrutinising performance with detailed analysis and intervention in areas of performance falling below expectations</p> <p>Strong incentives</p> <p>Post event surveys undertaken routinely with customers to understand any area of performance falling below expectations</p> <p>Customer contact and complaint resolution improvements driven by bespoke ODI</p> <p>Storm Emma post incident customer surveys</p> <p>Board leadership and involvement in incidents</p> <p>Incident management policies and procedures</p> <p>Customer service driven culture embedded into business and alignment of objectives throughout the organisation</p> <p>Strong incentives attached to delivering performance</p> <p>Forecast performance independently challenged by WFCP and external assurance providers</p> <p>Customer focus groups</p> <p>Resilience service improvement project</p>	<ul style="list-style-type: none"> ● Accounting for past delivery ● Aligning risk and return ● Engaging customers ● Delivering outcomes for customers ● Securing cost efficiency ● Securing trust, confidence and assurance ● WaterFuture Customer Panel report ○ Annual Performance Report 2018 ○ Customer Annual Performance Report 2018

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Customer research and engagement

Customer engagement on past delivery

Our engagement with our customers hasn't stopped since the last price review; in fact it has been the springboard to even greater engagement with customers through our WaterShare mechanism.

WaterShare performance is published yearly and with it we seek customer views on our how any cost savings should be treated, giving them ultimate control in how their money is spent or returned.

An annual survey informing customers of WaterShare, the cost savings available and what that is equivalent to as a one-off bill reduction, we then present options (lowering bills, deferring to offset bills in the future, re-invest in improving services or a mix of the options) and ask for customers to rank their preferences. This research is reported to the WaterShare Panel to discuss and agree next steps based on customer views.

WaterShare
How we're sharing our success with you

In 2016-17 we outperformed on our leakage performance commitment but we didn't do so well on wastewater, underperforming on our pollution targets. This means that outperformance payments and underperformance penalties are applied to your tariffs in 2018-19, keeping your bill stable.

We outperformed on other areas, included within WaterShare, such as borrowing money for investment more cheaply. You told us through customer research you favour lower and/or smoother bills to reinvestment in services. We have listened and therefore the outperformance in this area is being deferred to smooth bills in future years. Find out more at: southwestwater.co.uk/watershare

We publish the action taken on our website but also communicate how any out or under performance payments are applied to bills.

We have continued the conversation with customers on 'WaterShare' to see how it can be improved and developed for 2020-2025. The activities have included:

WaterShare+ principles

South West Water customers benefit from the WaterShare scheme whereby any outperformance of the 2015-20 business plan is shared with customers. This survey aims to understand customers views on the approach to WaterShare scheme from 2020 – known as WaterShare Plus – specifically the principles and broad approach to rolling out share ownership to customers.

The WaterShare Package

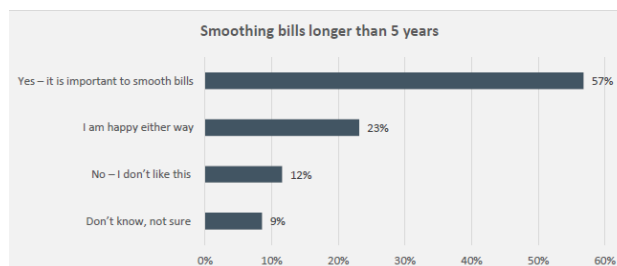
South West Water customers benefit from the WaterShare scheme whereby any outperformance of the 2015-20 business plan is shared with customers. South West Water has engaged with customers considerably on the successor to WaterShare, known as WaterShare Plus. This has set out the principles and broad approach to rolling out share ownership to customers. This study focused on understanding customers' views on the proposed package and the barriers that may prevent take up across the customer base.

Building trust, supporting customers and sharing success

The aim of this research was to understand more about affordability and value for money; how we support customers that are less well off and struggle to pay their bills; and how we share success in the future through cost savings and share ownership (WaterShare Plus)

Bill profiles

As part of our WaterShare principle research we asked customers to provide their views on future bill changes and profiles with the preferred option being a smoother bill profile in order to help with budgeting for themselves or other households, 80% of customers indicated that they would be supportive of smoothing bills beyond five years.



Customer summary APR

Alongside our WaterShare engagement, we also seek customer views on our performance, what information they want to see and how they want to be kept informed yearly.

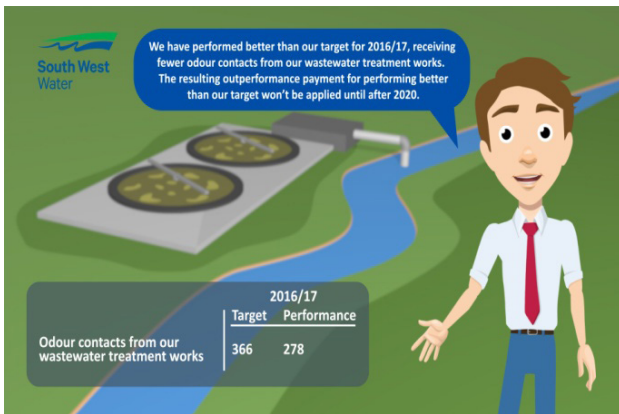
Feedback on what they want to see has influenced our day to day operations and for the last two years we have published a customer summary APR which has been wholly driven by customer feedback, they told us that a quick summary of what we have achieved, if we haven't hit are targets what we are doing about it and how are we doing against the rest of the industry are sufficient for a bite-sized report. Every year, we check that this information is still what they want to have available for them to review.

Customer research and engagement continued

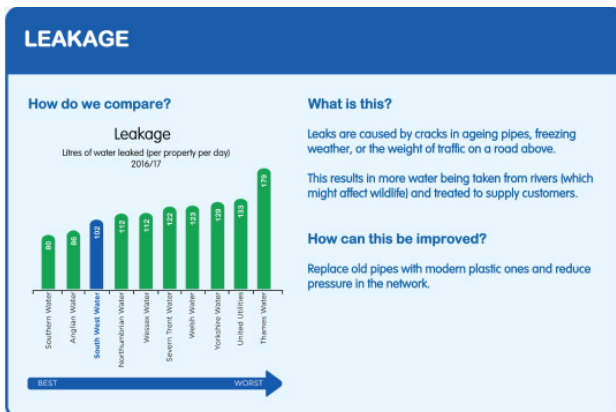
Alongside our customer summary for 2017/18, we will be introducing an online video that from source to sea explains what our performance commitments are, what they measure, current performance - and if we are not hitting our targets what we are doing to get back on track. The idea to do this came from the feedback we received from our innovative interactive personalised video which we used to engage and inform customers around our water resources plan. Customers told us that the format was incredibly clear, informative and easy to watch. It was something different to what they had seen before.



For more information, see **Engaging Customers**



Throughout the PR19 engagement process we have continued to engage with customers on our current and forecast performance. We have also used comparative data within focus groups and online surveys to aid discussion around priorities and levels of service. This information has been valuable in the discussions on future performance commitments and setting stretching targets.



Overall, the view is that South West Water's performance is good based on people's own customer experience. Customers stated they generally receive a problem free service.

When viewing the comparative data from Discover Water, many said that South West Water and Bournemouth Water compare well to other water companies, although there was some confusion where South West Water looks like an outlier as there was little or no experience of the issues in the groups.

This is where comparative data helps customers who do not experience ongoing service issues to consider that other customers / communities may still not have the levels of service they receive or other water company customers receive and not to dismiss the priorities and needs of others.



“I think the principle of standardisation is a good one because you've got a benchmark that you can work to, but the problem is the practicality of applying the benchmark based on the issues that everyone has talked about. I think the principle is right but you're always going to get regionalised differences and that's when people complain that we're not doing as well on some things as other companies.”

Newton Abbot 1

It was felt that in some areas our performance could be improved on and that feedback has been used to ensure that targets for 2020+ are set to upper quartile performance or industry leading in the areas that matter most to customers.

We also carry out engagement with customers to influence our day to day operations, one such areas was the improvements made to our Customer Leakage SIM score following a series of co-creation workshops and playback sessions with customers, we redesigned our processes and service journey based on their feedback which resulted in an increase in our SIM score for this contact type. We have since carried out co-creation workshops with customers to improve our waste water journeys and we have made changes to our operations because of this.

Other activities which have directly affected our day to day operations have been our post event surveys, which we carry out after 'events' to understand what the impact has been to our customers, this feedback is used to review work practices and our responsiveness, but at the same time we are collating data on the cost to customers which will feed into PR24.

WaterFuture Customer Panel engagement and assurance

1. Accounting for past delivery

PD 1 How well has the company given evidence for its proposed reconciliations for the 2015-20 period, and has it proposed adjustments by following the PR14 reconciliation rulebook methodology?

PD 2 How well has the company performed, and is forecast to perform, over the 2015-20 period and, taking into account this overall performance, how well has it put measures in place to ensure that it maintains confidence that it can successfully deliver its PR19 business plan?

The WaterFuture Customer Panel (WFCP) is made up of representatives from customer, business, stakeholder and regulatory organisations and its role is to provide the independent challenge to companies and independent assurance to Ofwat on:

- The quality of a company's customer engagement; and
- The extent to which the results of this engagement are driving decision making and are reflected in the company's plan.

The Panel also set up two sub-groups to work more closely with the company on research, engagement and vulnerability activities; the Research, Engagement and Vulnerability (REaV) sub group, and on legislative and statutory obligations; the Legislative, Resilience and Environmental Investment (LREI sub group) with both chaired by a member of the WaterFuture Customer Panel.

The WaterShare Panel was created in 2013 to provide independent review and challenge on all areas of South West Water's performance. Alongside this, the Customer View Group is an independently chaired body created to provide challenge and dialogue regarding the company's deliver of the Bournemouth Water performance targets set for the period 2020-2025. The Chair of the Customer View Group, Richard Lacey, also sits on the WaterFuture Customer Panel.

In 2017, the WaterShare and the WaterFuture Customer Panel were merged based on the clear cross-over of activities between the Panels. In line with the WaterShare mechanism, the company shared forecast and actual performance with the Panel on a quarterly basis for review and scrutiny. Both the WaterShare and WaterFuture Customer Panel, and the Customer View Group are responsible for holding the company to account on the achievement of our 2020 commitments.

These panels have reviewed and challenged performance at 22 meetings to date since 2015 (12 WaterShare and WaterFuture Panel meetings and 10 Customer View Group meetings), and the WaterShare and WaterFuture Customer Panel has also overseen the successful operation of the WaterShare mechanism for the first three years of the current regulatory cycle, with accrued benefits to customers totalling £79m.

Each Chair has published independent annual reports summarising performance over the year, and in 2018 also provided a summary report for publication in our annual performance report.

Dedicated workshops were held with the Panel and its sub-groups to share forecast performance to 2020, providing actual performance from 2015 for context all performance commitments. The Panel were provided with confirmation that all 2020 performance commitments were on target to be met, for both Bournemouth Water and South West Water, and that South West Water was the only company outperforming across all RoRE areas.

The Panel challenged us in the areas where they felt we needed to provide additional confidence where performance was not currently hitting in-period targets, wanting to specifically understand how these 2020 performance commitments would be achieved in practice. These areas included targets or Bournemouth Water and South West water and are summarised in the table below.

WFCP challenges on performance to 2020	Company response
SWW: Duration of interruptions to supply	<p>Supply interruptions were adversely impacted by the 1 in 60 year event in February and March 2018. Prior to that event performance was on track to meet the performance commitment for that year. Multipurpose vehicles have been purchased to provide a rapid response to burst to reduce the risk of customer supplies being interrupted.</p> <p>Although statistically it is not anticipated that a 1 in 60 year event will occur again for the rest of the regulatory cycle, improvements and investments have been made to better protect customers from the risk of their supplies being interrupted by extreme weather (e.g. additional telemetry giving advance warning of issues).</p>

WFCP challenges on performance to 2020	Company response
<p>SWW: Water pollution incidents (category 3&4)</p>	<p>The increase in pollutions in 2017 for drinking water operations is a result of a drive to improve self reporting. In addition a range of improvement initiatives have been implemented across both network and production operations. These include:</p> <p>Environmental awareness campaign for all production and networks staff covering pollution risks, regulatory requirements, reporting and escalation processes</p> <p>Reviewed our pollution risk assessments at all of our production sites and implemented new controls such as carrying out drainage surveys to confirm routes of drainage pipes</p> <p>Modifications to a number of chemical storage systems to provide additional protections against overflows and spills, and improvements to sludge storage facilities</p> <p>Repair crews routinely using settlement tanks and de-chlorination equipment to minimise environmental damage from burst mains</p> <p>Joint workshop with the Environment Agency with a focus on maintaining a consistent approach on preventing pollutions from construction work adjacent to watercourses. At the same workshop advice was given by the Environment Agency officers on how SWW can demonstrate the typically low levels of environmental damage from burst main pollutions</p> <p>Inspection and audit of operational sites to ensure environment risk arising from operations are documented and mitigated.</p> <p>2018 pollution events to date have reduced, indicating the success of the measures above.</p>
<p>SWW: Customers paying a metered bill</p>	<p>The forecast for the remainder of the regulatory reporting period is based on actual volumes from historical meter option installation trends for South West Water. The reducing trend in customer appetite will continue across the remainder of the period as the company reaches saturation point. It should also be noted that in terms of household meter penetration, as a % of all connected household properties, the company remains at the frontier of the industry. This is based on year end 2016-17 industry comparable data.</p> <p>Business delivery plans are in place to maintain and improve the successful number of meter installations following a meter option survey. Should the forecasts for customer applications not materialise there is opportunity to increase the number through targeted proactive marketing</p>
<p>SWW: Wastewater operational contacts resolved first time</p>	<p>In October 2017 a new wastewater journey, co-created with customers, was implemented which included the in-sourcing of staff who initially respond to issues stemming from small diameter sewers.</p> <p>This positive step has facilitated the move to single-man operations which has increased our footprint in the field and ability to react to problems, significantly improving attendance timescales. The purchase of new vehicles and equipment has also enabled an increased opportunity for doorstep (first time attendance) resolution. The impact of the new wastewater customer journey introduced, in the latter half of 2017/18 saw a 22.5% reduction in unwanted repeat/chase contacts from customers.</p> <p>As the process embeds and further iterative improvements are made alongside continued improvements across wastewater in regards to asset performance and speedier resolution of ongoing and more complex issues, it is forecast that the improving trend will continue.</p>
<p>SWW: Wastewater pollution incidents (category 1&2)</p>	<p>Delivery of our cat 1&2 and cat 3&4 performance commitment target will be achieved through a combination of the planned pollution ODI delivery strategy and the enhanced pollution strategy.</p> <p>These strategies work together, combining both operational activities (how and what we do – the love your loo and think sink campaigns as examples) and capital improvements to improve the reliability and resilience of our wastewater assets, including treatment works, sewage pumping stations (SPS) and sewers.</p>
<p>SWW: Wastewater pollution incidents (category 3&4)</p>	<p>The enhanced pollution strategy brings a focus the prediction of pollution risk and the prevention of events.</p>

WFCP challenges on performance to 2020	Company response
<p>SWW: Wastewater river quality improved</p>	<p>The kilometres of river water improved relates to our delivery of AMP6 improvement schemes – primarily WINEP schemes for P removal and Upstream Thinking projects in catchments to improve river water quality. As such many of these projects must be delivered according to the WINEP deadline and have been profiled for delivery in our AMP6 capital programme, with most having a 2020 delivery date.</p> <p>Five schemes had delivery dates earlier than 2020 and four of these have been delivered already. The remaining schemes programmed for delivery are on track and the associated kms improved, plus what we have delivered to date, will exceed our 2020 target.</p>
<p>BW: Contribute to our community</p>	<p>With the merger of SWW and BW the number of people available for volunteer days has halved. The value customers placed on staff volunteer days was £100 per day. The shortfall in volunteer days will be added up over the regulatory cycle and be paid to a charity of the Customer View Group's choice at the end of the 2020.</p>

Throughout the entire process, we frequent challenge with regards to pollutions performance. As such, the WFCP expressed a desire to discuss pollutions performance more frequently, with it being an area of discussion and challenge at ten meetings of the WFCP and the LREI sub-group.

The pollutions reduction strategy was shared with the WFCP in 2017, facilitating extensive review and debate on historical and current performance, and the proposed future enhancements to further reduce the number of pollutions. The WFCP was supportive of the South West Water's ambition in this area.

We also shared with the Panel our performance with regards to major incidents, such as the freeze and thaw in March 2018 as a result of Storm Emma. The Panel were wholly supportive of the company's response to this incident, but challenged us to learn lessons to further strengthen the resilience of our service to customers.

The Panel were provided with confidence in our commitment and ability to deliver the business plan to 2025 based on the strong track record of delivery demonstrated to date, and through illustrating how the proposed commitments to 2025, effectively tested with customers, were stretching.



For more information, see [WaterFuture Customer Panel Report](#)



“South West Water has been open and transparent, listened and fully responded to the challenges put forward and should be congratulated on their strong performance and the rewards they’re earning, and it is pleasing and clear to see the company’s focus and ambition in those areas, such as pollutions, requiring improvement.”

Nick Buckland
Chair, WaterShare Panel and WaterFuture Customer Panel

“The company are fully committed to the customer representation and consultation within the PR14 reporting period and going forwards.”

Richard Lacey
Chair, Bournemouth Water Customer View Group

“These commitments, aligned with the company’s pollutions reduction strategy, are stretching and ambitious.”

Jeremy Bailey
Environment Agency

“During the freeze and thaw, South West Water performed relatively well but there are always lessons to be learned.”

David Heath
Chair, Consumer Council for Water Western Region

“South West Water managed their response to the freeze and thaw admirably.”

Barbara Shaw
CEO, Westward Housing

Board assurance

The Board has provided extensive oversight and scrutiny of performance against promises made to customers in our PR14 business plan. Performance is reported to Board every month through our integrated governance and assurance framework. Our Board led customer focused culture and focus on service and cost performance has helped ensure the business delivers our stretching promises and performance commitments made to customers. This governance framework and continuous review of performance and actions to address performance to target improvements where required, will be retained post 2020 and give confidence our commitments will be delivered. The transparent reporting of performance through the WaterShare scorecard and the independent WaterShare Panel review and scrutiny of our performance has also ensured focus on delivering for customers is reinforced. The annual in-period licence adjustment. Our engagement with customers and the WaterShare Panel on decisions for the sharing of outperformance has enhanced the focus on delivering our outcomes. Our WaterShare framework and mechanism is being enhanced for PR19 with the introduction of a customer share ownership scheme giving customers extra power to hold us to account and have a greater say in the business.

This is included in our signed Board assurance statement.

For more information, see



Board Assurance Statement



Securing Trust, Confidence & Assurance

Professional credentials of third parties

Jacobs

Jacobs Engineering Inc (Jacobs) has been appointed as South West Water's core technical assurance partner for Annual Reporting as well as the PR19 process. This is delivered through Jacobs' subsidiary company, Halcrow Management Sciences Ltd (HMS). HMS has global experience in strategic business planning and regulation for water companies. HMS is a ring-fenced company with its own Board of Directors and governance and quality management system. Jacobs became HMS's ultimate parent following the acquisition of its previous owners CH2M HILL in December 2017. Halcrow Management Sciences Limited (HMS) has been a leading provider of technical assurance services to the UK water industry since privatisation in 1989.

HMS's independence enables us to provide a candid and confidential service to operators, regulators, governments and banks. Our personnel all have regulatory, water and wastewater engineering, contractual and economics backgrounds and have specialist expertise in all aspects of utility regulation, diagnosis and performance assessment. With this capability, HMS offers a detailed appreciation of the major themes related to effective regulation with a particular emphasis on technical assurance of information through methodology and process review.

Despite changes in the regulatory environment in 2012 to a lighter-touch, risk-based, self-assurance reporting regime, South West Water, along with most companies, opted to secure the services of experienced independent technical advisors to provide assurance to its senior management, Board of Directors and parent company. This provides additional comfort of the company's continuing stewardship of these essential services, ensures customer's preferences are well considered, secures a more predictable outcome to the business planning process, helps retain suitable credit ratings and access to capital, and improve shareholder value.

Throughout the PR19 process, we have been working in partnership with South West Water to help ensure that its business plan submission receives suitable levels of independent assurance such that the senior and executive management, Board of Directors and in turn, the customer challenge groups, Ofwat and other stakeholders can be confident about the foundation of the information presented. Our team is led by Graham Hindley who is a Chartered Civil Engineer of over 20 years' experience and is a Director of HMS Ltd.

EY

EY is one of the largest providers of assurance services within the UK and provides assurance to a number of water and other utility companies. It has extensive experience of both annual reporting and regulatory returns, including business plans.

We have been South West Water's (and the Pennon Group's) statutory auditor since 2014/15. As part of this engagement we performed assurance (both audit and agreed-upon-procedures) over South West Water's Regulatory Reporting each year.

EY has provided assurance over financial data contained within each of South West Water's early submission tables, reviewed inputs into South West Water's internal modelling and an overarching review of South West Water's business plan submission documents. This has been provided by a team with knowledge of South West Water, the Water Industry and the requirements of the Periodic Review process.

KPMG

KPMG is a leading provider of professional services, including audit and advisory solutions integrating innovative approaches and deep expertise to deliver real results. We have extensive water industry experience.

We have worked with South West Water over a number of years, acting as financial advisor at PR14 as well as reviewing retail margins, default tariffs and providing retail modelling advice.

We have provided expertise in a range of relevant areas including analysis in respect of options for direct procurement and supporting the development of South West Water's approach to trading in the Water Resources market, including reviewing South West Water's market and procurement code. This follows extensive involvement with multiple companies within the industry providing advice ahead of the opening of the non-household retail market.

Our team includes members who have previously been involved in the development of market frameworks in the industry as well as policy for PR19.



**South West
Water**



**Bournemouth
Water**

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