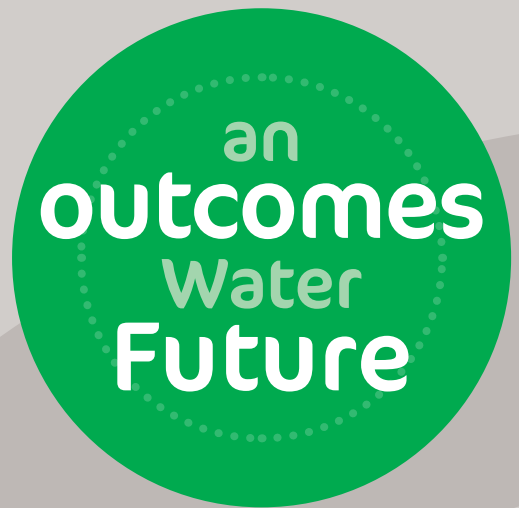


Elements of the plan

# Delivering Outcomes for Customers



**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

This document explains our approach to establishing our proposed outcomes and performance commitments and how we've ensured our targets are stretching.

We have discussed the central role our engagement with our customers has played in shaping our targets and the essential scrutiny and challenge we have received throughout from the Water Future Customer Panel (WFCP). We have demonstrated that our business plan delivers for customers, ensures costs are efficient, and ensures bills are affordable for all.

Alongside our performance commitments, we have set out in detail the approach we have taken to establishing our proposed package of Outcome Delivery Incentives (ODIs) to drive service delivery. We have also summarised the complementary ways in which we protect and underpin delivery for our customers. We have demonstrated how our ODIs are directly derived from the results of our customer engagement, and the independent challenge they have received from the WFCP. We have shown how our ODI package is well balanced to reflect customers' priorities across our outcomes and strikes the right balance of risk and reward overall to drive the delivery of services customers want and to deter and protect them from underperformance.

It forms part of a suite of documents addressing the nine initial tests specified in the Ofwat PR19 Methodology.

Building on PR14 customer engagement and business planning, we have driven a further step change in our processes to ensure that what matters most to our customers is at the heart of our plans.

This has enabled us to be confident that we have set out a high quality, ambitious and stretching suite of outcomes and performance commitments that our customers support and value. We have ensured that customers interests are protected through our well-evidenced package of incentives.

Our outcomes and WaterShare governance frameworks, together with the work of the independent Water Future Customer Panel (WFCP), ensure that we have seamlessly embedded customer and stakeholder engagement both in delivering current services and defining future targets and plans across all operating regions that make up South West Water.

In this document we also describe our overall framework for reviewing, analysing and reporting company performance and proposed benefits arising to customers and shareholders. This approach builds upon the framework introduced at PR14 for sharing the benefits of our success in a clear and transparent way with our customers and shareholders. Our approach for 2020-25 is called WaterShare+.

Our performance commitments, together with our future targets, are the result of a detailed and comprehensive assessment of the full spectrum of possible outturn levels for each performance commitment, using a mix of expert judgment, historical analysis and forward-looking risk assessment.

We have used cost benefit analysis reflecting customers' values to support and underpin the assessment of the level of investment and performance commitment forming each outcome. This ensures that customers' values and trade-offs are reflected in efficient and stretching service commitment levels.

We have then used these same customer values to define ODI incentives that are also directly based on customers' values and trade-offs. We have used customer and stakeholder views to define the overall package of stretching incentives to ensure that the balance between service and risk accurately reflects their preferences and provides strong incentives for further innovation.

**Our comprehensive programme of innovative and robust customer and stakeholder engagement has enabled us to develop an ambitious well-evidenced plan that ensures it delivers for and protects customers by reflecting their priorities, how they value services and how they balance and trade-off risk, services and costs.**

## 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.

### Delivering Outcomes for Customers

- OC 1** How appropriate, well-evidenced and stretching are the company's proposed performance commitments and service levels?
- OC 2** How appropriate and well-evidenced is the company's package of outcome delivery incentives?
- OC 3** How appropriate and well-evidenced is the company's package of outcome delivery incentives?





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



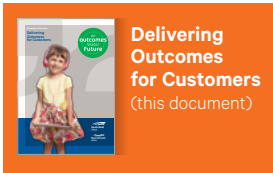







**Document map**

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**

	<b>Business Plan</b>		<b>WaterFuture Customer Panel Report</b>		<b>Customer Summary</b>		<b>Investor Summary</b>
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**Elements of the plan**

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

**Revenue controls**

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

**Business plan to 2050**

	<b>2050 Vision</b>		<b>2050 Environment Plan</b>		<b>Draft Water Resources Management Plan</b>		<b>Drainage and Wastewater Management Plan</b>
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# Executive summary

We are targeting ambitious performance levels across all areas of our business. We aim to be sector leading in the areas where customers value the service most.

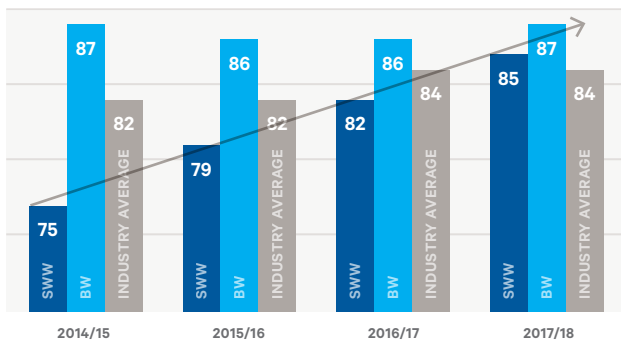
At the heart of our plan is our goal to deliver a high quality, efficient and affordable service to our customers, focused on what matters most to them, meeting all our statutory obligations in the context of the unique natural environment in which we operate. We are proud of our track record of delivery and our plan for PR19 builds on this success.

Our industry leading customer research and engagement programme ensures that our performance commitments are:

- Consistent with the interests of our consumers - today and in the longer term
- Based on results from cost benefit analysis and our assessment of upper quartile sector performance
- Aligned with legislative obligations and economic to deliver.

During 2015-20 we achieved our highest ever performance on the key industry measure of customer service (SIM).

### Service incentive mechanism (SIM)

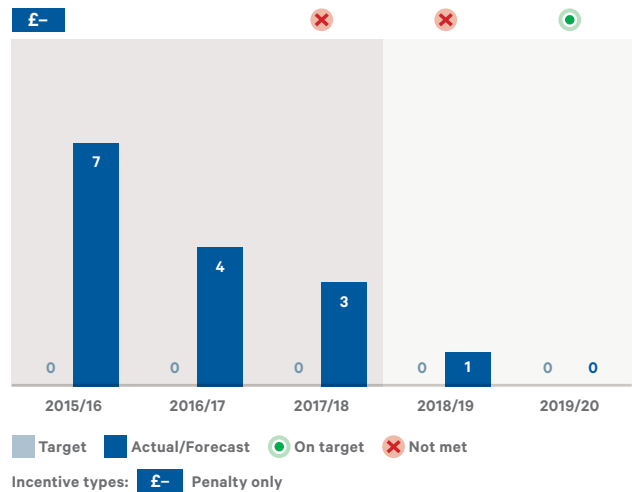


We have also achieved accreditation to the Institute of Customer Service and were named the fastest improving utility in 2017.



We are working hard and are on track to meet the stretching service level promises we made to customers in 2014. We have consistently achieved sector leading performance on leakage and water quality standards, whether it's in respect of potable drinking water or river and bathing waters. We have reduced serious pollutions (Cat 1-2) to the environment to record lows and are on track to achieve our 2020 pollutions targets.

### Pollution incidents – category 1 and 2 (number)



Our service improvements have, in part, been enabled by sharing best practice following the integration of Bournemouth Water. Service has also improved following improvements made to the way we deliver service through refining processes resulting from post event surveys with customers and co-creations workshops.



For more information, see [Customer leakage and co-creation workshops](#)

Our plan for PR19 builds on these successes. We aim to deliver a service that balances customer needs with those of our stakeholders, regulators and the unique environment in which we operate. Through a process of extensive research and engagement, independent scrutiny, and challenge from our Board, we continue to raise the value for money of our service across eight outcomes:



Clean, safe and reliable supply of drinking water



Responsive to customers



Reliable wastewater service



Protecting the environment



Available and sufficient resources



Benefiting the community



Resilience



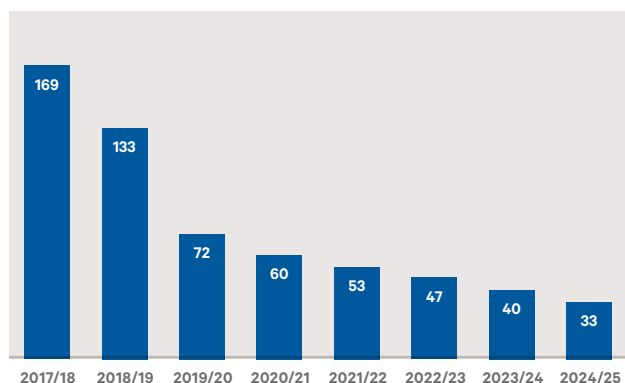
Fair charging and affordable bills for all

**Executive summary** continued

To maintain this momentum we are targeting ambitious performance levels by 2025, amongst which are:

- Sector leading customer service as assessed by C-MeX
- Tailored services for vulnerable customers, especially during operational incidents
- The fewest instances of internal sewer flooding by the roll-out of a region wide sewer blockages behavioural change initiative
- Significantly reduced risk of supply interruptions through increased interconnectivity and community specific resilience improvement projects
- No water restrictions and a surplus available to trade
- All remaining unmeasured properties to be metered by 2025
- Increased protection from flooding and drought through further deployment of our flagship Upstream and Downstream Thinking projects
- Protecting our river systems and expanding our industry leading catchment programmes
- Delivery of long term drainage and wastewater management plans
- Zero serious pollutions
- Lowest number of minor pollutions in the industry
- Industry leading wastewater compliance
- Improving and maintaining the number of high quality bathing and shellfish waters
- Region wide water efficiency behavioural change initiative (Greenredeem) supporting industry leading per capita consumption target
- Further 15% reduction in leakage levels.

**Pollution incidents – category 1 - 3 (number)**



For more information, see [Environment Plan to 2050](#)

Our customers tell us that cost and innovation are important in developing stretch targets. Our plan requires us to find further innovations to drive efficiency and meet further year on year efficiency reductions of 3% on operating costs and 5% of capital costs, so customers will not have to pay higher bills to fund our targeted improved service.



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

Our Resilience Service Improvement (RSI) project already underway is targeting 15% leakage reductions without the need for additive incremental expenditure.



For more information, see [Draft Water Resources Management Plan](#)

Our performance commitments cover both our regulatory requirements around the quality of drinking water and our impact on the environment; as well as customer facing service dimensions such as the reliability of supply, quality of customer service and frequency of sewer flooding.

We have worked with quality regulators to ensure that our performance commitments ensure that we will deliver as a given, improvements for which there is a clear legal requirement, and where there is flexibility, for instance in timescales that wider considerations such as affordability are factored into.



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

We are aiming to achieve ‘best in class’ service levels by targeting the performance at the top end of the industry. Our performance commitments are underpinned by a process of assessing economic levels of service and targeting upper quartile (UQ) performance in the industry. These are challenging targets, not least because we have assumed that the UQ bar itself will be higher, reflecting that there will be continued industry wide improvements.

The degree of stretch has been scrutinised by our Board and the WaterFuture Customer Panel (WFCCP), and cross-checked by reference to our current performance, the maximum and minimum we could deliver, and by challenging our future cost efficiency. While our targets are realistic, there are no easy rides.

**Executive summary** continued

The WFCP has been instrumental in supporting the development of a biodiversity scorecard in recognition of the value our customers place on the environment and community they live in.

Our performance commitments and ODIs draw on a rich source of evidence gathered from extensive research and customer engagement, which has been scrutinised and overseen by the WFCP. Our engagement programme has built on and enhanced our already sector leading approach at PR14. Our PR19 approach has been well received by independent peer reviews. The key features of our approach this time are:

- Comprehensive coverage of customer base: Bournemouth Water and South West Water separately and combined; inclusive of all customers - including current and future customers and those in financial and non-financial vulnerable circumstances
- Use of new approaches in behavioural understanding and modern technologies to ensure more effective connection with customers and the improved effectiveness of surveys, workshops and other engagement forums
- Feedback sessions and acceptability testing to ensure that we cross-check what we have heard from customers, making sure the findings resonate with customers as a whole.

**greenredeem**



We have collected a wealth of customer evidence. We have listened and understood customers through a structured approach, based on clear principles, enabling the various sources to be used effectively as systematic cross-checks.



For more information, see **Engaging Customers**

This led to objectively based triangulated customers' valuations of priorities, used to support cost beneficial targets and to ensure that ODI incentive rates are directly related to the value customers place on the services they receive.



For more information, see **ICS Triangulation report**

The result is that our performance commitments are:

- Consistent with the interests of our consumers - today and in the longer term
- Based on results from cost benefit analysis and our assessment of UQ
- Economic and efficient to deliver
- Aligned with legislative obligations and recommendations set out by the Environment Agency and National Infrastructure Commission.

For more information, see



**Water Industry Strategic Environmental Requirements (WISER)**

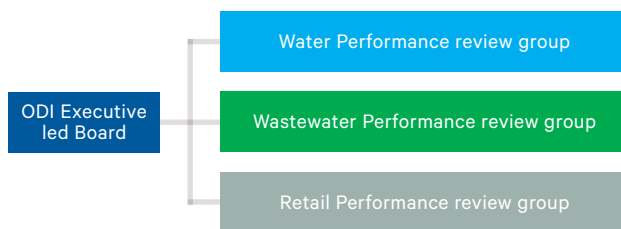


**Preparing for a drier future**

Our ODIs provide strong incentives for delivery around our performance commitments. They reflect the right balance of financial under and outperformance incentives and reputational incentives. Outperformance payments will only be earned if we are delivering performance over and above our challenging, value for money targets – and where customers tell us this is what they want. Our ODIs balance asset health and service-based incentives in line with customers views, ensuring that we deliver for customers today and in the future.

Overall our package of ODIs achieves a balance of risk and return in line with customers' views, offering protection to customers for poor service whilst providing incentives to further sector leading service where our customers value it most. ODIs make up a significant part of the overall risk and return package. This provides the right level of incentivisation to deliver the stretching targets for customers. Customers strongly support this ODI package.

Performance will be monitored through our Board governance framework.





## Executive summary continued

Our performance against these targets will also be regularly scrutinised and reported transparently through our updated WaterShare+ Panel on a regular basis, and outperformance will continue to be shared with customers.

We are confident that customers will benefit significantly through this sharing mechanism, whether through annual adjustments to bills or returns through the innovative customer share ownership scheme we are proposing in our plan.

Our plan achieves a balance of activity and investment that will deliver for our customers, providing an efficient service and ensuring affordable bills for all. We have proposed incentives that will encourage us to do more of the right thing, whilst protecting customers from outperformance payments that exceed their requirements. Based on customer and stakeholder feedback we are confident the balance right.

## Key messages

- ✓ **Board review and scrutiny of performance has ensured that all PR14 performance commitments are on track to be delivered by 2020**
- ✓ **Extensive challenge of performance from 2015 by independent WaterShare Panel**
- ✓ **Our future plans reflect what matters most to customers – and are underpinned by extensive customer evidence**
- ✓ **A wide range of strong customer evidence used to triangulate customer valuations of service. Incentive rates based on over 900 data points from a range of high quality and innovative customer engagement techniques**
- ✓ **Customer engagement in line with Ofwat and Consumer Council for Water guidance, independently assured by the WFCP and peer reviewed by experts**
- ✓ **PCs are well evidenced and reflect what customers have told us they want and expect**
- ✓ **PC targets stretching and will deliver industry leading performance**
- ✓ **PCs require a considerable efficiency push to be cost beneficial and delivered within an affordable bill**
- ✓ **Strong financial incentives for all our ODIs will hold us to account every year and push us to go further where it matters to customers**
- ✓ **ODIs with bill impacts that are understood and accepted by customers, and which provide protection to customers by getting the balance of risk and reward right**
- ✓ **Leakage reduction targeted at 15% at no extra cost to customers**
- ✓ **Zero serious pollutions (categories 1 and 2)**
- ✓ **Water poverty addressed by 2025**
- ✓ **New innovative biodiversity scorecard developed with WFCP**
- ✓ **Industry leading customer service**
- ✓ **Service delivery significant part of risk and reward package**
- ✓ **Customers protected and empowered more through a customer share ownership scheme through our updated WaterShare+ framework post 2020**

## Ensuring well-evidenced performance commitments

In this section we explain the approach we have taken to establishing our outcomes and performance commitments.

We have developed our PR19 Plan to ensure that customers are at the heart of our business and that we deliver the stretching and ambitious services that they want and value, with bills that they can afford.

We have listened carefully to customers and stakeholders to ensure that we have identified the right outcomes, ambitious performance commitments and the best package of service-delivery focused incentives.

Our PR19 plan is part of a longer term journey building on our PR14/historic work to deliver our long term customer-focused WaterFuture 2050 vision. Our programme of customer and stakeholder engagement builds on our PR14 position and is embedded in ongoing business operations. It has not been undertaken only for PR19 planning.

Our first 25-year vision was developed in November 2011, following extensive customer and stakeholder engagement and covered the period 2015 to 2040. Our outcomes were first published in July 2013 as part of our largest ever consultation in line with the feedback received from customers and stakeholders.

We have revisited and refreshed our vision through “Our Vision to 2050” consultation, as part of our ongoing rolling programme of customer and stakeholder engagement. Our vision supports all of our customers and communities – across both the South West Water and Bournemouth Water regions.

The feedback we received has provided the basis on which we refreshed our long term ‘WaterFuture’ vision which outlined the key customer priorities for services during 2020-2050. This was published in September 2017 and identified our customers’ priorities and key long term aims to:

- Increase the resilience of our water network to reduce leakage and minimise interruptions in supply
- Improve the resilience of the sewer network to make sewer flooding a thing of the past
- Eliminate harmful pollution incidents, ensure robust wastewater compliance, and improve biodiversity
- Optimise our water resources, whilst meeting the challenges of climate change and population growth
- Review our operating model to maintain resilient services on a 24/7 basis
- Continue to listen to our customers and engage with them on the services they expect from us
- Help all customers understand their water usage and how they can save water and money on bills
- Achieve improved energy efficiency and a reduced carbon footprint

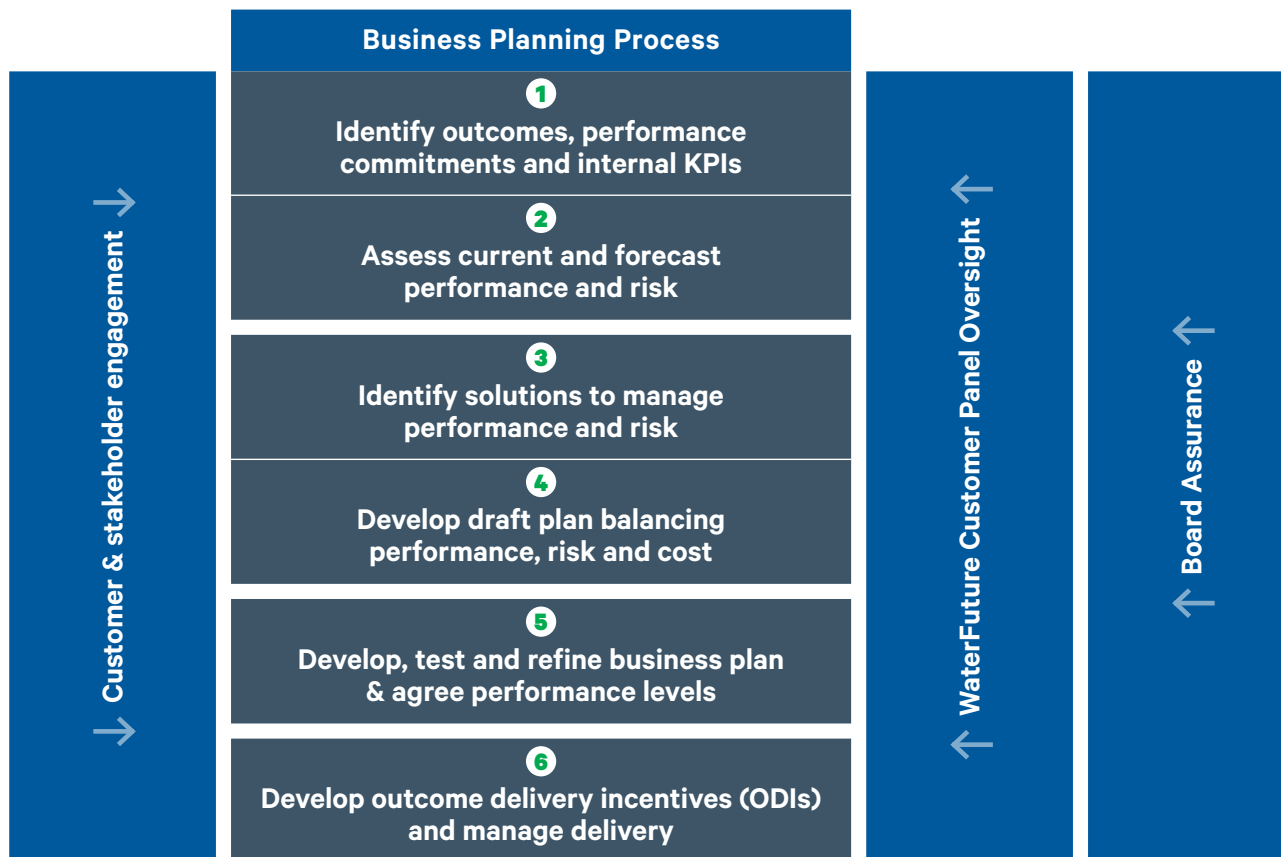
- Continuing to invest in and protect our bathing and shellfish waters – thereby supporting communities and the local economy
- Drive efficiency and ensure affordable bills for all.



**Ensuring well-evidenced performance commitments** continued

**Our approach**

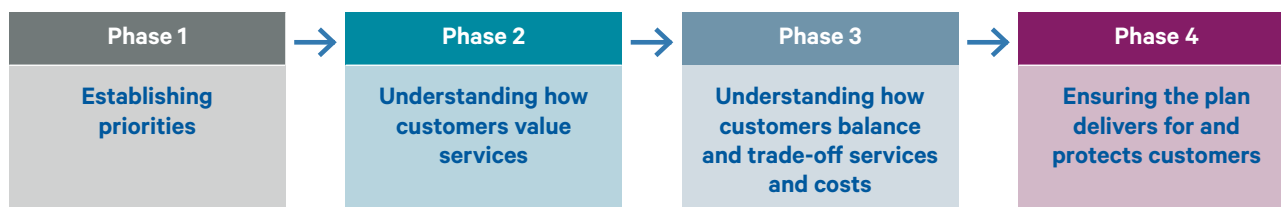
Customer and stakeholder engagement, independent WaterFuture Customer Panel (WFCP) oversight, and board assurance are key to our business planning process. Our approach to business planning follows industry best practice, such as UKWIR 2014 Review of Expenditure Decision Making<sup>1</sup> and HM Treasury’s Green Book 5 Case model for business planning<sup>2</sup>.



Embedded within our approach:

- We listen closely to customers and stakeholders – to understand what matters most to them
- We work closely with the WFCP to ensure that they have reviewed and challenged our plans at every stage of the process
- Our processes are underpinned with a rigorous process of Board Assurance.

Our engagement programme has been divided into four phases to support our business planning process.



These four phases ensure that at the heart of each stage of the business planning process is what matters most to our customers.

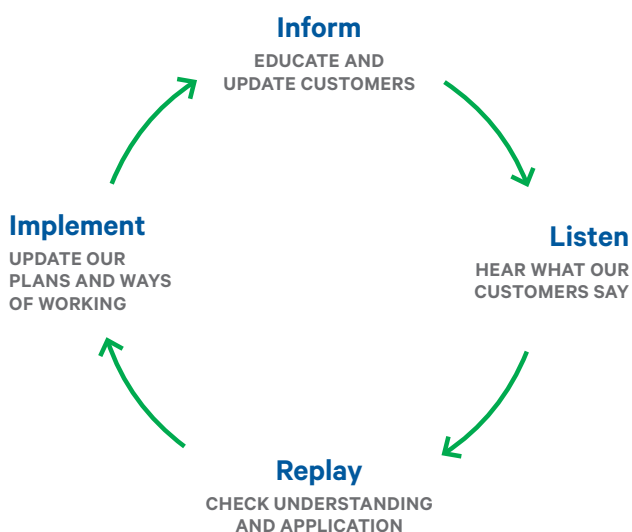
1 UKWIR, 2014 “UKWIR Framework for Expenditure Decision-Making”  
 2 HM Treasury “The Green Book: Central Government Guidance on Appraisal and Evaluation”.

## Ensuring well-evidenced performance commitments continued

The key activities in our customer engagement programme include:

- Customer research activities, including customer focus groups and workshops; face to face, telephone and online quantitative surveys; and the use of a new interactive personalised video to engage with and inform household and non-household customers
- Workshops with stakeholders to fully explore their priorities and expectations
- Customer and stakeholder consultations to support our vision to 2050, the water resources plan, and our plans for 2020-25
- Engagement with retailers, following the successful opening of the competitive non-household retail market
- Every opportunity taken to engage with our customers and stakeholders at events across our regions including face-to-face engagement campaigns, future customer workshops and videos replayed through digital channels and social media
- Meetings with the main WFCP, and meetings with the sub-groups of WFCP.

Our engagement programme has involved an iterative process: INFORM – LISTEN – REPLAY – IMPLEMENT – to ensure we understand and apply customers' views correctly in our planning process.



We have given all our customers the opportunity to get involved at least once through the process by sending our Waterlevel summary to every household in the South West and Bournemouth areas (966,361). Whilst not everyone replies to this – our customers have told us that this is interesting and informative.

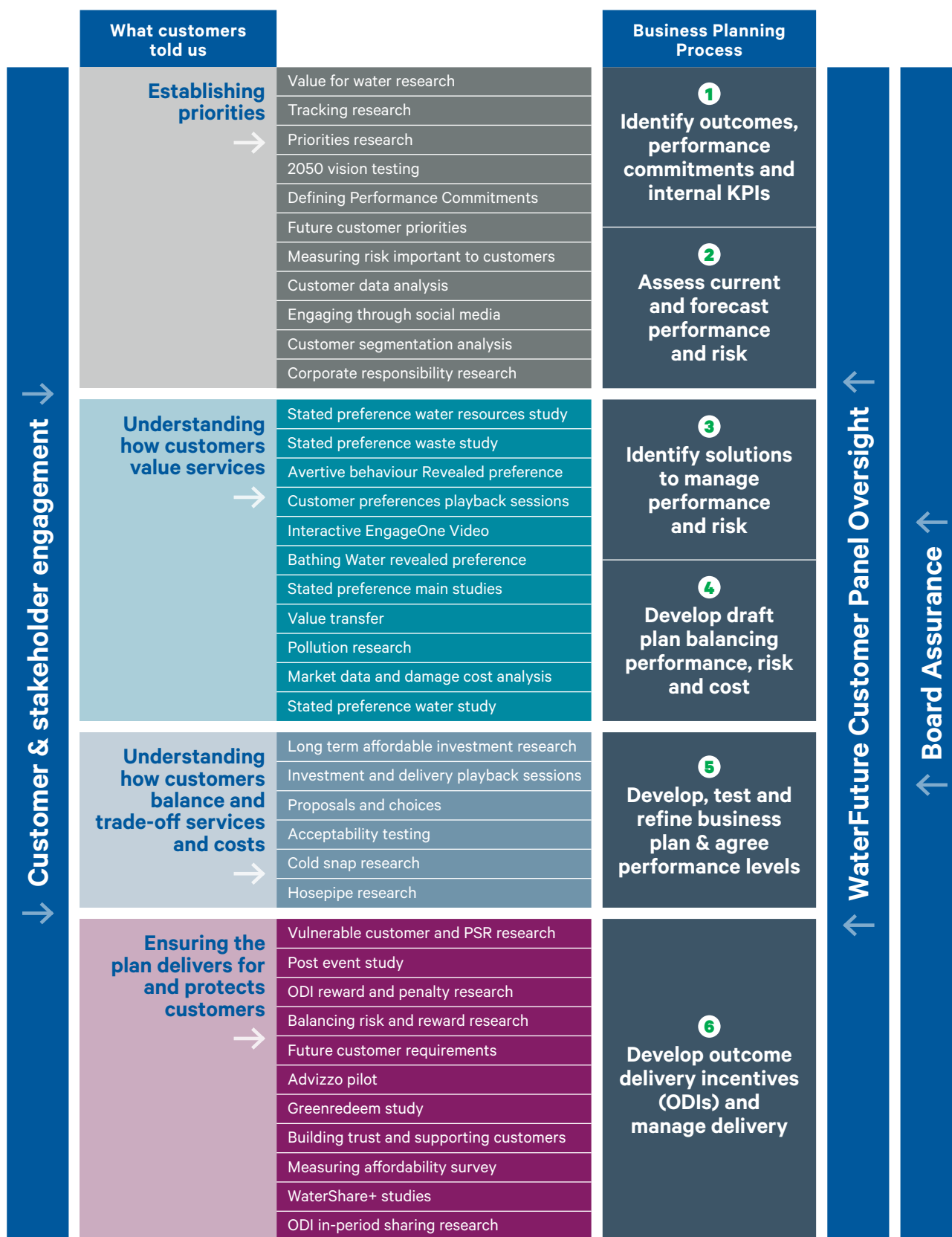
In total, through our engagement activities, we have taken into account the views of c. 26,705 customers and stakeholders in developing our plan.



For more information, see [Engaging Customers](#)

Ensuring well-evidenced performance commitments continued

Each phase of customer research has involved an ambitious programme of carefully designed activities to ensure that the right information on customers' preferences and values are available at the right time to feed into the business planning programme.



These actions ensure that customers and stakeholders can have confidence that our plans accurately reflect their preferences.

## Ensuring well-evidenced performance commitments continued

### Outcomes Framework

Our outcomes framework continues to be a central feature of our business plan. Outcomes are the higher-level objectives that result from the activities we undertake in delivering our water and wastewater services. They represent what current and future customers, stakeholders and communities value and care about. We have considered these from a longer term perspective, spanning several investment periods in line with our customer-focused WaterFuture Vision.

Performance commitments are the set of measures by which the delivery of these higher-level outcomes can be assessed. Our business plan contains a set of performance commitments that have been reviewed and refreshed in consultation with our customers and stakeholders to ensure that they accurately reflect the areas of service that matter most to them as well as accommodating statutory requirements.

Our plan sets out a suite of performance commitment levels that have been designed to accurately reflect customers' values and views on service/cost trade-offs to ensure that they represent efficient and stretching targets from the customers' perspective. This has been achieved by implementing an extensive and innovative programme of customer valuation research to understand how customers value services, incorporating the latest thinking on triangulation.

We have used cost benefit analysis based on triangulated customers' values to assess performance commitment levels and expenditures across all our outcomes – and challenged ourselves to ensure the plan provides value for money – even when delivering our regulatory and legal obligations.

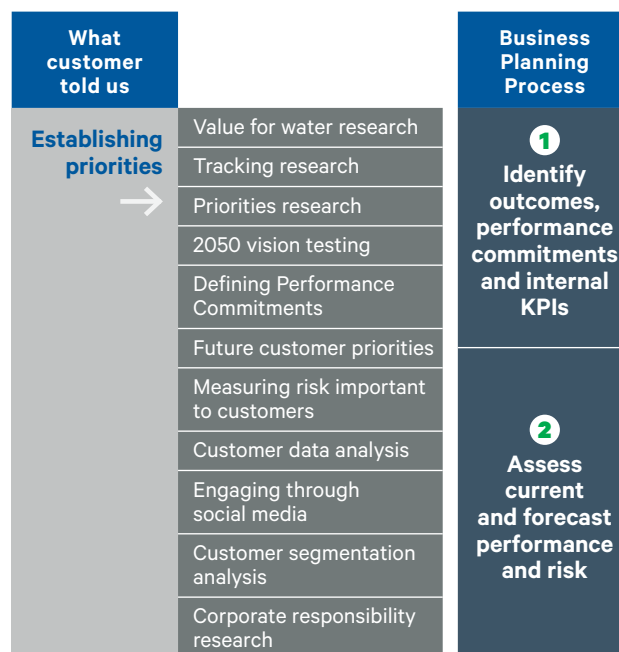
We have then used these same customer values to define the outcome delivery incentives (ODIs) that are also directly based on customers' values and trade-offs. We have used customer and stakeholder views to define the overall package of stretching incentives to ensure that the balance between service and risk accurately reflects their preferences and provides strong incentives for further innovation and delivery within the period 2020-2025.

We have consulted widely to test and refine the plan, including the committed performance levels and incentive structures to ensure that it accurately reflects customer and stakeholder views. Our iterative process with customers and stakeholders ensures that we have developed the best, well-evidenced plan delivering what matters most to them and the environment.

Our outcomes framework continues to ensure there is a clear and transparent link between customer and stakeholder preferences, investment in services, performance against the outcomes, and payments for under- or out-performance.

### Linking priorities to our outcomes, performance commitments and assessment of risk

We want to ensure our outcomes and performance commitments continue to best reflect the needs and wishes of our customers and stakeholders. The first phase of engagement and business planning therefore involved understanding their priorities in order to review and refresh our outcomes and performance commitments.



**We are confident that the extensive programme of engagement undertaken has ensured that our outcomes and performance commitments are well evidenced. We are confident our approach is robust and reliable in all material aspects and ensures the business plan delivers value for money services to customers, with the target of delivering more for less in the future.**

## Ensuring well-evidenced performance commitments continued

### Refreshed Outcomes

Our outcomes were developed in 2013 and were based on consultation with our customers, regulators, stakeholders and WFCP in order to reflect:

- Customer priorities and preferences
- Stakeholder views
- Regulatory and legislative obligations.

The outcomes, including the language and definitions were thoroughly tested through a series of focus groups with both household and non-household customers to confirm that the outcomes accurately reflected their priorities. The resulting eight outcomes represents the full spectrum of our activities.

For PR19 we have reviewed and refreshed these outcomes with our customers and stakeholders. We have held focus groups with our customers as well as cross checking our outcomes with their priorities and against our longer term vision. The WFCP has had an active role in supporting the review, check and refresh of our outcomes.

As a result of listening to feedback from our engagement activities we have been able to confirm that our refreshed outcomes best reflect the requirements of our customers, stakeholders and regulators. The results indicated strong support and validation of the outcomes and priorities.

They were incredibly well received by customers, meaning we can be confident that the outcomes continue to reflect customers preferences.

Our review and refresh has led to two revisions to our PR14 outcomes to:

- Recognise that resilience is much broader than just extreme conditions, we have revised the title of our outcome to 'resilience'
- Refine the title of our fair charging outcome to 'fair charging and affordable bills for all' to reflect the increased importance of affordability to our customers.

This suite of work has ensured that we can be confident that we have the right outcomes for our customers and stakeholders as we move into PR19.



Clean, safe and reliable supply of drinking water



Reliable wastewater service



Available and sufficient resources



Resilience



Responsive to customers



Protecting the environment



Benefiting the community



Fair charging and affordable bills for all

### Refreshed Performance Commitments

Our performance commitments are the set of measures by which the delivery of our outcomes can be assessed accurately. They reflect the areas of service that matter most to our customers and stakeholders, as well as underpinning our statutory requirements.

We tested a long list of potential performance commitments with our customers through a comprehensive engagement programme:

- Our existing measures – testing the measures developed in PR14 across both South West Water and Bournemouth Water
- Proposed mandatory and recommended measures set out by Ofwat in the draft methodology consultation
- A full and comprehensive list of existing and potential measures across water and wastewater services – including asset health, environmental impacts and biodiversity, resilience, affordability, and vulnerability. This list was developed following:
  - A review of PR14 lessons learned
  - A review of the relevant UKWIR publications (especially for asset health)
  - Discussions with our WFCP
  - A review of other industries' service and asset health measures
  - And a detailed review of our performance and risk data to understand what we can support now and in the future.

## Ensuring well-evidenced performance commitments continued

### Refreshed Performance Commitments continued

Our engagement was designed to understand customers' views on the existing and proposed measures:

- Whether they accurately captured what matters most – and align to customer priorities
- Whether the language and definitions fully reflect the aspect of service
- Whether there are other measures preferable to customers
- If the performance commitments provide the right balance across all of the business areas
- If customers thought there were any gaps or overlaps in the framework.

Our customers told us they welcome a comprehensive framework – but want to minimise overlapping measures and keep it simple.

This engagement fed directly into our refinement of the final list of performance commitments.

The criteria used to finalise the list of performance commitments include the Ofwat list of common measures and further measures that are:

- Reflective of what matters most to customers and stakeholders
- Measurable and verifiable
- Easy to understand by customers and stakeholders
- Measures that we can control as a company to a large degree
- Drives the right behaviours
- Able to link to outcomes, priorities and incentives
- Supports the longer term vision (future proof for the longer term).

As part of our iterative processes of listening and playing back what we have heard, we have engaged with customers and stakeholders a further time on this final list through our 'Proposal and Choices' customer consultation<sup>3</sup> published in March 2018.



**“Yes – because they are spread over all services.”**

45-54 Respondent,  
Creddon

**“There seems to be a reasonable distribution of investment and the service measures seem to look right across the services you provide.”**

45-54 Respondent, St Agnes

**“It is always difficult to get the balance right, but it all looks reasonable and in the right order of priorities.”**

65+ Respondent,  
Plymouth

Our final set of performance commitments have also been welcomed and endorsed by our WaterFuture Customer Panel.

### Measuring current and future risk and performance

Outcomes and performance commitments underpin all business planning and delivery decision making.

We assess current and forecast levels of risk and performance at Operational Performance Measure (OPM) level. Our OPM framework is aligned to the suite of performance commitments and covers the full range of our services and activities. This includes water, wastewater, environmental impacts, customer service, health and safety, and wider societal impacts.

Our OPM framework is used to articulate the change in risk and performance – now and in the future – and reflects the aspects of service that are important to customers.

Our OPMs have been in place since 2003 and are updated through regular internal business reviews and customer engagement to ensure they reflect customer and stakeholder priorities. For PR19 our OPM framework has been reviewed and updated following consultation with customers, and fully aligns with the performance commitments.

OPMs are embedded in all our decision support tools, for example our main optimisation system Investment Manager and Water Resources Management Plan (WRMP) tools.

Some performance commitments have a one to one mapping to OPMs (e.g. leakage), whereas other performance commitments are the sum of multiple OPMs (e.g. the pollution incidents performance commitment is the sum of the risk of category 1, 2 and 3).

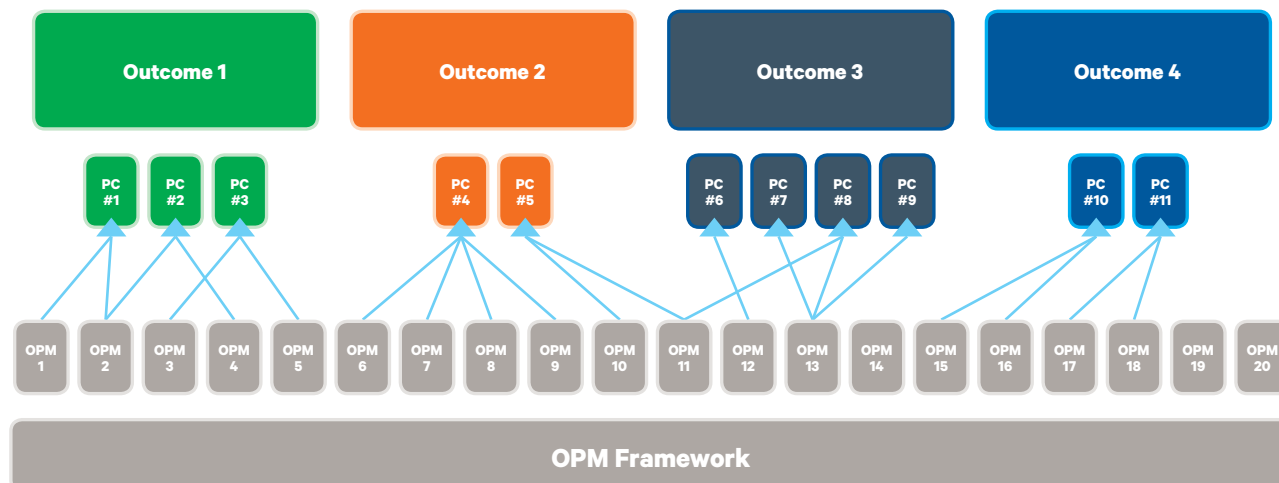
<sup>3</sup> Quotes taken from customer feedback - Proposals and Choices consultation



## Ensuring well-evidenced performance commitments continued

The increased level of granularity that our OPMs gives us is important to ensure that we can deliver maximum value to customers by incorporating more detailed activities and operating effects on services.

A mapping of the performance commitments to the OPMs has been used to confirm the OPM Framework is complete and allows us to link all of our expenditure and activities to performance commitments and outcomes.



### Focus on Asset Health Measures

On the 3 May we submitted our asset health performance commitment definitions to Ofwat ahead of the main business plan submission. We included the four common asset health performance commitments as part of our asset health commitments:

- Main bursts
- Unplanned outage at water treatment works
- Sewer collapses
- Treatment works compliance (numeric).

We have also chosen to include seven additional performance commitments that measure the health of our assets. These are:

- Taste, smell and colour contacts
- External sewer flooding incidents
- Sewer blockages
- Odour contacts from wastewater treatment works
- Descriptive compliance
- Total Wastewater treatment works compliance
- Compliance with sludge standards.

We think it is right that our ODI framework includes performance commitments so that customers can be assured that we are maintaining our asset base appropriately to continue to be able to deliver service effectively in the future.

We have engaged with customers on both resilience and asset health to ensure our performance commitments, levels and ODIs reflect their priorities and the balance between service today vs service tomorrow.

We have engaged with our customers and WFCP on how these measures protect current and future customers and the environment. Through our PC research we tested the language of our performance commitments to ensure that they are easy to understand.

We have developed stretching performance commitment targets across all aspects of service based on an iterative engagement approach: INFORM – LISTEN – REPLAY – IMPLEMENT. Ensuring that the performance commitment levels reflect customer preferences, we have used a range of approaches to challenge the level of stretch for each performance commitment. Throughout our engagement and particularly in our PC Research – our historical, current and forecast performance alongside comparative industry data was used to inform the discussions with customers. This includes our Asset Health measures.

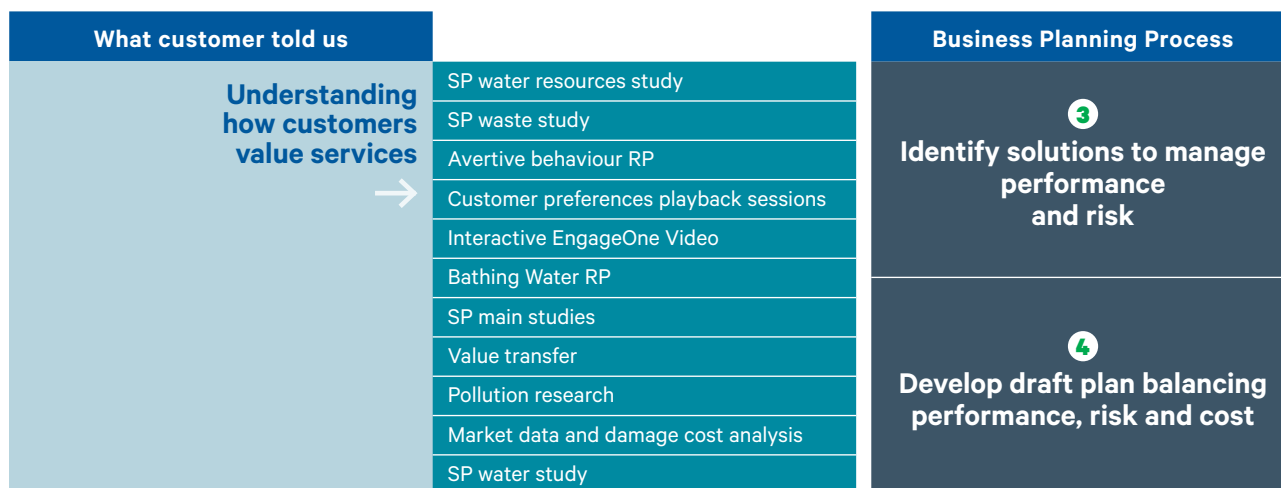
Asset health has been a key part of the discussions with our customers and WFCP. In our Balancing risk and reward research asset health and service are equally important to incentivise – on average asset health measures should carry similar financial risks to service measures. On balance customers want asset health measures to carry the same weight as service measures.

Overall asset health accounts for 24% of the total penalties and 25% of the out-performance payments. Given just over one-quarter of our performance commitments relate to asset health, this is the right balance of asset health to service based incentives.

## Stretching performance commitments and service levels

In this section we explain the approach we have taken to ensure our targets are stretching. We discuss the customers' and WFCP's role in the process and show that our business plan delivers for customers, ensures costs are efficient, and bills are affordable for all.

### Developing a balanced, value-for-money draft plan



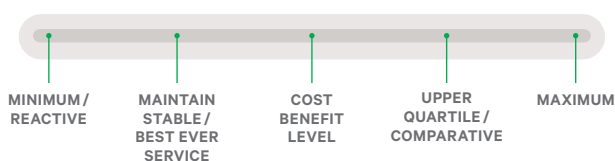
### Optimising and balancing our plan

The cornerstone of our approach to expenditure planning and delivery is to optimise and balance our plans. This process allows us to understand the costs and benefits of different levels of service, ensuring we deliver maximum benefit from our expenditure, whilst meeting legal and regulatory obligations and ensuring affordability.

In order to ensure that customers are at the heart of our business plan we combine customer valuation evidence with our understanding of efficient costs of delivery to assess the full costs and benefits associated with current and alternative levels of service.

We use optimisation processes and tools to find the most efficient and valuable way to deliver differing levels of PC performance, from a minimum reactive level of performance to the maximum attainable improvement deliverable in a five-year period.

Illustrative spectrum of possible outturn levels for a PC:



This enables us to undertake a robust assessment of the business plan in terms of value for money and to define well-evidenced, efficient and stretching targets/committed performance levels of service for our customers.

### Understanding the value of services to customers

Each OPM is valued separately. We have over 150 separate valuations that are used to assess our plans and examine how cost beneficial changes in the level of performance are.

Each of the OPM valuations provides the estimated monetised benefit of the change in performance, and allows the full value of potential investment to be valued, and include:

- The customer willingness to pay to avoid service failures, such as sewer flooding, supply interruptions, and odour issues
- The customer willingness to pay and other community values for protecting the water and the natural environment, such as improving bathing waters, preventing pollution, reducing leakage, preventing traffic disruption and reducing greenhouse gases
- The customer willingness to pay for improvements in customer service, such as dealing with customer contacts first time and effectively
- The financial impact of failures to the company, such as clean-up costs and investigations.

As each OPM maps to our performance commitments – we can understand the value of delivering improvements in performance commitments to our customers.

We have sought to significantly advance our understanding of customers' valuation of services with our biggest programme of customer willingness to pay work and

## Stretching performance commitments and service levels continued

triangulation. We have addressed stakeholder concerns about how to estimate willingness to pay post-PR14 and believe we have advanced the process of estimating willingness to pay in practice. Our WFCP has worked alongside us to get this right – and supported the design and delivery of our valuation and triangulation programme.

Evidence on valuations has been based on a range of sources, including customer willingness-to-pay studies, revealed preference studies, other survey data, market data, and value transfer.

Our valuation programme commenced with a detailed **Valuation Strategy**. This ensured that the best available data has been sourced for each OPM and performance commitment. Market data has been used wherever possible; and wherever this is unable to be observed a suite of stated and revealed preference studies have been used to ensure that values can be triangulated across a range of evidence sources. All our valuations are based on multiple sources of evidence.

The Valuation Strategy meets the challenges of improving the breadth, depth and reliability of the valuation evidence base by:

- Developing the quantitative customer valuation evidence: increasing the role for revealed preference methods and trialling of new approaches to stated preference surveys alongside tried and tested methods
- Triangulating using a wider set of evidence: combining the results of multiple valuation research studies and customer insights to develop the valuation set
- Raising the bar with the use of tools and materials: making it real, making it understandable and exploring all viewpoints (e.g. different customer segments).



For more information, see [Engaging Customers](#)

In line with our valuation strategy, a summary of our research is as follows:

- The 'main stage' PR19 stated preference study
  - Assessed customer preferences and priorities for water and wastewater services; and to estimate customers' willingness-to-pay (WTP) for improving or preventing deterioration for a broad range of aspects of water and wastewater services
  - Focused on improvements to the traditional Discrete Choice Exercise (DCE) method as well as trialling the newer Best Worst Scaling (BWS) method

- Five second stage PR19 stated preference surveys to understand wider customers' priorities and preferences around:
  - Water restrictions and resource options
  - Sewer flooding and sustainable drainage options
  - Pollution incidents
  - Bathing water quality
  - Water disruption and drinking water notices
- Revealed preference research:
  - Recreational beach use and the importance of bathing water quality, through a detailed travel cost assessment across the region and supplementary local impact assessment to understand how we can impact on the economy
  - Avertive behaviours around water disruption events ('post event surveys')
- Market impacts and macroeconomic analysis:
  - Resource costs through collating studies on damage and clean-up costs (repair/replacement) for sewer flooding
  - Productivity impacts from service disruption through macroeconomic analysis of the impact of water restrictions
  - Market value of goods to measure the value of shellfish
- Value transfer: a detailed and in-depth review of pre-PR19 South West Water and Bournemouth Water valuation studies, as well as the wider academic, government and industry literature to ensure a wide, comprehensive set of customer valuation evidence.



For more information, see the following documents:  
[PR19 Main Stage Stated Preference Study](#)  
[SWW PR19 Water Resources Research](#)  
[SWW Customer Bathing Water Research](#)  
[SWW PR19 Water and Wastewater Research](#)

We have used eftec and ICS Consulting to help scope and deliver our valuation and triangulation work. They are highly reputable companies in the water industry and experts in environmental valuations.

A comprehensive peer review and challenge process has ensured that our valuations are as well-evidenced and robust as possible.

Professor Ken Willis of Newcastle University has been involved throughout, reviewing, challenging and assuring the stated preference survey design, testing, and analysis. He has reviewed all documentation, models and computations as well as the triangulation process to provide assurance to ourselves and WFCP that the outputs of the research are accurate and robust<sup>1</sup>.

<sup>1</sup> ICS Consulting / eftec 'South West Water's PR19 Valuation and Peer Review: Summary Report', May 2018

## Stretching performance commitments and service levels continued

Alongside this, Oxera has provided further peer review and assurance of the valuation programme and process, assuring us that our valuation programme is comprehensive and without material 'gaps'<sup>2</sup>.



**“The valuation strategy put forward by South West Water covers a comprehensive array of activities ... It represents a robust, balanced and proportionate evidence base.”**

Oxera, peer review, May 2018

**“South West Water has focused on those techniques that deliver the best cost-effective insight.”**

Oxera, peer review, May 2018

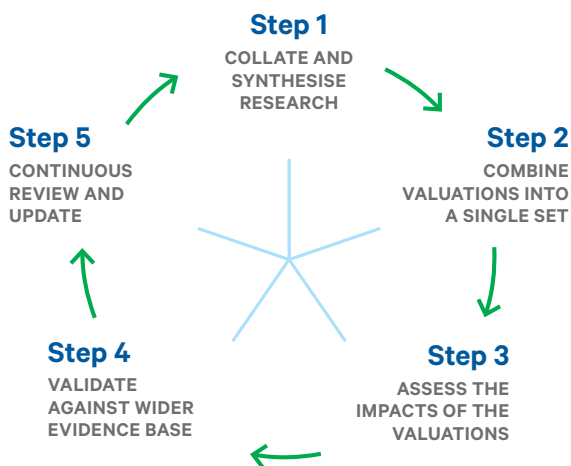
**“An outstanding piece of research. It is innovative in advancing understanding of the application of different SP methods in appraising customer values for water service improvements.”**

Professor Ken Willis, Final Peer Review comments, May 2018 (commenting on our overall stated preference research programme)

### Triangulating the customer evidence base

We have utilised latest regulatory and CCWater thinking to develop and apply a transparent and robust approach to the triangulation of valuation evidence.

Our triangulation process:



<sup>2</sup> Oxera “Assurance on South West Water’s approach to valuation”, May 2018

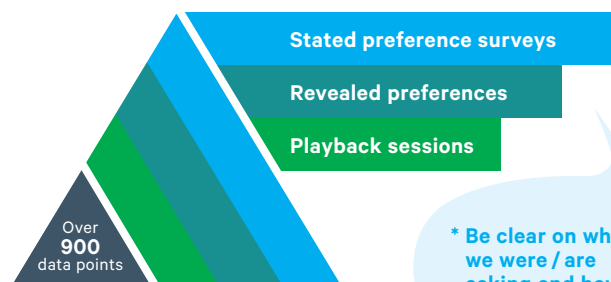
<sup>3</sup> ICF, “Defining triangulation and willingness to pay in the water sector”, July 2017, A report for CC Water

<sup>4</sup> HM Treasury “The Magenta Book Guidance for evaluation”, April 2011

<sup>5</sup> Eftec “Valuing Environmental Impacts: Practical Guidelines for the Use of Value Transfer in Policy and Project Appraisal”, A report for Defra, February 2010

This has ensured that we have met the key regulatory requirement for PR19 for water companies to demonstrate that a wider valuation evidence base has been sourced to validate and cross-check the results provided by stated preference studies. All our valuations are based on multiple sources of evidence.

### How do we know we have the right values?



\* Be clear on what we were / are asking and how it will be used within the plan

We have triangulated our customer values with our own studies, but also other sources including other water companies’ research, government and academic studies, and market data. In total over 900 data points have been used to triangulate our customer values using a robust process developed in line with Ofwat and CCWater’s guidance<sup>3</sup>.

Our transparent approach to triangulation was agreed with our WaterFuture Customer Panel’s Research, Engagement and Vulnerability subgroup, with the results shared and agreed with the WaterFuture Customer Panel.

We have deliberately avoided a process that involves subjective judgments to develop triangulated values. Based on a strong steer from the WFCP, we have developed a clear process for assessing and weighting valuation evidence – both our own and that gathered from other companies, industries and settings.

This process uses a clear assessment criteria for appraising the robustness and relevance of each valuation source. This draws heavily on the approaches recommended in CCWater’s triangulation process, the critical questions for appraising evidence in the HM Treasury Magenta Book<sup>4</sup>, and Defra’s value transfer guidelines<sup>5</sup>. Once the robustness and relevance of each evidence has been assessed, we have weighted the valuation evidence to form triangulated values. This has been undertaken using weights discussed and agreed in advance with the WFCP.

## Stretching performance commitments and service levels continued

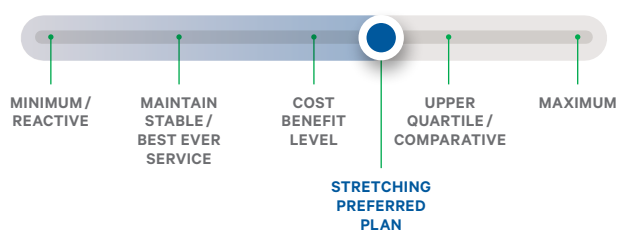
Sense checking the results against the wider evidence was a key part of our process (Step 4). We also held workshops with the WFCP to enable them to understand in detail and critique the triangulation approach, as well as understanding how the values would be used in practice in business planning. They provided useful feedback on the valuations which were incorporated prior to finalising the values to use for PR19.

All this hard work ensures that we are confident that we have used the best, well-evidenced set of values that most accurately reflect our customers' and stakeholders' priorities.

Alongside the valuation work, Professor Ken Willis has reviewed the triangulation process in principle and in practice, to provide further assurance to South West Water and the Water Future Customer Panel that the valuation evidence is robust.

### Scenario development – assessing the range of performance commitment levels

Our performance commitments have been informed by a detailed assessment of the costs and benefits of delivering different levels of performance. From this assessment we have selected our preferred plan.



All potential solutions and expenditures are assessed in a full cost benefit assessment. All customer benefits and efficient costs are mapped directly to each of the outcomes and performance commitments, allowing us to ensure our performance commitment targets represent value for money for our customers.

We recognise that the economic level of performance needs to be balanced with the other objectives driving the plan – such as meeting legal requirements, deliverability, and affordability. Our approach to cost benefit allows us to understand the most cost beneficial way to deliver the business plan requirements.

We consider that our plan delivers stretching levels of performance. To ensure our plans are stretching we have:

- Iteratively tested our performance commitment targets with customers – and challenged ourselves to deliver more in those areas where customers told us we needed to do more for less. 88% of our South West Water and 92% of our Bournemouth Water customers find our plans to be acceptable or very acceptable.
- Benchmarked our costs and driven further efficiencies

- Tested the plan to ensure it is deliverable, financeable, and encourages innovation and efficient lower bills for the future.

Our approach in PR14 was to estimate the costs and benefits for the feasible range of performance levels, ranging from minimum expenditure (a reactive investment position) to an enhanced position. We have kept this approach for PR19.

For PR19 we increased the range over which we have understood and considered performance:

- Minimum performance
- Maintain stable or best ever service levels
- Cost beneficial levels of service
- Enhanced / comparative performance (e.g. upper quartile or better)
- Maximum attainable performance (informed by expert judgment and historical analysis of what can be delivered in the future).

This has then been used to assess the right level of service across all performance commitments given our objectives to deliver for our customers, provide efficient service, and address water bill affordability for all. Our plans meet the needs of our customers and all regulatory and legal obligations.

For each scenario we have considered costs and benefits over a 40-year whole life cost assessment, including the initial and recurring capital expenditures and operating expenditures in a full totex assessment.

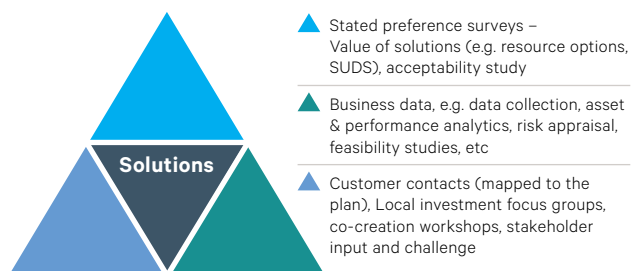
We ensure a range of intervention/solution types – and challenge the business to ensure all potential solutions are considered, including:

- Capital and operating solutions
- Reactive and proactive solutions
- Repair, replace and refurbishment solutions
- Asset and non-asset solutions

Where relevant we have engaged with our customers to understand their views on different solutions, and to reflect any differences in valuations they have for solutions into our mix of potential interventions. Customers have had particularly strong views about water resource and flooding/drainage solutions.

## Stretching performance commitments and service levels continued

### How do we know we have the right solutions?



### Testing stretching performance commitment levels

Our performance commitments are associated with clear targets i.e. the performance commitment levels. This is the target level of performance that we will assess ourselves against over the period 2020-25 and beyond.

The performance commitment levels reflect:

- What customers consider important and value for money
- Stretching targets for the price control period
- Targets that are consistent with legislative requirements.

Customer and stakeholder research and engagement activities; cost benefit analyses; and a robust cost challenge have been key to the development of our performance commitment levels.

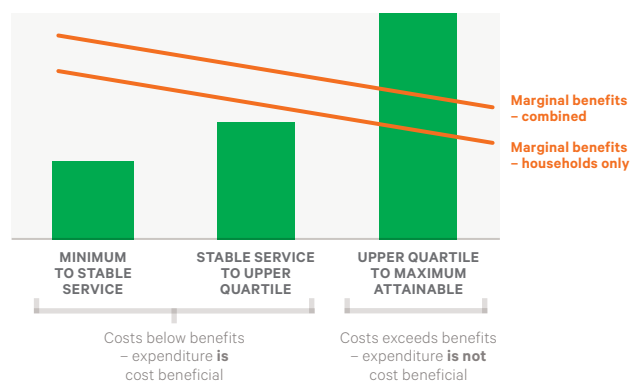
Our approach to assessing the economic level of service involves estimating the incremental costs and benefits for all performance commitments.

We have given ourselves a significant cost challenge – applying cost efficiencies to our unit cost estimates to ensure we need to continue to improve efficiency to deliver the targets.

We have engaged with customers, the WFCP and regulators to collect evidence and discuss targets for our performance commitments. The result has been that we have outcome performance commitments that our customers want and are consistent with Defra's Statement of Obligations, relevant statutory requirements and licence obligations.

We have produced marginal benefit and marginal cost estimates for our performance commitments to understand where potential expenditure and performance improvements are value for money. We have computed marginal benefit values for households only and the combined household and non-household value. An example is shown below with the actual charts for each performance commitment detailed in the outcomes summary section.

### Marginal costs (annualised £)



## Stretching performance commitments and service levels continued

The estimation of marginal costs and benefits has informed our analysis to ensure our performance commitment levels are stretching. The table below provides a summary of the analysis undertaken through the five scenarios, mapped to Ofwat's approaches detailed in Appendix 2 of the Final Price Review Methodology.

Scenario mapping	Approach 1	Approach 2	Approach 3	Approach 4	Approach 5
	Minimum (minimum expenditure)	Maintain (stable performance)	Cost benefit analysis (our business plan)	Comparative information (at least upper quartile)	Maximum level attainable (maximum change in service)
Compliance with water quality standard	✓	✓	✓		✓
Duration of interruptions in supply	✓	✓	✓	✓	✓
Number of mains bursts	✓	✓	✓	✓	✓
Unplanned outage at water treatment works	✓	✓	✓		✓
Taste, smell and colour contacts	✓	✓	✓	✓	✓
Water restrictions placed on customers	✓	✓	✓		✓
Leakage levels	✓	✓	✓	✓	✓
Per capita consumption	✓	✓	✓	✓	✓
Internal sewer flooding incidents	✓	✓	✓	✓	✓
External sewer flooding incidents	✓	✓	✓	✓	✓
Sewer collapses	✓	✓	✓	✓	✓
Sewer blockages	✓	✓	✓	✓	✓
Odour contacts from wastewater treatment works	✓	✓	✓		✓
Numeric compliance	✓	✓	✓	✓	✓
Descriptive compliance	✓	✓	✓		✓
Total WwTW compliance	✓	✓	✓		✓
Compliance with sludge standard	✓	✓	✓		✓
Drought risk	✓	✓	✓		✓
Flooding risk	✓	✓	✓		✓
Resilience in the round - wastewater	✓	✓	✓		✓
Resilience in the round - water	✓	✓	✓		✓
C-MeX. Customer measure of experience	Trials underway with Ofwat				
Operational contacts resolved first time – water	✓	✓	✓		✓
Operational contacts resolved first time – wastewater	✓	✓	✓		✓
D-Mex. Developer services measure of experience	Trials underway with Ofwat				
Customer overall satisfaction				✓	✓
Customer satisfaction with value for money				✓	✓
Increase number of customer details checked every 2 years		✓	✓		✓
Number of customers on the PSR register				✓	✓
Overall satisfaction of services received on the PSR					✓
Number of pollution incidents cat 1-3 – wastewater	✓	✓	✓	✓	✓
Number of pollution incidents cat 1-3 – water	✓	✓	✓		✓
Biodiversity – Compliance		✓	✓		✓
Biodiversity – Prevent Deterioration		✓	✓		✓
Biodiversity – Enhancement	✓	✓	✓		✓
Bathing water quality	✓	✓	✓		✓
Abstraction incentive mechanism		✓	✓		✓
Replacement of dumb meters with AMR		✓	✓		✓
Number of customers on one of our support tariffs					✓
Gaps sites and voids for residential retail		✓	✓	✓	✓
The percentage of customers who find their water bill affordable					✓

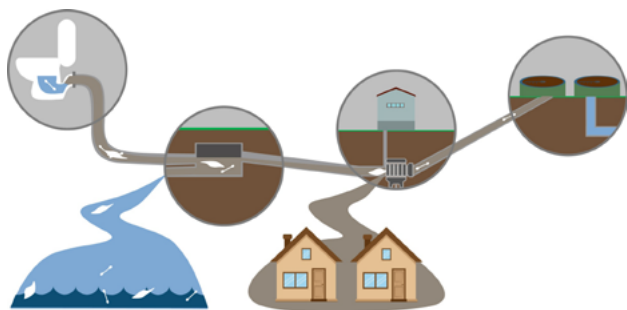
## Stretching performance commitments and service levels continued

Through the analysis we have undertaken and our business planning processes, we are confident our performance commitment levels are well evidenced, stretching and reflect customer and stakeholder priorities.

### Recognising the joint costs of service provision

Much of the service we provide to our customers is interlinked – when we deliver benefits in one performance commitment, we often deliver benefits in other performance commitments.

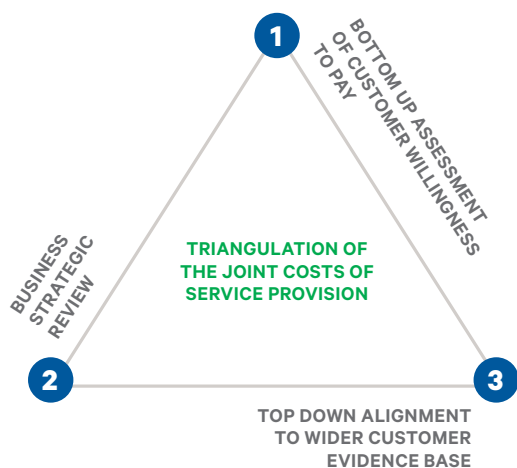
For example, preventing and clearing sewer blockages reduces the risk of internal flooding events, external flooding events, pollution incidents, and improves the quality of bathing waters and rivers.



Through our focus on maximising these joint benefits we ensure that we deliver maximum value to our customers – maximising the value of every £ spent. This in turn means that we need to allocate the costs of solutions across all the performance commitments to which they contribute.

We successfully developed an approach to dealing with and allocating the joint costs of service provision in PR14. We have therefore maintained this approach for PR19.

Our approach involves three steps.



**1** First, we allocated costs to performance measures based on a bottom up assessment of the value of services delivered by the solution to customers as measured by willingness to pay.

For example, consider a solution that reduces internal and external sewer flooding. If the benefits of the solutions are 60% related to reducing the risk of external flooding and 40% for reducing the risk of internal flooding – we allocate the costs 60% to external flooding and 40% to internal flooding.

**2** Second, we reviewed the outputs of this process from a strategic business point of view and confirmed the cost allocations reflect the drivers for expenditure.

For example, a solution may reduce the risk of pollution through improving resilience in the round; in which case we would check that costs are allocated to our resilience performance commitments (as well as the performance commitments related to reducing pollution).

At this stage we compute the marginal costs of improving performance commitments and use this to support ODIs and determine the right stretching target.

**3** Finally, we cross checked the results against our wider customer evidence, for example testing the targets and ODIs with customers and the WFCP.

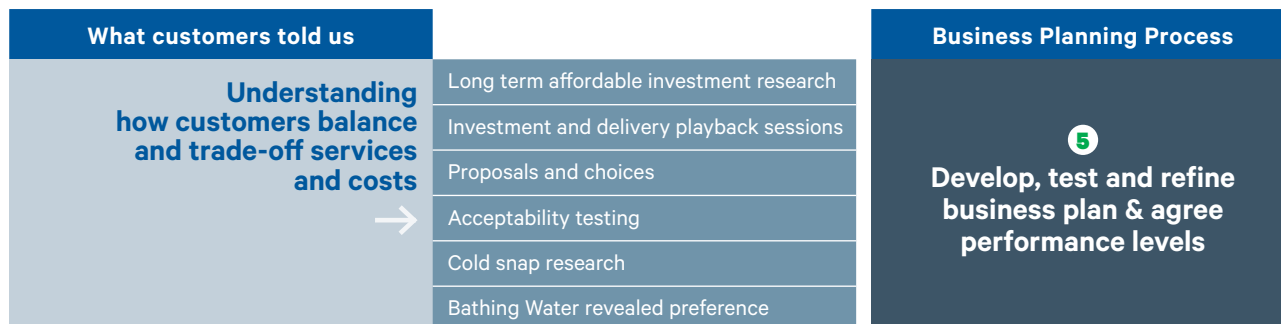
For example, our customers say it is very important that we have strong financial incentives to deliver our water quality, leakage, flooding and pollution commitments - this has been a final cross check on our ODIs and therefore our approach to cost allocation.

This approach underpins our assessment of the incremental and marginal costs of differing levels of service.



Stretching performance commitments and service levels continued

Refining the business plan and ensuring stretching performance commitments



**Acceptability testing**

Our five-year business plan for 2020-25 is a key step towards our long term vision outlined in our 2050 Vision document.

We have engaged with customers to ensure we deliver a plan that delivers for customers, has efficient costs, and ensures bills are affordable. The challenge has been to develop the business plan to balance the needs of all customers and stakeholders.

We have tested the acceptability of our plan through a mix of qualitative and quantitative research; each phase of acceptability has been used to inform the next phase.

Regional focus groups were used to assess our plans across the region, but also locally. Customers were asked if the plans met their local needs as well as regional considerations. These showed that customers thought our targets were mostly stretching and in line with their views – but were not stretching in all areas; in particular customers did not think some of our asset health measures went far enough. We took this feedback on board and improved our asset health targets.

We tested our updated plans in our quantitative acceptability testing.

**Bournemouth Water testing process**

Regional investment focus groups

Quantitative acceptability testing

**South West Water testing process**

Regional investment focus groups

Phase 1 Quantitative acceptability testing

Building trust, supporting customers and sharing success focus groups

Phase 2 Quantitative acceptability testing

**“If we can’t make water affordable to everyone in this country, then we’ve got something awfully wrong.”**

Building trust, supporting customers and sharing success focus groups

In the quantitative testing phase 92% of customers in our Bournemouth Water region found the plans to be acceptable. With inflation, this was 80%, and with the sewerage bill this was 73%. This confirms our plan holds the right balance of investment and bills.

When we tested our plans in the South West Water region, the quantitative testing showed high levels of acceptability for our plans and for the proposals in the plan – 87% of our customers found the plan acceptable. But there was strong feedback that we could still do more for less – we were challenged to deliver the proposals for less cost.

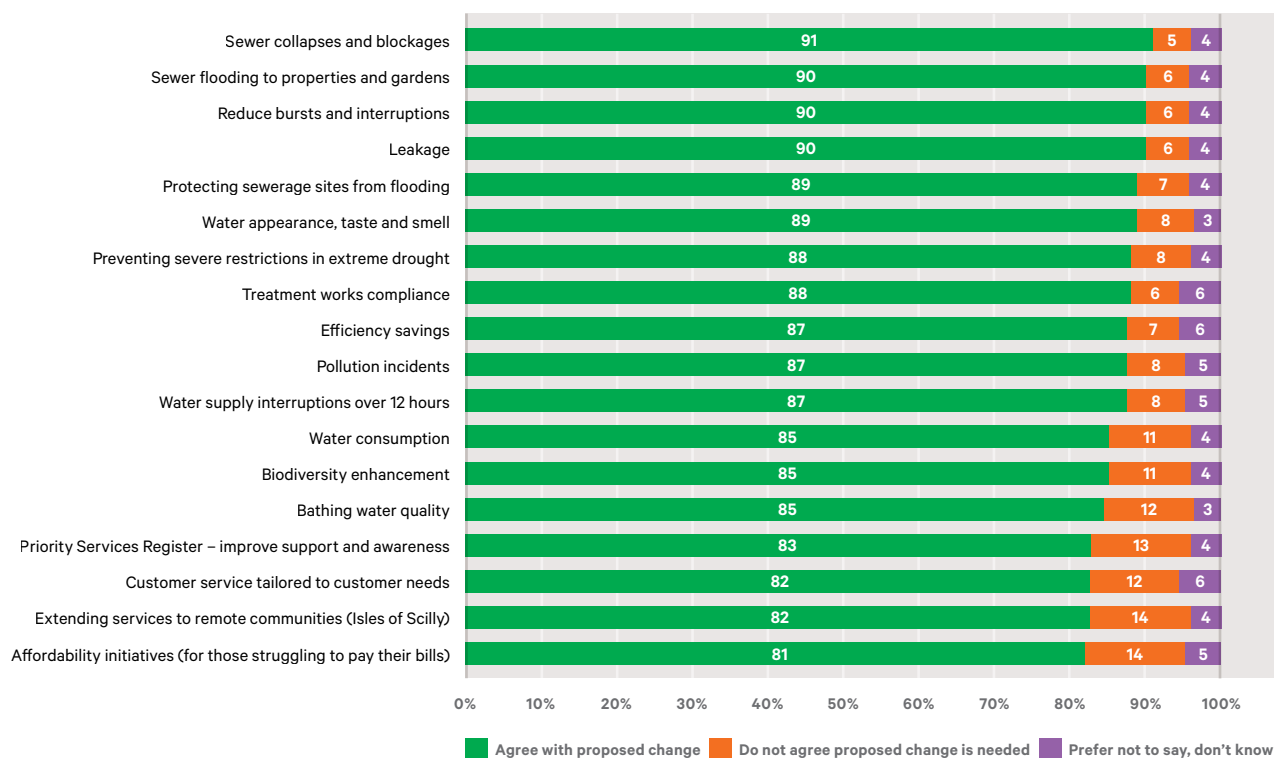
Customers told us that inflation concerns them. More so than in PR14. 35% of customers tell us their wages and incomes are rising less than inflation each year, and they worry about water bills that rise faster than their incomes. Our customers tell us it’s important to ensure the efficiencies we pass back help relieve inflationary pressures. The impact of inflation had a markedly negative view on customer acceptability of our plans: the acceptability of this plan reduced to 63% when inflation was added to bills.

Stretching performance commitments and service levels continued

Following our first phase of quantitative acceptability testing in the South West Water region we tested the findings in focus groups with customers on building trust, supporting customers and sharing success. Part of these groups involved reviewing the acceptability results and understanding what drives acceptability and affordability. Customers told us that affordability and value for money are key considerations for them in reviewing our plans, and they welcomed our drive to reduce bills for all and provide additional help for those that genuinely struggle to pay their bills.

Our customers were clear – we need to deliver more for less. We challenged ourselves to reduce bills further – and presented these revised bills to customers in our second round of quantitative acceptability. When this was retested with customers, 88% of our customers said the plan was acceptable; 79% with inflation added; and there was huge support for the initiatives in the plan.

Support for the Proposed Initiatives in the plan (%)



Our plans have gone a long way to mitigate inflationary impacts, meaning that – including inflation – customers find our plans to be acceptable to 79% of customers in the South West Water region and 73% of our Bournemouth Water region.

In our Bournemouth Water region we also tested the impact of a sewerage bill. Our plans are highly acceptable – providing sewerage bills in the Wessex Water and Southern Water region do not increase by more than £10.

Our final levels of acceptability meet our WFCP’s requirements, exceeds the CCWater thresholds set in PR14, and are higher than the acceptability levels for both the South West Water and Bournemouth Water plans in PR14. More importantly it demonstrates a high level of customer support for the business plan.

	PR09	PR14		PR19	
		Phase 1	Phase 2	Phase 1	Phase 2
<b>Real</b>	34%	62%	84%	87%	88%
<b>Nominal</b>	n/a	n/a	70%	63%	79%

## Stretching performance commitments and service levels continued

### Stakeholder views

Wider stakeholders were also engaged on our draft plans. We held stakeholder events consisting of presentations and roundtable discussions around our proposals and choices for water and wastewater, including the water resources management plans, for 2020-25.

A broad range of consumer interests were represented as stakeholders attended on behalf of a variety of organisations representing groups including:

- Consumer interest bodies
- Business customers
- Retailers
- Local authority / elected representatives
- Developer / connections representatives
- Environmental representatives
- Energy / utility companies
- Charity / non-profit organisations
- Academic / education institute
- Social housing providers.

Stakeholders told us they are broadly positive about our overall performance, and singled out some projects such as our flood protection programme in particular - praising our foresight in bringing forward investment.

Stakeholders feedback on our proposals and choices consultation shows there is a strong alignment between customer and stakeholder views. Stakeholders called for:

- Improvements in customer service
- Reductions in leakage, pollution incidents and sewer flooding
- Increased education around water efficiency and what to put down drains and sewers - to save resources, protect the environment and to help households budget
- Increased support for social tariffs
- More to ensure we manage and maintain our asset base through stretching asset health targets.

We asked stakeholders to prioritise the performance options. Stakeholders felt the company should prioritise leakage reduction, pollution reduction, improvements in river quality, customers on a support tariff, bathing water quality, and external sewer flooding. We have reflected this in our glidepath of targets to 2025.

### Cost efficiencies

We recognise that the current economic climate has placed additional pressure on the many households in our region in which affordability is already an issue. Our South West Water customers have historically faced higher than average bills due to our environmental obligations. This is exacerbated by lower than average regional incomes.

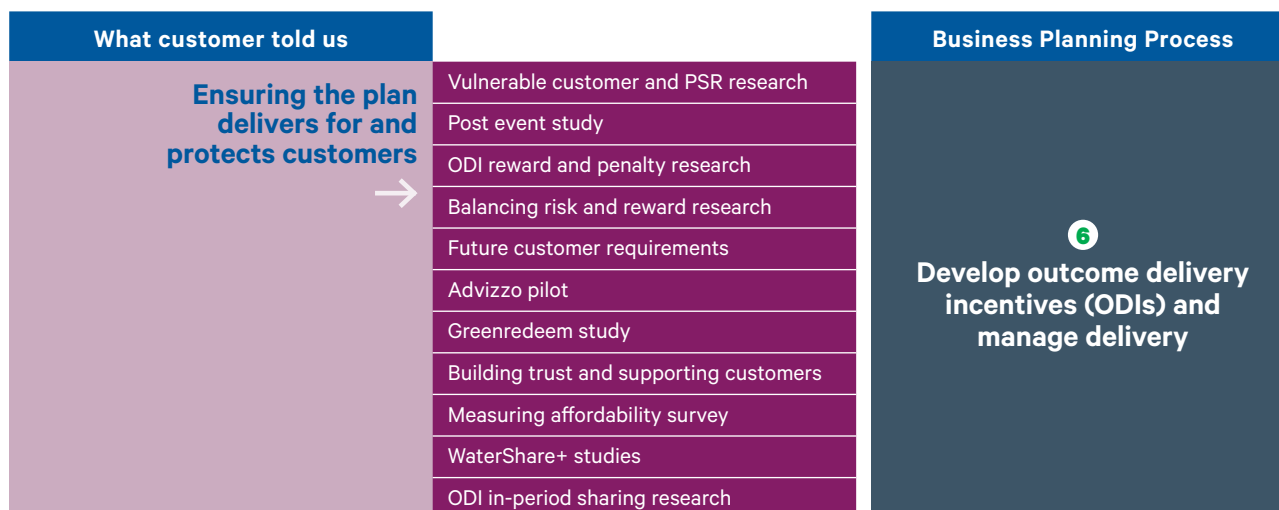
Underpinning our highly acceptable plans are significant cost efficiencies. We aim to keep bills as low as possible with bills forecast to be lower in 2025 than they were in 2009.

Our 2020-25 plan will deliver significant total expenditure efficiency savings (3% per annum operational expenditure efficiency and 5% capital expenditure efficiency over the period), maintaining our position at the forefront of the industry in efficiency.

## Our package of outcome delivery incentives (ODIs)

In this section we explain the approach we have taken to developing a package of incentives which drives service delivery and are well-evidenced. We also summarise the other ways in which we protect and deliver for our customers.

### Ensuring the plan delivers for and protects customers



**Our overall package of stretching service focused incentives accurately reflects our customers' preferences around the balance between service and risk and provides strong incentives for further innovation and delivery within the period 2020-2025.**

Overall customers want to see a basket of incentives that provide the right incentives for the company to provide good service, meet targets and strive to improve where this is in customers' interests to do so. Our ODIs reflect these key principles.

We have built on our approach from PR14. Not only have we reviewed our approach in PR14, we have made improvements. For example:

- We have improved the way we measure and incentivise asset health. This is much more reflective of our customers' views.
- We need to ensure the support we offer customers in financial and non-financial circumstances is right. We have considered and updated our vulnerability incentives to ensure we are incentivised to do the right things without creating any unintended consequences.
- Our PR14 resilience performance commitments focused more on our ability to respond to events rather than incentivising improvements in the resilience of our networks and sites. We have extended our performance commitments and incentives to ensure we deliver against this important aspect of service.

We have ensured that our incentives reflect customers' priorities via an ambitious programme of engagement.

In our ODI Research focus groups and balancing risk and reward quantitative research, our customers told us their views on:

- The types of incentives that should apply to each performance commitment
- The importance of asset health financial incentives
- The overall balance of incentives
  - Reputational v financial
  - Asset health v service
- The size of incentives – per performance commitment and overall (RoRE range), including any maximum level of incentives that should apply in a year
- When caps, collars and deadbands should and should not apply
- What happens when ODI payments are expected to exceed the RoRE range
- Whether payments should be made each year or at the end of the AMP.



**“I think it is good to show this kind of innovation and to involve customers' views.”**

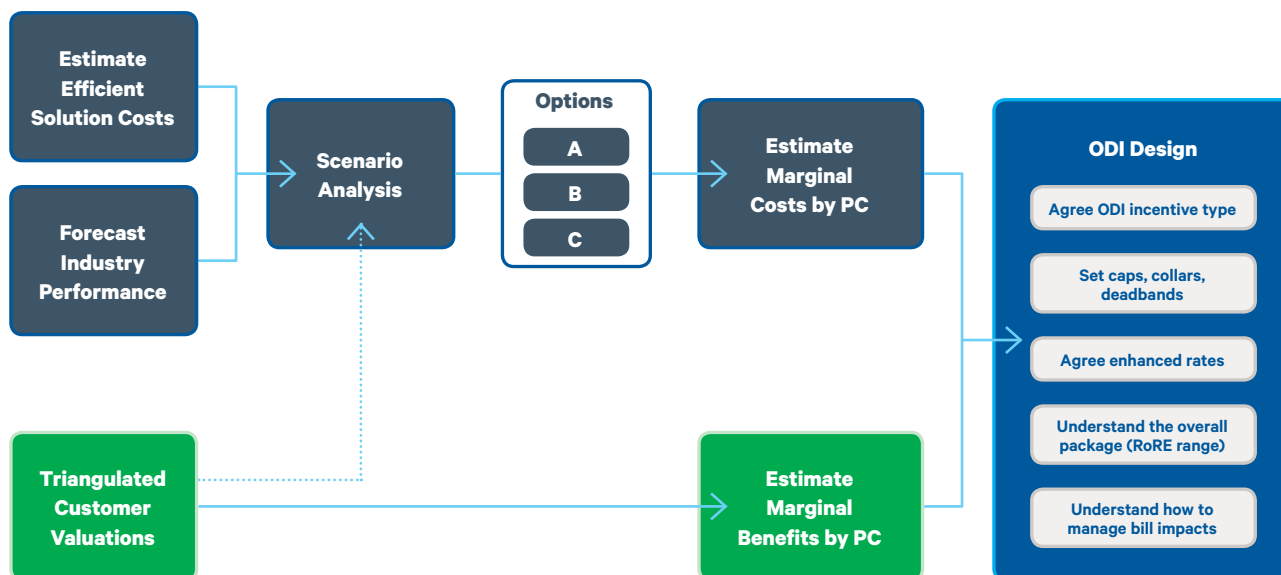
Balancing risk and reward research, Female, SEG C1C2

**Our package of outcome delivery incentives (ODIs) continued**

The WFCP have had a significant role and oversight of our process of developing ODIs. We worked closely with the WFCP to ensure that our packages of incentives protects customers and ensures a strong focus on service delivery.

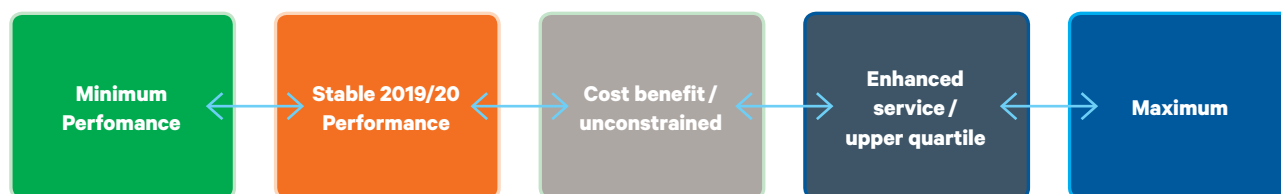
**Our ODI development process**

**ODI framework**



**Marginal benefits and marginal costs:**

We have estimated the costs and benefits for all the scenarios we have considered. Incremental costs are the difference in costs between these scenarios.



**ESTIMATE INCREMENTAL COSTS AND BENEFITS FROM CHANGES IN PERFORMANCE**

We have used triangulated customer valuation evidence to understand the benefit of investment in performance commitments and define the individual incentives. Each financial incentive is directly related to triangulated customer values - ensuring that our ODI incentive rates are directly related to the value of services we deliver to our customers.

We have estimated the incremental costs of improving performance – and translated this into marginal costs based on the expected change in performance. Recognising that costs can be lumpy over time, we have used annualised costs over 40 years to estimate our marginal costs.

Our marginal cost estimates are based on the same data used to set charges for our customers. We have used the same solution costings and efficiency assumptions to underpin our assessment of scenarios and the impacts on bills.

The approach is consistent with the approach we used in PR14, which in turn was based on UKWIR (2010)<sup>1</sup> Cost Benefit Analysis Review. Our approach to assessing and estimating marginal costs have been fully audited through our PR19 assurance processes.

<sup>1</sup> UKWIR 2010 “Review of Cost-Benefit Analysis and Benefit Valuation”, UKWIR reference 10/RG/07/18

## Our package of outcome delivery incentives (ODIs) continued

### ODI Incentive type

We undertook specific research with customers to understand their views on which performance commitments should be reputational or financial, and where they are financial, whether underperformance payments only or under and out-performance based incentives should be applied.

Our customers are strongly supportive of financial incentives. In our research study balancing risk and reward, 83% of customers told us they agree that financial incentives should be used to incentivise performance. Customers tell us its important to have financial incentives for those aspects of service considered the most important and/or where further investment is needed to improve service. Whilst customers recognise that reputational incentives have a place, they told us that these are more suited to those aspects of service where it is less important to them for us to improve.

Based on this feedback, we have applied financial incentives wherever possible; we have only applied reputational incentives where:

- There is duplication and cross-over with another financial incentive
- Applying a financial incentive may have unintended consequences or even perverse consequences
- Ofwat have indicated the performance commitment should be reputational.

**“I reckon there should be some incentives, some sort of rewards, only if they really do excel, if they come in say the top three.”**

ODI Research:  
Ringwood focus group

**“South West Water already provides a reasonable service, but incentives need to be put in place to make sure levels of service are maintained.”**

Balancing risk and reward research,  
Male, SEG DE

We consider the overall balance between reputational and financial incentives is appropriate and our allocation of financial and reputational incentives aligns with customers' views.

We have developed outcome delivery incentives which are based on customers' priorities to incentivise delivery. Customers highest priorities are reflected in the greatest willingness to pay for further improvements implying greater underperformance payments if they are not achieved. At the same time customer priorities are reflected in the areas where we propose outperformance payments.

Our plan meets our statutory obligations and requirements for investment that we have explored with our regulators. The requirements of the regulators are generally consistent with customers priorities, so even where outcomes are being delivered by statutory obligations and regulators would take enforcement action where we fail to deliver, to reflect customers' views we are still proposing significant financial incentives where appropriate.

Our overall aims when developing the portfolio of financial incentives were:

- To ensure that the incentives were credible to customers and stakeholders
- To minimise overlap with other statutory incentives
- To ensure wide coverage of service issues
- To develop an incentive portfolio that reflects a balanced approach to risk and reward by:
  - Compensating customers for the value lost where the value of the investment exceeds the cost and there is a clear customer value
  - Where the performance commitment level is not achieved, the incentive returns any regulatory advantage (excessive costs) to customers
  - To ensure that the overall package of incentives contribute to an acceptable range of risk.

Our approach to setting financial incentives is based on that suggested by Ofwat in their methodology. In most cases where an outperformance payment is applied we have taken 50% of the incremental benefit value. We have chosen 50% to reflect the interaction with a totex menu, our proposed cost sharing approach and efficient base level of costs. For residential retail and bioresources price controls where cost sharing is not appropriate, given they are based on average revenue controls, we have set the sharing percentage to zero given customers bear no share of any cost overspend.

The underperformance incentives are based on either cost or value depending on whether the performance commitment level is cost beneficial or not. Where the performance commitment is cost beneficial, we have applied the formula suggested in the Ofwat methodology (the incremental benefit value minus 50% of the incremental costs). Where the performance commitment is not cost beneficial we have included incentives based on 50% of the incremental cost to ensure that we have returned any excessive cost (inappropriate rewards gained through the totex menu) to customers.

## Our package of outcome delivery incentives (ODIs) continued

### Caps, collars and deadbands

Customers told us they are supportive of deadbands in certain specific circumstances, namely where performance is impacted by severe weather or by third party damage.

We have included deadbands for four compliance performance commitments where it is not always possible to meet 100% compliance due to external factors, and mitigating these impacts would involve disproportionate levels of expenditure.

Our customer research showed that customers are supportive of caps and/or collars across all of our financial performance commitments. However, we have only applied a collar to those performance commitments where there is limited comparative and historical performance information:

- Drinking water quality – i.e. Compliance Risk Index
- Unplanned outage at water treatment works.

### Enhanced rates

Customers are supportive of enhanced incentive rates. The further the gap between actual performance and target the higher the incentive rate should be.

We have included enhanced out and underperformance rates for internal sewer flooding and leakage. We have tested these with customers and there are high levels of support for both of these measures. Further details on the application of these rates are included in Appendix 1.

We are happy to work with other companies and share our ways of working with the industry as part of the use of enhanced rates.

We will run workshops in the form of question and answer sessions and these will be led by our delivery teams. We will invite representatives from each company and our regulators as well as inviting members of our WFCP and delivery partners.

In the workshops we will provide details on our decision making and delivery processes including:

- How we understand current and forecast future risk across our network to identify high risk areas for activities and expenditures – including the data, processes and tools we use
- How we scope, cost and ultimately select potential options to mitigate risks in a way that is value for money for our customers
- How we work with our delivery partners to deliver ambitious programmes of work
- How we approach performance monitoring and benefits realisation to ensure we have delivered the benefits we expected; and to learn the lessons where we have not, thereby continually improving our capability
- How we ensure we capture data updates in our systems – so we are always making decisions based on the latest, best information
- Our assurance processes.

Following the workshop, if required and helpful, we will organise operational site visits. We will also continue to be available to answer questions from other companies as they arise.

### The overall package

The overall range of incentives included in our plan for the 2020-25 period is from an outperformance payment of £185m to underperformance payment of -£212m, including the potential impact of C-MeX and D-MeX (dependent on final Ofwat methodology for these two performance commitments). In terms of the Return on Regulated Equity, the range is from +1.6% p.a. for outperformance payments to -1.6% p.a. for underperformance payments and are based on our P10/P90 ranges (excluding C-MeX and D-MeX).

This is based on a realistic assessment of the range of outturn levels of performance we can expect to see, i.e. the P10/P90 estimates. The P10 and P90 estimates are in turn based on a forward-looking assessment of the risk to performance from natural variations in external factors (e.g. weather, third party damage, etc.) overlaid with an assessment of where we believe we can target further cost efficiencies and improve performance further, economically and efficiently.

### Using RCV based incentives to manage the impact on bills

Our customers have mixed views about whether in-period or end-of-period incentives are preferable. Our customers support incentive payments being close in time to when performance is delivered, but are concerned about the bill volatility this may cause.

Our customers told us that they are supportive of in-period incentives alongside limits on the maximum bill impact in each year. Customers want the RoRE range to be a hard limit on the bill – and not solely indicative of the expected range of incentives that may apply. On this basis we have not selected end of AMP incentives.

We have engaged customers on what should happen when incentives are outside the RoRE level. Given our customers do not consider it appropriate for bills to go outside the RoRE range we asked customers their views on:

- Incentives outside the RoRE range being lost or ignored (i.e. no impact on any bills in any year)
- Incentives outside the RoRE range being carried over to the next year.

Neither of these options are well supported by customers.

The issue centres on incentives. Customers have told us that as performance diverges from target they want the incentives to increase. This is why they support enhanced rates for ODIs. But if all incentives are ignored after the RoRE range is reached then incentives are effectively zero after this limit is reached.

## Our package of outcome delivery incentives (ODIs) continued

There are also incentive issues with carrying over any excess payments. Starting a year with outperformance or underperformance payments already due because of the previous year's performance can undermine investment. For example:

- Starting a year already expecting outperformance payments given the previous year's performance may discourage further investment if there is little scope for further outperformance payments
- Starting a year already expecting underperformance payments given the previous year's performance may discourage investment that would prevent further penalties.

We have considered how to manage this issue and consider the best solution to this to be the introduction of some RCV based incentives.

By ensuring some of the incentives are RCV based, we reduce the need to have mechanisms in place to deal with payments outside the RoRE range. We believe this is in line with customers' views.

### Criteria for using RCV based incentives

We are supportive of aligning the financial impact of an ODI with the performance from which it is generated. We have been an early adopter of in-period ODIs to enhance the power of these incentives.

Our customer research has, however, highlighted we believe a need to retain some scope for RCV based incentives, albeit in a more focused and targeted way than at PR14.

In its previous consultations Ofwat presented two sets of circumstances when in-period ODI incentives may not always be appropriate. These were:

- Customer impacts, including why future customers should pay/benefit from incentives related to the service performance affecting current customers; and
- Limited benefit of annual incentives for performance. This might be because a performance commitment relates to a long term objective with significant uncontrollable variation in annual performance. It may also occur in cases where annual incentives will limit a company's ability to innovate or might discourage a company from developing new and innovative ODIs.

By extension these circumstances can be used to motivate the use of RCV based incentives over an end of period revenue ODI incentive. Ofwat has previously noted that adjustments to the RCV can take more than 20 years to have a full financial effect on a company. The converse is also true. With RCV based incentive adjustments it can take more than 20 years to have the full financial impact on customers' bills.

This more gradual impact on customer bills could be merited where:

- Evidence from current customers indicates they support a hard cap/limit to the RoRE range built into current bills; and
- The impact of performance would also be felt longer term and would have a demonstrable effect on the level of service (all other things given) offered to future generations of customers as well as current customers.

As noted above we believe the first of these considerations is evidenced through our current customer research.

With respect to the second consideration our assessment is that this is applicable to four of our performance commitments:

- Water restrictions
- Bathing water quality
- Biodiversity enhancement
- Per capita consumption (PCC).

The key characteristic shared by these four commitments is that performance in these areas has a lasting consequence for our long term planning and delivery of sustainable services over the longer term. We also consider water resources and environmental quality to be the areas where appropriate incentive structures can ensure successive generations of company management are encouraged to be long term stewards.

### Water restrictions and Per capita consumption

Both these commitments are integral to our water resource planning over the long term. The purpose of our water resource planning is to secure sustainable water resources for both current and future generations. This planning drives our levels of service (e.g. frequency of planned water restrictions) which are our long term commitments to both current and future customers. The costs/benefits of our performance in commitments like PCC will also be felt by both current and future customers. For example, actions taken today by the company and the current generation of customers to reduce PCC beyond current targets will bring benefits to the security of water supplies for those future customers.

We therefore consider it appropriate that current and future customers share in the ODI impacts of these performance commitments.

### Biodiversity enhancement and bathing water quality

Performance in both the areas of biodiversity and bathing water quality can have long-lasting sustained impacts for customers, now and in the future. Therefore, as above, it would be appropriate that the ODI for these commitments recognises the longer term impacts of performance. Taking biodiversity as an example, a project that is implemented today to enhance biodiversity may require decades before the tangible environmental benefits are revealed.



## Our package of outcome delivery incentives (ODIs) continued

A slower release of any financial effects through an RCV based incentive would align the financial impacts for the company with the impacts for customers, now and in the future.

### Other ways of protecting customers

Our approach to protecting customers does not solely consist of a robust set of ODIs. We have gone further to protect and serve our customers.

We want all our customers to receive the highest levels of service regardless of their circumstances. Therefore, we take an inclusive and adaptable approach to our charging and service provision to ensure that we can provide the appropriate levels of support to those customers who find themselves in vulnerable circumstances.

We take our obligations seriously, we see it as the right thing to do to provide additional support to customers who need it - whether this is helping with the affordability of their bill, making sure they can cope when supplies are interrupted or ensuring that we communicate in the best way that meets their needs. We are committed to ensuring that our services continue to improve and adapt to meet the changing needs of our customers.

Our outcomes around protecting customers are Fair Charging and Affordable Bills for All and Responsive to Customers.

Our detailed approaches and strategies around affordability and vulnerability are contained in our 'Addressing affordability and vulnerability' element plan.

In refreshing our outcomes we amended the title of our previous Fair Charging outcome to Fair Charging and Affordable Bills for All to reflect the increased importance of affordability to our customers. Our outcome Responsive to Customers has been maintained without any change as it remains relevant to our customers.

We have engaged customers on how we protect customers:

- Affordability – i.e. ensuring bills are affordable to all.
- Vulnerability – i.e. ensuring those that need extra services are supported

Our PR19 sampling strategy - which has underpinned all customer engagement - has ensured we have engaged a diverse cross section of customers: age, socio-economic group, customers receiving financial support, those with disabilities and/or on the PSR, home owners and those in rented or other properties, a range of household compositions and income levels, etc. All research has been analysed for the entire customer base and by segment to understand how different customers are affected by our plans, activities and services.

Our engagement programme has discussed performance and bills with customers to ensure we have the right outcomes, performance commitments, targets, strategies and solutions, bills and ODIs in place to protect and deliver for customers, such as: Stated Preference Customer Willingness to Pay Research, PC Research; Long Term Tracking; ODI Research; Balancing Reward and Reward ODI Survey; Acceptability Testing; and Stakeholder Workshops.

We have undertaken specific research with customers to understand about affordability, e.g. Customer Support for Long Term Affordable Investment in Services; and Building Trust, Supporting Customers and Sharing Success focus groups. This has helped us to develop, test and finalise our affordability strategy 2020+.

We have undertaken specific research with customers in vulnerable circumstances, e.g. PSR Research. One objective of our Post Event Surveys and Cold Snap Survey (for the recent freeze and thaw event) was to understand how customers in vulnerable circumstances cope when there are issues – to support our PSR promotion and vulnerability 2020+ strategy.

And finally, we have discussed these important themes in our Future Customers Research. This has supported our longer term vision around protecting customers.

We have listened and developed outcomes, performance commitments, targets and ODIs that meet the needs of all current and future customers.

On affordability, our customers have told us that it is important that we have performance commitments that ensure bills are fair and as low as possible for all; that track and measure the number and types of customers who genuinely have unaffordable bills; and that ensure we offer the right package of affordability support to those that need it. Our customers support the use of support tariffs, with most being willing to pay some modest amount to help those less able to pay and to ensure investment in priority service improvements.

On vulnerability we engaged customers on the right performance measures for this outcome. Our customers told us that it is important that we have tailored customer service that meets the needs of all customers; we deal with issues as they arise; we promote and maintain our Priority Services Register so the right people are supported; and we provide high quality additional services to those customers on the PSR.

We have developed performance commitments and stretching targets to meet these requirements. These are summarised in the Appendix.

## Risk and reward package

We think our ODI package strikes the right balance of risk and reward. In this section we explain how we have ensured balance across the package of ODIs.

Customers have played a pivotal role in ensuring we have the right balance that reflects their views and priorities.

We have undertaken research on key aspects of our ODI package asking customers their views on asset health measures, out and underperformance payments, Return on Regulated Equity, and specific ODI caps and collars.

Moreover, we have challenged ourselves and tested our package of ODIs to ensure it drives a strong focus on service performance and represents the right balance of risk and return for our customers.

Our assessment of the appropriateness of our ODI package and focus on service performance has involved five steps:

1. Confirming the balance between the types of incentives: financial versus reputational incentives; and within financial incentives, under versus outperformance
2. Ensuring our ODIs are applied to stretching, challenging targets
3. Ensuring the balance of under and outperformance payments are in those areas important to customers – and align with their views
4. Aligning the overall RoRE range with customer views
5. Ensuring there are the right protections so that customers do not face ODI payments higher than expected.

### 1. Getting the right incentive type

Our customers have indicated that they want to have financial incentives – a framework without financial incentives is unpopular.

As outlined earlier in this document, our allocation of ODIs to the incentive type is based on customers' views – both in qualitative PC research and confirmed in our balancing risk and reward research. In line with customer views our incentives are financial wherever possible and practical to measure.

Customers want the strongest focus to deliver and drive improvements in those aspects of service that are most important to them – for example, water quality, biodiversity, bathing water, pollution and flooding.

Customers also have strong support for asset health measures – assets should be maintained to ensure good service level in the future. Customers want asset health measures to have financial incentives – especially sewer collapses; taste, smell and colour contacts; and external flooding.

### 2. Ensuring targets are stretching

Customers do not want us to be rewarded or compensated for investing in providing levels of service they think they should already be receiving. And they want us to be penalised when we fall short. Targets need to be stretching – so outperformance payments are only achieved when we go above and beyond what is expected.

As outlined in detail earlier in this document, it has been a key part of our business plan to ensure our performance commitment levels are stretching:

- Detailed scenario analysis – assessing the costs and benefits for a range of scenarios from minimum to maximum
- Challenging the ways of working, and introducing new and innovative solutions and technologies
- Delivering more for less – by driving efficiencies and reducing unit costs
- Testing our proposals are affordable and acceptable to customers – and responding to their feedback
- Ensuring we are on track and making inroads into our 2050 Vision.

### 3. Balancing incentives payments

ODIs only work for customers if they drive us to perform on those aspects of service that are important to them. We have engaged our customers to ensure our financial incentives have the right balance and strength.

We have built our ODIs bottom up using estimates of customer valuations and marginal costs. We have used the Balancing risk and reward research as a top down check to make sure our incentives align with what customers want.

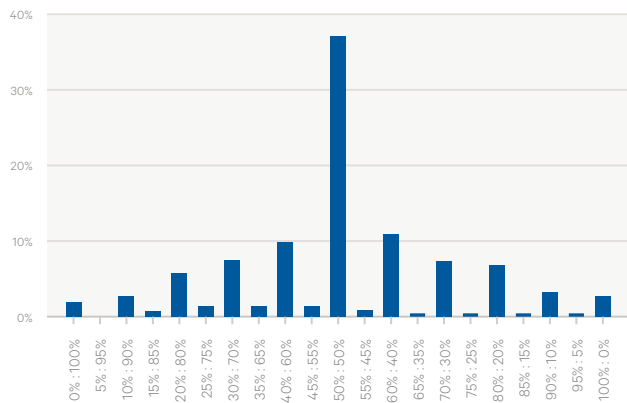
In our conversations with customers they tell us that they are very supportive of enhanced incentive rates. This is a matter of principle for them: the bigger the failure of a target the more the incentive should be, so that it becomes increasingly punitive; and similarly, the more a target is exceeded and outperformed, the more the incentive should be so it becomes a truly rewarding rate. We have applied enhanced rates in those areas where customers want these.

Asset health has been a key part of the discussions. In our Balancing risk and reward research asset health and service are equally important to incentivise – on average asset health measures should carry similar financial risks to service measures.

Risk and reward package continued

This is shown below – on balance customers want asset health measures to carry the same weight as service measures.

**Customers' views on the financial incentives**  
**Asset health: Service measures**



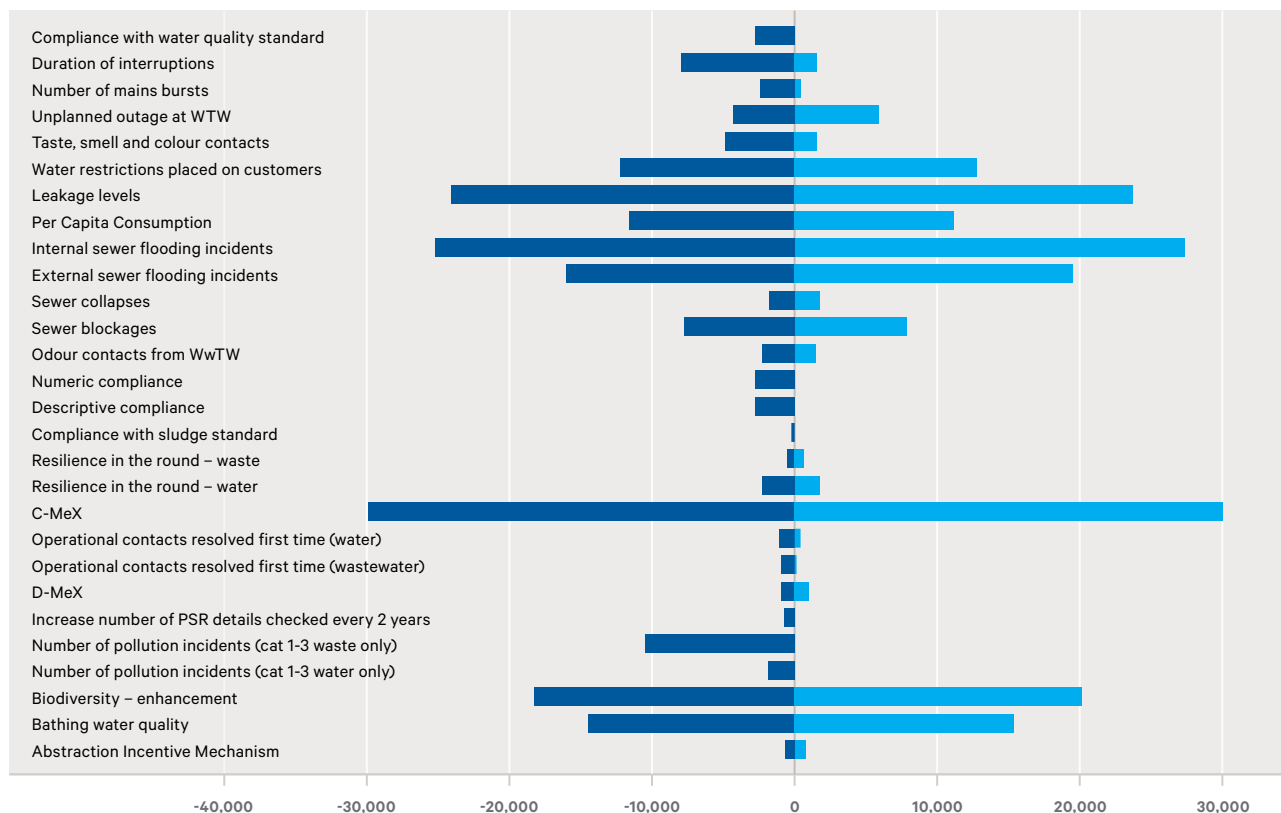
Source: Balancing risk and reward research

This has been a key check on our ODIs – ensuring that asset health measures are on a par with other measures.

**4. Aligning the overall RoRE range with customer views**

In our Balancing risk and reward research customers tell us that the incentive range should not exceed 3% of RoRE. A range of 1%-3% was popular with customers. Our incentives align with this range.

The graph below shows how each incentive is balanced between out and underperformance payments, and how this contributes to the overall range of performance:



## Risk and reward package *continued*

Our customers have told us that both under and outperformance payments are appropriate - but they expect it to be hard for us to achieve outperformance payments, and therefore by definition there should be – and is – a slight bias towards underperformance payments in the RoRE range.

Overall asset health measures for 24% of the sum of all underperformance payments and 25% of the sum of all outperformance payments. Given just over one-quarter of our performance commitments relate to asset health, this is the right balance of asset health to service-based incentives.

As well as understanding the sum of P10 and P90 positions for all performance commitments, we have undertaken scenario analysis to produce 80% confidence intervals around expected under and outperformance payments across all performance commitments (i.e. at the appointee level).

Given that the P10 or P90 values for each performance commitment are highly likely to all occur together, we have used Monte Carlo simulation methods to estimate the confidence intervals around under and outperformance payments. In doing so we have recognised that:

- Some measures are interrelated. Our historical performance data shows us that some performance commitments are positively correlated, such as bursts and supply interruptions; and sewer blockages and external flooding; sewer collapse and pollution incidents, etc. We have used eight years of performance data to estimate correlations between all performance commitments.
- Our performance in one year can impact on performance in subsequent years as investment is incremental across the years. We have built knock-on impacts into our approach across all years.
  - If we underperform a target in one year we start the subsequent year below target and this increases the likelihood we will miss the target in subsequent years
  - If we outperform a target in one year we start the subsequent year already ahead of target – and this increases the likelihood we will beat the target in subsequent years

We have applied Monte Carlo across the whole business and by price control to understand the 10% and 90% confidence intervals across the whole five year period.

This shows that in any one year the confidence intervals are c. +/-1.6% of RoRE range for both underperformance payments and outperformance payments (excluding C-MeX and D-MeX).

Given customers tell us that optimal incentives are in the range 1%-3%, we believe our incentives reflect what customers want. The sum of P10 and P90 is 3%; and the 80% confidence interval at the appointee level is c.1%.

More details on our RoRE scenario modelling is found in the App26 commentary.

## 5. Protecting customers

Customers are concerned about payment in excess of the RoRE range – and want protections in place to protect them from volatile bills and bills that exceed the RoRE range.

We have set some of our incentives to RCV to make sure that payments do not exceed the RoRE range.

Our WaterShare framework allows for further smoothing of large incentive payments to help keep customer bills stable.

## Monitoring and assurance

In this section we outline our approach for monitoring and assurance, including the role of the Board in the process.

### Performance monitoring

Transparency and openness in the information we share with customers and stakeholders is essential so they can have trust and confidence in the information we provide. We already have well established processes in place for this and recognise its importance to our customers, investors and stakeholders.

Our Company Monitoring Framework ensures we regularly provide information to our customers and stakeholders on all our performance commitments – financial and reputational. This provides a further incentive for us to deliver all of our commitments.

Through our Company Monitoring Framework engagement with customers and stakeholders, we have sought feedback on our information provision, including performance reporting, which has resulted in improvements in how we report our data.

Customers told us our Annual Performance Report was too long and used too much jargon to be easily understood. As a result, we now produce a customer summary version which after the first year of publication, we tested again with customers to further improve how we provide information on our performance.

We are always looking for new and improved ways to engage with our customers, and following the positive feedback we received for our interactive water resources video, we have launched a video which aims to educate customers about what we do and also provide information on how we have performed in the year against our targets.

We also use our unique WaterShare mechanism to annually report and track our performance against our targets. We report on our WaterShare mechanism through our website, our customer newsletter, and our bill inserts. The WaterShare mechanism provides an additional level of scrutiny of our performance as an independent panel reviews and challenges our performance and benefit sharing on an annual basis. Since 2015, we have identified £79m of financial performance benefits to share with customers.

### WaterShare+

For 2020-25, we are proposing a framework which builds on the success of our WaterShare mechanism – WaterShare+.

WaterShare+ will empower customers by offering them a direct stake in the business, giving them opportunity to be more involved in the business and share in its success.

From 2020 we propose to extend the principles of WaterShare to include a customer share benefit plan allowing for the conversion of the PR14 pot into a WaterShare dividend to be taken in the form of shares which customers (99% of South West Water staff are also customers) can convert to cash immediately or retain and have a direct stake in the business, sharing in the future success of the company – for those customers retaining these shares they may receive 'loyalty / bonus' shares in 2025.

Our performance in the delivery of the outcomes will remain a key component of the WaterShare+ framework. As one of only three companies in 2015-20 which had in-period outcome delivery incentives, we recognise the value our WaterShare framework has provided to customers in helping to keep bills stable between years. As customers will experience more financial incentives for 2020-25 linked to revenue, our WaterShare+ framework is critical in helping to manage bill volatility for our customers.

Our outcome incentives, whether financial or reputational, are designed to encourage us to operate in new and innovative ways. Even where regulators possess enforcement powers to take action (which can result in fines), our customers think that for their top priority areas, there should be financial compensation for them as well when things go wrong. They would prefer us not to fail and do not want services to deteriorate, so it is important to us that our financial incentives reflect their views on this.

Financial incentives have been developed through considering the customer value for each performance commitment and the incremental cost of delivering improvements in services over the period 2020-25.

We will track performance against our commitments using our 'WaterShare+' scorecard. The independent WaterShare panel will review and challenge annually the:

- Performance delivered
- Calculation of financial impacts
- Approach to and quantum of customer distributions.

## Monitoring and assurance continued

Our outcomes and incentives framework makes a clear and transparent link between investment in services, performance against the outcomes, and financial consequences for performance delivered.

We think it is important to clearly articulate our commitments and to be held accountable for their delivery. Our hard work ensures that we can be confident that our focus on service performance in our risk/return package is appropriate and accurately reflects our customers' and stakeholders' priorities and preferences.



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

### Outperformance of targeted cost base efficiency

Our 2020-25 plan will deliver significant total expenditure efficiency savings (3% per annum operational expenditure efficiency and 5% capital expenditure efficiency over the period), maintaining our position at the forefront of the industry in efficiency.

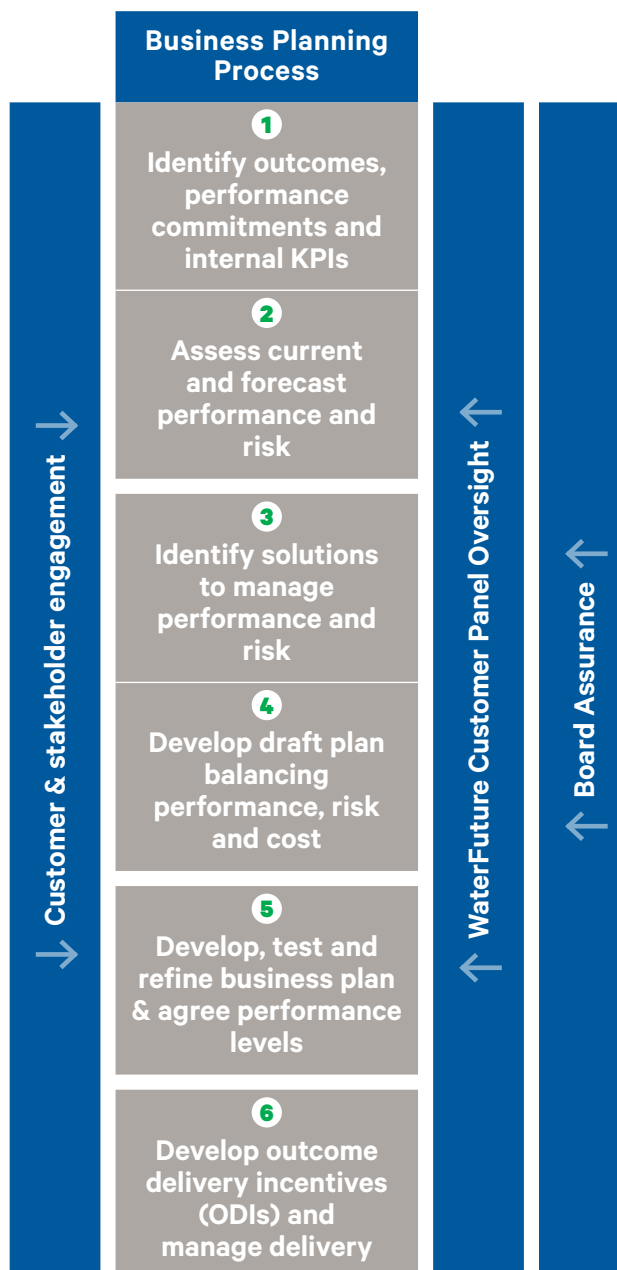
Key themes for cost efficiency remain innovation, partnership working, behavioural change initiatives and the adoption of new technology.

The efficiency savings made will enable us to absorb inflationary pressures and guarantee an average annual household bill increase that is less than headline inflation rates.

At the same time, we will deliver a £1,056m programme of capital investment (in 2017/18 prices). This includes substantial expenditure in order to meet our legislative obligations and increase protection for the environment in areas such as reducing pollutions, reducing leakage and improving water efficiency, and improving bathing water and shellfish water quality.

### Assurance

Assurance runs through our whole business planning process.



We have undertaken extensive assurance to enable us to be confident that our plans are well-evidenced, robust and accurately reflect our customers' and stakeholders' values, priorities and preferences.

Key assurance measures include:

- WFCP oversight, review and challenge of the quality of our engagement and how this has been used to shape our plans and ways of working
- A rigorous independent audit process, including specialist peer review where appropriate, e.g. for our customer valuation work

## Monitoring and assurance continued

- A rigorous Board assurance process
- Understanding uncertainty and risk through our processes – and challenging the impact on our plans through detailed scenario assessment and stress testing of the plan.
- An iterative INFORM – LISTEN – REPLAY – IMPLEMENT approach to engaging customers – ensuring that their views are triangulated through a range of business as usual and PR19 qualitative and quantitative research methods.

Our performance will be incentivised to help ensure the effective delivery of our plans so that the right outcomes are achieved. We have proposed incentives, both financial and reputational, to encourage us to do more of the right thing. Based on customer and stakeholder feedback we are confident we have got the balance right.

We have challenged our quality regulators' interpretation of the Statement of Obligations rigorously to ensure that investment is only made where there is a clear obligation to do so and that the wider economic, affordability and financeability concerns are recognised. We are planning innovative solutions wherever possible to help further reduce cost and enable us to deliver our stretching targets.

We also believe that an approach that allows risks to be clearly articulated when they manifest themselves and how the company intends to deal with them is critical for customer and shareholder legitimacy.

The South West Water Board has written a board assurance statement that confirms that performance commitments within the business plan are consistent with Defra's Statement of Obligations, relevant statutory requirements and licence obligations.

South West Water has a number of statutory obligations including those within the Water Industry Act, the South West Water Licence, Competition Act and the Strategic Policy Statement (SPS) issued by Defra. Furthermore, the Environment Agency and Natural England's water industry strategic environmental requirements (WISER) document sets out certain statutory obligations on water companies:

We have worked with our key regulators and stakeholders including the Environment Agency (EA), Drinking Water Inspectorate (DWI), Natural England (NE) and the Consumer Council for Water (CCW) through our WaterFuture Customer Panel to develop a programme that meets our obligations and is acceptable to customers.

Our WaterFuture Customer Panel (WFCP) have also endorsed our outcomes and performance commitments and confirmed this in an independent report to Ofwat.

Our board assurance report can be found in the 'Securing confidence and assurance' element plan.

For more information, see



### WaterFuture Customer Panel Report



### Securing Trust, Confidence & Assurance



### Board Assurance Statement

## Summary – Initial assessment of plan questions

In this document we have explained the approach we have taken to establishing our outcomes and performance commitments, and the approach we have taken to ensure our targets are stretching.

This document explains our approach to establishing our proposed outcomes and performance commitments and how we've ensured our targets are stretching. We have discussed the central role our engagement with our customers has played in shaping our targets and the essential scrutiny and challenge we have received throughout from the Water Future Customer Panel (WFCP). We have demonstrated that our business plan delivers for customers, ensures costs are efficient, and ensures bills are affordable for all.

Alongside our Performance Commitments, we have set out in detail the approach we have taken to establishing our proposed package of Outcome Delivery Incentives (ODIs) to drive service delivery. We have also summarised the complementary ways in which we protect and underpin delivery for our customers. We have demonstrated how our ODIs are directly derived from the results of our customer engagement, and the independent challenge they have received from the WFCP. We have shown how our ODI package is well balanced to reflect customers' priorities across our outcomes and strikes the right balance of risk and reward overall to drive the delivery of services customers want and to deter and protect them from underperformance.

There are three challenges included within the Initial Assessment of Plans for 'Delivering outcomes for Customers'. These are set out below together with a summary of how we have met these challenges.

### **OC 1 How appropriate, well-evidenced and stretching are the company's proposed performance commitments (PCs) and service levels?**

We have refreshed our outcomes and performance commitments through extensive consultation with customers and engagement with stakeholders.

Our engagement included updating our evidence on customer preferences and valuations through extensive research, and testing PC combinations and levels, using an iterative engagement approach: **INFORM – LISTEN – REPLAY – IMPLEMENT**.

We tested a total of 66 possible PCs with customers and the WFCP. This included existing PR14 measures, measures developed to ensure cross-sector consistency and new company specific measures. The process resulted in 41 performance commitments included within the plan and fully supported by customers and stakeholders. We are confident that our commitments are directly reflective of our customers' priorities and valuations.

We have ensured our performance commitment targets across all aspects of service are stretching, challenging ourselves on cost and operational performance to aim for the improvements in service customers have told us matter most. In challenging ourselves we have considered our own historical, current and forecast performance and comparative industry data, and transparently shared this in our iterative discussions with customers to test the level of stretch in our targets.

### **OC 2 How appropriate and well-evidenced is the company's package of outcome delivery incentives?**

Our approach has been to select outcomes, performance commitments, performance commitment levels and incentives which will encourage the right behaviours and focus our attention in areas that are key to our customers and stakeholders. We want to drive innovation to achieve cost efficiency and greater value for money, targeted where we can make the most difference to customers, and to provide strong protection against underperformance, given the essential – and often statutory – nature of our services to customers.

Key to this has been to ensure that our incentives reflect our customers' priorities via an ambitious programme of engagement.

In our ODI Research focus groups and Balancing risk and reward quantitative research, our customers explored and gave us their views on: the types of incentives that should apply to each performance commitment; the importance of asset health financial incentives; the overall balance of incentives for example, reputational vs. financial, asset health vs service; and on the size of incentives – per performance commitment and overall (i.e. the range of acceptable out/under performance and returns i.e. RoRE range), including any maximum level of incentives that should apply in a year. They also told us their views on when caps, collars and deadbands should and should not apply, what happens when ODI payments are expected to exceed the RoRE range and whether payments should be made each year or at the end of the AMP.

These sometimes technical discussions were undertaken with great care to ensure understanding, and overseen by the WFCP to ensure clarity and objectivity. The discussions included an understanding of our comparative position and the potential impacts on customers bills and outcomes of alternative approaches.



## Summary – Initial assessment of plan questions continued

We have also ensured that our ODI package does not put customers at risk of significant bill increases due to the achievement of large rewards. This is established through the rates at which we have set ODIs, the overall RoRE range established and tested with customers, and the strengthening of our WaterShare mechanism overseen by the WFCP which will provide a mechanism and accountability for ensuring that customers will share fairly in rewards from innovation and efficiency.

### **OC 3** How appropriate is the company's focus on service performance in its risk/return package?

ODIs only work for customers if they drive us to perform in those aspects of service that are important to them. We have engaged our customers to ensure our financial incentives have the right balance and strength.

We have built our ODIs bottom up using estimates of customer valuations and marginal costs. We have used the Balancing risk and reward research as a top down check to make sure our incentives align with what customers want.

In our Balancing risk and reward research our customers told us that asset health and service are equally important to incentivise – on average asset health measures should carry similar financial risks to service measures.

Overall Asset Health accounts for 24% of the total penalties and 25% of the outperformance payments. Given just over one-quarter of our performance commitment relate to asset health, we believe this is the right balance of asset health to service based incentives to reflect customer priorities and concerns to secure stable services for customers now and in the future and to underpin long term service resilience.

### High quality, ambitious and innovative plan

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

All of the information is included in the documents directly from the document map or indirectly from links embedded in documents within the document map.

- Click on these documents to access them through the document map.
- These documents can be found in the reference folder on the sharepoint site.

## Summary – High quality, ambitious and innovative plan

High quality plan features	Evidence & activities	Evidence location within plan
<p><b>All the company's performance commitments will be set at stretching levels, including for leakage and water efficiency.</b></p> <p><b>The company will propose innovative and sector-leading performance commitments with stretching levels of performance</b></p> <p><b>These should be supported by high-quality evidence that the performance commitments are stretching.</b></p>	<p>We are aiming to deliver best in class service levels by targeting performance at the top of the industry.</p> <p>The degree of stretch was scrutinised by our Board and the WaterFuture Customer Panel, and cross checked by reference to our current performance, the maximum and minimum we could deliver, and by challenging our cost efficiency.</p> <p>Our commitments include:</p> <ul style="list-style-type: none"> <li>● Sector leading customer service as assessed by C-MeX</li> <li>● Tailored services for vulnerable customers, especially during operational incidents</li> <li>● The fewest instances of internal sewer flooding by the roll-out of a region wide sewer blockages behavioural change initiative</li> <li>● Significantly reduced risk of supply interruptions through increased interconnectivity and community specific resilience improvement projects</li> <li>● No water restrictions and a surplus available to trade</li> <li>● All remaining unmeasured properties to be metered by 2025</li> <li>● Increased protection from flooding and drought through further deployment of our flagship Upstream and Downstream Thinking projects</li> <li>● Protecting our river systems and expanding our industry leading catchment programmes</li> <li>● Delivery of long-term drainage and wastewater management plans</li> <li>● Zero serious pollutions</li> <li>● Lowest number of minor pollutions in the industry</li> <li>● Industry leading wastewater compliance</li> <li>● Improving and maintaining the number of high quality bathing and shellfish waters</li> <li>● Region wide water efficiency behavioural change initiative (Greenredeem) supporting industry leading per capita consumption target</li> <li>● Further 15% reduction in leakage levels.</li> <li>● Reduction in PCC to 127l/p/d (8% reduction or UQ reduction compared to Draft WRMPs)</li> </ul> <p><b>Additional innovations include:</b></p> <p>WaterShare+ to share benefits with customers</p> <p>Water poverty addressed by 2025</p> <p>Biodiversity performance commitment with 100% more improvement than the WINEP</p> <p>Innovative AIM scheme to protect the environment</p> <p>Replacement of mechanical meters with AMR to promote better long-term service</p> <p><b>Other supporting evidence</b></p> <p>Engagement with customers on performance commitments and levels</p> <p>Historical, current and forecast performance alongside comparative industry data used to inform customers</p> <p>Valuation strategy using over 900 data points to triangulate customer values from several studies and external sources to ensure robust</p> <p>Applied cost efficiencies to our unit cost estimates to ensure we need to continue to improve efficiency to deliver the targets</p>	<ul style="list-style-type: none"> <li>● <b>Delivering outcomes for customers</b></li> <li>● <b>Engaging customers</b></li> <li>● <b>WaterFuture Customer Panel report</b></li> <li>○ <b>Triangulation report</b></li> <li>○ <b>Peer review reports</b></li> </ul>

## Summary – High quality, ambitious and innovative plan continued

High quality plan features	Evidence & activities	Evidence location within plan
<p><b>The company will propose a robust package of ODIs to incentivise delivery on its performance commitments to customers.</b></p>	<p>Our performance commitments are underpinned by a process of assessing the economic levels of service and targeting Upper Quartile performance.</p> <p>Customer values were used to define ODI incentives that are also directly based on customers' values and trade-offs.</p> <p>Customers have informed all aspects of developing the ODI package including discussion around additional protection measures.</p> <p>83% of customers told us they agree that financial incentives should be used to incentivise performance.</p> <p>Customers tell us it is important to have financial incentives for those aspects of service considered the most important and/or where further investment is needed to improve service.</p> <p>We have included broader policy objectives into our plan to protect customers long term e.g. water efficiency, leakage reduction, biodiversity</p>	<ul style="list-style-type: none"> <li>● Delivering outcomes for customers</li> <li>● Engaging customers</li> <li>● WaterFuture Customer Panel report</li> <li>○ Valuation strategy</li> <li>○ Triangulation report</li> <li>○ Peer review reports</li> </ul>
<p><b>The company will also propose an ODI incentive package which supports outstanding achievement and innovation as well as protecting customers against the risk of delivery failure and the potential for very high outperformance payments that exceed expectations.</b></p>	<p>Customers have informed all aspects of developing the ODI package including discussion around additional protection measures.</p> <p>Our confidence intervals are c+/-1.6% RoRE for both underperformance and outperformance (excluding C-MeX and D-MeX).</p> <p>This is aligned with what customers told us with the optimal range 1-3% RoRE.</p> <p>To protect customers from very high outperformance rates we have:</p> <p>Introduced WaterShare+ framework to share benefits and keep bills stable</p> <p>Introduced four RCV incentives to make sure that payments do not exceed the RoRE range</p>	<ul style="list-style-type: none"> <li>● Delivering outcomes for customers</li> <li>● Engaging customers</li> <li>● Aligning risk and return</li> <li>● WaterFuture Customer Panel report</li> </ul>
<p><b>There will be strong independent CCG assurance on the quality of the company's customer engagement and how it is reflected in the plan.</b></p>	<p>Robust and extensive engagement with customers and stakeholders</p> <p>Performance commitments, levels and incentives developed through customer engagement to reflect the priorities of customers and stakeholders</p> <p>Extensive review and challenge by the WFCP</p> <p>New performance commitments such as biodiversity and AIM developed with WFCP and stakeholder input</p>	<ul style="list-style-type: none"> <li>● Delivering outcomes for customers</li> <li>● Engaging customers</li> <li>● Aligning risk and return</li> <li>● WaterFuture Customer Panel report</li> </ul>

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## Outcome summaries – Clean, safe, reliable supply of drinking water

We consider our targets to be stretching across our outcomes. We have iteratively tested our performance commitment targets with customers – and challenged ourselves to deliver more in those areas where customers told us we needed to do more for less.

We have benchmarked our costs and driven further efficiencies. We have stress tested the plan to ensure it is deliverable, financeable, encourages innovation and efficient lower bills for the future.

In this section we summarise this process for each outcome and performance commitment in turn. We explain in turn our refreshed outcomes, and for each outcome summarise the performance commitment, the performance commitment levels year by year, and details of our incentives.

### 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.



When our customers turn the tap, they expect a clean and safe supply of water. This continues to be the number one priority for household and business customers alike.

Customers have told us minimising disruption and improving asset health are important considerations and a key part of this outcome.

Proposed performance commitments				
Clean safe and reliable supply of drinking water	Customer priority	Incentive type	Forecast 2019/20 performance	2024/25 performance commitment level
<b>Compliance with water quality standard</b> (Compliance Risk Index score)	1. Safe water supply	£-	3.21	0.00
<b>Duration of interruptions in supply</b> (minutes per property)	8. Avoid supply interruptions	£+/-	00:07:43	00:04:41
<b>Number of mains bursts (AH)</b> (number)	8. Avoid supply interruptions	£+/-	2640	2401
<b>Unplanned outage at water treatment works</b> (%)	8. Avoid supply interruptions	£+/-	1.04	1.04
<b>Taste, smell and colour contacts</b> (no./1,000 population)	1. Safe water supply	£+/-	1.77	1.33

£- Penalty only    £+/- Reward and penalty    Rep Reputational

## Outcome summaries – Clean, safe, reliable supply of drinking water continued

We are confident we can deliver what we promise in this area. We are on track to deliver our FD14 performance commitment levels:

- We are on track to **meet our targets** around our package of asset serviceability measures (known asset reliability in the South West Water region and serviceable assets in the Bournemouth region).
- We are on track to **outperform our targets** around duration of interruptions in supply; and taste, smell and colour contacts.

### Our refreshed outcomes

Our outcomes were developed at PR14 and were based on consultation with our customers, regulators, stakeholders and WFCP. This outcome was developed to reflect:

- Customer priorities and preferences
- Regulatory and legislative obligations.

The outcomes, including the language and definitions were tested with customers to ensure they accurately reflected their priorities and reflect the full spectrum of our activities.

For PR19 we have reviewed and refreshed these outcomes with our customers – this outcome continues to be highly relevant and we have maintained it without any change.

**The outcome ‘providing a clean, safe and reliable supply of drinking water’ continues to align with our customers’ priorities.**

### Our refreshed performance commitments

We have refreshed our performance commitments for this outcome.

We continue to include drinking water quality in this outcome. This is customers’ number one priority. However, we have adjusted the definition and units to reflect the new drinking water quality measure introduced by the DWI: **Compliance Risk Index (CRI)**. To ensure this measure remains meaningful to our customers we continue to refer to this performance commitment as **Compliance with water quality standards**, so our customers can be sure that we are measuring and tracking the aspect of service which matters the most to them.

We continue to include duration of interruptions in supply; and taste, smell and colour contacts as performance measures in this outcome – the only change to the definition since PR14 is to include contacts around aerated water, so that we can better align to the measure on the Discover Water comparative information website. Both performance commitments are still priority areas for our customers, albeit less than in PR14.

We have split out our asset health metrics into separate measures rather than maintaining a basket of measures as was the case in PR14. Our customers welcome and endorse this change. We have included those aspects of asset health our customers told us were the most important to measure and improve in: the number of mains bursts and unplanned outages at water treatment works.

### Our targets and incentives

Our commitments across the performance commitments in this outcome reflect what customers consider important; value for money and realistic but challenging targets for the price control period. They also ensure we are consistent with legislative requirements.

## Outcome summaries – Clean, safe, reliable supply of drinking water continued

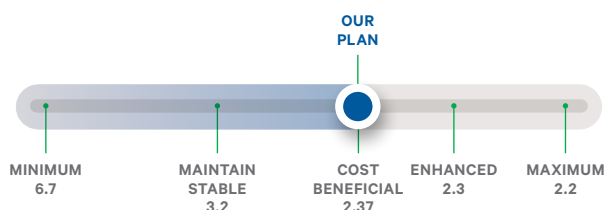
### Compliance with water quality standards

Water quality compliance is our customers' top priority. Whilst customers are happy with the level of service in this area – considering our water to be fresh and pleasant to drink – they are supportive of investment that maintains and improves water quality.

In line with Ofwat's requirements, our performance commitment level for the period 2020-25 is zero, although we have tested a range of scenarios around how confident we are around achieving a zero target, from a reactive position to a maximum attainable. Our preferred investment plan is based on cost benefit analysis.

Whilst we will continue to look for cost effective ways to target zero for this measure, our commitment for the period 2020-25 is to reduce CRI from 3.2 to at least 2.37. Our plans will reduce the expected number of taste, smell and colour contacts as well as reducing lead risk at 2,500 properties through replacement of their lead communication pipes.

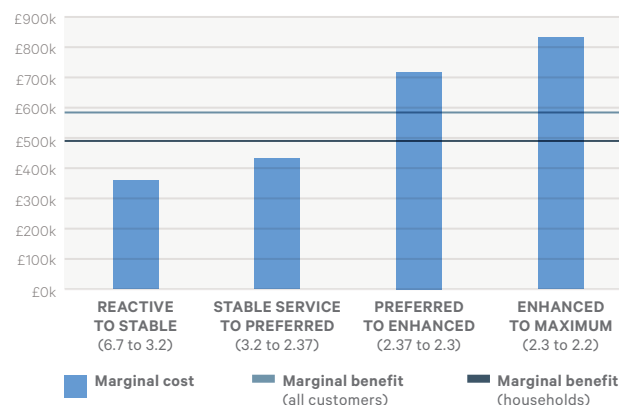
We have not directly asked customers' their willingness to pay for improving drinking water quality. Instead our assessment of the benefits to households and businesses is based on triangulated values for improving water quality aesthetics and reducing lead.



Our investment plan is cost beneficial to deliver. Our assessment of achieving further improvements by 2025 are not considered to be cost beneficial.

### Annualised costs and benefits:

#### Compliance with water quality standards – CRI (change of 1)



Customers told us that they consider financial incentives to be appropriate for this aspect of service and allocated this to an underperformance payment incentive only. In our balancing risk and reward research, customers said this was the highest ranked aspect of performance that should have financial incentives – therefore we have applied a financial incentive.

We have applied an underperformance deadband and collar in this area. This is in line with customers' views that we should not be penalised for aspects of service that are significantly outside of our control.

Performance commitment	Compliance with water quality standard					
Unit: CRI score	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
<b>Forecasted performance</b>	3.21					
<b>PCL</b>		0.00	0.00	0.00	0.00	0.00
<b>P10</b>		4.96	4.79	4.62	4.46	4.29
<b>Underperformance deadband</b>		3.04	2.87	2.70	2.53	2.37
<b>Underperformance collar</b>		5.1	4.9	4.7	4.6	4.4

Incentive rates	£m/CRI score
<b>Underperformance rate</b>	0.284578

## Outcome summaries – Clean, safe, reliable supply of drinking water continued

### Duration of interruptions

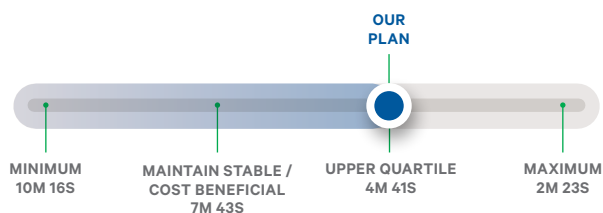
Reducing disruption and ensuring continuity of supplies is a priority for our customers.

Since 2015 we have invested in this area, and we have already delivered and exceeded our targets for 2020. Correspondingly, further improvements from 2020 are seen as less of a priority for customers than was the case in PR14.

Customers tell us the level of service we provide in this area is good and as long as we provide the right support to customers in vulnerable circumstances when interruption events occurs, they say they are happy for us to maintain our performance in this area.

We have considered a range of scenarios from a reactive position to a maximum position. Our assessment of the costs of improving this aspect of performance recognises the joint costs associated with reducing mains bursts and interruptions together.

Our estimate of the customer benefits is based on our triangulated willingness to pay values for preventing supply interruptions. These are based on PR19 stated preference and revealed preference studies; PR14 stated preference studies and value transfer (PR14 and PR19 evidence from other UK water companies).

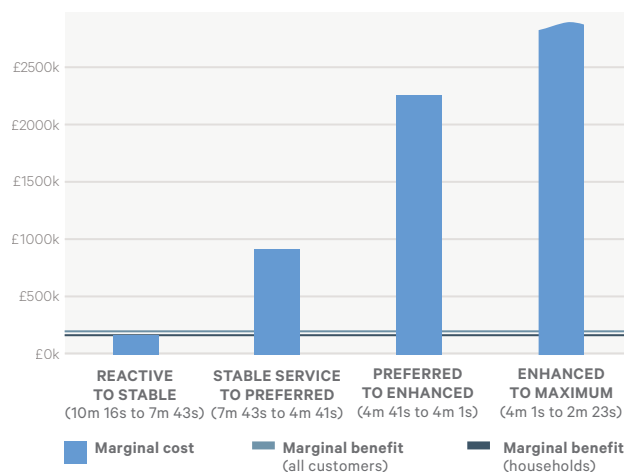


Our commitment for the period 2020-25 is to reduce interruptions further, to a target of 4 minutes and 41 seconds by 2025. We estimate that this is upper quartile performance and stretching.

Whilst our analysis of costs and benefits shows that this is not cost beneficial for our customers, we have tested this in our acceptability testing and found this to be supported by customers. We have explained that we want to achieve upper quartile performance in this key industry metric – and 90% of our customers told us that this target and the consequential bill impacts are acceptable and affordable.

### Annualised costs and benefits:

#### Duration of supply interruption – per average property minute



Customers told us that they consider financial incentives to be appropriate for this aspect of service. Customers allocated this to an under- and out-performance payment incentive as this would drive innovation for the future. In our balancing risk and reward research, customers confirmed this was an area where financial incentives should apply.

We have not applied any deadbands, caps or collars to this measure.

Performance commitment	Duration of supply interruption					
Unit: hrs:mins:secs	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
<b>Forecasted performance</b>	00:07:43					
<b>PCL</b>		00:07:14	00:06:15	00:05:55	00:04:59	00:04:41
<b>P10</b>		00:10:41	00:09:42	00:09:22	00:08:26	00:08:08
<b>P90</b>		00:03:47	00:02:48	00:02:28	00:01:32	00:01:14

Incentive rates	£m/hrs:mins:sec
<b>Underperformance rate</b>	0.461429
<b>Outperformance rate</b>	0.091619



## Outcome summaries – Clean, safe, reliable supply of drinking water continued

### Number of mains bursts

Our conversations with customers show us that asset health is very important to them. Mains bursts is a particularly important asset health measure as this links to reducing disruption now and in the future.

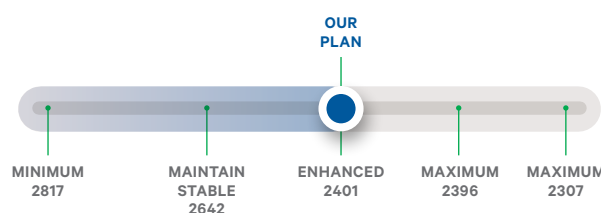
Since 2015 we have maintained our performance in this area in line with our agreed asset serviceability commitments. Customers have told us that they would like us to improve in this area and set more challenging targets to meet. Customers are wary of setting targets so that bills increase – they want to see steady continual improvements rather than significant bill-increasing improvements.

Our commitment for the period 2020-25 is to reduce bursts to 2,401 per annum. This is equal to 129 per 1,000km mains. We estimate that this will improve our performance to the industry average. This is an ambitious and stretching target to achieve.

Our analysis of costs and benefits shows that this is not cost beneficial for our customers. However, in our acceptability testing we have explained that we want to improve performance in this key industry metric given previous customer feedback, and that it underpins achieving upper quartile performance for duration of supply interruptions, and 90% of our customers told us that was acceptable and affordable to them.

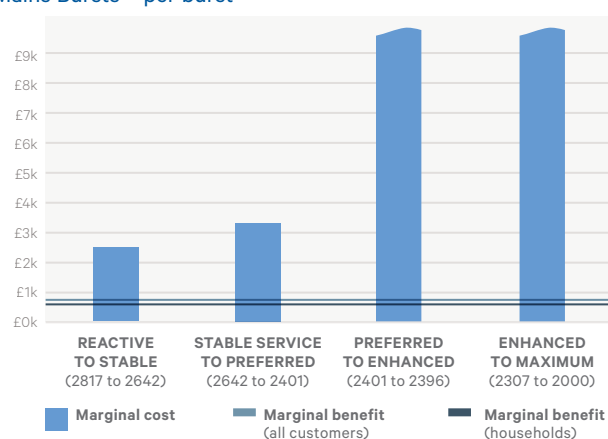
Our estimate of the customer benefits is based on our triangulated willingness to pay values for reducing bursts given the reductions in interruptions that would result (removing any double counting). Our values for reducing supply interruptions are based on PR19 stated preference and revealed preference studies; PR14 stated preference studies and value transfer (PR14 and PR19 evidence from other UK water companies).

We have considered a range of scenarios from a reactive position to a maximum position. Our assessment of the costs of improving this aspect of performance recognises the joint costs associated with reducing bursts and interruptions together.



We do not propose to go beyond our estimate of average performance in this area as we do not consider it to be in customers' interest to do so.

### Annualised costs and benefits: Mains Bursts – per burst



Customers told us that they consider financial incentives to be appropriate for this aspect of service. In focus groups customers allocated this to an under- and out-performance customer incentive. Customers support two way incentives for asset health measures – and this measure in particular – on the grounds this will drive cost effective improvements and innovation for the future. In our balancing risk and reward research, customers confirmed this was an area where financial incentives should apply.

We have not applied any deadbands, caps or collars to this measure.

Performance commitment	Number of mains bursts					
Unit: Number	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
<b>Forecasted performance</b>	2,640					
<b>PCL</b>		2,592	2,544	2,497	2,449	2,401
<b>P10</b>		2,886	2,833	2,779	2,726	2,673
<b>P90</b>		2,354	2,310	2,267	2,223	2,180
Unit: Number per 1,000km main	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
<b>Forecasted performance</b>	144					
<b>PCL</b>		141	138	135	132	129
<b>P10</b>		157	154	150	147	144
<b>P90</b>		128	125	123	120	117

Outcome summaries – Clean, safe, reliable supply of drinking water continued

Incentive rates	£m/hrs:mins:sec	£m/number per 1,000km main
Underperformance rate	0.001675	0.030961
Outperformance rate	0.000336	0.006213

**Unplanned outage at water treatment works**

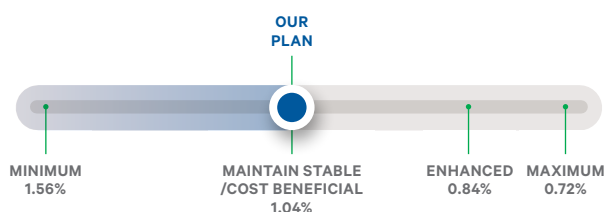
Our conversations with customers show us that asset health is very important to them. Unplanned outages at water treatment works is considered a useful measure for ensuring our water treatment works are properly maintained and ready to meet full capacity when required.

Whilst this is a new regulatory measure, we have considerable data on our water treatment works, and are able to put robust current and future estimates of performance in place.

Our commitment for 2020-25 is to keep our performance at 1.04% over the period to 2024/25. We believe we offer excellent service in this area and this will ensure we continue to offer first-rate service.

We have considered a range of scenarios from a reactive position to a maximum position.

Our estimate of the benefits is based on our triangulated willingness to pay values for reducing supply interruptions and avoiding water restrictions. These triangulated values are based on our PR19 stated preference and revealed preference studies; PR14 stated preference studies and value transfer (PR14 and PR19 evidence from other UK water companies).

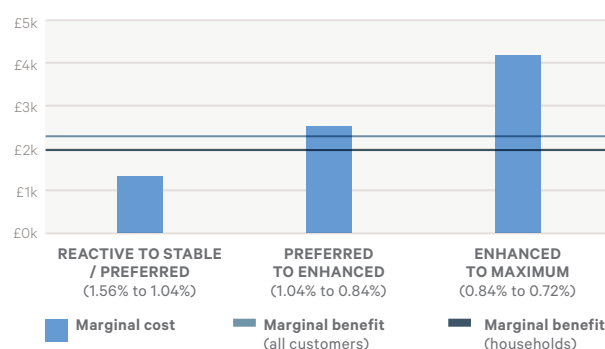


Our analysis of costs and benefits shows that it is cost beneficial to maintain service. Further improvements are not cost beneficial.

We do not propose to go beyond cost beneficial investment in this area as we do not consider it to be in customers' interest to do so.

**Annualised costs and benefits:**

**Unplanned outage at water treatment works – per %**



Customers told us that they consider financial incentives to be appropriate for this aspect of service. In focus groups customers allocated this to an under- and out-performance payment incentive. Customers support two way incentives for asset health on the grounds that this will drive cost effective improvements and innovation for the future. In our balancing risk and reward research, customers confirmed this was an area where financial incentives should apply.

We have applied an underperformance collar in this area.

Performance commitment	Unplanned outage at water treatment works					
Unit: %	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Forecasted performance	1.04					
PCL		1.04	1.04	1.04	1.04	1.04
P10		1.60	1.60	1.60	1.60	1.60
Underperformance collar		1.60	1.60	1.60	1.60	1.60
P90		0.00	0.00	0.00	0.00	0.00

Incentive rates	£m/%
Underperformance rate	1.579891
Outperformance rate	1.125771

## Outcome summaries – Clean, safe, reliable supply of drinking water continued

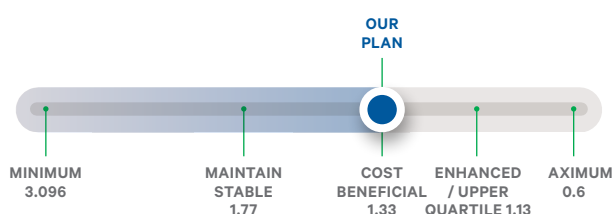
### Taste, smell and colour contacts

Customers tell us that clean, safe water that looks and tastes good to drink is their number one priority. The vast majority of customers are very satisfied with the quality of the water they receive, but are supportive of investment to maintain, and improve where necessary, the way water looks, smells and tastes.

Since 2015 we have invested significantly in this area, and we have already delivered and exceeded our targets for 2020.

Our commitment for the period 2020-25 is to improve performance from 1.77 contacts per 1,000 customers per year to 1.33 contacts per 1,000 customers per year by 2025. We believe we offer excellent service in this area and this will ensure we continue to offer excellent service in this area. This is an ambitious and stretching target to achieve.

In developing our targets for this measure, we have considered a range of scenarios from a reactive position to a maximum position.



Our estimate of the benefits is based on our triangulated willingness to pay values for reducing water aesthetic issues – both temporary/one off events and persistent issues. These triangulated values are based on our PR19 stated preference and revealed preference studies; PR14 stated preference studies and value transfer (PR14 and PR19 evidence from other UK water companies).

Our plans recognise that whilst we have invested significantly in this performance commitment since 2015, there is more

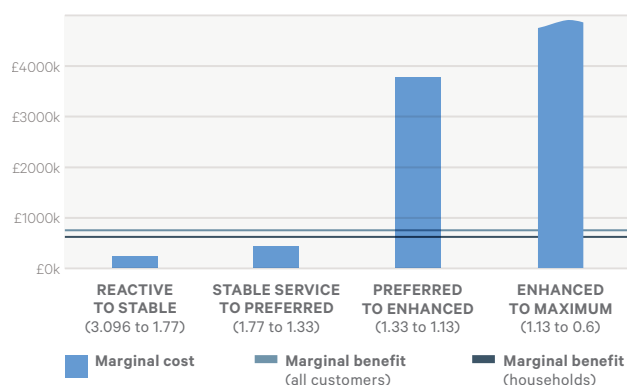
to do as we lag the industry in our south west region.

Our targets represent a 50% improvement from our 2016 performance, and will ensure our performance is better than the industry average. Our analysis of costs and benefits shows that this is cost beneficial. Further improvements would not be cost beneficial.

We do not propose to go beyond cost beneficial investment in this area as we do not consider it to be in customers' interest to do so.

### Annualised costs and benefits:

#### Taste, smell and colour contacts – per contact per 1000 pop



Customers told us that they consider financial incentives to be appropriate for this aspect of service. In focus groups customers allocated this to an under- and out-performance payment incentive. Customers support two way incentives for asset health on the grounds this will drive cost effective improvements and innovation for the future. In our balancing risk and reward research, customers confirmed this was an area where financial incentives should apply.

We have not applied any deadbands, caps or collars to this measure.

Performance commitment		Taste, smell and colour contacts					
Unit: number of contacts/1,000 pop		2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
<b>Forecasted performance</b>		1.77					
<b>PCL</b>			1.68	1.59	1.51	1.42	1.33
<b>P10</b>			3.54	3.49	3.44	3.39	3.34
<b>P90</b>			0.89	0.80	0.72	0.63	0.54

Incentive rates	£m/Nr contacts/1,000 pop
<b>Underperformance rate</b>	0.510863
<b>Outperformance rate</b>	0.372807

## 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.



The provision of a reliable wastewater service means customers can rely on their wastewater to be removed, treated and recycled efficiently.

Customers have told us that this is increasingly important to them, and a higher priority for future investment.

Proposed performance commitments				
Reliable Wastewater Service	Customer priority	Incentive type	Forecast 2019/20 performance	2024/25 performance commitment level
<b>Internal sewer flooding incidents</b> (number)	5. Reduce sewer flooding	£+/-	135	109
<b>External sewer flooding incidents (AH)</b> (number)	5. Reduce sewer flooding	£+/-	1808	1123
<b>Sewer collapses (AH)</b> (number)	5. Reduce sewer flooding 3. Prevent pollution	£+/-	309	249
<b>Sewer blockages (AH)</b> (number)	5. Reduce sewer flooding 3. Prevent pollution	£+/-	7800	6500
<b>Odour contacts from wastewater treatment works (AH)</b> (number)	9. Responsiveness to service problems 11. Customer contact excellence 12. Minimise odour from wastewater treatment works	£+/-	238	196
<b>Numeric compliance (AH)</b> (%)	3. Prevent pollution	£-	100	100
<b>Descriptive compliance</b> (%)	3. Prevent pollution	£-	100	100
<b>Total WwTW compliance (AH)</b> (%)	3. Prevent pollution	Rep	100	100
<b>Compliance with sludge standard (AH)</b> (%)	3. Prevent pollution 13. Reduce energy consumption	£-	100	100

£- Penalty only   £+/- Reward and penalty   Rep Reputational

We are confident we can deliver what we promise in this area. We are on track to deliver our FD14 performance commitment levels:

- We are on track to **meet our targets** around our package of asset reliability measures as well as our targets around internal sewer flooding
- We are on track to **outperform our targets** around external sewer flooding and odour contacts from wastewater treatment works.

### Our refreshed outcomes

This outcome was developed in PR14 based on discussions with customers and stakeholders. We have continued to engage on this outcome in PR19.

Throughout the development of the business plan customers have consistently told us that a reliable wastewater service is a key priority for them. Current satisfaction levels with this service is lower than that for clean drinking water quality – as customers think we can do more around preventing odours from sewage treatment works, blockages and drainage

**Outcome summaries – Reliable wastewater service** continued

problems. Our priorities research shows that maintaining the sewer network and preventing flooding are amongst the highest priorities for our customers: households and businesses alike.

We have kept this outcome from PR14 without any change.

**The outcome ‘reliable wastewater service’ continues to align with our customers’ priorities.**

**Our refreshed performance commitments**

We have refreshed our performance commitments for this outcome.

We continue to track performance consistent with PR14. The most notable change has been to split out our asset health metrics into separate measures rather than maintaining a basket of measures, as was the case in PR14. Our customers are very supportive of this.

Our wastewater asset health measures are:

- Sewer collapses
- Sewer blockages
- Treatment works compliance (numeric compliance) – the Environment Agency’s Environmental Performance Assessment (EPA) methodology and therefore includes surface water treatment works
- Treatment works compliance (descriptive compliance)
- Treatment works compliance (total wastewater compliance)
- Compliance with sludge standard.

We have continued to include those aspects of service in this outcome that drive and impact on customer satisfaction with our wastewater services, namely:

- Internal sewer flooding incidents
- External sewer flooding incidents
- Odour contacts from wastewater treatment works.

Given the increased priority our customers have given to our wastewater service during PR19, these performance commitments ensure we are transparent in our approach to tracking performance in our wastewater services, and will be more responsive to what our customers want.

**Our targets and incentives**

Our commitments across the performance commitments in this outcome reflect what customers consider important, value for money and realistic but challenging targets for the price control period.

**Internal sewer flooding incidents**

Our conversations with customers show us that the avoidance of internal sewer flooding is important to them. Preventing sewer flooding is customers’ fifth highest priority – and across other engagement activities customers are clear

that internal flooding is an extremely serious service breach – perhaps the most serious of all.

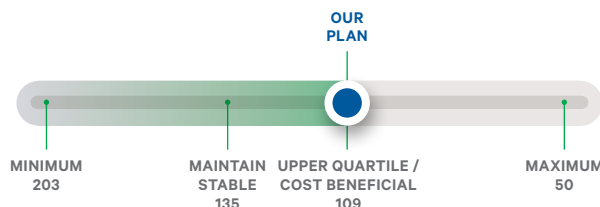
Since 2015 we have invested in this area, and we are on track to deliver our targets for 2020.

We recognise that we deliver leading service in this area. However, this is a key priority for our customers and they want us to do more to prevent sewer flooding, especially around repeat events.

Our commitment for the period 2020-25 is to reduce the number of internal flooding incidents from 135 incidents per year down to 109 incidents year by 2025. This is an ambitious and stretching target designed to ensure we maintain our upper quartile performance.

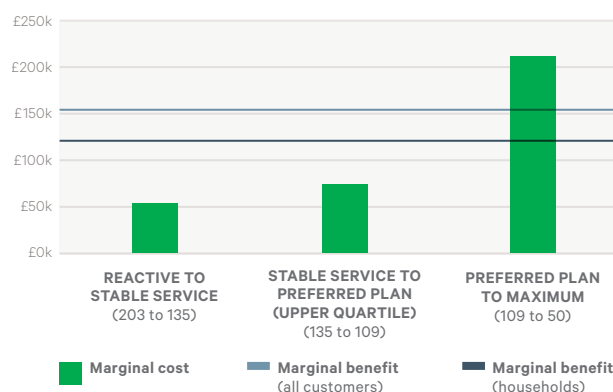
We have considered a range of scenarios from a reactive position to a maximum position. Our assessment of the costs of improving this aspect of performance recognises the joint costs associated with reducing internal flooding, external flooding, pollution incidents, blockages, and collapses together.

Our estimate of the benefits is based on our triangulated willingness to pay values for internal sewer flooding. These triangulated values are based on our PR19 stated preference studies; PR19 sewer flooding damage cost assessment; PR14 stated preference studies and value transfer (PR14 and PR19 evidence from other UK water companies).



Our analysis of costs and benefits shows that continuing to maintain an upper quartile position is cost beneficial to our customers. Further improvements would not be cost beneficial.

**Annualised costs and benefits: Internal sewer flooding – per incident**



## Outcome summaries – Reliable wastewater service continued

Customers told us that they consider financial incentives to be appropriate for this aspect of service. Customers allocated this to an under- and out-performance payment incentive as this would drive innovation for the future. In our balancing risk and reward research, customers confirmed this as the fourth highest ranked aspect of service where financial incentives should apply.

We have set enhanced rate caps and collars for this measure. To drive innovation, we have set the enhanced cap at zero; and our enhanced collar is set at worst performance in the industry. This ensures the enhanced rates provide a robust incentive for this important measure.

Performance commitment		Internal sewer flooding				
Unit: Number	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
<b>Forecasted performance</b>	135					
<b>PCL</b>		137	131	129	121	109
<b>P10</b>		178	172	170	162	150
<b>Enhanced underperformance threshold</b>		227	225	222	198	195
<b>Enhanced underperformance collar</b>		651	657	662	668	674
<b>P90</b>		83	77	75	67	55
<b>Enhanced outperformance threshold</b>		94	90	86	82	78
<b>Enhanced outperformance payment cap</b>		0	0	0	0	0
Unit: Number per 10,000 connections	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
<b>Forecasted performance</b>	1.77					
<b>PCL</b>		1.78	1.69	1.65	1.53	1.37
<b>P10</b>		2.32	2.22	2.17	2.05	1.88
<b>Enhanced underperformance threshold</b>		2.96	2.90	2.84	2.51	2.45
<b>Enhanced underperformance collar</b>		8.47	8.47	8.47	8.47	8.47
<b>P90</b>		1.08	0.99	0.96	0.85	0.69
<b>Enhanced outperformance threshold</b>		1.22	1.16	1.10	1.04	0.98
<b>Enhanced outperformance payment cap</b>		0.00	0.00	0.00	0.00	0.00

Incentive rates	£/nr incident	£/nr per 10,000 connections
<b>Underperformance rate</b>	0.121617	9.512067
<b>Enhanced underperformance rate</b>	0.243233	19.024133
<b>Outperformance rate</b>	0.079726	6.235620
<b>Enhanced outperformance rate</b>	0.159451	12.471240

### External sewer flooding incidents

Our conversations with customers show us that the avoidance of external sewer flooding is important to them. Preventing sewer flooding is customers' fifth highest priority.

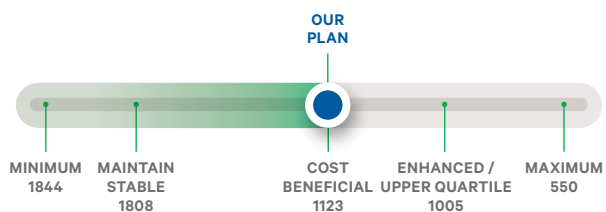
Whilst our customers support our previous focus in the past on reducing internal flooding as right – given how awful this is for customers to endure – they are increasingly keen to see further improvements in our external flooding. Even though we have gone beyond our 2020 targets in this area, this is an area where customers want us to go even further.

Our commitment for the period 2020-25 is to improve performance from 1,808 incidents per year down to 1,123 incidents year by 2025.

In assessing the right level of service for this measure, we have considered a range of scenarios from a reactive position to a maximum position. Our assessment of the costs of improving this aspect of performance recognises the joint costs associated with reducing internal flooding, external flooding, pollution incidents, blockages, and collapses together.

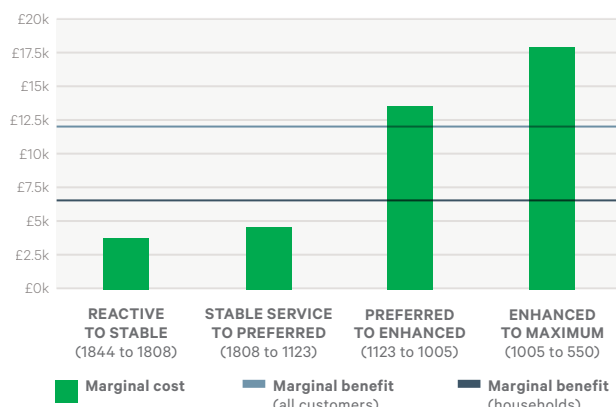
Outcome summaries – Reliable wastewater service continued

Our estimate of the benefits is based on our triangulated willingness to pay values for external sewer flooding. These triangulated values are based on our PR19 stated preference; PR19 sewer flooding damage cost assessment; PR14 stated preference studies and value transfer (PR14 and PR19 evidence from other UK water companies).



Our analysis of costs and benefits shows that this is cost beneficial. Further improvements would not be cost beneficial.

Annualised costs and benefits:  
External sewer flooding – per incident



Customers told us that they consider financial incentives to be appropriate for this aspect of service. In focus groups customers allocated this to an under- and out-performance payment incentive. Customers support two way incentives for asset health on the grounds this will drive cost effective improvements and innovation for the future. In our balancing risk and reward research, customers confirmed this was the second highest ranked aspect of asset health where they wanted to see financial incentives apply.

We have not applied any deadbands, caps or collars to this measure.

Performance commitment	External sewer flooding					
Unit: Number	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
<b>Forecasted performance</b>	1,808					
<b>PCL</b>		1,665	1,530	1,395	1,260	1,123
<b>P10</b>		2,048	1,882	1,716	1,550	1,381
<b>P90</b>		915	835	809	703	545

Incentive rates	£m/number
<b>Underperformance rate</b>	0.010030
<b>Outperformance rate</b>	0.006168

Sewer collapses

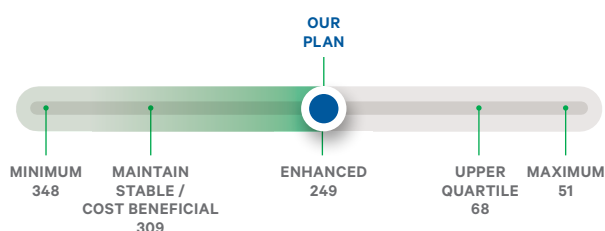
Asset health is important to our customers. Sewer collapses is seen as a useful measure of how well we are managing and maintaining our network as it directly reflects the age, condition and upkeep of these important assets.

Since 2015 we have maintained our performance in this area in line with our commitments. Customers have told us that they would like us to improve in this area and set more challenging targets to meet in the future. Customers are wary of setting asset health targets that knock on to increasing bills, but this is an aspect of service our customers want us to continue to improve so that our relative position to other companies in the industry is improved.

Our commitment for the period 2020-25 is to improve performance from 309 collapses per year down to 249 collapses per year by 2025. Customers agree this is an ambitious and stretching target.

We have considered a range of scenarios from a reactive position to a maximum position. Our assessment of the costs of improving this aspect of performance recognises the joint costs associated with reducing internal flooding, external flooding, pollution incidents, blockages, and collapses together.

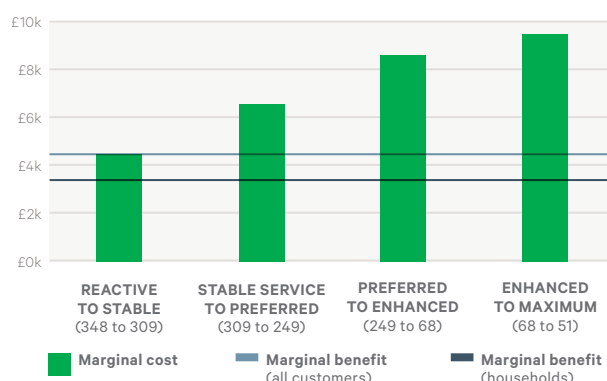
## Outcome summaries – Reliable wastewater service continued



Our estimate of the customer benefits is based on our triangulated willingness to pay values for collapses given the reductions in sewer flooding and pollution incidents that would result. Our values for sewer flooding and pollution are based on PR19 stated preference studies; PR19 sewer flooding damage cost assessment, PR14 stated preference studies and value transfer (including PR14 and PR19 evidence from other UK water companies).

Our analysis of costs and benefits shows that this is slightly non-cost beneficial for our customers. However, when we first presented a lower level of improvement in our qualitative acceptability testing (i.e. the regional focus groups) customer feedback was that our targets in this area were not stretching. We targeted a further improvement – and tested this in our quantitative acceptability testing, and 91% of our customers told us that they supported the improvement in service and the bill impacts were acceptable to them. Indeed, this was one of the highest ranked initiatives in our plan in the acceptability testing.

### Annualised costs and benefits: Sewer collapses – per collapse



Customers told us that they consider financial incentives to be appropriate for this aspect of service. In focus groups customers allocated this to an under- and out-performance payment incentive. Customers support two way incentives for asset health on the grounds this will drive cost effective improvements and innovation for the future. In our balancing risk and reward research, customers confirmed this was an area where financial incentives should apply – indeed it was the third highest ranked aspect of asset health that customers wanted to see financial incentives for.

We have not applied any deadbands, caps or collars to this measure.

Performance commitment		Sewer collapses				
Unit: Number	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
<b>Forecasted performance</b>	309					
<b>PCL</b>		300	287	275	262	249
<b>P10</b>		400	387	375	362	349
<b>P90</b>		135	129	124	118	112
Unit: Number per 1,000km sewers	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
<b>Forecasted performance</b>	19.42					
<b>PCL</b>		17.06	16.27	15.54	14.76	13.99
<b>P10</b>		22.75	21.94	21.19	20.39	19.60
<b>P90</b>		7.68	7.32	6.99	6.64	6.29

Incentive rates	£m/number	£m/number per 1,000km sewers
<b>Underperformance rate</b>	0.003253	0.057550
<b>Outperformance rate</b>	0.002242	0.039661



Outcome summaries – Reliable wastewater service continued

**Sewer blockages**

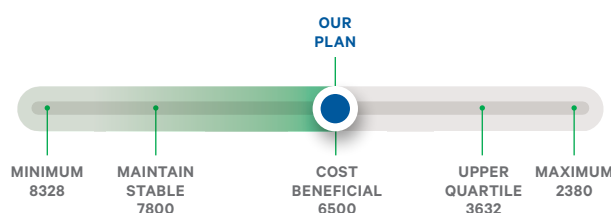
Asset health is important to our customers. Sewer blockages are seen as an indicator of both how well we maintain our sewers, but also how well we educate and inform our customers on what to put down drains and sewers. Customers are acutely aware that blocked sewers can cause flooding, disruption to highways, and sewage debris in rivers and on beaches. Reducing pollution and sewer flooding – by reducing sewer blockages – is customers’ third and fifth priorities respectively.

Since 2015 we have maintained our performance in this area in line with our targets. Customers have told us that they would like us to improve in this area and set more challenging targets to meet. Customers are wary of setting targets so that bills increase – they want to see steady continual improvements rather than significant bill-increasing improvements.

Our commitment for the period 2020-25 is to improve performance from 7,800 blockages per year down to 6,500 blockages per year by 2025. Customers have told us they consider this an ambitious and stretching target to achieve.

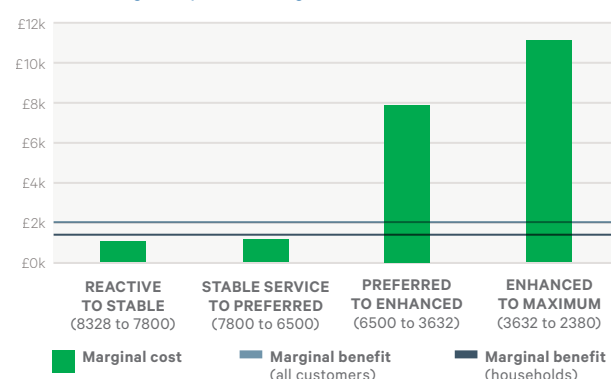
We have considered a range of scenarios from a reactive position to a maximum position. Our assessment of the costs of improving this aspect of performance recognises the joint costs associated with reducing internal flooding, external flooding, pollution incidents, blockages, and collapses together.

Our estimate of the customer benefits is based on our triangulated willingness to pay values for collapses given the reductions in sewer flooding and pollution incidents that would result. Our values for sewer flooding and pollution are based on PR19 stated preference studies; PR19 sewer flooding damage cost assessment, PR14 stated preference studies and value transfer (including PR14 and PR19 evidence from other UK water companies).



Our analysis of costs and benefits shows that this is cost beneficial. Further improvements would not be cost beneficial.

**Annualised costs and benefits: Sewer blockages – per blockage**



Customers told us that they consider financial incentives to be appropriate for this aspect of service. In focus groups customers allocated this to an under- and out-performance payment incentive. Customers support two way incentives for asset health on the grounds this will drive cost effective improvements and innovation for the future. In our balancing risk and reward research, customers confirmed this was an area where financial incentives should apply – albeit with a lower ranked priority than sewer collapses or sewer flooding.

We have not applied any deadbands, caps or collars to this measure.

Performance commitment		Sewer blockages				
Unit: Number	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Forecasted performance	7,800					
PCL		7,540	7,280	7,020	6,760	6,500
P10		8,542	8,282	8,022	7,762	7,502
P90		6,040	5,780	5,520	5,260	5,000

Incentive rates	£m/number
Underperformance rate	0.001561
Outperformance rate	0.001039

**Outcome summaries – Reliable wastewater service** continued

**Odour contacts from wastewater treatment works**

Sewage treatment is necessary to safely return wastewater to the environment. The treatment process can cause some unpleasant smells to surrounding houses and properties.

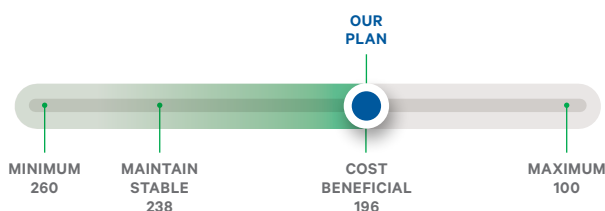
Minimising odour from wastewater treatment works continues to be a priority for our customers. Customer satisfaction with our wastewater service has slightly declined in recent years; customers cite unpleasant odours from wastewater treatments works as one of the drivers behind the decline in satisfaction.

We have invested in this area since 2015 – and have already met and exceeded our 2020 targets.

Our commitment for the period 2020-25 is to reduce the number of customer contacts about sewage odours from our wastewater treatment works from 238 to 196.

In making this commitment we have considered a range of scenarios from a reactive position to a maximum position. We do not propose to go beyond cost beneficial investment in this area as we do not consider it to be in customers’ interest to do so.

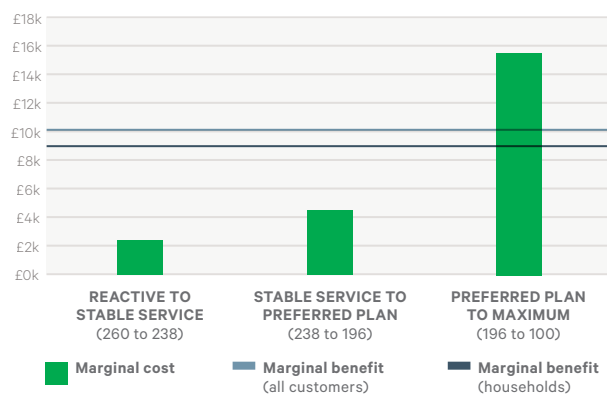
Our estimate of the benefits is based on our triangulated willingness to pay values for reducing properties affected by odour. These triangulated values are based on our PR19 stated preference studies; PR14 stated preference studies and value transfer (PR14 and PR19 evidence from other UK water companies).



Our analysis of costs and benefits shows that this is cost beneficial. Further improvements would not be cost beneficial.

**Annualised costs and benefits:**

Odour contacts from wastewater treatment works – per contact



Customers told us that they consider financial incentives to be appropriate for this aspect of service. In focus groups customers allocated this to an under- and out-performance payment incentive. Customers support two way incentives for asset health on the grounds this will drive cost effective improvements and innovation for the future. In our balancing risk and reward research, customers confirmed this was an area where financial incentives should apply.

We have not applied any deadbands, caps or collars to this measure.

Performance commitment	Odour contacts					
Unit: Number	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
<b>Forecasted performance</b>	238					
<b>PCL</b>		230	220	210	200	196
<b>P10</b>		288	278	268	258	254
<b>P90</b>		172	162	152	142	138

Incentive rates	£m/contact
<b>Underperformance rate</b>	0.008007
<b>Outperformance rate</b>	0.005111

Outcome summaries – Reliable wastewater service continued

**Treatment works compliance (numeric)**

Effective sewage treatment to protect the water environment is customers’ second highest priority. This has increased since PR14, showing how important a reliable wastewater service is to our customers given its impact on the region.

Since 2015 we have continued to improve our performance in this area. We have met the challenge in our numeric consents at wastewater treatment works agreed in 2015 and ensured higher levels of compliance with the standards.

This measure reflects the Environment Agency’s Environmental Performance Assessment (EPA) methodology. It covers wastewater treatments works that are subject to numeric consents as well as surface water treatment works with discharge permits.

Our commitment is to improve performance from 98.8% compliance to 100% by 2019/20 and then keep our compliance at this level over the period 2020-25 for numeric permit compliance including water treatment works discharge compliance. We believe we offer excellent service in this area and this will ensure we continue to offer first-rate service in this area.

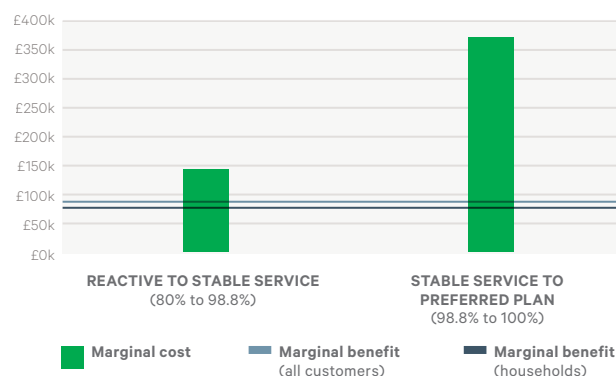
We have considered scenarios around this performance commitment: from a reactive position through to stable service through to full compliance.

Our estimate of the benefits is based on our triangulated willingness to pay values for protecting and improving river water quality. These triangulated values are based on our PR19 stated preference; PR14 stated preference studies and value transfer (PR14 and PR19 evidence from other UK water companies).



Our analysis of costs and benefits shows 100% compliance is not cost beneficial. However, we propose to go beyond cost beneficial investment in this area to meet our statutory obligations. We have tested this with our customers and 88% support expenditure to meet the obligations all of the time.

**Annualised costs and benefits:**  
Treatment works compliance (numeric) – per %



Customers told us that they consider financial incentives to be appropriate for this aspect of service. In focus groups customers allocated this to an under-performance payment incentive only; they did not consider any financial incentive to improve from the current position to 100% compliance to be appropriate. In our balancing risk and reward research, customers confirmed this was an area where financial incentives should apply – the fourth highest ranked aspect of asset health for financial incentives.

Our customers consider our performance to be good in this area, and do not want us to invest disproportionate expenditures in this area – which may be the case in trying to achieve 100% compliance at all times. As such, we have applied a deadband to this, set at our estimate of upper quartile performance for the industry.

Performance commitment	Numeric compliance					
Unit: %	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Forecasted performance	100.0					
PCL		100.0	100.0	100.0	100.0	100.0
P10		96.0	96.0	96.0	96.0	96.0
Underperformance deadband		99.0	99.0	99.0	99.0	99.0

Incentive rates	£/%
Underperformance rate	0.186980

**Outcome summaries – Reliable wastewater service** continued

**Treatment works compliance (descriptive)**

Effective sewage treatment to protect the water environment is customers’ second highest priority. This has increased since PR14, showing how important a reliable wastewater service is to our customers given its impact on the region.

In our region we have disproportionately smaller sewage treatment works, many of which are not large enough to warrant full sampling facilities. When we tested our performance commitments with customers, they told us that ensuring these smaller sites meet their environmental obligations is important to them.

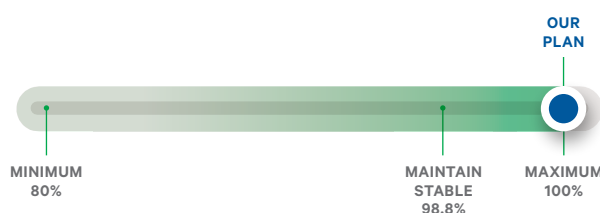
This performance commitment measures the percentage of wastewater treatment works which operate under ‘descriptive’ consent limits set by the Environment Agency (EA) which means that as long as the effluent looks clear and doesn’t appear to have a detrimental effect on the environment then it is suitable to be discharged.

Since 2015 we have continued to improve our performance in this area and have improved our compliance with the descriptive standards.

Our commitment is to improve performance from 98.8% compliance to 100% by 2019/20 and then keep our compliance at this level over the period 2020-25. We believe we offer excellent service in this area and this will ensure we continue to offer first-rate service in this area.

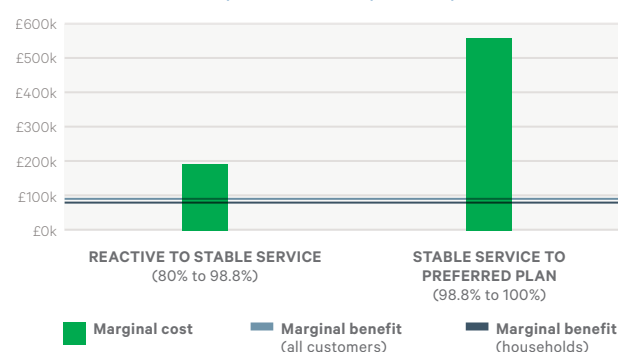
We have considered scenarios around this performance commitment: from a reactive position through to stable service through to full compliance.

Our estimate of the benefits is based on our triangulated willingness to pay values for protecting and improving river water quality. These triangulated values are based on our PR19 stated preference; PR14 stated preference studies and value transfer (PR14 and PR19 evidence from other UK water companies).



Our analysis of costs and benefits shows 100% compliance is not cost beneficial. However, we propose to meet our statutory obligations.

**Annualised costs and benefits:**  
Treatment works compliance (descriptive) – per %



Customers told us that they consider financial incentives to be appropriate for this aspect of service. In focus groups customers allocated this to an under-performance payment incentive only; they did not consider any financial incentive to improve from the current position to 100% compliance to be appropriate. In our balancing risk and reward research, customers confirmed this was an area where financial incentives should apply – customers ranked this as the fifth highest aspect of asset health for financial incentives.

Our customers consider our performance to be good in this area, and do not want us to have disproportionate expenditures in this area – which may be the case in trying to achieve 100% compliance at all times. As such, we have applied a deadband to this measure, set at our estimate of upper quartile performance for the industry.

Performance commitment	Descriptive compliance					
Unit: %	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
<b>Forecasted performance</b>	100.0					
<b>PCL</b>		100.0	100.0	100.0	100.0	100.0
<b>P10</b>		97.0	97.0	97.0	97.0	97.0
<b>Underperformance deadband</b>		99.0	99.0	99.0	99.0	99.0

Incentive rates	£/%
<b>Underperformance rate</b>	0.278328

**Outcome summaries – Reliable wastewater service** continued

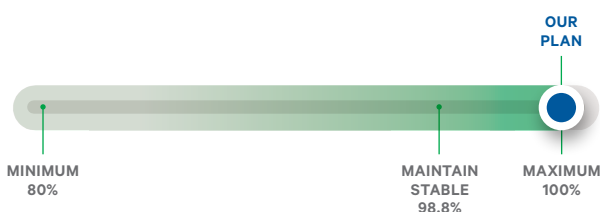
**Total wastewater treatment works compliance**

Effective sewage treatment to protect the water environment is customers’ second highest priority. This has increased since PR14, showing how important a reliable wastewater service is to our customers given its impact on the region.

Water companies treat sewage and return it clean and treated to the environment. Legal standards are set for treated sewage discharges and this is a measure of overall compliance with those standards.

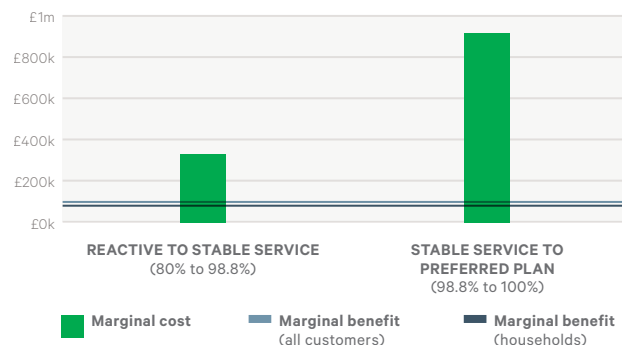
Our sewage treatment works are a mix of larger sites with full sampling – and are covered by numeric consent standards – and smaller sites covered by descriptive consents. Our customers tell us that a measure that combines all compliance together into one easy-to-understand measure would be welcome. We have continued to track total wastewater compliance for this reason.

Our analysis of costs and benefits are based on the costs and benefits of achieving numeric and descriptive compliance.



We have considered two scenarios from a reactive position to stable service against stable service to a maximum position. We propose to go beyond cost beneficial investment in this area to meet our statutory obligations.

**Annualised costs and benefits:**  
Total Wastewater Treatment works compliance – per %



To avoid any double counting with the other two wastewater compliance measures we have set this as a reputational measure. This has been tested and agreed with customers.

Performance commitment	Total wastewater treatment works compliance					
Unit: %	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Forecasted performance	100.0					
PCL		100.0	100.0	100.0	100.0	100.0

**Compliance with sludge standards**

We recognise it is important to continue to ensure compliance with the standards for sludge, in order to ensure we maximise the beneficial use of sludge.

Since 2015 we have invested to ensure we have met sludge standards, as well as increasing the beneficial use of sludge through increased renewable energy production and recycling to agriculture.

Our commitment for the period 2020-25 is to ensure performance is 100% over the period.

We have considered scenarios around this performance commitment: from a reactive position through to stable service through to full compliance.

Our estimate of the benefits is based on the value transfer literature.

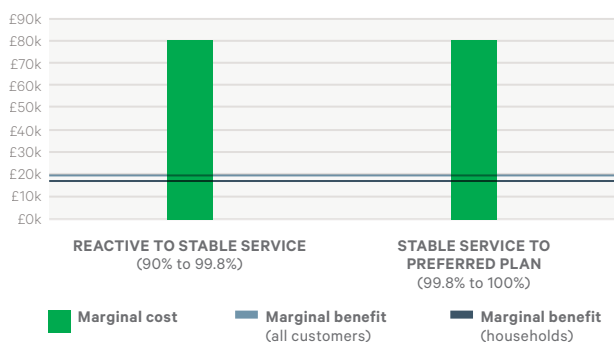


Our analysis of costs and benefits shows 100% compliance is not cost beneficial. However, we propose to meet our statutory obligations.

## Outcome summaries – Reliable wastewater service continued

### Annualised costs and benefits:

#### Compliance with sludge standards – per %



Customers told us that they consider financial incentives to be appropriate for this aspect of service. In focus groups customers allocated this to an under-performance payment incentive only; they did not consider any financial incentive to improve from the current position to 100% compliance to be appropriate. In our balancing risk and reward research, customers confirmed this was an area where financial incentives should apply – albeit they ranked this the lowest of all the asset health measures that need to be covered by financial incentives.

Our performance is good in this area, but to prevent disproportionate expenditures in this area we have applied a deadband to this measure.

Performance commitment	Sludge compliance					
Unit: %	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Forecasted performance	100.00					
PCL		100.00	100.00	100.00	100.00	100.00
P10		98.80	98.80	98.80	98.80	98.80
Underperformance deadband		99.94	99.94	99.94	99.94	99.94

Incentive rates	£m/number contacts/1,000 pop
Underperformance rate	0.040000

## Available and sufficient resources

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



Water is precious. Our customers understand how valuable water is and want us to do more to protect resources and help them to use water wisely.

Our aim is to continue to protect resources, minimise the risk of water restrictions in all but the most extreme of

circumstances, whilst ensuring that supplies are efficiently managed and delivered. Leakage control and avoiding water restrictions continue to be in the top ten of our customers priorities.

Proposed performance commitments				
Available and sufficient resources	Customer priority	Incentive type	Forecast 2019/20 performance	2024/25 performance commitment level
<b>Water restrictions placed on customers</b> (number)	10. Avoid water resource restrictions	£+/-	0	0
<b>Leakage levels</b> (MI/d)	7. Leakage control	£+/-	117.8	100.2
<b>Per capita consumption</b> (litres/person/day)	16. Smart metering 17. Education on water saving and sewer usage	£+/-	137.2	128.7

£- Penalty only    £+/- Reward and penalty    Rep Reputational

We are confident we can deliver what we promise in this area. We are on track to deliver our FD14 performance commitment levels:

- We are on track to meet and exceed our targets on water restrictions, leakage and time to fix significant leaks.

### Our refreshed outcomes

As a result of listening to our customers and stakeholders we have been able to confirm that our refreshed outcomes best reflect the requirements of our customers, stakeholders and regulators. The results indicated strong support and validation of the outcomes and priorities. They were incredibly well received by customers, meaning that we can be confident the outcomes continue to reflect customers' preferences.

As we have developed our plans, customers have consistently told us that helping people use less water is a key consideration. This is core to ensuring households have affordable bills, as well as key to protecting valuable resources. This remains a high priority for our customers.

**The outcome 'available and sufficient resources' continues to align with our customers' priorities.**

### Our refreshed performance commitments

We have refreshed our performance commitments for this outcome.

We continue to measure and track the number of water restrictions. Ensuring our good track record in avoiding water restrictions through having sufficient water even in dry weather continues to be one of customers' priority.

We continue to include leakage reduction in this outcome. Our stakeholders and customers feel strongly that this is an important aspect of service.

In response to customer feedback we have moved per capita consumption (PCC) to this outcome, to sit alongside water restrictions and leakage. PCC was previously part of our Affordable Bills outcome – and whilst customers could see the logic of having it in that outcome, its absence from this outcome was considered a gap.

We have removed time to fix significant leaks given its overlap with our leakage performance commitment. Our customers do not think multiple leakage measures are required and strongly prefer that we focus on the volume of leakage as the key metric.

**Outcome summaries – Available and sufficient resources** continued

We have also removed our security of supply index performance commitment as this overlaps with measures introduced into our refreshed and updated Resilience outcome.

**Our targets and incentives**

Our commitments across the performance commitments in this outcome reflect what customers consider important, value for money and are realistic but challenging targets for the price control period. They also ensure we are consistent with regulatory requirements.

**Water restrictions**

Our conversations with customers show us that customers want to avoid water restrictions where possible. Water restrictions are currently very rare in the region and customers want us to be incentivised to maintain this position. A notable proportion of PR19 customer research has taken place during the 2018 heatwave, and has confirmed that customers have a strong preference to avoid these.

We are on track to deliver and exceed our 2015-2020 commitments around water restrictions.

Our commitment for the period 2020-25 is to maintain performance at the current maximum level achievable; i.e. zero water restrictions over the period.

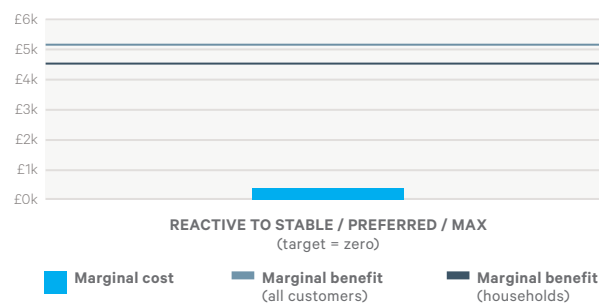
We have tested scenarios to understand the costs and benefits of maintaining zero restrictions over the period.

Our estimate of the benefits is based on our triangulated willingness to pay values for water restrictions. These triangulated values are based on our PR19 stated preference; PR19 GVA Research – Macroeconomic Assessment of Restrictions; PR14 stated preference studies and value transfer (including PR14 and PR19 evidence from other UK water companies).



Our analysis of costs and benefits shows that this is cost beneficial.

**Annualised costs and benefits:**  
Water restrictions – per % population



Customers told us that they consider financial incentives to be appropriate for this aspect of service. In focus groups customers allocated this to an under- and out-performance payment incentive. Customers support two way incentives for asset health on the grounds that this will drive cost effective improvements and innovation for the future. In our balancing risk and reward research, customers confirmed this was an area where financial incentives should apply.

We have not applied any deadbands, caps or collars to this measure.

Performance commitment	Water restrictions placed on customers					
Unit: Number	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
<b>Forecasted performance</b>	0					
<b>PCL</b>		0	0	0	0	0
<b>P10</b>		1	1	1	1	1
<b>P90</b>		0	0	0	0	0

Incentive rates	£/restriction
<b>Underperformance rate</b>	2.460322
<b>Outperformance rate</b>	2.548322



## Outcome summaries – Available and sufficient resources continued

### Leakage

Our conversations with customers show us that leakage is a very important issue to them. Customers want to see leakage reduced and see this as vital for customers buying in to reducing their own water usage.

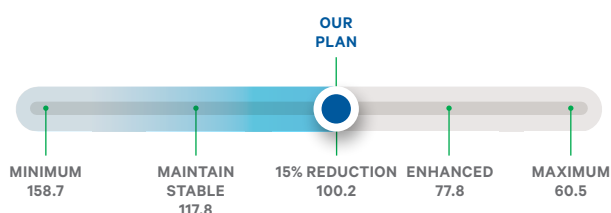
We are on track to meet our leakage targets for the period 2015-2020.

Our commitment for the period 2020-25 is to improve performance by 15% from 117.8 MI/d per year lost to 100.2 MI/d per year by 2025.

We are one of the better companies with respect to leakage, and this reduction will ensure we continue to offer excellent service in this area. This is an ambitious and stretching target to achieve.

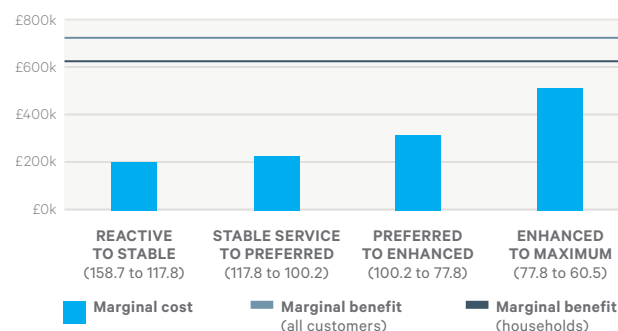
We have considered a range of scenarios from a reactive position to a maximum position.

Our estimate of the benefits is based on our triangulated willingness to pay values for reducing leakage. These triangulated values are based on our PR19 stated preference; PR14 stated preference studies and value transfer (including PR14 and PR19 evidence from other UK water companies).



Our analysis of costs and benefits shows that our plans are cost beneficial. Customers are concerned about affordability and too much focus on one measure – they want a balanced plan. We consider 15% to be closer to what we consider to be deliverable within the five-year period.

### Annualised costs and benefits: Leakage – per MI/d reduction



Customers told us that they consider financial incentives to be appropriate for this aspect of service. In focus groups customers allocated this to an under- and out-performance payment incentive. Customers support two way incentives for asset health on the grounds that this will drive cost effective improvements and innovation for the future. In our balancing risk and reward research, customers confirmed this was the third highest ranked area for applying financial incentives.

We have set enhanced rate caps and collars for this measure. To drive innovation, we have set the enhanced cap at zero; and our enhanced collar is set at worst performance in the industry. This ensures the enhanced rates provide a robust incentive for this important measure.

Performance commitment		Leakage					
Unit: MI/d		2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
<b>Forecasted performance</b>		117.8					
<b>PCL (MI/d)</b>			114.3	110.8	107.2	103.7	100.2
<b>P10</b>			122.1	118.6	115.1	111.5	108.0
<b>Enhanced underperformance threshold</b>			128.7	124.7	120.7	116.7	112.7
<b>Enhanced underperformance collar</b>			188.0	188.0	188.0	188.0	188.0
<b>P90</b>			106.4	103.6	100.7	97.8	95.0
<b>Enhanced outperformance threshold</b>			114.3	110.8	107.2	103.7	100.2
<b>Enhanced outperformance payment cap</b>			0.0	0.0	0.0	0.0	0.0
Unit: % reduction		2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
<b>Forecasted performance</b>		0					
<b>PCL</b>			3	6	9	12	15
<b>P10</b>			-4	-1	2	5	8
<b>Enhanced underperformance threshold</b>			-9	-6	-2	1	4
<b>Enhanced underperformance collar</b>			-60	-60	-60	-60	-60
<b>P90</b>			10	12	15	17	19
<b>Enhanced outperformance threshold</b>			3	6	9	12	15

## Outcome summaries – Available and sufficient resources continued

Performance commitment	Leakage					
Unit: Ml/d	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Enhanced outperformance payment cap		100	100	100	100	100

Incentive rates	£m/Ml/d	£m/% reduction
Underperformance rate	0.615260	0.724777
Enhanced underperformance rate	1.230520	1.449553
Outperformance rate	N/A	N/A
Enhanced outperformance rate	0.726580	0.855911

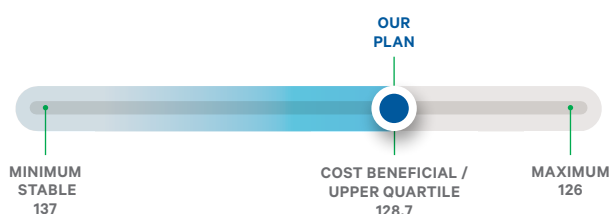
### Per capita consumption

Our customers tell us they want us to help all customers use less water to protect valuable resources and support household budgeting.

Our commitment for the period 2020-25 is to improve performance from 137.2 l/h/d to 128.7 l/h/d by 2025. This is an ambitious and stretching target to achieve and would take us to upper quartile performance.

We have considered a range of scenarios from a minimum/stable position to the maximum possible position.

Our estimate of the benefits is based on our triangulated willingness to pay values for per capita consumption and water efficiency. These triangulated values are based on our PR19 stated preference; PR14 stated preference studies and value transfer (PR14 and PR19 evidence from other UK water companies).

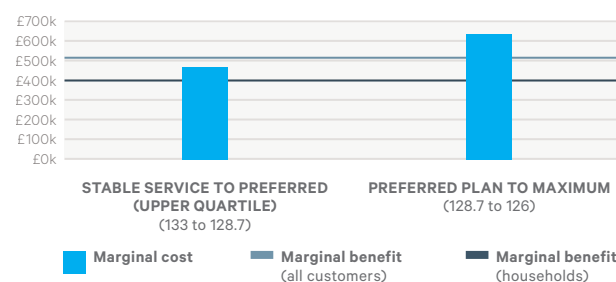


Our analysis of costs and benefits shows that this is cost beneficial. Further improvements would not be cost beneficial.

We do not propose to go beyond cost beneficial investment in this area as we do not consider it to be in customers' interest to do so.

### Annualised costs and benefits:

#### Per capita consumption – per l/h/d



Customers told us that they consider financial incentives to be appropriate for this aspect of service. In focus groups customers allocated this to an under- and out-performance payment incentive. Customers support two way incentives for asset health on the grounds that this will drive cost effective improvements and innovation for the future. In our balancing risk and reward research, customers confirmed this was an area where financial incentives should apply.

We have not applied any deadbands, caps or collars to this measure.

Performance commitment	Per capita consumption					
Unit: l/h/d	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Forecasted performance	137.2					
PCL		135.7	134.1	132.2	130.4	128.7
P10		144.0	142.0	141.0	139.0	137.0
P90		127.0	125.4	123.5	121.7	120.0

Incentive rates	£m/l/h/d
Underperformance rate	0.278901
Outperformance rate	0.255945

## 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.



Due to the nature of our peninsula many of our assets are located in places that bear the brunt of extreme weather events. Storms can lash our coastal communities particularly in winter and impact on our infrastructure – for example the collapse of Torquay sea wall under heavy seas in early 2013 resulted in a section of wastewater pipes becoming exposed and in need of repair.

We consult and work with other Risk Management Authorities (RMAs) as defined under the Floods and Water Management Act, the Environment Agency and catchment stakeholder groups (such as the Rivers Trust) to ensure resilience measures are in place to protect essential services.

Our customers are concerned about the impact of changing weather patterns – customers have told us they are concerned in particular with the increased risk of flooding this may result in.

Whilst customers do not want or expect us to protect against all risks and all eventualities however unlikely, they do want us to prepare for reasonably foreseeable events. And they want us to have a good capability to respond when events do occur – so services are returned to normal as quickly as they can and those in vulnerable circumstances are particularly protected.

The recent Freeze and Thaw event in March 2018 has given us a lot of insight into our processes and ways of working in extreme conditions, and we have refreshed this outcome so our stakeholders and customers can be confident that we have a robust, resilient service in the round.

Proposed performance commitments				
Resilience	Customer priority	Incentive type	Forecast 2019/20 performance	2024/25 performance commitment level
<b>Drought risk</b> (% of population that would experience severe supply restrictions in a 1 in 200 year drought)	6. Water supply resilience in extreme conditions	Rep	0	0
<b>Flooding risk</b> (% of population at risk of sewer flooding in 1 in 50 year storm)	4. Sewer resilience in extreme conditions	Rep	31.7	28.3
<b>Resilience in the round – waste</b> (number)	4. Sewer resilience in extreme conditions 3. Prevent pollution	£+/-	N/A	100
<b>Resilience in the round – water</b> (number)	6. Water supply resilience in extreme conditions 8. Avoid supply interruptions	£+/-	740	540

£- Penalty only   £+/- Reward and penalty   Rep Reputational

We are confident we can deliver what we promise in this area. We have met our FD14 performance commitment levels, and our experience of the Freeze and Thaw event has shown we have the right processes and people in place to deliver resilient services.

### Our refreshed outcome

Our outcomes were developed at PR14 and were based on consultation with our customers, regulators, stakeholders and WFCP.

For PR19 we have reviewed and refreshed these outcomes with our customers and stakeholders and as a result we have revised the title of our outcome to 'resilience' to recognise that resilience is much broader than just extreme conditions.

**Outcome summaries – Resilience** continued

As a result of listening to our customers and stakeholders we have been able to confirm that our refreshed outcomes best reflect the requirements of our customers, stakeholders and regulators. The results indicated strong support and validation of the outcomes and priorities. They were incredibly well received by customers, meaning that we can be confident the outcomes continue to reflect customers’ preferences.

**The revised outcome ‘resilience’ aligns with our customers’ priorities.**

**Our refreshed performance commitments**

We have refreshed our performance commitments in this area to cover more aspects of service and more resilience-type events.

We have replaced our PR14 measure around water interruptions: **Supplies interrupted due to flooding of our sites** with four measures which give a more balanced and rounded assessment of resilience.

We have a measure of the number of supplies interrupted for more than 12 hours. This can be due to flooding, or other events such as third-party damage, freeze and thaw conditions, catastrophic asset failure, lightning storms, etc. This measure now captures all hazards that can impact on water supplies, and by including a duration threshold, gives a strong incentive to respond and recover services quickly. This performance commitment is called **Resilience in the round water**.

We have also introduced the measure **Resilience in the round waste**. This is a measure of the number of resilience action plans we have in place – ensuring our sites are resilient to hazards, but can also respond and recover quickly.

We have introduced two resilience measures proposed by Ofwat: drought risk and flooding risk. Our customers support these measures, especially the flooding risk measure.

We have tested these measures with customers. They support the changes we have made to this outcome and associated performance commitments.

**Our targets and incentives**

Our commitments across the performance commitments in this outcome reflect what customers consider important, value for money and are realistic but challenging targets for the price control period.

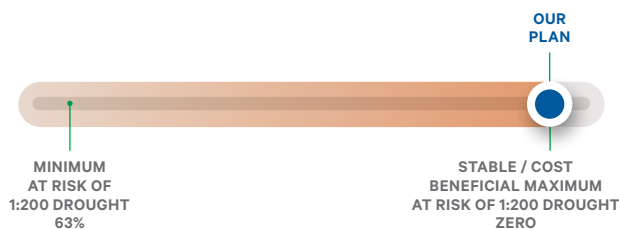
**Drought risk**

Our conversations with customers show us that customers want to avoid droughts along with the associated service and

environmental impacts. Droughts are currently very rare in the region.

Our commitment for the period 2020-25 is to maintain performance at the current level: zero customers at risk of severe water restrictions in the event of a 1 in 200 year drought.

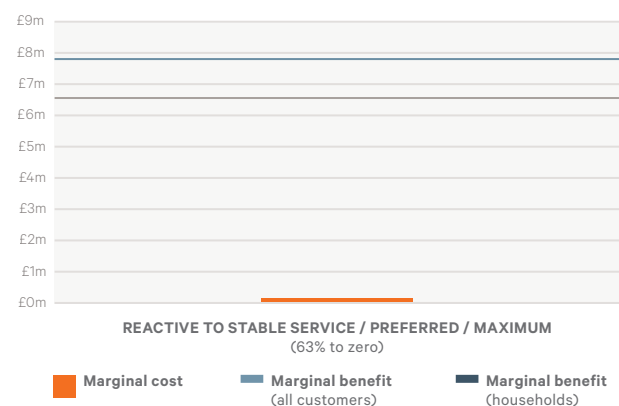
We have considered reactive and maintain scenarios for this measure.



Our analysis of costs and benefits shows that this is cost beneficial. Customers tell us that improving further – and lowering the risk even further (e.g. to zero at risk at a 1 in 250 or 300 year drought) - is not required.

Our estimate of the benefits is based on our triangulated willingness to pay values for preventing severe water restrictions. These triangulated values are based on our PR19 stated preference studies; PR14 stated preference studies and value transfer (PR14 and PR19 evidence from other UK water companies).

**Annualised costs and benefits: Drought risk – per % population**



Customers told us that they do not consider financial incentives to be appropriate for this aspect of service. In focus groups customers typically allocated this to a reputational measure on the basis that performance is excellent here and no further incentives are required.

Performance commitment	Drought risk					
Unit: %	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Forecasted performance	0					
PCL		0	0	0	0	0

Outcome summaries – Resilience continued

**Flooding risk**

Our conversations with customers show us that customers see the importance of managing flood risk; with changing weather patterns they see this as an increasing priority.

Our commitment for the period 2020-25 is to maintain performance at the current level of risk (28.3%) through to 2025, whilst we continue to build our capability to understand the catchments that are at risk of flooding in a 1 in 50 year storm.

We have considered two scenarios including a stable (preferred) position of no change in risk from the preferred plan to the enhanced position.

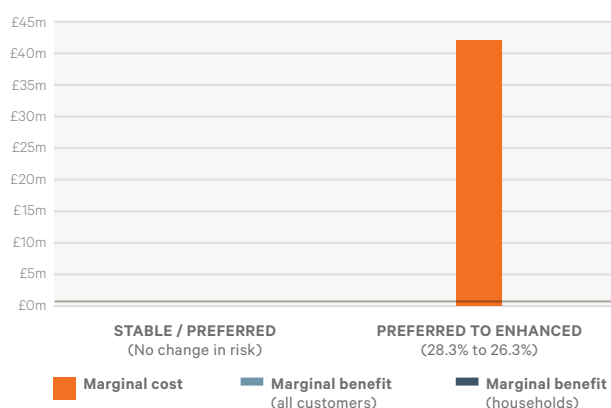
Our estimate of the benefits is based on our triangulated willingness to pay values for preventing sewer flooding. These triangulated values are based on our PR19 stated preference studies; PR19 Sewer Flooding Damage Cost Assessment; PR14 stated preference studies and value transfer (PR14 and PR19 evidence from other UK water companies).



Our analysis of costs and benefits shows that investment to reduce flooding risk is highly cost beneficial. However, without the right capability in place to understand where the flooding risk is highest we could spend customers' money and not deliver much value. We are therefore planning to build our capability in this five-year period, and will consider what cost beneficial investment needs to be undertaken in the next five-year period. In the interim we will continue to address sewer flooding for our customers – through our stretching internal sewer flooding and external sewer flooding performance commitments.

**Annualised costs and benefits:**

**Flooding risk – per %**



To avoid overlap with other sewer flooding measures – and recognising the need to build our capability in this area – this is a reputational measure.

Performance commitment	Flooding risk					
Unit: %	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Forecasted performance	31.7					
PCL		31.0	30.3	29.7	29.0	28.3

**Resilience in the round – waste**

The climate and topography of the South West region combine to make many catchments at risk of fluvial flooding, coastal flooding and/or surface water flooding. The risk of extreme weather is also increasing. Many of the rivers and much of the coastline is sensitive environmentally and economically due to the high levels of tourism which is vital to the regional economy.

Resilience of our wastewater treatment works is based around our ability to protect those sites from flooding and/or how quickly we can recover treatment processes if there are extreme weather events.

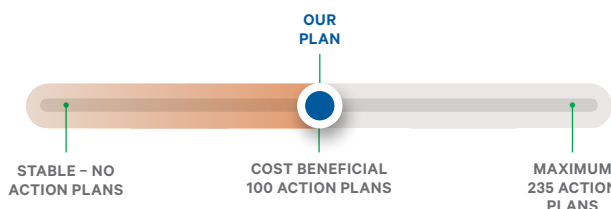
This performance commitment is the number of resilience action plans put in place for wastewater treatment works. Any plan will be deployed if the site that it covers experiences fluvial, coastal or surface water flooding. Our conversations with customers show us that customers believe a resilient wastewater service is important.

The priority of wastewater services has risen in recent years.

Our commitment for the period 2020-25 is to improve resilience performance through developing 100 wastewater action plans by 2025.

We have considered three scenarios – stable/do nothing, our preferred plan and an enhanced scenario.

Our estimate of the benefits is based on our triangulated willingness to pay values for preventing pollution to watercourses. These triangulated values are based on our PR19 stated preference and revealed preference studies; PR14 stated preference studies and value transfer (PR14 and PR19 evidence from other UK water companies).



**Outcome summaries – Resilience** continued

We will develop resilience action plans for wastewater treatment works, to be deployed if the site experiences flooding. These plans will be developed alongside our Drainage and Wastewater Management plans (DWMP). We will consult with other Risk Management Authorities (RMAs), the Environment Agency and catchment stakeholder groups to develop the plans. These action plans will be made available to wider stakeholders through the DWMP process.

These action plans will improve the response and recovery of each wastewater site following any flooding.

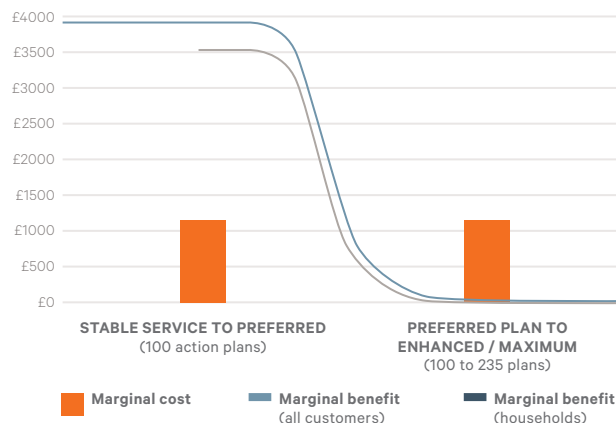
The action plans will identify the right stock of equipment to store and deploy rapidly following any flooding; and will ensure we can bring the site online quickly, through rapid replacement of mechanical and electrical equipment and restarting the biological processes.

The plans will apply to key assets. Key assets are those most at risk of flooding according to the Environment Agency flood risk maps. These are sites within EA 1:1000 extreme flood outline as published by the EA. We have already discussed and agreed sites with the EA.

The plans will include a continual learning / updating process. We will review and update plans following any flooding event or when new information may become available from say the EA or other RMA partners.

Our plans are cost beneficial. We do not propose to go beyond the preferred level of investment in this area and develop action plans for works with a lower risk as we do not consider it to be in customers’ interest to do so.

**Annualised costs and benefits:**  
Resilience in the round: waste – per action plan



Customers told us that they consider financial incentives to be appropriate for reducing pollution and protecting watercourses. We have set a financial incentive for this measure.

We have not applied any deadbands, caps or collars to this measure.

Performance commitment	Resilience in the round – waste					
Unit: Number	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
<b>Forecasted performance</b>	N/A					
<b>PCL</b>		20	40	60	80	100
<b>P10</b>		10	20	30	40	50
<b>P90</b>		110	120	130	140	150

Incentive rates	£m/number
<b>Underperformance rate</b>	0.003335
<b>Outperformance rate</b>	0.001956

Outcome summaries – Resilience continued

Resilience in the round – water

Occasionally supplies of tap water can be disrupted. Customers have told us that they consider our performance around supply interruptions to be robust. However, long, unplanned, repeated occurrences are deemed to be unacceptable. Moreover, customers tell us that occasions where businesses/schools have to close for the day and thus the knock-on effect to employees/parents and business revenue are unacceptable, particularly if no notice is given and they are unable to make preparations to overcome it.

This measures the number of customers (properties) who experience continuous unplanned loss of mains water supply to their property for durations greater than 12 hours. This can be due to flooding, or other events such as third-party damage, freeze and thaw conditions, catastrophic asset failure, lightning storms, etc. This measure captures all hazards that can impact on water supplies, and by including a duration threshold, gives a strong incentive to respond and recover services quickly.

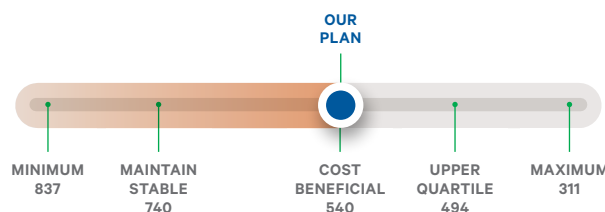
Customers recognise that this is also a useful measure of resilience of our network and response. Our research shows that both are key considerations and therefore this measure will drive improvements in both that has immediate and long term benefits to customers.

Our commitment for the period 2020-25 is to reduce the number of properties affected by interruptions greater than 12 hours from 740 to 540. This is an ambitious and stretching target to achieve.

We have considered a range of scenarios from a reactive position to a maximum position.

Our estimate of the benefits is based on our triangulated willingness to pay values for supply interruptions. These triangulated values are based on our PR19 stated preference and revealed preference studies; PR14 stated preference studies and value transfer (PR14 and PR19 evidence from other UK water companies).

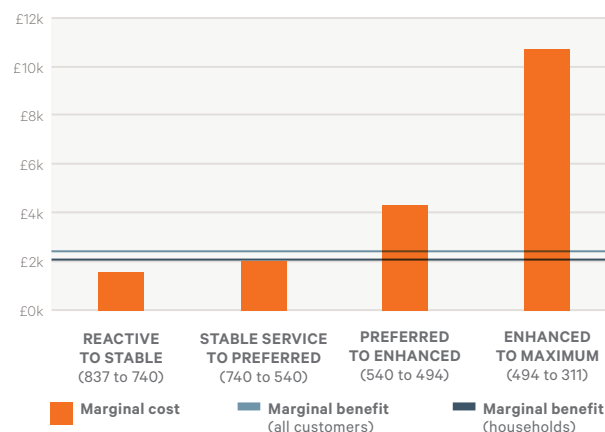
Our analysis of costs and benefits shows that this level of performance is cost beneficial. Further improvements would not be cost beneficial.



We do not propose to go beyond cost beneficial investment in this area as we do not consider it to be in customers’ interest to do so.

Annualised costs and benefits:

Resilience in the round: water – per property affected



Customers told us that they consider financial incentives to be appropriate for supply interruptions. In focus groups customers allocated this to an under- and out-performance payment incentive. Customers support two way incentives on the grounds that this will drive cost effective improvements and innovation for the future. In our balancing risk and reward research, customers confirmed supply interruptions was an area where financial incentives should apply.

We have not applied any deadbands, caps or collars to this measure.

Performance commitment	Resilience in the round – water					
Unit: Properties	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
<b>Forecasted performance</b>	740					
<b>PCL</b>		767	673	641	552	540
<b>P10</b>		1,150	1,009	961	827	809
<b>P90</b>		422	370	353	303	297

Incentive rates	£m/props
<b>Underperformance rate</b>	0.001453
<b>Outperformance rate</b>	0.001215

## Responsive to customers

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



We know our customers value a responsive service. When something goes wrong they expect to be able to contact us in the way that they want and for us to resolve their issues first time.

Our aim is to provide customers with the highest standards of service, ensuring that their requests, problems and queries are dealt with locally, both effectively and efficiently, and that the service they receive represents value for money.

Proposed performance commitments				
Responsive to customers	Customer priority	Incentive type	Forecast 2019/20 performance	2024/25 performance commitment level
<b>C-MeX</b> (tbc)	9. Responsiveness to service problems 11. Customer contact excellence	£+/-	N/A	Industry leading
<b>Operational contact resolved first time – water</b> (%)	9. Responsiveness to service problems 11. Customer contact excellence	£+/-	96.6%	95.0%
<b>Operational contact resolved first time – waste</b> (%)	9. Responsiveness to service problems 11. Customer contact excellence	£+/-	95.5%	95.0%
<b>D-MeX</b> (tbc)	9. Responsiveness to service problems 11. Customer contact excellence	£+/-	N/A	Industry leading
<b>Customer overall satisfaction</b> (%)	9. Responsiveness to service problems 11. Customer contact excellence	Rep	91%	93%
<b>Customer satisfaction with value for money</b> (%)	9. Responsiveness to service problems 11. Customer contact excellence	Rep	65%	75%
<b>Increase number of customer details checked every 2 years</b> (%)	9. Responsiveness to service problems 11. Customer contact excellence	£-	72%	100%
<b>Number of customers on the PSR register</b> (number/10,000 connections)	9. Responsiveness to service problems 11. Customer contact excellence	Rep	215.3	677.0
<b>Overall satisfaction of services received on the PSR</b> (%)	9. Responsiveness to service problems 11. Customer contact excellence	Rep	68%	93%

£- Penalty only    £+/- Reward and penalty    Rep Reputational

We are confident we can deliver what we promise in this area. We are on track to deliver our FD14 performance commitment levels:

- We have **outperformed our targets** around operational contacts resolved first time – water; and are close to our target for operational contacts resolved first time – waste
- We are on track to **meet our targets** around customer overall satisfaction



**Outcome summaries – Responsive to customers** continued

- Our customers’ assessment of value for money is improving and close to target
- We have delivered considerable improvements under the Service Incentive Mechanism (SIM).

**Our refreshed outcomes**

We have kept this outcome from PR14 without any change.

Our customers and stakeholders value a responsive service. Customers accept that things can go wrong from time to time; however, when something goes wrong they expect a tailored customer service that meets their needs.

**The outcome ‘responsive to customers’ continues to align with our customers’ priorities.**

**Our refreshed performance commitments**

We have refreshed our performance commitments for this outcome.

We engaged customers on the right performance measures for this outcome. Our customers told us that it is important that we have a tailored customer service that meets the needs of all customers; we deal with issues effectively and resolve them first time; we promote and maintain our Priority Services Register (PSR) so the right people are supported; and we provide high quality additional services to those customers on the PSR.

We have nine performance commitments to support these customers’ views:

- Operational contacts resolved first time – water
- Operational contacts resolved first time – waste
- Number of customers on the PSR register
- Increase number of PSR customer details checked every 2 years
- Overall satisfaction of services received on the PSR
- Customer overall satisfaction
- Customer satisfaction with value for money
- C-MeX and D-MeX

We have removed the SIM as this is no longer a regulatory measure, and has been replaced with C-MeX and D-MeX.

**Our targets and incentives**

Our commitments across the performance commitments in this outcome reflect what customers consider important, value for money and are realistic but challenging targets for the price control period.

**Operational contacts resolved first time – water**

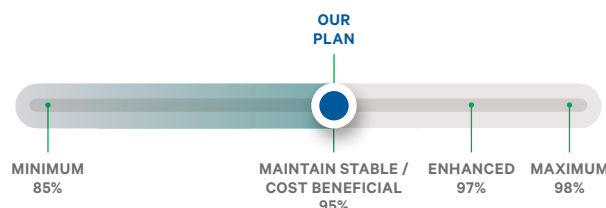
Customers tell us that receiving a fast, effective service to service problems is one of their top ten priorities. Customers also tell us that they want issues dealt with efficiently and first time.

Since 2015 we have invested in this area, and we are meeting our targets for 2020 by resolving contacts first time 95% of the time.

Our commitment for the period 2020-25 is to continue to resolve operational contacts for water issues first time 95% of the time.

We have considered a range of scenarios from a reactive position to a maximum position.

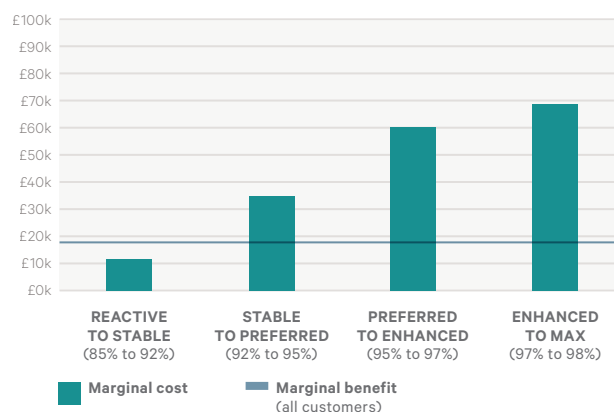
Our estimate of the benefits is based on our triangulated willingness to pay values for reducing customer contacts. These triangulated values are based on our PR19 stated preference studies; PR14 stated preference studies and value transfer (PR14 and PR19 evidence from other UK water companies). The values are household valuations only.



Our analysis of costs and benefits shows that it is cost beneficial to maintain service.

**Annualised costs and benefits:**

**Operational contacts resolved first time waste – per %**



Customers told us that they consider financial incentives to be appropriate for this aspect of service. Customers allocated this to an under- and out-performance payment incentive as this would drive innovation for the future. In our balancing risk and reward research, customers confirmed this is an aspect of service where financial incentives should apply.

We have not applied any deadbands, caps or collars to this measure.

Outcome summaries – Responsive to customers continued

Performance commitment	Operational contacts resolved first time (water)					
Unit: %	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Forecasted performance	96.6					
PCL		95.0	95.0	95.0	95.0	95.0
P10		89.0	89.0	89.0	89.0	89.0
P90		98.0	98.0	98.0	98.0	98.0

Incentive rates	£m/%
Underperformance rate	0.039882
Outperformance rate	0.025150

**Operational contacts resolved first time – waste**

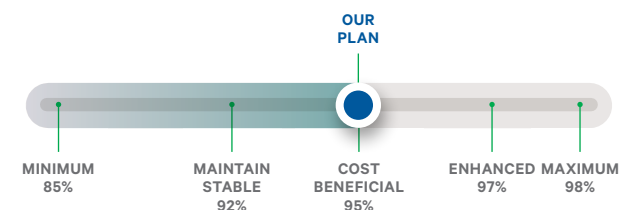
Customers tell us that receiving a fast, effective service to service problems is one of their top ten priorities. Customers also tell us that they want issues dealt with efficiently and first time.

Since 2015 we have invested in this area and we are close to our target of resolving contacts first time 95% of the time by 2020.

Our commitment for the period 2020-25 is to improve to resolve operational contacts for wastewater issues first time 95% of the time.

We have considered a range of scenarios from a reactive position to a maximum position.

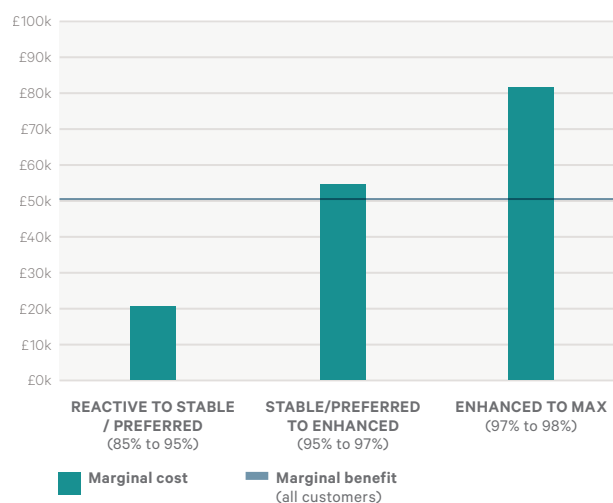
Our estimate of the benefits is based on our triangulated willingness to pay values for reducing customer contacts. These triangulated values are based on our PR19 stated preference studies; PR14 stated preference studies and value transfer (PR14 and PR19 evidence from other UK water companies). The values are household valuations only.



Our analysis of costs and benefits shows that it is slightly non cost beneficial to improve service to 95% first time resolution. It is cost beneficial to improve operational contacts resolved

first time as a whole across our water and wastewater operations, and in our acceptability testing research we tested this with customers and it was found to be acceptable to 82% of customers. We also think this is the right thing to do.

**Annualised costs and benefits:**  
Operational contacts resolved first time water – per %



Customers told us that they consider financial incentives to be appropriate for this aspect of service. Customers allocated this to an under- and out-performance payment incentive as this would drive innovation for the future. In our balancing risk and reward research, customers confirmed this is an aspect of service where financial incentives should apply.

We have not applied any deadbands, caps or collars to this measure.

## Outcome summaries – Responsive to customers continued

Performance commitment	Operational contacts resolved first time (wastewater)					
Unit: %	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
<b>Forecasted performance</b>	95.5					
<b>PCL</b>		95.0	95.0	95.0	95.0	95.0
<b>P10</b>		84.0	84.0	84.0	84.0	84.0
<b>P90</b>		98.0	98.0	98.0	98.0	98.0

Incentive rates	£m/%
<b>Underperformance rate</b>	0.017321
<b>Outperformance rate</b>	0.008898

### Number of customers on the PSR register

Our engagement shows us that around one-third of our customers consider their household to include at least one person with a disability or long term illness which can affect their daily life. These households may need to be on our Priority Services Register.

There is limited awareness of the Priority Services Register and the general view is that it should be better promoted and made more widespread to those that need it; that there are appropriate checks in place to make sure those that are on it should be; and the information we hold is correct to ensure they receive the right level of support and service.

This performance commitment is the number of customers on the Priority Services Register.

Our commitment is to increase the number of customers on the PSR to 69,000. This is 677 expressed as a number per 10,000 connections.

As well as being the right thing to do, we believe it is cost beneficial to provide PSR services to an increased number of

households. If households are on the PSR they have reduced impacts from supply interruptions as well as the benefit of receiving other services. Our triangulation method shows that even with modest assumptions about the benefits of putting vulnerable customers on the PSR the benefits are quite significant.

We have tested our plans around the PSR in a number of engagement research projects. In our acceptability testing 83% of customers said they found our proposals to improve the awareness of the PSR and overall support given to customers through the PSR to be acceptable and affordable.

This is a reputational incentive to avoid double counting, as financial incentives are covered in the C-MeX performance commitment. Moreover, our customers have told us that they do not consider financial incentives to be appropriate for this aspect of service as it creates the wrong incentives – they are less worried about the absolute numbers of households on the PSR, but more concerned that we have the right households on the PSR.

Performance commitment	Number of customers on the Priority Services Register					
Unit: Number/10,000 connections	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
<b>Forecasted performance</b>	215.3					
<b>PCL</b>		250.0	300.0	350.0	500.0	677.0

Outcome summaries – Responsive to customers continued

**Increase number of PSR customer details checked every 2 years**

Our engagement shows us that around one-third of our customers consider their household to include at least one person with a disability or long term illness which can affect their daily life. These households may need to be on our Priority Services Register.

There is limited awareness of the Priority Services Register and the general view is that it should be better promoted and made more widespread to those that need it; that there are appropriate checks in place to make sure those that are on it should be; and the information we hold is correct to ensure they receive the right level of support and service.

This performance commitment is the number of customers on the Priority Services Register whose details are checked every two years.

Our target for 2020 is that we will have checked 72% of PSR households' details in the preceding two years. Our commitment for the period 2020-25 is to increase this to 100%.

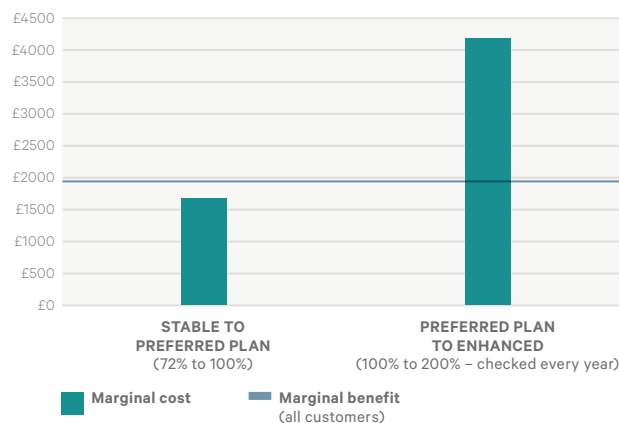
We have considered a range of scenarios from maintaining our performance at 72% checked every 2 years to checking all details every year (i.e. 200% in 2 years).



Our estimate of the benefits is based on our triangulated willingness to pay values for reducing and mitigating the

impact of supply interruptions on these properties. These triangulated values are based on our PR19 stated preference and revealed preference studies; PR14 stated preference studies and value transfer (PR14 and PR19 evidence from other UK water companies). The values are household valuations only.

**Annualised costs and benefits: PSR details checked every 2 years – per %**



Our analysis of costs and benefits shows that our plans are cost beneficial. Going further to check details every year would increase costs and would not be cost beneficial.

Customers told us that they consider financial incentives to be appropriate for this aspect of service. Customers allocated this to an under- and out-performance payment incentive as this would ensure we offer the right support to those that need it. In our balancing risk and reward research, customers confirmed financial incentives should apply to this measure.

We have not applied any deadbands, caps or collars to this measure.

Performance commitment	PSR customer details checked every 2 years					
Unit: %	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Forecasted performance	72					
PCL		100	100	100	100	100
P10		30	30	30	30	30

Incentive rates	£m/%
Underperformance rate	0.001939

## Outcome summaries – Responsive to customers continued

### Overall satisfaction of services received on the PSR

Our engagement shows us that around one-third of our customers consider their household to include at least one person with a disability or long term illness which can affect their daily life. These households may need to be on our Priority Services Register.

There is limited awareness of the Priority Services Register and the general view is that it should be better promoted and made more widespread to those that need it; that there are appropriate checks in place to make sure those that are on it should be; and the information we hold is correct to ensure they receive the right level of support and service.

We want all our customers to be satisfied with the service we provide – and for customers on our PSR to be satisfied with the additional services they provide. Our target for 2020 is 93% of households on the PSR are satisfied with the services they have received. This will ensure we continue to ensure these customers are protected and well served.

This is the right thing to do. We have tested our plans around the PSR in a number of engagement research projects. In our acceptability testing, 83% of customers said they found our proposals to improve the awareness of the PSR and overall support given to customers through the PSR to be acceptable and affordable.

This is a reputational incentive to avoid double counting, as financial incentives are covered in the C-MeX performance commitment.

Performance commitment	Overall satisfaction of services received on the PSR					
Unit: %	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Forecasted performance	68					
PCL		73	78	83	88	93

### Customer overall satisfaction

Our customers tell us that their perception of our business – and satisfaction with the services we provide – is driven by a number of factors, such as:

- Industry leading performance
- Efficient bills
- Providing the right support to vulnerable customers
- Supporting communities and the environment
- Sharing profits and success, and
- Being responsible, open and transparent.

We recognise that we need to meet customers' needs in all of these areas to provide a service they can trust and be satisfied with.

Our commitment for the period 2020-25 is to continue to meet these requirements, which will improve customer overall satisfaction from 91% to 93%.

We will ensure we meet this by delivering our business plan commitments, by empowering customers and sharing outperformance through WaterShare+, and by continuing to improve our ways of working to ensure customers are informed, engaged and active participants in the business.

This is a reputational incentive to avoid double counting, as financial incentives are covered in the C-MeX performance commitment.

Performance commitment	Customer overall satisfaction					
Unit: %	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Forecasted performance	91					
PCL		91	91	92	92	93

## Outcome summaries – Responsive to customers continued

### Customer satisfaction with value for money

Our customers tell us that their assessment of value for money is based on the level of the bill and the service we provide. They are not interested in solely having a low bill, but want industry leading service, delivered by a responsible and ethical company.

Our commitment for the period 2020-25 is to improve customer satisfaction with value for money from 65% to 75%.

We will deliver this by addressing affordability, meeting our business plan commitments, sharing outperformance and keeping bills as low as possible, and continuing to be a responsible company.

This is a reputational incentive to avoid double counting, as financial incentives are covered in the C-MeX performance commitment.

Performance commitment	Customer satisfaction with value for money					
Unit: %	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Forecasted performance	65					
PCL		70	71	73	74	75

### C-MeX

Customers tell us that receiving a fast, effective service to service problems is one of their top ten priorities. Customers also tell us that they want issues dealt with efficiently and first time. This is important in building trust and confidence with customers.

The customer measure of experience (C-MeX) is a mechanism introduced by Ofwat to incentivise water companies to provide an excellent customer experience for residential customers, across both the retail and wholesale parts of the value chain. We support Ofwat's introduction of C-MeX to continue to drive improvements.

Whilst the final details of this measure have not been finalised, it is our commitment to ensure we rank highly and are one of the best performers in this performance commitment.

This is a financial incentive, which will be set by Ofwat. In focus groups customers told us that they consider financial incentives to be appropriate for this aspect of service. And in our balancing risk and reward research, customers confirmed this is an aspect of service where financial incentives should apply.

### D-MeX

The developer services measure of experience (D-MeX) is a mechanism to incentivise water companies to provide an excellent customer experience for developer services (new connections) customers. These customers include small and large property developers, self-lay providers (SLPs), and those with new appointments and variations (NAVs).

We support Ofwat's introduction of D-MeX to continue to drive improvements.

Whilst the final details of this measure has not been finalised, it is our commitment to ensure we rank highly and are the best performers in this performance commitment.

This is a financial incentive, which will be set by Ofwat. In our balancing risk and reward research, customers confirmed this is an aspect of service where financial incentives should apply.

## Protecting the environment

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



We strive to minimise our impact on the environment and take opportunities to protect and improve it where possible. Our customers attach a high importance to the environment and they expect us to protect it at all times.

Our research shows that our customers and stakeholders place considerable value on protecting the environment. We need to do our bit to enhance the local environment and minimise any activities which can be harmful. Our customers want an environmentally friendly service at an acceptable / affordable price. This is an area where we continue to see

high levels of willingness to pay for further environmental improvements – even though we have delivered considerable improvements in this area over the last few AMPs.

There is more emphasis and understanding of the need to ensure the future environment for subsequent generations. In support of this, there is a greater priority for technologies that ensure we do things better, more cost effectively and efficiently.

Current and future customers expect that we support the environment for future generations.

Proposed performance commitments				
Protecting the environment	Customer priority	Incentive type	Forecast 2019/20 performance	2024/25 performance commitment level
<b>Number of pollution incidents cat 1-3 (waste only)</b> (number)	3. Prevent pollution	£+/-	72	33
<b>Number of pollution incidents cat 1-3 (water only)</b> (number)	3. Prevent pollution	£-	0	0
<b>Biodiversity – compliance</b> (number)	14. Catchment management 15. Habitats	Rep	3	0
<b>Biodiversity – prevent deterioration</b> (number)	14. Catchment management 15. Habitats	Rep	0	112
<b>Biodiversity – enhancement</b> (number of hectares)	14. Catchment management 15. Habitats	£+/-	63,209	113,209

£- Penalty only   £+/- Reward and penalty   Rep Reputational

We are confident we can deliver what we promise in this area. We recognise that this is an increased priority for our customers – and whilst we have done much to support the environment and local communities, we plan to do more.

And we are on track to deliver our FD14 performance commitment levels:

- We are on track to **meet our targets** around pollution incidents. Whilst earlier in the five-year period we have lagged our targets we are on track to meet our end of AMP targets for all pollution measures.
- We are also on track to **meet our commitments** around operational carbon emissions, energy from renewable sources, sustainable abstractions and upstream thinking.

### Our refreshed outcome

For PR19 we have reviewed and refreshed these outcomes with our customers and stakeholders.

This outcome continues to be important to our customers. Protecting watercourses and reducing pollution are customers' second and third highest priorities. Customers' other priorities include our activities supporting habitats and conservation and improving the wider environment.

**The outcome 'protecting the environment' continues to align with our customers' priorities.**

Outcome summaries – Protecting the environment continued

**Our refreshed performance commitments**

We have refreshed our performance commitments for this outcome.

We continue to include pollution incidents, but in line with feedback from our regulators have moved to the measurement of category 1-3 incidents. Although our regulators consider it essential to measure wastewater pollution incidents, in line with customers’ views we will track this for water as well as wastewater.

We continue to include upstream thinking. But in line with customers’ views we have renamed this Biodiversity Enhancement. Customers found the term upstream thinking less understandable and prefer to see the change in terminology. Our review of PR14 has shown that measuring this in acres and farms does not align with our stakeholders’ views that this is best measured uniformly in hectares; so we have changed this measure to hectares.

Our customers support doing more to protect biodiversity. We have introduced two further biodiversity measures:

- Biodiversity Compliance – the measurement of serious pollution incidents category 1 and 2 in sites of special scientific interest (SSSI). This reflects the seriousness of pollution in these locations
- Biodiversity Prevent Deterioration – the measurement of additional signage and wash down facilities at our sites to prevent the spread of invasive non-native species.

We have removed the two energy measures. Our customers told us that as long as we meet our legal obligations around energy and carbon, they no longer need to see these measures in the framework.

We have removed sustainable abstractions as this overlaps with the new Abstraction Incentive Mechanism, which is part of our Benefiting the Community outcome.

Finally, we have maintained wastewater treatment works compliance as this is a key asset health measure. We have included this alongside the other wastewater asset health metrics in the Reliable Waste outcome.

**Our targets and incentives**

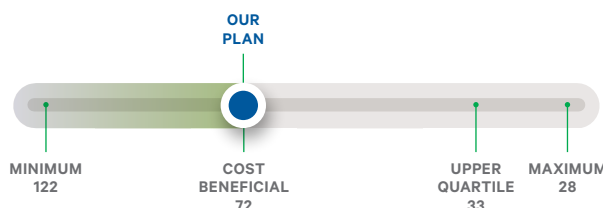
Our commitments across the performance commitments in this outcome reflect what customers consider important, value for money and are realistic but challenging targets for the price control period. They also ensure we are consistent with legislative requirements.

**Pollution incidents – waste**

Preventing pollution is customers’ third highest priority. Whilst customers are happy with the focus on previous investment to support the environment, this is an area where they want us to focus more on in the future.

Our commitment for the period 2020-25 is to improve performance from 72 incidents per year down to 33 incidents per year by 2025. This is 19 per 10,000 km of sewers. This will move our performance to upper quartile and represents an ambitious and stretching target to achieve.

We have considered a range of scenarios from a reactive position to a maximum position.

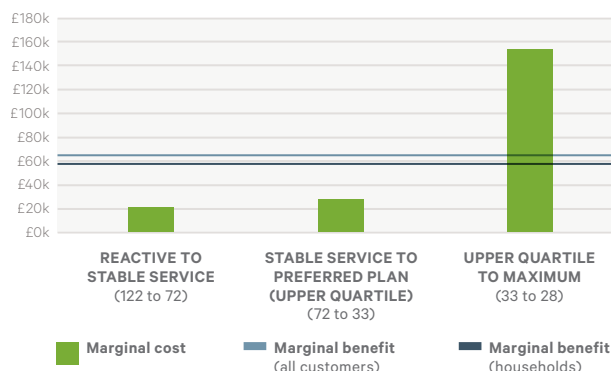


Our estimate of the benefits is based on our triangulated willingness to pay values for reducing pollution. These triangulated values are based on our PR19 stated preference; PR14 stated preference studies and value transfer (PR14 and PR19 evidence from other UK water companies).

Our preferred plan aligns with our stakeholders’ views that we need to drive notable improvements here. Our plans are cost beneficial. Further improvements would not be cost beneficial.

We have also tested reducing pollution in our acceptability study, and 88% of customers think this is acceptable and affordable. We have held focus groups with customers to see if going even further is required; and our customers have told us that they want to see a balanced plan and further improvements beyond the upper quartile are not supported.

**Annualised costs and benefits: Pollution incidents waste – per incident**





**Outcome summaries – Protecting the environment** continued

Customers told us that they consider financial incentives to be appropriate for this aspect of service. In our balancing risk and reward research, customers confirmed this was their second highest priority for financial incentives – second only to compliance with drinking water standards. Given our comparative performance lags behind other

companies in the industry, in focus groups our customers were more supportive of allocating this to underperformance penalty only incentive, on the grounds that we need to drive significant improvements before they would support outperformance payments in this area.

We have applied an underperformance penalty only incentive in this area. We have not applied any deadbands, caps or collars to this measure.

Performance commitment		Pollution incidents cat 1-3 (wastewater)				
Unit: Number	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
<b>Forecasted performance</b>	72					
<b>PCL</b>		60	53	47	40	33
<b>P10</b>		100	93	87	80	73
Unit: Number per 10,000km sewers	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
<b>Forecasted performance</b>	46					
<b>PCL</b>		34	30	27	23	19
<b>P10</b>		57	53	50	46	42

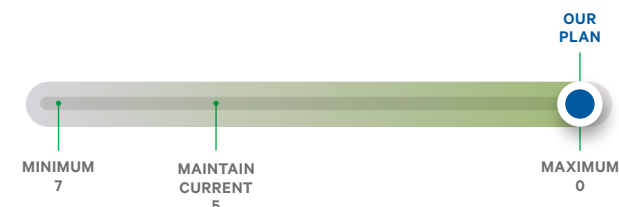
Incentive rates	£m/number	£m/number per 10,000km sewers
<b>Underperformance rate</b>	0.052320	0.091240

**Pollution incidents – water**

Preventing pollution is customers' third highest priority. Whilst customers are happy with the focus on previous investment to support the environment, this is an area which they want us to focus more on in the future.

We have considered a range of scenarios from a reactive position to a maximum position.

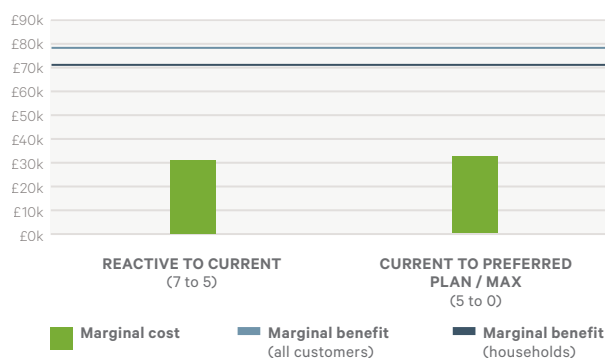
Our estimate of the benefits is based on our triangulated willingness to pay values for reducing pollution. These triangulated values are based on our PR19 stated preference; PR14 stated preference studies and value transfer (PR14 and PR19 evidence from other UK water companies).



Our commitment is to improve performance to zero by 2019/20 and then keep our compliance at this level over the period 2020-25.

Our analysis of costs and benefits shows that this is cost beneficial. Further improvements are not possible.

**Annualised costs and benefits: Pollution incidents water – per incident**



Customers told us that they consider financial incentives to be appropriate for this aspect of service. In our balancing risk and reward research, customers confirmed this was their second highest priority for financial incentives – second only to compliance with drinking water standards. Given our comparative performance lags behind other companies in the industry, in focus groups our customers were more supportive of allocating this to underperformance penalty only incentive, on the grounds that we need to drive significant improvements before they would support outperformance payments in this area.

Outcome summaries – Protecting the environment continued

We have applied an underperformance penalty only incentive in this area. We have not applied any deadbands, caps or collars to this measure.

Performance commitment	Pollution incidents cat 1-3 (water)					
Unit: Number	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Forecasted performance	0					
PCL		0	0	0	0	0
P10		6	6	6	6	6

Incentive rates	£m/number
Underperformance rate	0.062194

**Biodiversity compliance**

Pollution is particularly harmful when it impacts on SSSIs. Category 1 and 2 pollution incidents can have devastating impacts. We have introduced this measure to track serious pollution incidents at these sites.

Our commitment for the period 2020-25 is to ensure there are no serious pollution incidents in SSSIs.

We have considered two scenarios around this performance commitment.

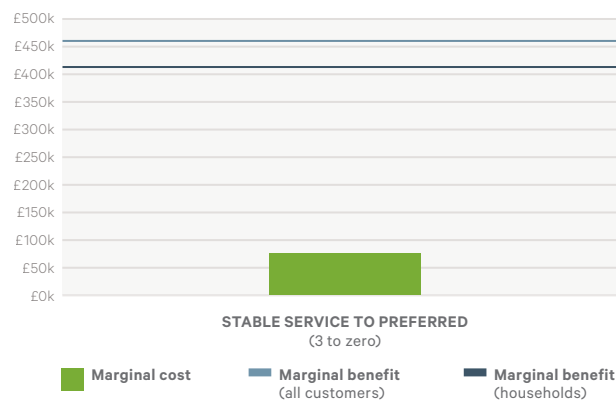
Our estimate of the benefits is based on our triangulated willingness to pay values for reducing pollution. These triangulated values are based on our PR19 stated preference; PR14 stated preference studies and value transfer (PR14 and PR19 evidence from other UK water companies).

In assessing the costs and benefits of this performance commitment, we have considered the additional costs and benefits over and above those required to meet the targets for the other two performance commitments.



Our analysis of costs and benefits shows that this is cost beneficial. Further improvements are not possible.

**Annualised costs and benefits:**  
Biodiversity Compliance – per incident



To avoid any double counting with the wastewater category 1-3 pollutions measure we have set this as a reputational measure. This has been tested and agreed with customers.

Performance commitment	Biodiversity – compliance					
Unit: Number	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Forecasted performance	3					
PCL		0	0	0	0	0

**Outcome summaries – Protecting the environment** continued

**Biodiversity enhancement**

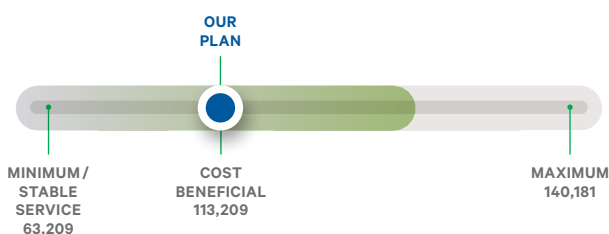
We work with land owners and farmers to ensure pesticides and slurry do not enter rivers and lakes. This maintains and improves river quality and protects biodiversity. It also ensures water can be taken from the rivers and used for clean, safe drinking water.

This measure is defined as the hectares of the upstream thinking project catchments that are under active improved catchment management as a result of upstream thinking project interventions.

Our commitment for the period 2020-25 is to improve our cumulative performance from 40,1818 to 90,181. We believe we offer excellent service in this area and this will ensure we continue to offer excellent service in this area. This is an ambitious and stretching target to achieve.

We have considered a range of scenarios from a reactive position to a maximum position. All scenarios reflect the cumulative position – hence the minimum position is the 2020 expected performance.

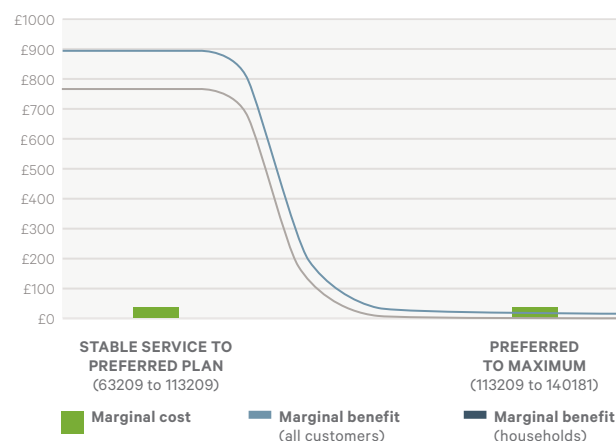
Our estimate of the benefits is based on our triangulated willingness to pay values for catchment management, particularly the benefit to customers from using catchment management to ensure continuous water supplies as opposed to other water resource options. These triangulated values are based on our PR19 stated preference studies; PR14 stated preference studies and value transfer (PR14 and PR19 evidence from other UK water companies).



We have translated the value per MI/d of water protected by catchment management into a per hectare value.

Our analysis of costs and benefits shows that this is cost beneficial. We do not consider further improvements to be cost beneficial – if they do not support water resources and biodiversity they have no value to customers.

**Annualised costs and benefits:  
Biodiversity enhancement – per hectare**



Customers told us that they consider financial incentives to be appropriate for this aspect of service. In focus groups customers allocated this to an under- and out-performance payment incentive. Customers support two way incentives for asset health on the grounds that this will drive cost effective improvements and innovation for the future. In our balancing risk and reward research, customers confirmed this was an area to apply financial incentives.

We have not applied any deadbands, caps or collars to this measure.

Performance commitment	Biodiversity – enhancement					
Unit: Hectares	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
<b>Forecasted performance</b>	63,209					
<b>PCL</b>		73,209	83,209	93,209	103,209	113,209
<b>P10</b>		69,028	79,028	89,028	99,028	109,028
<b>P90</b>		82,209	92,209	102,209	112,209	122,209

Incentive rates	£m/hectare
<b>Underperformance rate</b>	0.000876
<b>Outperformance rate</b>	0.000447

**Outcome summaries – Protecting the environment** continued

**Biodiversity – prevent deterioration**

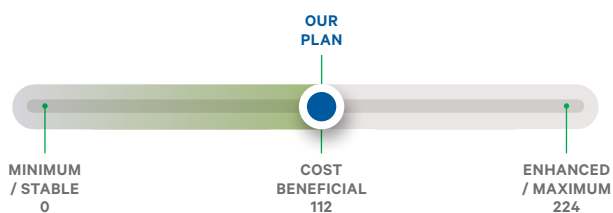
Non-native species are animals or plants that have been introduced to an area where they do not naturally occur. Some non-native species can seriously damage local plants and animals and therefore preventing the spread of non-native species is important to preserve biodiversity.

This measures the number of installations that have been delivered to prevent or control the spread of invasive non-native species (INNS) at our sites. This includes:

- Wash down facilities – facilities for installing wash down systems for boating activity, water sports or recreation activity
- Biosecurity signage – highlighting the procedures to manage the risks associated with the spread of invasive non-native species to water supply security, the impact on flora and fauna and the actions needed to control them.

Our commitment for the period 2020-25 is to provide installations at 112 sites. Alongside the requirements under the Water Industry National Environment Programme (WINEP), we will agree with the Environment Agency the sites and facilities to be installed at those sites to maximise the effectiveness of the investment.

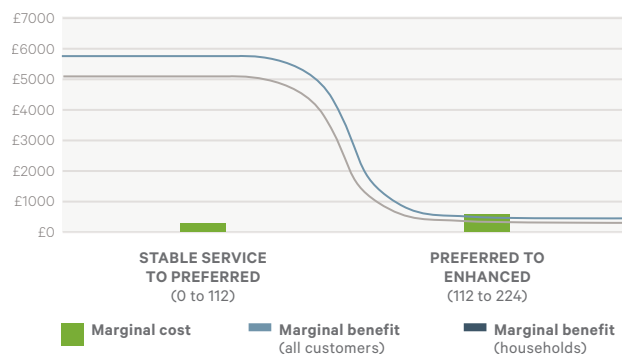
We have considered a range of scenarios from a reactive position to a maximum position.



Our estimate of the benefits is based on Value Transfer evidence provided in a report prepared by CABI for Defra on the Economic Cost of Invasive Non-Native Species (CABI/001/009).

Our analysis of costs and benefits shows that this is cost beneficial. Extending this to other sites will not deliver benefits given the low or zero risk levels elsewhere.

**Annualised costs and benefits: Biodiversity prevent deterioration – per site**



We have allocated this to a reputational measure. This reflects customers views that the incentivisation of biodiversity needs to be proportionate and balanced.

Performance commitment	Biodiversity – prevent deterioration					
Unit: Number	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Forecasted performance	0					
PCL		21	44	67	90	112

## Benefiting the community

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



The South West is blessed with a unique natural environment that has shaped the culture, economy and lifestyle of the region while providing the focus for a thriving tourism and hospitality industry. Protecting our bathing waters and therefore the local economy they support is customers' second highest priority.

Customers have told us that for the region and economy as a whole, we have wide reaching responsibilities such as ensuring the bathing waters / beaches are clean and rivers are healthy, to support the leisure and tourism industry.

Proposed performance commitments				
Benefiting the community	Customer priority	Incentive type	Forecast 2019/20 performance	2024/25 performance commitment level
<b>Bathing water quality</b> (number)	2. Bathing and shellfish waters	£+/-	0	0
<b>Abstract incentive mechanism</b> (MI/d)	15. Habitats	£+/-	N/A	365.0

£- Penalty only    £+/- Reward and penalty    Rep Reputational

We are confident we can deliver what we promise in this area. We are on track to deliver our FD14 performance commitment levels:

- We have already **met our targets** around bathing water quality
- We have also met targets and improved performance around combined sewer overflows, and river quality improvements.

### Refreshing our outcome

This outcome was developed in PR14 based on discussions with customers and stakeholders. We have continued to engage on this outcome in PR19.

Throughout the development of the business plan customers have consistently told us that supporting local communities, recreation and tourism is a key priority for them. Our priorities research shows that maintaining and improving bathing waters is the second highest priority.

For PR19 we have reviewed and refreshed these outcomes with our customers and stakeholders. We have kept this outcome from PR14 without any change.

**The outcome 'benefiting the community' continues to align with our customers' priorities.**

### Our refreshed performance commitments

We continue to include bathing water quality as this is seen as vital for communities and the economy.

We have removed river water quality improved. This is difficult to apply a financial incentive to. It also overlaps and duplicates other measures in the framework which can be measured and tracked with much more precision – such as pollution incidents, and treatment works compliance, etc.

We have introduced the Abstraction Incentive Mechanism, based on regulatory and customer feedback.

### Our target and incentives

Our commitments across the performance commitments in this outcome reflect what customers consider important, value for money and are realistic but challenging targets for the price control period. They also ensure we are consistent with legislative requirements.

Outcome summaries – Benefiting the community continued

**Bathing water quality**

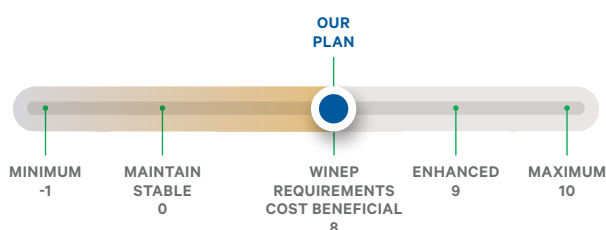
Our conversations with customers show us that the environment, and in particular bathing water quality, is important to them. A lot of customers link environmental performance to the success of the tourist industry which is a major part of the economy in the region.

Since 2015 we have continued to invest to improve bathing waters, and have already delivered our FD14 commitments in full.

Our commitment for the period 2020-25 is to meet the requirements agreed in the WINEP for bathing water. This will improve bathing water quality classification at eight additional beaches by 2025.

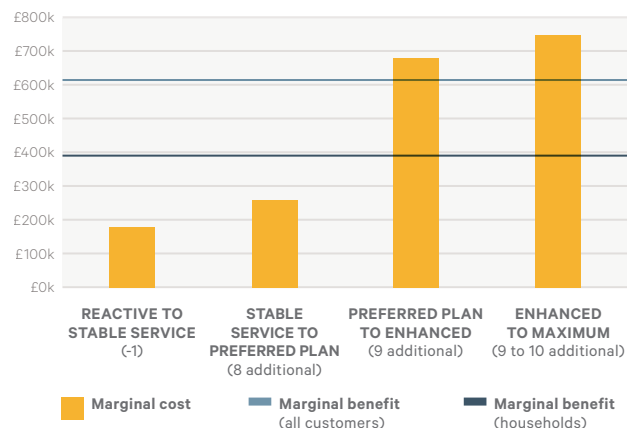
We have considered a range of scenarios from a reactive position to a maximum position.

Our estimate of the benefits is based on our triangulated willingness to pay values for bathing water quality. These triangulated values are based on our PR19 stated preference and revealed preference studies; PR14 stated preference studies and value transfer (PR14 and PR19 evidence from other UK water companies).



Our analysis of costs and benefits shows that this is cost beneficial. Further improvements are not cost beneficial.

**Annualised costs and benefits:**  
Bathing water quality – per failure/change



Customers told us that they consider financial incentives to be appropriate for this aspect of service. Customers allocated this to an under- and out-performance payment incentive as this would drive innovation for the future. In our balancing risk and reward research, customers confirmed this was the seventh highest ranked aspect of service where financial incentives should apply.

We have not applied any deadbands, caps or collars to this measure.

Performance commitment	Bathing waters					
Unit: Number	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
<b>Forecasted performance</b>	0					
<b>PCL</b>		-8	-6	-4	-2	0
<b>P10</b>		-14	-12	-10	-8	-6
<b>P90</b>		2	4	6	8	10

Incentive rates	£m/number
<b>Underperformance rate</b>	0.485087
<b>Outperformance rate</b>	0.307378

Outcome summaries – Benefiting the community continued

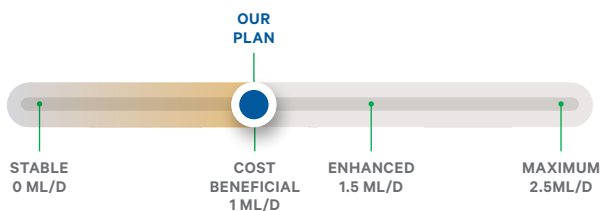
**Abstraction incentive mechanism**

Protecting wildlife and habitats is a priority for our customers. This performance commitment measures where taking water from rivers can cause low flow and potentially cause serious harm to wildlife and plants, and where monitoring has been put in place to identify this and abstraction levels adjusted accordingly to protect rivers. This particular measure will provide a mechanism to promote reductions in abstraction from groundwater source in the Otter Valley, East Devon during periods of dry weather.

Our commitment for the period 2020-25 is to improve performance by reducing abstraction by 1ML/d by 2025.

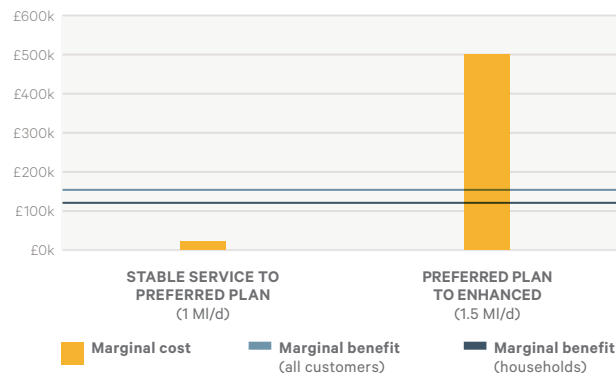
We have considered two scenarios from a stable position to the preferred position and from the preferred plan to enhanced.

Our estimate of the benefits is based on our triangulated willingness to pay values for reducing river abstraction. These triangulated values are based on our PR19 stated preference studies; PR14 stated preference studies and value transfer (PR14 and PR19 evidence from other UK water companies).



Our analysis of costs and benefits shows that this is cost beneficial. A further improvement would require a new borehole source and is not cost beneficial.

**Annualised costs and benefits:**  
Abstraction Incentive Mechanism – per ML/d



Customers told us that they consider financial incentives to be appropriate for this aspect of service. In focus groups customers allocated this to an under- and out-performance payment incentive. Customers support two way incentives for asset health on the grounds that this will drive cost effective improvements and innovation for the future. In our balancing risk and reward research, customers confirmed this was an area where financial incentives should apply.

We have not applied any deadbands, caps or collars to this measure

Performance commitment	Abstraction incentive mechanism					
Unit: Megalitres	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
<b>Forecasted performance</b>	N/A					
<b>PCL</b>		365.0	365.0	365.0	365.0	365.0
<b>P10</b>		0.0	0.0	0.0	0.0	0.0
<b>P90</b>		1,095.0	1,095.0	1,095.0	1,095.0	1,095.0

Incentive rates	£m/Megalitre
<b>Underperformance rate</b>	0.000394
<b>Outperformance rate</b>	0.000211

## 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.



Our customers rightly expect all customers to have affordable and fair bills.

Our legacy of higher bills, due to the significant coastal clean-up, and exacerbated by our region's lower than average incomes, mean that we must continue to do all we can to deliver affordable bills for all. This is the most important overarching priority for our customers.

Proposed performance commitments				
Fair charging and affordable bills for all	Customer priority	Incentive type	Forecast 2019/20 performance	2024/25 performance commitment level
<b>Replacement of dumb meters with AMR</b> (Number of meters being replaced by AMR to enable improved customer insight on water usage/leakage)	16. Smart metering 17. Education on water saving and sewer usage	Rep	138,800	245,964
<b>Number of customers on one of our support tariffs</b> (Number of customers on support tariffs as of 31 March each year)	Overarching priority of price	Rep	25,094	50,000
<b>Voids for residential retail</b> (Voids %)	Overarching priority of price	Rep	0.93	0.84
<b>% of customers who find their water bill affordable</b> (%)	Overarching priority of price	Rep	86.5%	100%

£- Penalty only   £+/- Reward and penalty   Rep Reputational

We are confident we can deliver what we promise in this area. We are on track to deliver our FD14 performance commitment levels:

- We are on track to **meet our targets** for customers assisted by water poverty initiatives
- We are close to our metering targets – but given we have very high meter penetration levels, it is increasingly challenging to continue to drive further metering with customer support.

### Our refreshed outcomes

For PR19 we have reviewed and refreshed these outcomes with our customers and stakeholders and as a result we have amended the title of our fair charging outcome to 'fair charging and affordable bills for all' to reflect the greater emphasis on affordability through this price review.

As a result of listening to our customers and stakeholders we have been able to confirm that our refreshed outcomes best reflect the requirements of our customers, stakeholders and regulators. The results indicated strong support

and validation of the outcomes and priorities. They were incredibly well received by customers, meaning that we can be confident the outcomes continue to reflect customers' preferences.

**The revised outcome 'fair charging and affordable bills for all' aligns with our customers' priorities.**

### Our refreshed performance commitments

We have refreshed our performance commitments for this outcome.

Our customers have told us that it is important that we have performance commitments that ensure bills are fair and as low as possible for all; that track and measure the number and types of customers who genuinely have unaffordable bills; and that ensure we offer the right package of affordability support to those that need it. Our customers support the use of support tariffs, with most being willing to pay some modest amount to help those less able to pay and to ensure investment in priority service improvements.



**Outcome summaries – Fair charging and affordable bills for all** continued

Based on this feedback we have developed four performance commitments around affordability and fair bills:

- Replacement of dumb meters with AMR
- Void properties for residential retail
- The percentage of customers who find their water bill affordable
- Number of customers on one of our support tariffs.

**Our targets and incentives**

Our commitments across the performance commitments in this outcome reflect what customers consider important, value for money and are realistic but challenging targets for the price control period.

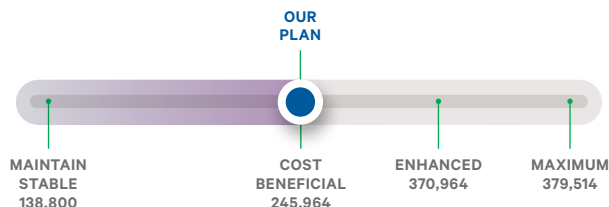
**Replacement of dumb meters with AMR**

Our customers tell us they want us to help all customers use less water to protect valuable resources and support household budgeting. They also want us to be proactive and drive leakage as low as is practical and affordable to do.

We have been installing AMR since 2015, and are on track to have 138,800 meters installed by 2020.

Our commitment for the period 2020-25 is to continue to install a further 107,164 AMR – to give a total of 245,964 by 2025. This will help reduce leakage and support households.

We have considered a range of scenarios from a stable position to a maximum number of AMR expressed cumulatively.



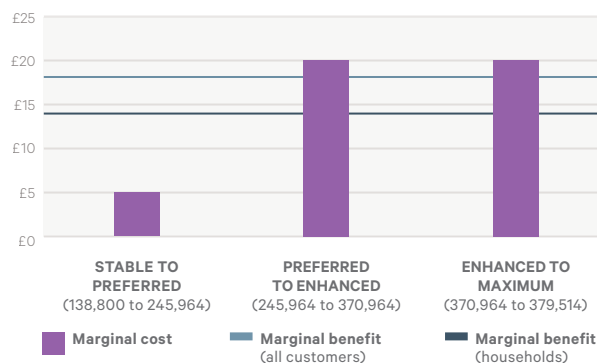
Our analysis of costs and benefits shows that this is cost beneficial. Further improvements would not be cost beneficial.

Our estimate of the benefits is based on our triangulated willingness to pay values for introducing smart metering. These triangulated values are based on our PR19 stated preference studies; PR14 stated preference studies and value transfer (PR14 and PR19 evidence from other UK water companies).

We do not propose to go beyond cost beneficial investment in this area as we do not consider it to be in customers' interest to do so.

**Annualised costs and benefits:**

**Replacement of dumb meters with AMR – per meter**



To prevent double counting with other financial measures (e.g. PCC) we have set this as a reputational measure.

Performance commitment	Replacement of dumb meters with AMR					
Unit: Number	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
<b>Forecasted performance</b>	138,800					
<b>PCL</b>		161,332	183,364	204,655	225,705	245,964

## Outcome summaries – Fair charging and affordable bills for all continued

### Void properties

Void properties are defined as chargeable premises which are recorded as vacant with no charges levied. This measure is the percentage of properties classified as void.

Ensuring that all properties pay for the services they receive is a central plank of our approach to managing affordability. Investigating and reducing the number of properties that do not pay for the services they receive has a real impact on the bills that all customers pay.

Since 2015 this has been a key priority for us and currently void household properties are less than 1% of total household properties.

Our commitment for the period 2020-25 is to continue to hold void properties as low as possible – 0.84% by 2025. This is a truly challenging target given government estimates that c.1% of properties in the region are long-term vacant – so this will ensure we continue to be at the maximum level.

We have considered if it is possible to go below 0.84%, but the additional staff requirements would not yield additional revenues.



This is a reputational incentive. We do not consider a financial incentive to be appropriate as outperformance payments would not be possible to achieve, and we do not consider underperformance payments to be appropriate when we are a leading company in this aspect of service.

Performance commitment	Voids for residential retail					
Unit: %	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
	0.93					
		0.91	0.89	0.87	0.85	0.84

### The percentage of customers who find their water bill affordable

Customers tell us that ensuring everyone has an affordable bill is important. We need to measure and track the number of customers who have an affordable and unaffordable bill.

Our customers have strong views that some measure of affordability is needed as a performance commitment, to provide a balanced view across all customers and make sure all customers are being considered. There were concerns that asking customers whether their bill is affordable is not a robust gauge of affordability, as there are likely to be large numbers of customers that say bills are not affordable even if they personally do not struggle to pay their bill. We have developed an evidence-based measure rather than a subjective measure of affordability in response to customers' concerns.

This performance commitment is the percentage of customers who receive an affordable bill. This is estimated from research with customers to understand the percentage of households with bills greater than 5% of equivalised household income after housing costs.

Our commitment for the period 2020-25 is to achieve 100% of customers who are paying an affordable bill.

This is a reputational incentive. Applying a financial incentive to this measure is not appropriate as it is a new measure without sufficient historical data. Moreover, this is a tracking measure – which allows us to understand the right affordability strategy to put in place, recognising that some households may always have an unaffordable bill if they do not wish to change behaviours (e.g. around metering and water use).

Performance commitment	Customers who find their bill affordable					
Unit: %	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Forecasted performance	86.5					
PCL		89.0	92.8	95.2	97.6	100.0

## Outcome summaries – Fair charging and affordable bills for all continued

### Number of customers on one of our support tariffs

Customers tell us that ensuring everyone has an affordable bill is important. We offer financial support for customers struggling to pay their bill. This measures the number of customers on one of our support tariffs.

Our commitment for 2020-25 is 50,000 customers receiving financial assistance through one of our support tariffs.

Providing support to customers is cost beneficial. In making this assessment we consider:

- Admin, fund, and external costs
- Debt management costs/savings
- Debts repaid by customers – as they can start to pay towards their debt
- Increased value of bill payments made by customers that would otherwise not pay their bill
- Customer cross subsidy.

Our estimate of costs in 2017-18 is as follows:

<b>WaterCare tariff</b>	£999,937
<b>WaterSure tariff</b>	£4,609,064
<b>FreshStart</b>	£203,913
<b>ReStart</b>	£1,090,760
<b>WaterCare+</b>	£90,238
<b>Leak repair for vulnerable customers</b>	£32,578
<b>Total source costs</b>	£197,000
<b>Total</b>	<b>£7,223,490</b>

The assessment of benefits for the same year is:

<b>WaterCare tariff</b>	£1,537,208
<b>WaterSure tariff</b>	£4,798,006
<b>FreshStart</b>	£210,296
<b>ReStart</b>	£1,372,177
<b>WaterCare+</b>	£652,305
<b>Leak repair for vulnerable customers</b>	£2,024,517
<b>Total</b>	<b>£10,094,509</b>

This figure ignores the non-financial benefits of offering financial support, and only includes quantifiable financial benefits. Other benefits such as changing the habits of customers to ensure that they continue to pay, or providing a more affordable bill thereby ensuring customers do not get into debt are difficult to quantify and therefore have not been included. It should also be noted that this is a snapshot of benefits provided to customers under the scheme and does not account for the rolling, continual nature of benefits realised.

Adding these in would make financial assistance even more cost beneficial.

This is a reputational incentive. Customers support this being a reputational incentive. This measure allows us to understand the right affordability strategy to put in place, and support those households that need support when other affordability measures are not sufficient to address affordability concerns.

Performance commitment	Number of customers on one of our support tariffs					
Unit: Number	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
<b>Forecasted performance</b>	25,094					
<b>PCL</b>		27,000	30,000	33,000	40,000	50,000

## Ofwat feedback on PC early submission (3 May) – What did we change

Following Ofwat's feedback on the early submission (3 May) which contained the definitions of our proposed performance commitments we made the following changes:

### Compliance with sludge standards

Ofwat asked us to consider how we define the sludge in terms of sludge trading, they also asked us to define the regulations and specify the reporting period.

**We responded to their comments and have added in wording to explain how we would deal with material imported and exported to third parties. We have defined the definitions as requested and specified a reporting period.**

### Resilience in the round – wastewater

Ofwat asked us to provide further explanation relating to how the performance commitment will be measured and consider if using a percentage measurement may be more appropriate; – defining how, “resilience” and “responsiveness” will be measured; and provide further explanation of the use of the term “key assets” in this context.

**We have responded by stating how the performance commitment will be measured – by the number of resilience action plans developed in the financial year. We have stated that these actions plans will improve the response and recovery of each wastewater site following any flooding. We have made it clear how resilience and responsiveness will be measured.**

### Resilience in the round – water

Ofwat asked us to consider whether a more robust measurement of system resilience would be captured by not excluding third party events. Alternatively, we should provide reasonable justification why the exclusion of third party events provides a better measure.

**We have responded by removing the exclusion regarding third party events.**

### Customer overall satisfaction

Ofwat asked in terms of clarity and completeness we suggest that the inclusion, or exclusion, of business retailers, or business customers is specified.

**We have responded by stating that this measure applies to household customers only.**

### Customer satisfaction with value for money

Ofwat asked in terms of clarity, while mitigation/exceptions states ‘none’, please state whether this measure refers to all customers, or just household customers, also further explanation of how your long term customer satisfaction tracking survey is carried out and how the average percentage is calculated, should be included

**We have responded by stating that this measure applies to household customers only and stated how the data is collated and how the average percentage is calculated.**

### Increase number of customer details checked every 2 years

Ofwat asked in terms of clarity, you may wish to state whether the measure will be a percentage of bill payers who receive services or of the total population of the area.

**We have clarified that it is the percentage of households receiving additional services through the priority service.**

### Biodiversity – prevent deterioration

Ofwat asked in terms of clarity to include further information on how the success of the installations will be measured and how, and who, would verify this.

**We have stated how our assurance processes will ensure accurate and consistent reporting and evidence provided to the WaterShare Panel and made available to external stakeholders as required.**

### Bathing water quality

Ofwat asked us to provide clarity on the measurement section as it's not clear in terms of the definition or whether we have included sub-measures, which has been ruled out for PR19. Ofwat also asked us to clarify the proposed mitigation/exception where ‘failure’ is allocated to non-South West Water sources as it is unclear.

**We have added more detail around the measurement section and also more clarity around the mitigation/expectations sections in response to Ofwat's comments.**

### Abstraction Incentive Mechanism (AIM)

In terms of clarity, the Abstraction Incentive Mechanism (AIM) is an Ofwat measure and is not an Environment Agency requirement.

**We have changed this in the definition**

### Replacement of dumb meters with AMR

Ofwat asked us to provide more justification, in terms of exemptions, for only excluding AMR meter replacements in the same financial year. It may be more appropriate to exclude replacements of AMRs within the 2020-25 period, or to use a proportion of AMR penetration rather than actual installations.

## Ofwat feedback on PC early submission (3 May) – What did we change continued

We have responded by changing the exemption so that a meter can only be counted once in the five year period per property.

### **Gaps sites and voids for residential retail**

Ofwat asked us to consider providing additional information on how we will convert voids/gap sites into a financial metric; how property numbers will be factored into the measurement of the voids element; and how we measure gap sites identified each year.

Ofwat also asked why aggregation of gap sites and voids into one measure is appropriate and whether the definition we use for voids match the one used for your Annual Performance Reports and, if not, why there is a difference.

**We have taken on board Ofwat's feedback and we are now only proposing one performance commitment to measure the % of properties classified as void. We have chosen to exclude gap sites from the performance commitment. We will continue to measure the number of gap sites as an internal KPI.**

## Customer research and engagement

The engagement with customers on our performance commitments started at the very beginning of the PR19 process; in our priorities research we informed customers of our historical, current and forecast performance alongside comparative industry data to ensure that customers were fully informed about our performance.

The priorities established through these phases were reviewed against current performance commitments to ensure they were still relevant or redundant. A full and comprehensive list of existing and potential measures across water and wastewater services – including asset health, environmental impacts and biodiversity, resilience, affordability, and vulnerability - were tested with our customers through a comprehensive engagement programme:

- Our existing measures – testing the measures developed in PR14 across both South West Water and Bournemouth Water
- Proposed mandatory and recommended measures set out by Ofwat in the draft methodology consultation
- New bespoke company measure.

Our engagement was designed to understand customers' views on the existing and proposed measures:

- Whether they accurately captured what matters most – and align to customer priorities
- Whether the language and definitions fully reflect the aspect of service
- Whether there are other measures preferable to customers
- If the performance commitments provide the right balance across all of the business areas
- If customers thought there were any gaps or overlaps in the framework.

Our customers told us they welcomed a comprehensive framework – but want to minimise overlapping measures and keep it simple. This engagement fed directly into our refinement of the final list of performance commitments.

The criteria used to finalise the list of performance commitments include the Ofwat list of common measures and further measures that are:

- Reflective of what matters most to customers and stakeholders
- Measurable and verifiable
- Easy to understand by customers and stakeholders
- Measures what we can control as a company to a large degree
- Drives the right behaviours
- Able to link to outcomes, priorities and incentives
- Supports the longer term vision (future proof for the longer term).

We then engaged through a series of focus groups and quantitative surveys to understand customer views on performance commitment levels and appropriate incentives. Engaging on ODIs is not new for us. We engaged thoroughly with our customers on our package of incentives in PR14. For PR19 we continued our conversation with customers building on the approach in PR14 to learn more from our customers about how they perceive this important area.

Our discussions with customers have focused on understanding more about what they want incentives to deliver, where incentives should apply and the strength of incentives, how they feel about incentives to deliver asset health, and the overall package and incentives in terms of risk and reward.

In our **ODI research** we asked customers if they supported financial incentives, and which incentive type is right for each PC: financial versus reputational incentives; and within financial incentives, under versus outperformance. Customers told us they supported underperformance payments where we fail to hit targets, especially those that are compliance based. In terms of outperformance payments customers do not want us to be rewarded **'to do the job we are paid to do'** so only support this if we go above and beyond and drive innovation for the future: our targets need to be demonstrably stretching.

In our **ODI research** customers were asked to state which incentive type is appropriate for each PC, on the proviso that targets would be set at stretching levels. Customers told us they were keen that legal compliance measures were financially incentivised with underperformance payments only. For those aspects of performance that they consider to be important, customers support incentives that continue to drive value for money investment and allocated these predominately to under and outperformance incentives. Few measures were reputational – those of a lower customer priority, where there was overlap, or where incentives could drive perverse incentives such as numbers of customers on the PSR or receiving financial support.

These allocations require our targets to be stretching; so we have had many conversations about stretching targets with our customers.



For more information, see  
**Engaging Customers**

## Customer research and engagement continued

**Our Regional focus groups, Proposals and Choices consultation, and Acceptability testing** programme has focused on understanding what challenging and stretching targets are – customers' assessments are based first and foremost on the incremental change in performance versus the incremental change in the bill, although they found the comparison to other companies in the industry helpful. Customers have told us our targets are stretching, acceptable and affordable.

In our **ODI research and Balancing risk and reward investment** we asked customers about all of the factors we need to take into account to get the ODI package right, such as the balance between under and outperformance payments, asset health incentives, deadbands/caps/collars, enhanced rates, caps on individual PCs, and the RoRE range.

Consistently customers told us they are very supportive of enhanced incentive rates. This is a matter of principle for them: the bigger the failure of a target the more the incentive should be, so that it becomes increasingly punitive; and similarly, the more a target is exceeded and outperformed, the more the incentive should be so that it becomes a truly rewarding rate. We have applied enhanced rates in those areas where customers want these.

Asset health has been a key part of the discussions. Throughout our engagement, starting with the **Priorities research** and **OPM research**, customers have told us that asset health is important to them. In our Balancing risk and reward research customers told us that asset health and service are equally important to incentivise – on average asset health measures should carry similar financial risks to service measures. This has been a key check on our ODIs – ensuring that asset health measures are on a par with other measures.

In our Balancing risk and reward research customers told us that the incentive range should not exceed 3% of RoRE. A range of 1%-3% was popular with customers. Our incentives align with this range. The maximum has been set at 3%. Moreover, undertaking scenarios around the RoRE range shows that in any one year a range of +/-1.6% is more likely (this is the P10 and P90 at the appointee level. Customers were very clear to us that bills over the 3% RoRE range are unacceptable and we have responded to this in our ODI package design. In both the **ODI research and Balancing risk and reward research** customers told us that they are concerned with bill volatility.

We have explored this further with customers. In our **WaterShare+ Principles** research we asked customers about bill volatility. This included presenting choices over bill profiles – overwhelmingly customers told us that large bill reductions followed by steep rises back are not popular; neither are bills that go up or down to match investment or performance. Customers prefer more smoothed bills – ideally beyond the 5 year period.

This has been a key part of our customers opting to defer the cost savings in WaterShare being returned to them – on the grounds that this should primarily be used to smooth bills.

We have calibrated our incentives to align with customers views. We are therefore confident we have the right balance of incentives.

Our independent Customer Challenge Group – known as the WaterFuture Customer Panel (WFCP) has been in place since December 2011.

The panel is made up of representatives from customer, business, stakeholder and regulatory organisations and its role is to provide 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 plan.

The panel set up two sub-groups to work more closely with the company on the research, engagement and vulnerability (REaV) activities and another to look at the legislative and statutory obligations (LREI), both were chaired by a main panel member.

The panel has spent considerable time discussing performance commitments (PCs); performance commitment levels (PCL), challenging whether we were going far enough and the overall ODI package.

It is a key part of the WFCP role to provide assurance that PCs are based on robust customer evidence and reflect customer views.

The WFCP has received regular updates on comparative data and current performance throughout the PR19 process.

Customer engagement relating to the development of our PCs, PCLs and ODIs has been shared with the panel, debated and challenged.

The panel has also attended four specific workshops over the course of the process to enhance their own understanding of setting ODIs as follows:

- Valuation workshop
- Triangulation workshop
- ODI workshop – develop PCs and setting stretching PCLs
- ODI workshop – applying incentives.

The WFCP has found this level of transparency unprecedented and given the detail they have seen have felt they could support our package of ODIs.

## Waterfuture customer panel engagement and assurance

**“The level of customer consultation was clear and I have not seen anything as transparent as this in the industry before”**

Some of the concerns raised by the WFCP were around how we:

- Had forecasted upper quartile performance for 2025 – what had we considered
- Would deal with bill volatility associated with in-period financial ODIs.

Specific challenges were raised on the pollutions and bathing waters performance commitments as follows:

The WFCP challenged why we were proposing out and under-performance incentives on pollutions

- We reviewed our approach and removed the outperformance incentive.

The WFCP challenged the proposed Bathing Water PC, stating that the view of the EA is that this measure isn't necessarily fair based on the number of contributing factors, namely weather, that can influence this measure.

- We reviewed our approach and the performance commitment is based on delivery of bathing water schemes that are with the control of the company. This is a slight change in focus from the PR14 description which the Environment Agency (EA) were supportive of.

The EA have further challenged how outperformance payments will be applied. This is an area where the company and the EA are not aligned.

The WFCP have been instrumental in developing the biodiversity performance commitments, with this work carried out predominantly with the LREI subgroup.



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



## 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 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 that 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. In PR14, our Board approved an annual in-period licence adjustment. Our engagement with customers and the WaterShare Panel on decisions for the sharing of outperformance have 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.

The most extensive customer research and engagement programme ever undertaken has resulted in over 900 data points used to validate the values customers place on our services. Independent assurance reports and peer reviews have been provided to enable our Board to place reliance on the data being used to drive the cost benefit analysis used to develop stretching performance targets post 2020 in the areas that matter most to customers.

The Board has attended ODI workshops with our WaterFuture Customer Panel where significant challenges were made about forecast performance to 2020 and targets to 2025. All challenges were effectively responded to. The Board also attended various customer focus groups during the development and testing of ODIs.

Proposed ODIs have been rigorously reviewed by the Board with sector leading performance targeted in many areas. Strong incentives have been proposed to ensure focus is given to the delivery of priority areas for customers. This has included the ambitious Board commitments to:

- Reduce leakage levels by 15% by 2025 at no extra cost to customers
- Address water poverty for our customers by 2025
- Eradicate serious pollutions to the environment.

This direct involvement in this area of the plan has enabled the Board to be confident that **our business plan will deliver – and that the Board will monitor delivery of – our outcomes and performance commitments. Our outcomes, performance commitments and outcome delivery incentives are grounded in what customers have told us and reflect their preferences for stretching levels of performance. Our internal governance and assurance framework, supplemented by the independent WaterShare+ Panel provides a robust and reliable approach to accurate and transparent reporting of our performance commitments, ODIs and projections of performance.**

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

### ICS Consulting

ICS Consulting was established in 2000 and specialises in providing consultancy and support services to infrastructure businesses and regulators in the UK, Europe and Middle East. Their expertise covers:

- Customer and stakeholder engagement
- Regulatory economics, covering policy analysis and development
- Economics analysis, including assessing monetary benefits of investment and cost-benefit analysis
- Investment appraisal and optimisation, covering the design and implementation of bespoke asset management systems.

ICS is highly experienced in all aspects of the regulatory and business planning processes in the water industry and supports a number of key periodic review activities, namely:

- Customer research (priorities, willingness to pay, acceptability testing)
- Regulatory analyses (outcomes and incentives design, tariff formulation)
- Investment optimisation and business plan development (cost benefit analyses, scenario planning, business case development)
- Risk assessment (risk appraisal and assessment).

### eftec

eftec was established in 1992 and is a leading environmental economics consultancy across the UK and Europe. Services are provided in four key areas:

- Economic valuation – primary research using revealed preference and stated preference methods and value transfer methods
- Policy and project appraisal – cost benefit analysis, cost effectiveness analysis, impact assessment
- Design and evaluation of policy instruments – taxes, tradable permits, voluntary agreements, payments for ecosystem services
- Training and guidance – providing bespoke training course and guidance handbooks for students, economists and non-economists in public and private sectors.

eftec's are experts in:

- Understanding and practical application of all valuation methods (stated preference methods, revealed preference methods, value transfer)
- Design, implementation and analysis of stated preference methods)
- Value transfer studies, helping water companies maximise the use of the academic and government literature, particularly around environmental improvements and including the inter-generational valuation of resources

- Expertise in undertaking cost-benefit analysis (CBA) of water industry investment programmes
- Expertise in providing training to water industry clients to assist staff in understanding the application and use of valuation methods and CBA
- Support to water industry clients in engaging with external stakeholders
- Application of natural capital accounting methods in the water sector.

### Oxera

Oxera is a leading independent economics consultancy. They advise companies, policymakers, regulators and lawyers on any economic issue connected with competition, finance or regulation. They have been doing this for more than three decades, gathering deep and wide-ranging knowledge as they expand into new sectors. They have a reputation for credibility and integrity among those they advise, and among key decision-makers, such as policymakers, regulators and courts. Today they have offices in Oxford, Berlin, Brussels, London and Rome and are able to advise international clients in a highly flexible way, including providing advice in several other languages.

### Professor Ken Willis

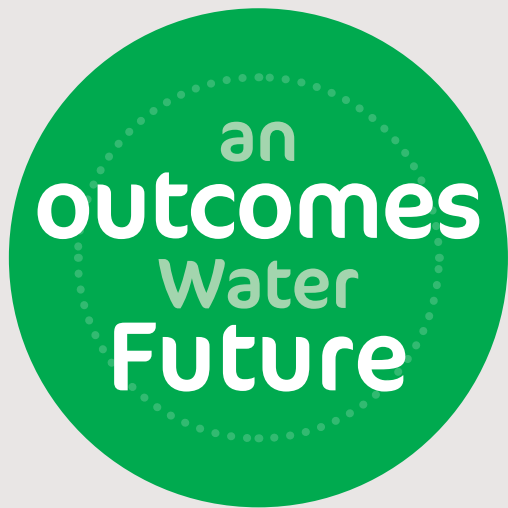
Professor Ken Willis is Emeritus Professor of Economics of the Environment at Newcastle University. He is also Director for the Centre for Research in Environmental Appraisal & Management; and Editor of the Journal of Environmental Planning and Management.

He is one of the prominent economists in the world in environmental and customer valuation methods. His research interests include environmental benefit estimation techniques such as travel-cost models, hedonic price models, contingent valuation methods, stated preference or choice experiment methods, and contingent ranking techniques.

He has directed and worked on dozens of contingent valuation studies with both academic and commercial applications. This has included stated preference (choice experiment) studies which have covered a wide variety of issues from air pollution, bathing water, biodiversity, conservation areas, cultural heritage, earthquake risk mitigation, electricity supply interruptions, environmentally sensitive areas, fishing, forests, green belts, historic buildings, recreation values of waterbodies, landscape, low flow alleviation in rivers, property attributes, quarries, SSSI, traffic calming schemes, utility networks, waiting time for social housing, waste disposal, water quality, and wildlife preservation.

Professor Ken Willis has applied his extensive knowledge in the UK and worldwide. He has a successful track record in supporting water companies customer valuation programmes since PRO4.





**South West  
Water**



**Bournemouth  
Water**

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