

WaterFuture

**South West Water Customer Challenge Group
Report on the SWW PR19 business plan**

3 September 2018

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Executive summary

Purpose of this report

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

Background

SWW’s Customer Challenge Group (CCG) for PR19, the Water Future Customer Panel (WFCP or “the Panel”), was established in 2016 to provide independent challenge and scrutiny to the company on the development of its business plan for PR19, in line with the expectations set out by Ofwat¹, focused on assuring:

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

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

Governance

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

Composition

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

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

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

¹ The WFCP also has a role in monitoring the company’s performance and administering WaterShare, SWW’s mechanism for sharing outperformance with customers. This role is separate from that of PR19 assurance.

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

Board engagement

The SWW Board has been engaged in the work of the Panel from the outset, from receiving updates from the Panel Chair at Board meetings through to the company Chairman² and Non-Executive Directors holding independent sessions with the Panel, and the company Chief Executive Officer and Managing Director attending the majority of formal WFCP meetings. The Panel is satisfied that the Board has effectively led the development of the business plan, and that the Panel has been provided with the opportunity to directly input into Board deliberations on this matter.

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

Processes and work undertaken by the Panel

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

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

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

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

In examining the company's plans and mounting challenges, the Panel drew on the expertise of its members along with those providing technical assurance to SWW on certain aspects of its plan, from customer engagement to investment proposals. A challenge log was maintained and published on the SWW website, and reviewed by the Panel at the start of each meeting and is available in Appendix IX. The table below sets out the key challenges made by the Panel, along with the company's response; additional detail on these and other challenges is included in the body of the report

Topic	Key challenge	Company response
Pollutions performance	<p>The Panel challenged the company on its pollutions performance, specifically stating that polluting the environment is an illegal activity, and reiterating that the government has made it clear that it expects zero serious pollutions.</p> <p>The company was challenged on whether the pollutions improvement plan would get the company to where it wanted to be based on</p>	<p>The company acknowledged the challenge from the Panel, confirming that it would continue to focus considerable effort in this area as improving pollutions performance is of paramount importance to the company.</p> <p>The company is committed to reducing the overall number of pollutions that cause harm to the environment in the South West. SWW wanted to continue to ensure the quality of the environment</p>

² Notwithstanding Sir John Parker's chairmanship of Pennon, the South West Water Board believes that he continues to demonstrate independence of character and judgment when leading the SWW Board.

Topic	Key challenge	Company response
	<p>the industry’s direction as a whole, and whether it was targeting upper quartile performance or if there was a risk of SWW being a laggard in this area.</p>	<p>is kept to the high standards customers want to see.</p> <p>The company confirmed that the pollutions reduction strategy, shared with and challenged by the Panel on multiple occasions, was delivering positive results and reiterated that the company was targeting the lowest absolute number of pollutions in the industry by 2020.</p> <p>SWW highlighted to the Panel its view on the impact that the normalisation measure (incidents per 10,000km of sewer) may have on the way that pollutions performance is reported, in line with its feedback to the Environment Agency when this framework was first introduced. The company also shared that not all companies bear the designated bathing water risk equally, which it felt was important for the Panel to recognise.</p> <p>However, regardless of these aspects, the company confirmed that its focus was on driving down the number of pollutions and also provided evidence to the Panel that it has put forward the best programme to deliver its legislative obligations.</p>
<p>£50 government contribution and affordability of customer bills</p>	<p>The Panel challenged the company with regards to whether customers understood that there was no guarantee the current £50 government contribution would continue, highlighting that if this was removed this could have a significant impact on customer affordability.</p> <p>The Panel wanted SWW to demonstrate how it intended to bridge the affordability gap should the contribution be ceased.</p>	<p>The company reiterated to the Panel that the decision whether or not to continue the £50 government contribution would be made by Defra in 2019, after the company’s business plan had been submitted to Ofwat.</p> <p>SWW advised the Panel that awareness of the payment had been constantly increasing since it was introduced, with around 70% of customers currently aware of its existence.</p> <p>SWW also shared that its research had identified that c. 32k (approximately 7%) customers would fall into water poverty should the payment be removed.</p> <p>SWW committed to the Panel from the outset that regardless of the decision on the continuation of the payment, SWW would ensure that its bills were affordable for all customers through the range of measures included within its package of affordability support.</p> <p>Customer acceptability results were noted as strong (77%) with or without the £50 government contribution included post 2020.</p>
<p>Statutory obligations</p>	<p>The Panel challenged the company that statutory requirements should not be subject to customer preference, and therefore should not be presented alongside non-statutory requirements for prioritisation and preference purposes.</p>	<p>SWW confirmed that research on pollutions was used to inform the company’s approach to reducing Category 3 Pollutions in AMP7 and beyond, and that SWW did not apply the research to Category 1 and 2 Pollutions as it planned for zero. The research was used to help inform economic values.</p> <p>The company shared that its research techniques were based on industry best practice, and it employed an independent review of this approach, in particular, to provide further reassurance to the Panel. The review, carried out by an expert in this field, supported the company’s approach, highlighting that one of the advantages of undertaking such a valuation was to examine the economic case for going beyond the statutory requirements.</p>

Topic	Key challenge	Company response
		<p>The company confirmed that it would use this research only to inform Category 3 pollutions in AMP7 and beyond (as the company is planning for zero Category 1 and 2 pollutions).</p> <p>SWW reiterated that it was confident in its approach and was aware of other companies' approaches being consistent with SWW (in respect of statutory obligations), and that the research would be used to help inform some economic values to set ODI rates.</p> <p>The company also delivered a specific ODI workshop whereby the approach was further disseminated for the Panel and the Panel praised the company on its transparency, commenting that the level of customer consultation was clear, and that the Panel now understood the requirement to include pollutions as part of the willingness to pay research.</p>
<p>Triangulation and willingness to pay (WTP) valuations</p>	<p>The Panel challenged SWW regarding the customer research if customers were aware of their current service levels in real terms and the relative cost benefit of an increased or decreased level of service for WTP research.</p> <p>The Panel also challenged whether the revealed preference and stated preference studies were used in the triangulation process.</p>	<p>SWW confirmed that the levels of service were clearly represented during the research (with comparative data used throughout) and customers were clearly able to differentiate between the relative benefits and drawbacks.</p> <p>SWW confirmed that a range of evidence was brought together for triangulation, sourcing values from multiple studies, resulting in over 900 data points being utilised, to ensure robust understanding.</p> <p>SWW explained, through three specific valuation and willingness to pay workshops for the Panel, that in understanding how customers value services, the evidence used included:</p> <ul style="list-style-type: none"> • Stated preference – main stage and second stage studies • Revealed preference research, including avertive behaviour and the specific bathing water study • Value transfer and market data literature research • Customer playback sessions <p>The company shared the five step approach to triangulation, developed in line with Ofwat and CCWater guidance, and SWW's own valuation strategy.</p>
<p>Bournemouth Water (BW) customers</p>	<p>The Panel challenged the company on ensuring that the plan provided fair consideration to both SWW and BW customers.</p> <p>The Panel also challenged the company on how the differences in the willingness to pay between BW and SWW customers would be accounted for, and whether there were any differences between SWW and BW customer views, and specifically whether they were significant as a result of the different demographics.</p>	<p>SWW confirmed that the plan would fairly reflect the views of both SWW and BW customers, and that bill levels were weighted to account for the variance in BW bill levels. The company also noted the Chair and the Vice Chair of the Bournemouth Water Customer View Group (CVG) were members of the WaterFuture Customer Panel and the Research, Engagement and Vulnerability sub-group, thus ensuring that throughout the entire process, Bournemouth customers were consistently represented.</p> <p>SWW stated that the views of both sets of customers were very similar, even when drilled down to elements such as affordability and age, and that there was also consistency around the measures that customers did not like, which the research validated.</p>

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

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

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

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

South West Water's engagement with customers

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

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

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

Comprehensive approach with well targeted inclusion of innovative techniques

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

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

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

Interactive and two-way engagement process

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

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

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

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

Comprehensive coverage of issues

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

Triangulation was a key area of focus for the Panel and each of sub-groups with dedicated workshops held to ensure a thorough understanding to enable effective challenge in this area. Overall, the company employed over 900 data points to triangulate customer values to ensure accuracy prior to being used in setting investment scenarios and supporting the development of performance commitments and ODIs. Using multiple evidence sources and triangulating each step provided further confidence in the values obtained from all customer groups, which were then used to inform the development of the plan. The company's approach to triangulation was carefully considered and confirmed to be in line with guidance from Ofwat and CCWater. This represented an effective response to this new challenge for the PR19 methodology and was found to be robust when peer reviewed.

Comprehensive coverage of customers

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

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

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

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

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

Enabled good understanding of what affordability means for customers

Throughout the process the company has demonstrated an understanding of how customers perceive affordability, drawing on its long term tracking of water and sewerage affordability which has been in place since 2012, alongside research specifically undertaken for PR19. This specifically included the additional of an

'affordable bill' question within each quantitative survey allowing it to analyse how customers' different circumstances impact results.

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

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

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

The influence of customer engagement on the Business Plan

The WFCP is confident that the Business Plan is appropriately reflective of and driven by the results of the customer engagement, and truly seeks to deliver for, and empower all customers. The Panel's view is further supported by the final results of customer acceptability testing, with 88% of SWW customers, and 92% of BW customers finding the company's plan acceptable, in real terms.

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

Conclusion

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

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

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

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



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

Nick Buckland, Chair – WaterFuture Customer Panel



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

Richard Lacey, Chair – Bournemouth Water Customer View Group

Reading this report

Guidance for the report

Throughout this report, icons, tables and graphics are used to provide context for the information that is included and are outlined below.

Introduction and summary of company approach

At the start of each section is a short introduction that explains what the section will cover and why it is relevant. Below the introduction, SWW’s approach to the topic is summarised, including the information that SWW had provided to the Panel for context and SWW’s current activity in the area.

SWW’s approach
<ul style="list-style-type: none"> • Example of SWW’s approach to priority area 1

The most significant areas of challenge are highlighted in short summary boxes, which look like this:

?

Example challenge areas

- Example challenge 1
- Example challenge 2
- Example challenge 3

Throughout the report, the following icons are used to indicate how challenges made by the Panel fulfill its role (they are provided in the footer as a reminder):



Challenge on the quality of SWW’s customer engagement



Challenge on the degree of which customer engagement is reflected in the business plan

Each section concludes with a summary of the key challenges made by the Panel, information provided and the Panel’s view on the effectiveness of the process answering some or all of the questions in the box below:

Position of the Panel

- Key evidence and challenges
- Has the company effectively considered customer views?
- Are there any areas of particular support?
- Are there any outstanding areas of challenge?
- Is the Panel satisfied that its comments have been incorporated effectively, referencing appropriate customer evidence where required?
- Is it aligned appropriately with Ofwat’s key themes – innovation, resilience, affordable bills and great customer service?

1 Report overview

About this report

The objective of customer challenge groups (CCGs) at PR19, as required by Ofwat, is to provide independent challenge and assurance to Ofwat on:

- i. The quality of the company's customer engagement; and
- ii. The degree to which this is driving decision making and is reflected in the company's business plan

The WaterFuture Customer Panel (WFCP or "the Panel") was South West Water's (SWW or "the company") CCG for PR19³. Initially established in 2012 to provide independent assurance for the PR14 price review, it continued in that role for PR19. Full details of the WFCP's composition, structure and governance are set out in **Section 2** of this document.

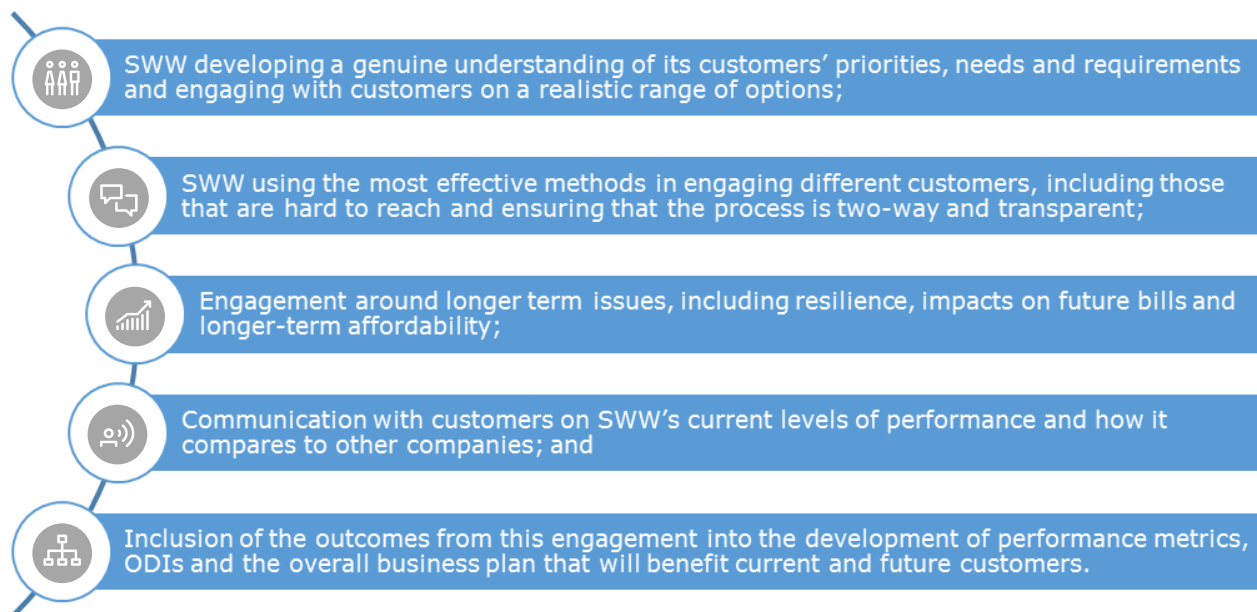
This report explains how the Panel has carried out its assurance role and records its conclusions. It describes the governance surrounding the Panel's role, how the Panel has ensured independence and transparency in the work performed, the process of engagement with SWW and the activities undertaken. It contains detailed evidence of the challenges raised by the Panel and how the company responded to these, and presents the Panel's overall view of the company's plan and its basis on customer engagement. In conducting its work the Panel was guided by Ofwat's PR19 methodology documents and, as a minimum, ensured that the challenge and scrutiny it has applied in its role is wholly aligned with the requirements set out within the CCG aide memoire and Ofwat's customer engagement policy statement and expectations for PR19.

Reflecting that guidance, the Panel's challenges have focused on the key areas of the methodology highlighted by Ofwat, and given due regard to the broad topics the regulator expected to see discussed. It is noted, in particular, the importance to review critically any trade-offs proposed by the company and to ensure that as part of its engagement with the Panel, and especially in its overall customer engagement, the company had been transparent regarding its comparative performance.

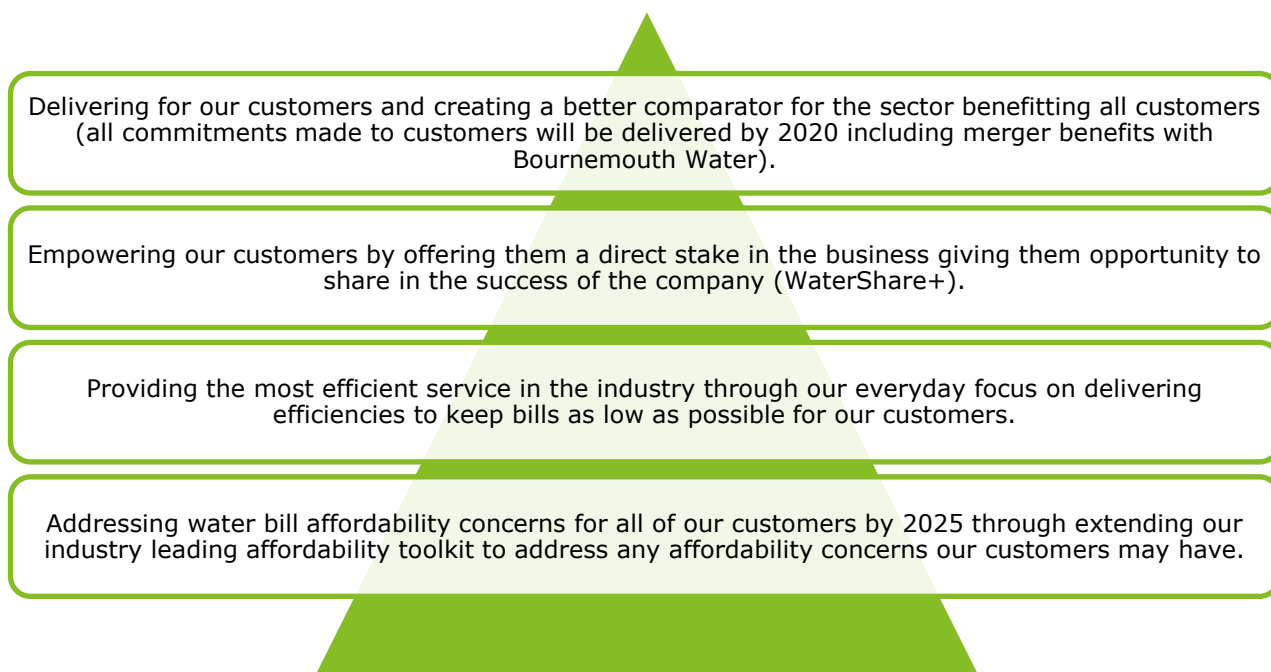
As well as Ofwat's guidance, the Panel has prioritised topics by those that have particular resonance in the South West and Bournemouth regions, especially those that matter most to customers, and those that are significant in terms of their impact on the overall impact of the plan on customers, be it service, the environment or the bill and affordability. For example, the subject of bathing waters was the second highest priority for customers in the South West and was discussed at length throughout the process, with the level of research carried out by the company proportionate to the importance that customers put on this area. Whilst ensuring that the Panel covered those areas required by Ofwat, this report also provides comment on the plan itself and how it delivers for customers

The Panel believes that it has provided comprehensive scrutiny and challenge of SWW's plan according to its remit, such that SWW customers, Ofwat and other stakeholders can be confident of the independence and robustness of the Panel's report and the assurance given.

³ It should be noted that following the acquisition of Bournemouth Water (BW) by SWW's parent company Pennon, the BW operations have been merged into SWW with the company operating under a single licence. When this report refers to SWW, this incorporates BW unless otherwise stated.



The report is a culmination of over a year’s worth of activity and interaction between the Panel and SWW during the preparation by the company of its business plan, during which time the Panel systematically reviewed, prompted and challenged all significant elements of the plan, including the four key principles that underpin SWW’s plan:



The report is structured to provide an overview of the Panel, how it operated and the specific topics that were discussed during the engagement between the WFCP and SWW. These topic areas cover the key elements of the methodology on which Ofwat specifically required the input of the CCGs (as per the Aide Memoire). Within each section, SWW’s approach has been summarised along with an overview of the engagement between the Panel and SWW. Each section concludes with examples of specific challenges made by the Panel and responses from SWW, the key supporting evidence, and the final view of the Panel.

The final section sets out the Panel’s overall conclusions and assurance statement.

This report was written with Deloitte who were engaged by the WFCP to provide independent reporting support through the process of the WFCP’s work for PR19. This is elaborated further in **Section 2** on Governance.

The mapping against Ofwat’s Aide Memoire for CCGs is set out in the table below. Additionally, the company produced documents, reviewed and approved by the by the WFCP, REAV, and LREI, that summarised the ways the Panel and sub-groups have reviewed evidence, challenged and commented and otherwise covered the elements included in the Aide Memoire in line with its responsibilities as defined in the respective ToRs. These documents are available in the appendices. The Panel has reviewed its body of work against Ofwat’s Aide Memoire for CCGs, as set out in the table below, along with a quick reference guide as to where each element is detailed within the report, and a high level view of the view of the Panel.

Subject area	Description	CCGs to explicitly comment	CCGs to challenge	Customer evidence needed	Comment	
1	CCG Role	Customer challenge groups (CCGs) will provide independent challenge to companies and provide independent assurance to us on the quality of a company’s customer engagement; and the degree to which this is reflected in its business plan.	n/a	n/a	n/a	See Section 1 Introduction and Section 3 Governance.
2	Customer engagement	Customer engagement will be a central part of the initial assessment of business plans. Customer engagement also provides essential evidence for companies’ proposals in their business plans. In assessing the customer engagement test, we will take into account evidence including, but not limited to, evidence from its CCG.	✓	✓	✓	Section 3 covers SWW’s customer engagement and the level of scrutiny provided by the REAV sub-group and Panel. The Panel was satisfied with the response to its challenges and SWW’s approach to customer engagement and that the results have been included in the business plan. The Panel challenged the engagement methodology and execution, including the sampling approach and balance of demographics. Examples of evidence reviewed included customer surveys, stakeholder workshop outputs, peer review reports and engagement reports.
3	Engagement with business retailers	We consider wholesalers should engage with business retailers as part of the customer engagement process to learn about their views and the views of their customers			✓	The Panel is satisfied that retailers have been effectively considered and engaged, throughout the process, such as being part of workshops to listening and outcomes from those engagements have been reviewed as discussed in Section 3 .

Subject area	Description	CCGs to explicitly comment	CCGs to challenge	Customer evidence needed	Comment
<p>4 Affordability</p>	<p>Companies are required to provide robust evidence in their business plans on how their approaches have, and will, deliver affordability for current customers, future customers, and those struggling, or at risk of struggling, to pay. This includes evidence on the customer engagement they have carried out on their approaches, how well the company understands what affordability looks like for its customers, and the customer support for the approach they have taken. Our assessment on affordability will be supported by evidence provided by companies, the independent reports from CCGs, and evidence from other expert organisations.</p>	<p>✓</p>	<p>✓</p>	<p>✓</p>	<p>SWW’s approach to affordability and associated CCG comment and challenges are discussed in Section 4. Having reviewed the results of the acceptability testing around affordability, the Panel was satisfied with the company’s approach to ensuring that bills are affordable for all customers. The Panel raised a number of challenges, including whether willingness to pay and trade-offs had been adequately communicated, and how changes to the £50 government contribution may affect pricing and affordability. Evidence reviewed by the Panel included the company’s affordability and vulnerability approach, customer surveys, peer reviews, customer support for long term, affordable investment, and acceptability testing research and outputs.</p>
<p>5 Vulnerability</p>	<p>In our February 2016 Vulnerability focus report we said that we would encourage CCGs to use the report as a base on which to challenge companies and their business plans when considering both customer service excellence and their companies’ approaches to addressing vulnerability. In assessing the vulnerability test, we will take into account evidence that the company’s approach to vulnerability is targeted, efficient and effective, including evidence from the independent CCG report.</p>	<p>✓</p>	<p>✓</p>	<p>✓</p>	<p>The approach to vulnerability and associated CCG challenges are discussed in Section 4. The WFCP is confident that SWW has the resources and ability to identify and support vulnerable customers. The main challenges were related to the calculation of the number of vulnerable customers and how SWW customers are helped in adverse conditions such as freeze and thaw periods. Evidence reviewed included customer surveys, vulnerable customer – priority services register research, SWW’s freeze and thaw report to Ofwat, and the summary engagement report.</p>

Subject area	Description	CCGs to explicitly comment	CCGs to challenge	Customer evidence needed	Comment	
5b	<p>Vulnerability: bespoke performance commitment</p>	<p>We are requiring companies to include at least one bespoke performance commitment for addressing vulnerability in their business plans, after engaging with customers and taking on board challenges from their CCGs.</p>	<p>✓</p>	<p>✓</p>	<p>✓</p>	<p>Vulnerability was challenged by the Panel as part of the review of customer engagement as shown in Section 4.</p> <p>SWW engaged with customers on vulnerability performance commitments during the 'Defining Performance Commitments' research.</p> <p>The Panel was satisfied that the three bespoke vulnerability performance commitments were developed in line with customer research and support in this area.</p> <p>Evidence reviewed included the ODI engagement workshop output and Performance commitments and ODI research report.</p>
6	Performance commitments					
6a	<p>General approach to performance commitments</p>	<p>CCGs will challenge companies on their approaches to setting performance commitments including how well they reflect customers' views and how stretching they are. Our assessment will include focusing on the CCG report.</p>	<p>✓</p>	<p>✓</p>	<p>✓</p>	<p>Section 5 covers performance commitments and how customer engagement has covered this area.</p> <p>The Panel agreed that the level of customer engagement and use of triangulation to determine the appropriate measures was robust and provided assurance that performance commitments reflected customer views.</p> <p>The Panel's challenges included the development of bespoke performance commitments for submission to Ofwat, the priority of financial penalties over reputational penalties and the placement of statutory requirements as preferences.</p> <p>Evidence reviewed included ODI workshop outputs, consultation on the outcomes framework, delivering outcomes for customers report and the PC and ODI research report.</p>

Subject area	Description	CCGs to explicitly comment	CCGs to challenge	Customer evidence needed	Comment
<p>6b</p> <p>Setting stretching performance commitments</p>	<p>Our approach to setting stretching performance commitment levels for PR19 is that companies should: engage with their customers on their performance commitment levels; and challenge the level of stretch in their performance commitments with their customers, CCGs and other stakeholders.</p>	<p>✓</p>	<p>✓</p>	<p>✓</p>	<p>The Panel reviewed how the PCs are stretching during the ODI workshop as discussed in Section 5, along with the development of performance commitments being a standard recurring agenda item.</p> <p>The Panel was satisfied that the performance commitments were stretching, demonstrated through the company conducting historical and peer comparison, as an example.</p> <p>Challenges in this area included whether the vision to 2050 is as ambitious as other water and sewage companies, along with challenges on individual forecast performance to 2020.</p> <p>Evidence reviewed included the performance commitments and ODI report, ODI workshop outputs and the risk and reward report.</p>
<p>6c</p> <p>Using multiple data sources for performance commitment levels (triangulation)</p>	<p>Companies will need to engage with their customers on the factors they take into account and will then need to explain how they have balanced these factors when setting their performance commitment levels using multiple data sources. The role of CCGs will be important in assuring how companies have engaged with their customers on this issue.</p>	<p>✓</p>	<p>✓</p>	<p>✓</p>	<p>Triangulation was heavily discussed with the Panel and sub-groups via three dedicated sessions. This was an extensively challenged area by the Panel and both sub-groups and was peer reviewed and shared with the Panel as described in Section 3.</p> <p>The Panel is confident in the robustness of the company’s triangulation approach, which encompassed over 900 data points to effectively consider how customers value services and how customers balance and trade-off services and costs.</p> <p>Evidence reviewed included the valuation and peer review summary report, valuation and triangulation workshop presentations, stated preference (main and second stage) studies and revealed preference (avertive behaviour) studies.</p>

Subject area	Description	CCGs to explicitly comment	CCGs to challenge	Customer evidence needed	Comment	
6d	<p>Setting initial service levels (2019-20) for performance commitments</p>	<p>At PR19 we expect companies to forecast appropriate initial service levels for 2019-20, and for these to influence the level of their performance commitments. CCGs will challenge companies on their forecasts for 2019-20, as well as their performance commitment levels.</p>		<p>✓</p>	<p>✓</p>	<p>The Panel reviewed how the company is performing against PR14 and its expectation to hit its targets as discussed in Section 5. The WaterShare Panel reviewed and scrutinised the company's actual and forecast performance on a quarterly basis. The WaterFuture Customer Panel reviewed the company's forecast performance to 2020, challenging areas where performance could be perceived to be at risk of failing to meet the 2020 target. The Panel is satisfied the company is on track to meet its 2020 targets, having provided detail on request where performance has fallen below expectations, and taken swift, proactive action to resolve.</p>
6e	<p>Common performance commitments</p>	<p>We expect companies to have four common performance commitments on asset health: mains bursts, unplanned outages, sewer collapses and treatment works compliance. This will enable customers, CCGs and us to compare performance and challenge companies about their proposed levels for these commitments.</p>		<p>✓</p>	<p>✓</p>	<p>Common performance commitments (PCs) were included as part of the 14 PCs that were submitted to Ofwat and have been reviewed by the Panel as discussed in Section 5. The Panel is confident that the company has effectively engaged with customers on all PCs. The evidence reviewed included the Understanding PCs and ODIs report by ICS, and the performance commitment submission to Ofwat in May 2018.</p>
6f	<p>Bespoke performance commitments</p>	<p>Companies have the freedom to engage widely with their customers and local stakeholders, to propose bespoke performance commitments that reflect their customers' particular preferences. There should be no, or very few, exemptions included in the definitions of bespoke performance commitments and any exemptions need to be well justified and supported by customers.</p>			<p>✓</p>	<p>The Panel challenged SWW regarding the development of bespoke PCs and reviewed the results of SWW's customer engagement in this area as discussed in Section 3. The Panel is confident that the bespoke PCs proposed by the company are supported by customers. The evidence reviewed included the Understanding PCs and ODIs report, and SWW's early submission of performance commitments to Ofwat in May 2018.</p>

Subject area	Description	CCGs to explicitly comment	CCGs to challenge	Customer evidence needed	Comment
<p>6g Abstraction Incentive Mechanism (AIM)</p>	<p>It is for companies to propose their AIM incentives, following engagement with their local stakeholders, and assurance from the CCG. Companies should identify suitable sites in liaison with the Environment Agency or Natural Resources Wales and provide evidence of their engagement.</p>	<p>✓</p>	<p>✓</p>	<p>✓</p>	<p>AIM is included as a performance commitment and challenged by the Panel in Section 5. The Panel is satisfied that the company has considered the views of customers in developing its AIM replication proposal. Evidence reviewed included the Understanding PC and ODIs report.</p>
<p>6h Leakage performance commitments</p>	<p>We expect companies to explain how their five-year performance commitment levels and long-term projections for leakage take into account the views of their customers (with CCG assurance on how those views have been taken into account) and local stakeholders. Companies can make the case for leakage reductions that do not achieve our challenges above where they can provide robust evidence and a strong rationale for this. For example, that a company is already a frontier performer or has strong customer support not to reduce leakage to this extent.</p>		<p>✓</p>	<p>✓</p>	<p>Leakage reduction was a detailed area of discussion at the Panel and the LREI sub-group. A 15% reduction in leakage is included as a performance commitment and was discussed with the Panel as covered in Section 5. The Panel challenged the company on its targeted reduction, and the way in which the company would achieve its committed performance level, noting that customers were supportive of demand side techniques. Evidence reviewed included the 'EngageOne' animated water resources online survey, the ODI and valuation workshop presentations, and the Understanding PCs and ODIs report.</p>

Subject area	Description	CCGs to explicitly comment	CCGs to challenge	Customer evidence needed	Comment	
6i	<p>Transparency of performance commitments</p>	<p>We require companies to explain in their business plans, how they will disseminate their performance information during the 2020-2025 period to customers, CCGs and other stakeholders.</p>		✓	✓	<p>The Panel was able to challenge the company on its entire process for developing PCs from the customer engagement, to triangulation, the development of performance commitment levels (PCLs) and ensuring that the process was transparent as described in Section 5. The Panel also challenged the how the WaterShare framework would work from 2020 onwards.</p> <p>Additionally, the Panel reviewed the customer engagement evidence describing the other measures that customers wanted SWW to provide performance about, along with the customer version of the company’s annual performance report, the animated video showing how the company intends to share performance with customers transparently.</p>
6j	<p>Scheme-specific performance commitments</p>	<p>A company should engage with its customers and CCGs on any scheme-specific performance commitments, as part of its engagement process on all its performance commitments.</p>		✓	✓	<p>There was no customer support for scheme specific performance commitments.</p>

Subject area	Description	CCGs to explicitly comment	CCGs to challenge	Customer evidence needed	Comment
7 Outcome delivery incentives (ODIs)					
7a Consulting customers on ODIs	<p>We expect companies to develop their ODIs in consultation with their customers. CCGs will challenge companies on how well their proposed ODI outperformance and underperformance payment rates reflect a suitably wide range of evidence on their customers’ preferences. Companies can propose outperformance payment caps and underperformance penalty collars on individual ODIs, if supported by their customer engagement. Our approach allows for a company to propose a reputational-only ODI, if the company provides convincing evidence that this is appropriate. This includes evidence from its customer engagement or that a performance commitment is not well suited to a financial ODI.</p>	✓	✓	✓	<p>Section 5 covers ODIs and how customer engagement has covered this area along with the WFCP’s challenges and SWW’s responses. Specifically, the Panel challenged the company on the development of all valuation research, including customer preferences, the measures used to confirm that the financial ODIs was supported by customers. Evidence reviewed included the outputs from the ODI workshop, Understanding PCs and ODIs report, and the risk and reward report.</p>
7b In-period ODIs	<p>Companies would need to justify, with evidence, why in period ODIs are not in customers’ interests, including why future customers should pay for/benefit from incentives related to the service performance affecting current customers. The evidence should include customer research and the views of the CCG on the quality of the research and how well the company has taken it into account.</p>		✓	✓	<p>SWW has communicated that all ODIs will be in-period as shown in Section 5. The evidence reviewed included the risk and reward report and the valuation workshop presentation.</p>

Subject area	Description	CCGs to explicitly comment	CCGs to challenge	Customer evidence needed	Comment	
7c	Setting ODI rates	CCGs will challenge companies on how well their proposed ODI outperformance and underperformance payment rates reflect a suitably wide range of evidence on their customers' preference. Companies can base their ODI outperformance and underperformance payment rates on the existing formulas, but amended, so that companies can use alternative customer valuations instead of only marginal stated preference WTP. Companies can use other customer evidence to propose changes to the ODI outperformance and underperformance payment rates calculated according to the existing formulas, provided the changes are well justified.		✓	✓	<p>ODI rates were presented to the Panel by SWW as part of its valuation customer research and triangulation process as discussed in Section 3.</p> <p>Furthermore, the company set up three specific sessions for the Panel to learn about the triangulation process and responded to challenges from the Panel confirming it had implemented the triangulation methodology correctly.</p> <p>The Panel challenged the way in which ODIs would work, and was satisfied with the response of the company. The only area of challenge outstanding at this stage is with reference to the Environment Agency's query on how the bathing water ODI framework will work in principle.</p> <p>Evidence reviewed included the risk and reward research, the valuation workshop outputs and company's proposed RoRE range.</p>
7d	The overall size of a company's ODI package	We expect companies to develop their ODIs in consultation with their customers, and obtain customer support for the overall range of possible bill impacts from ODIs (referred to as the RoRE range in the PR19 methodology). We expect companies to propose approaches to protecting customers in case their ODI payments turn out to be much higher than their expected range for ODIs.		✓	✓	<p>As part of the specific ODI sessions covered in Section 5, SWW presented PC and ODI research, including customer feedback on the preferred RoRE range, indicating customer support for the proposed range.</p>
7e	ODIs for resilience performance commitments	Companies should only propose financial ODIs related to resilience performance commitments if they reflect the particular resilience challenges facing them, are supported by evidence and by their customers and do not involve ODI outperformance payments that overlap with funding received through the cost allowances.			✓	<p>The Panel reviewed the customer support for the two resilience ODIs, with both having customer support for being reward and penalty, as described in Section 5. This was an area of extensive discussion for the LREI.</p> <p>The evidence reviewed included the Understanding PCs and ODIs report, and the risk and reward report.</p>

Subject area	Description	CCGs to explicitly comment	CCGs to challenge	Customer evidence needed	Comment
7f	<p>ODIs for asset health performance commitments</p>	<p>Companies should engage with their customers and CCGs on how their asset health metrics protect current and future customers and the environment. Companies should explain to their customers, CCGs and Ofwat the size of their asset health underperformance penalties (and any outperformance payments), and how they relate to their past performance and the asset health challenges they face. Companies can only propose outperformance payments for asset health performance commitments if they can show there are benefits for customers and their proposals reflect evidence of customer preferences.</p>	<p>✓</p>	<p>✓</p>	<p>Asset health was covered as part of customer engagement and there were specific asset health ODIs developed by the company and challenged by the Panel as described in Section 5. The Panel challenged the company on the extent to which customers truly understood asset health and SWW confirmed that this was an area of significant interest for customers, who considered asset health as important, or more important than many aspects of service.</p>
7g	<p>Enhanced ODI outperformance payments and underperformance penalties</p>	<p>The enhanced outperformance and underperformance payments are only appropriate for the common performance commitments, which are based on comparable data. This is so that customers, CCGs and Ofwat can be more certain that the enhanced outperformance threshold truly represents frontier-shifting performance.</p>	<p>✓</p>	<p>✓</p>	<p>As discussed in Section 5, customers were in favour of enhanced ODI levels, with customers understanding that enhanced penalties and rewards could affect their bill and lead to volatility. The evidence reviewed included the risk and reward report and the Understanding PCs and ODIs report.</p>

Subject area	Description	CCGs to explicitly comment	CCGs to challenge	Customer evidence needed	Comment
<p>8</p> <p>Securing confidence and assurance</p>	<p>This section repeats CCG’s main role: it is also important that CCG reports highlight areas of challenge and disagreement, including how the company has responded to challenges and any areas of outstanding disagreement</p> <p>The Environment Agency, Natural England and Natural Resources Wales have also set out wider expectations for companies, as have the UK and Welsh Governments through their strategic policy statements. We expect companies to take these into account when developing their business plans and outcomes, and to implement them when they are in customers’ interests and have customer support.</p>	<p>✓</p>	<p>✓</p>	<p>✓</p>	<p>All Panel and sub-group challenges were recorded in challenge logs, which were reviewed at the beginning of each meeting to ensure challenges were captured accurately and that SWW’s responses were sufficient as discussed in Section 2.</p> <p>The Panel challenged, and was fully supportive of the company on the development of WaterShare+, SWW’s proposed mechanism for transparently sharing outperformance with customers from 2020 onwards, and was confident that this framework was grounded in customer engagement.</p> <p>The Panel was confident that the work undertaken by the LREI and REAV sub-groups effectively provided the levels of challenge to the company and subsequent assurance to the Panel that SWW had effectively considered customer’s views in developing environmental programmes, in line with the guidance from the Environment Agency and Natural England.</p>
<p>8b</p> <p>Corporate and financial structures</p>	<p>We have introduced a new IAP test to require assurance from company Boards that their business plan will enable customers’ trust and confidence through high levels of transparency and engagement with customers on issues such as its corporate and financial structures.</p>			<p>✓</p>	<p>The Panel discussed and challenged the level of transparency and engagement on corporate and financial structures during the independent sessions with the SWW Board as covered in Sections 2 and 6.</p> <p>The Panel was satisfied that the company operated in line with the highest levels of corporate governance, and that through the WaterShare and WaterShare+ framework, coupled with the customer-led enhancements to the company’s annual performance report, the company would continue to instill confidence in customers around the way in which it operates.</p>

Subject area	Description	CCGs to explicitly comment	CCGs to challenge	Customer evidence needed	Comment	
9	Resilience planning principle	Principle 3: Customer engagement. Assessments of resilience should be informed by engagement with customers, to help companies understand their customers' expectations on levels of service. This will also help companies understand their customers' appetite for risk and how customer behaviour, in matters such as water efficiency, might influence approaches to resilience.		✓	✓	<p>Section 6 covers resilience and how customer engagement has covered this area. SWW has included two performance commitments around resilience, based on customer support in this area.</p> <p>The Panel explored with the company the level of risk that customers have an appetite for in this respect, as informed by the extensive online water resources survey, which has shaped the company's approach to resilience investment within its plan.</p> <p>The Panel is assured that the company has a comprehensive understanding of customer views with regards to resilience, and that these views have been embedded within the proposed investments, including the company's Resilience Service Improvement project.</p>
9b	Operational resilience	The company will need to demonstrate the incremental improvement of the proposed investment, that it considered a range of options, and that the proposed solution delivers outcomes that reflect customers' priorities, identified through customer engagement.			✓	All values have been derived from customer engagement as discussed in Section 3 , all of which was shared with the Panel. Additionally, SWW shared with the Panel an overview of its investment optimisation processes, which has provided the Panel with confidence that the company has a strong background and clear understanding of how to build on existing improvements to further improve resilience across its business areas.

Subject area	Description	CCGs to explicitly comment	CCGs to challenge	Customer evidence needed	Comment
<p>10 Securing cost efficiency - need for investment</p>	<p>In relation to cost adjustment claims:</p> <ul style="list-style-type: none"> Where appropriate, is there evidence – assured by the customer challenge group (CCG) – that customers support the project? <p>Best option for customers:</p> <ul style="list-style-type: none"> Does the proposal deliver outcomes that reflect customers’ priorities, identified through customer engagement? Is there CCG assurance that the company has engaged with customers on the project and this engagement been taken account of? Is there persuasive evidence that the proposed solution represents the best value for customers in the long term, including evidence from customer engagement? 	<p>✓</p>	<p>✓</p>	<p>✓</p>	<p>Section 7 covers cost adjustments and how customer engagement has covered this area along with the WFCP's challenges and SWW responses.</p> <p>The Panel is satisfied that two cost adjustment claims submitted by the company in May 2018 presented the best options for customers.</p> <p>For the Isles of Scilly cost adjustment, the Panel reviewed and challenged the customer engagement in this area, which resulted in the proposed investment programme being spread over two AMPs rather than one, in line with customer support.</p> <p>For the new water treatment works in Bournemouth, the DWI attended a Panel meeting and confirmed support for this atypical investment, which as a statutory requirement, did not require customer support.</p>
<p>11 Financeability</p>	<p>We will look for evidence of customer support where companies take steps to address financeability constraints.</p>			<p>✓</p>	<p>In all scenarios tested by Ofwat, SWW remained financeable, and as such the company has not had to take steps to address financeability constraints.</p> <p>Section 7 describes the evidence reviewed by the Panel to understand the company's financeability constraints, which included the annual performance report and details on the green finance deal.</p>
<p>12 Bill profiles</p>	<p>Companies should take into account customers’ views on the profile of bills over time, which will enable companies to understand customers’ implicit views on the impact of their PAYG and RCV run-off choices on bills, both in the short and long term.</p> <p>We acknowledge feedback from respondents to the consultation and we do not expect companies to directly ask their customers about their PAYG and RCV run-off rates.</p>			<p>✓</p>	<p>As described in Sections 3, 6 and 7, customer engagement took into account future customers and specifically asked for feedback on how investment plans may impact bill volatility.</p> <p>The Panel is satisfied that company has understood customer views with regards to bill volatility in the development of the WaterShare+ mechanism in order to protect customers from volatility.</p>

Subject area	Description	CCGs to explicitly comment	CCGs to challenge	Customer evidence needed	Comment
<p>13 Accounting for past delivery</p>	<p>When testing how well the company has provided evidence for its proposed reconciliations for the 2015-20 period and how well it has followed the PR14 reconciliation rulebook methodologywe would expect to see.... evidence of customers' support, and the strength of that support, for its proposed adjustments to the 2020-25 price controls.</p>			<p>✓</p>	<p>The WaterShare Panel has been integrated into the WFCP as of September 2017 and discusses WaterShare performance on a quarterly basis as described in Section 5.</p> <p>The company has confirmed to the Panel that it is on track to meet its 2020 performance commitments, and the Panel has challenged the company on areas where it feels performance is below expectations, and have received assurance from the company on the ways in which these areas are being addressed to ensure that 2020 performance commitments area not jeopardised.</p> <p>Additionally, customer engagement included comparative data to ensure customers had appropriate context when providing feedback.</p>

Subject area	Description	CCGs to explicitly comment	CCGs to challenge	Customer evidence needed	Comment	
14	<p>The initial assessment of business plans (IAP)</p>	<p>A high-quality business plan (the bullet points most relevant to the CCG role):</p> <ul style="list-style-type: none"> • Is grounded in excellent customer engagement, with a wide range of evidence. • Should include stretching outcomes and performance commitments that reflect what customers want, and their relative priorities, and clear line of sight from these through the plan. It should also include evidence of consideration of customer participation; • Is affordable for all current and future customers, with appropriate assistance provided where needed; • Sets out the company’s approach to effectively and efficiently identifying and providing support for customers in circumstances which make them vulnerable. 			✓	<p>The LREI and REAV sub-groups Chairs each provided a written report to the wider Panel asserting confidence that the customer engagement was undertaken appropriately and the relevant research and results were considered as part of the business plan.</p> <p>The Chair of the WFCP also provided a report to the Panel asserting confidence over the work that the Panel and the sub-groups have undertaken. Alongside these reports, a summary of the ways in which each group has met the requirements of the aide memoire, and the associated evidence base was included for the approval of each sub-group, and ultimately the Panel.</p> <p>The Panel is satisfied that the company has developed a plan that puts customers at the heart of its business, which delivers stretching performance for customers, communities and the environment, and is built on a solid foundation of customer engagement.</p> <p>Alongside this, the Panel believes that SWW’s vulnerability and affordability strategy will ensure that bills are affordable for all customers, regardless of the decision made by Defra on the continuation of the £50 government contribution, and that the company will be able to effectively identify and support those customers in vulnerable circumstances.</p>

2 Challenge Group Governance

WFCP's composition, objectives and process

Purpose

The WaterFuture Customer Panel (WFCP) was the Customer Challenge Group (CCG) for South West Water (SWW). Its objective for PR19 was to provide assurance over the development of the 2020-2025 business plan, specifically around customer engagement and how that has driven decision making and is reflected in SWW's plan. As such the Panel broadly continued in the role it was set up for to meet Ofwat's requirements for PR14 though in line with the refreshed guidance Ofwat provided for PR19 to CCGs.

The Panel has clear terms of reference (ToR) and remit which align with Ofwat's requirements for a CCG. The ToR (see Appendix I) are also published online so that customers and other SWW stakeholders can view them⁴.

Structure

Appointment and role of the independent Chair

Nick Buckland was appointed as the Chair of the Panel to provide independent leadership and direction for the Panel during its process of scrutiny of the SWW Plan. The Panel Chair also participated actively in the CCG Chairs' group and other Ofwat-led meetings. Regular meetings of the Panel, attended by SWW senior executives, were chaired by Mr. Buckland, who determined with SWW the meeting agendas and ensured that Panel challenges were clearly communicated to SWW and responded to appropriately. Minutes of the meetings were taken by SWW and Deloitte⁵ and were made available to the Chair so that he could comment before circulation to the wider group.

To meet Ofwat's expectations for the WFCP to provide a report on various aspects of SWW's business plan, the WFCP selected Deloitte LLP as the independent party to support it in writing this report following a formal tender process (CVs of Deloitte team members are included in Appendix VI). In supporting the WFCP in drafting its report to Ofwat, Deloitte attended Panel and sub-group meetings, workshops and conference calls, recorded minutes of the independent sessions of the meetings it attended, reviewed the minutes of the Panel and sub-group meetings, and examined other key documents such as the Challenge and Actions Logs. Additionally, Deloitte had access to all agendas and documentation for the WFCP, WaterShare Panel (WSP) and LREI and REAV sub-groups and has been provided a thorough background and in-depth understanding of the work undertaken by SWW and the Panel and its sub-groups.

Membership of the Panel

The WFCP is composed of independent, experienced members bringing a broad wealth of skills and knowledge. The Panel included representation from business, community groups, and members drawn from regulators and government agencies. Some members were also part of this customer challenge group during PR14. This broad membership ensured that the Panel represented a wide variety of customer stakeholders and that there was adequate understanding of local issues and expertise in consumer issues. Appointment to the Panel was made by SWW in consultation with the Chair and no substitutes or seconds were permitted unless by prior agreement by the company and the Chair. All Panel members received an induction process to company's history, operation and aspirations, to explain the price setting process and the role of the Panel.

The WFCP members drawn from regulatory bodies provided expertise and information to the rest of the Panel from their respective areas. There was regular attendance by personnel from the Environment Agency, CCWater and Natural England. The Drinking Water Inspectorate (DWI) declined direct representation on the Panel preferring to respond to an open invitation to attend meetings. As such, a DWI representative attended one

⁴ ToR can be found here: https://www.southwestwater.co.uk/globalassets/document-repository/waterfuture-archive/wfcp_tor_20170908_final.pdf

⁵ Deloitte was responsible for recording the minutes for the sections of the WFCP meetings it attended that were independent of the company.

meeting⁶ (20 March 2018) and presented to the Panel and SWW. Through the inclusion of Panel members drawn from the regulators mentioned above the Panel has challenged SWW on the business plan being legally compliant and meeting other expectations of these agencies.

The WaterFuture Customer Panel



From left to right: Richard Lacey, Tim Jones, Barbara Shaw, Nick Buckland OBE, Steve Meakin, David Heath CBE, Jeremy Bailey and Harry Barton. Not pictured Deborah Fraser and Orlando Venn.

The Panel members (see Appendix III for biographies) and their roles within the organisations they represent, where applicable, are shown below:

Nick Buckland OBE, Chair

Tim Jones, Vice Chair and Chairman of the Devon & Cornwall Business Council and Board member of the Heart of the South West Local Enterprise Partnership

Harry Barton, Chief Executive Officer - Devon Wildlife Trust and Chair of the LREI sub-group

Steve Meakin, Independent and former Chair of the Institute of Money Advisers (IMA) and Money Advice Coordinator for Devon & Cornwall, Citizens Advice Bureau, and Chair of the REAV sub-group

Richard Lacey, Independent Chair of Bournemouth Water Customer View Group⁷

Barbara Shaw, Chief Executive Officer - Westward Housing

Deborah Fraser, Director (South West) – Confederation of British Industry

David Heath CBE, Regional Chair - Consumer Council for Water

⁶ The DWI presentation (see Appendix XVIII.xi) covered compliance from 2014-2016 compared to the England and Wales average, the key drinking quality issues for PR19, along with customer contact data on discoloration, taste and odour, and details on how events are measured and monitored. At this meeting, SWW also presented its drinking water quality overview which was well-received by the DWI representative.

⁷ For Bournemouth Water, the purpose of the Bournemouth Water BW Customer View Group (BW CVG) is to review PR14 performance. The BW CVG is chaired by Richard Lacey and he sits on the WFCP to provide a link to BW customers. The Deputy Chair of the REAV, Ed Vidler, is also the Deputy Chair of the BW CVG, thus further ensuring the fair representation and consideration of BW customers in all research and engagement.

Jeremy Bailey, Water Company Account Manager - Environment Agency⁸
Orlando Venn, Senior Water Advisor - Natural England⁹

Remuneration of the Panel

SWW made available a standard daily allowance per meeting for out of pocket expenses to be called upon when required and where appropriate. The Chair received a fixed sum of £25,000 per year and the Deputy Chair received £8,000 per year. This was detailed in the WFCP governance approach published on the company website¹⁰.

Panel sub-groups

The Panel appointed sub-groups to provide detailed challenge in their respective areas. Members of each sub-group were selected based on their knowledge, experience and areas of expertise regarding the subject matter. The Chairs of each sub-group also sat on the WaterFuture Customer Panel. There were two sub-groups:

- Legislative, Resilience and Environmental Investment (LREI)
- Research, Engagement and Vulnerability (REAV)

The LREI and REAV sub-groups met on a regular basis and workshops were held on more technical areas, such as triangulation and ODIs. Between the two sub-groups over 200 individual challenges were raised to SWW. Each sub-group examined SWW’s customer engagement approach alongside related outputs and communicated specific challenges to the wider Panel for feedback to SWW, with further detail on roles and membership provided below.

REAV sub-group	LREI sub-group
<p>The purpose of the REAV sub-group was to advise and challenge the company as it developed its engagement and research plans. It was chaired by Steve Meakin, former Chair of the Institute of Money Advisers.</p> <p>The group met on a monthly basis to review SWW’s research and engagement process and the evidence emerging from it. This included evaluating the effectiveness of the company’s customer and stakeholder research and engagement approach and activities against Ofwat’s key characteristics and wider principles of good customer engagement.</p> <p>The challenges and outcomes from meetings were communicated to the WFCP on the evidence from the research and engagement activities undertaken by the company to support the business plan.</p> <p>Additionally, the REAV helped SWW develop its engagement with hard to reach customers to deliver outcomes benefitting all parties.</p>	<p>The purpose of the LREI sub-group was to challenge SWW so that the 25 Year Future Outlook and PR19 Business Plan were affordable, legally compliant and embrace upstream and downstream thinking.</p> <p>The group was chaired by Harry Barton and met approximately every two months. The meetings covered the legislative and regulatory obligations that the company must comply with; areas to improve resilience and sustainability while delivering value; and challenges on the solutions and timings identified by the company in order to comply with its statutory obligations and embrace potential opportunities.</p> <p>Additionally, the sub-group provided its view to the WFCP on how the legislative and regulatory obligations and resilience and sustainability opportunities were incorporated into SWW’s investment programme.</p> <p>It should be noted that Orlando Venn from Natural England (NE) was not represented on the LREI for the last six months of the sub-</p>

⁸ The Environment Agency (EA), as a member of the Panel, supports many of the views expressed in this report. However, these views will not necessarily influence any subsequent position the EA takes as part of its ongoing statutory and regulatory duties associated with South West Water’s environmental obligations.

⁹ Orlando Venn stepped down as a Panel member in January 2018 due to being promoted to a national role within Natural England. Natural England chose not to appoint a replacement for Orlando Venn, though continued to receive all meeting documentation, along with maintaining an open line of communication with the WFCP Chair, LREI Chair and the company.

¹⁰ The WFCP terms of reference and governance approach can be found here: <https://www.southwestwater.co.uk/waterfuture/waterfuture-panel/terms-of-reference/>

<p>The sub-group’s ToR are in Appendix IV and members are listed below:</p>	<p>group’s work, so the sub-group did not benefit from NE’s input during that period.</p> <p>The sub-group’s ToR are included in the Appendix V and its members are listed below:</p>
<p style="text-align: center;">REAV sub-group members</p> <p>Steve Meakin, Chair – Independent and former Chair of the Institute of Money Advisers (IMA) and Money Advice Coordinator for Devon & Cornwall, Citizens Advice Bureau</p> <p>Ed Vidler, Deputy Chair - Independent</p> <p>Gudrun Limbrick, Local Consumer Advocate – Consumer Council for Water</p> <p>Market Research providers (where applicable)</p>	<p style="text-align: center;">LREI sub-group members</p> <p>Harry Barton, Chair - CEO of Devon Wildlife Trust</p> <p>Professor Ian Bateman OBE, Director - Land, Environment, Economics and Policy Institute – University of Exeter and a member of HM Government Natural Capital Committee</p> <p>Laurence Couldrick, Chief Executive Officer - Westcountry Rivers Trust</p> <p>Jeremy Bailey, Water Company Account Manager – Environment Agency</p> <p>Orlando Venn, Senior Water Adviser – Natural England</p> <p>Mike Short, Local Consumer Advocate – Consumer Council for Water</p>

As part of their roles, the Chairs of the two sub-groups each prepared a report for the Panel (see Appendix XIX), that provided an overview of the sub-group’s activities, its challenges, and conclusions. These reports concluded that the Chairs were satisfied with the extensive programme of customer research and engagement undertaken by SWW and that these have been aligned to the relevant Ofwat requirements. The Chairs, in their reports, provided assurance to the WFCP that the company has responded to the sub-groups’ challenges and the customer research and engagement can be relied upon and has been incorporated into the PR19 business plan.

Additional Objectives of the WFCP

Along with the objectives already mentioned in the Introduction, CCGs also may have two additional roles, which were not a requirement for the purposes of PR19:

- i. Reviewing and challenging companies’ on-going performance, including its Annual Performance Report; and
- ii. Informing the development of Ofwat policy through contributing to consultations and workshops.

The WFCP fulfilled the CCG role for PR19 but is also active with regards to the two additional roles. In particular as regards ongoing challenge of performance, the WFCP incorporates the WaterShare Panel, as detailed below.

WaterShare

WaterShare is the company’s performance sharing mechanism that was set up by SWW following PR14. The WaterShare scorecard was designed to report on the company’s performance against its regulatory contract. This regulatory contract outlines the costs SWW was allowed in the Final Determination (capital and operating costs referred to as totex) and the matching service levels (referred to as outcome delivery incentives).

WaterShare Panel

The WaterShare Panel, which has been incorporated into the WFCP, was established immediately after the cessation of the PR14 WaterFuture Customer Panel in December 2015, was chaired by Tim Jones and met quarterly starting in early 2016. The main purpose of the WaterShare Panel was to protect the interest of customers by providing independent review of the operation of the performance sharing mechanism 'WaterShare' to ensure that its application and scope is consistent with the approach set out in SWW's 'WaterShare Guide'.

The WaterShare Panel reviewed the company's approach to sharing customer benefit, timing of sharing any net gains, and customer views on the gain sharing outcomes. In its concluding report in August 2017, the WaterShare Panel stated it was satisfied that SWW had undertaken a balanced and measured approach to the operation of the WaterShare mechanism in the first two years of the regulatory period. A review of WaterShare performance occurred at WFCP meetings.

Process of Engagement of WFCP for PR19

For the Panel and the sub-groups, SWW developed reports and updates to be provided at each meeting. Comprehensive minutes were taken by SWW for each Panel and sub-group meeting. Once reviewed by the Panel, the Chair approved these minutes for publication on the company's website. The documentation shared with the Panel included regular updates on the progress and results from customer engagement, investment plan options and progress, PR19 programme updates, and reports and presentations to generate comment and challenge from the Panel. Specifically, documents shared with the Panel included:

- Research, consultation and engagement plans
- Research, consultation and engagement outputs
- Key themes/deliverables/outcomes from the plans
- Key information from other Panel members, such as environmental requirements from the Environment Agency
- Comparative data on performance, where relevant.

Along with the reports created for the Panel, SWW has been transparent in sharing responses and communications between the company and relevant government departments and regulators, such as Defra and Ofwat, as well as sharing presentations made to Ofwat.

Agendas were agreed in advance with the Chair and sent along with relevant documents (by special delivery) to each Panel member's preferred delivery address five working days in advance of the meeting. The Panel was invited to provide verbal and/or written feedback and met to discuss and challenge the company on its plans and proposals. Conclusions and actions were agreed by the Panel, documented and fed back to the company.

Separate Challenge and Action trackers (see Appendices VII to X) were updated and reviewed at the start of each meeting to confirm that all challenges and queries were recorded accurately, responded to by SWW, and that the responses were sufficient for Panel and sub-group members. Some challenges remained 'open' for the duration of the programme to ensure a consistent focus on key items, such as digital resilience, bathing waters ODI, and pollutions.

Along with covering the Challenge and Action trackers and reviewing the previous meeting's minutes, there were other standard agenda items that are covered at every Panel meeting. These items included regulator updates, updates from the sub-group meetings, programme updates from SWW, and WaterShare updates. SWW also prepared reports covering specific topics such as customer and stakeholder feedback, reports to Ofwat, and updates on SWW's progress in developing its plan and customer engagement.

The Panel was assured from the outset that the company's plan would deliver 100% compliance with statutory environmental and legislative obligations including DWI quality obligations. The Panel appreciated the company's transparency in demonstrating how these obligations would be fulfilled, provoking extensive discussion from the environmental regulators and sub-group members. The DWI wrote directly to the WFCP Chair confirming their support for the company's quality schemes, thus providing the Panel with further reassurance.

The timing of meetings varied according to the PR19 process (attendance matrix is included in Appendix VII). These half-day meetings allowed SWW to present comprehensive updates on a variety of areas affecting the business plan and for the Panel or sub-group to understand fully SWW's activities and to question or challenge effectively the work being done. Whilst it was not possible for every member to be in attendance for every meeting there was consistent representation at these meetings. It was noted that despite a representative being nominated from CBI South West to represent the views of the business community, that the individual only attended two Panel meetings due to clashing diary commitments. The WFCP was satisfied that the voice of local business remained clear through other members of the Panel and the LREI sub-group. Similarly, the Natural England representative changed roles in January 2018 and ceased to attend WFCP or LREI sub-group meetings, without a replacement being identified, though the WFCP does not believe this has detracted from focus on conservation and heritage issues.

Independent sessions

In addition to the main meetings, the Panel conducted separate independent sessions at the start of every meeting. These sessions, exclusive of the company, included Panel members only. Deloitte attended these private sessions to record the minutes, which were subsequently circulated to the Panel for review.

The company also ensured that the Panel had direct access to members of the Pennon Board (South West Water's parent company) and South West Water Non-Executive Directors and Board members, including the Chairman.

The purpose of the Panel-only sessions was to discuss how the Panel was operating, and for the Panel to raise, exclusive of the company, any questions or concerns. Relevant topics from these independent sessions were also discussed at the meetings inclusive of SWW.

During these sessions, the WFCP Chair received feedback on topics ranging from the development of meeting agendas to time management during the meetings. A consistent comment coming from Panel members during these sessions was with regards to the amount of information received ahead of meetings, and the requirement for some additional context to help the Panel better understand the information. It was felt that better contextualisation and signposting would improve the Panel's ability to challenge SWW effectively during meetings. This issue became more significant as SWW responded to the freeze and thaw in early 2018 with information not provided until the day before Panel and sub-group meetings, however, the Panel noted that this was the only instance where meeting packs were not available in electronic format or printed and distributed a week before the meeting.

The Panel and sub-groups challenged SWW to include more context in its reports, such as including additional comparisons and highlighting key information. It was noted that SWW did make the requested changes to reports and documentation shared with the Panel and sub-groups, and as such the Panel felt that it was able to challenge more effectively.

These independent sessions also discussed any topics that had not arisen that the Panel felt it should be commenting on, allowing Panel members to provide additional education and reassurance on certain aspects. For example, the chair of the REAV sub-group was able to further explain the improvements in the quality and depth of customer research, and the significant increase in the number of related activities conducted in direct comparison to PR14.

Sessions between the Panel and the Pennon Board focused on high-level topics affecting the entire industry such as possible re-nationalisation, corporate transparency, financial structures and reputation. The Pennon CEO provided his view on these topics and also provided updates from his interactions with government, the rest of the Board and other stakeholders. For example, there was discussion on the different views between listed and private companies regarding reputation, where currently reputation is less about service that is provided, but more concerned with governance, transparency and paying fair tax. Offshore corporate ownership is not an issue for listed companies like Pennon and, through it, South West Water. The Pennon CEO provided the Panel explicit confirmation that Pennon does not use offshore financing vehicles for borrowing, although still has a lower cost of capital than many private companies who do use offshore vehicles, based on the consistent focus on minimising financing costs. The SWW Managing Director was also able to provide a clear overview of the company's taxation strategy and the company's commitment to operating to the highest standards of corporate

governance. The Panel was provided with additional confidence in the company's transparency with regards to its corporate structures and financial arrangements.

Independent sessions were also held between the Panel and SWW's Non-Executive Directors (NEDs) only where it was confirmed that the WFCP was given enough information and resources by SWW to achieve the Panel's objectives. The NEDs confirmed to the Panel that PR19 was an agenda item at Board meetings and wanted to give the Panel an opportunity to raise concerns about timelines or other issues so that the Board could respond. For example, at one session ODIs were discussed with the Panel sharing concerns that there was still much work needed. The NEDs were in agreement in that that volume of work regarding ODIs was still significant, and provided assurance that the Board was also focused on the development of ODIs. Furthermore the NEDs communicated that the company was not resting on its laurels, and was committed to achieving the best outcome for customers.

Position of the Panel

The Panel is comfortable with the robustness of its processes, the strength of its governance arrangements and the relevant background and expertise of its members, along with access to external experts, and independent Board members, and is confident that it was therefore able to effectively provide challenge to South West Water throughout the development of its business plan.

3 Customer engagement

SWW's customer engagement approach and response to WFCP challenges

Introduction

This section summarises the customer engagement approach undertaken by SWW and the Panel's role in scrutinising its quality and challenging SWW to demonstrate that engagement with customers was incorporated into the SWW business plan. Customer engagement was a key focus area of the REAV sub-group and was covered regularly in the WFCP meetings.

From the outset, the Panel was closely engaged and kept well informed of SWW's customer engagement approach and methodology. Panel members were also invited to participate as observers in some elements of the work to gain first-hand experience.

Each aspect of the company's engagement has been developed with, or reviewed by the Panel and the REAV sub-group. At the outset of the programme, the company built its sampling strategy in conjunction with the REAV, to ensure that throughout all engagement there the data gathered would be robust enough to enable meaningful segmentation, with due consideration provided to customers of Bournemouth Water.

Throughout the process, the Panel and REAV sub-group provided detailed challenge on a range of critical topics, were able to question both SWW and its expert advisers. In addition, the Panel has received assurance on the technical approach undertaken by SWW by external consultants and academics. For example, SWW's sampling strategy was agreed with the REAV sub-group which meant that questions were asked in every online / phone (CATI) and face-to-face (F2F) survey to capture a robust sample of views from customers who were receiving a lower tariff and/or those self-reported some vulnerability within the household. Furthermore, the REAV sub-group and Panel, ensured that SWW developed a genuine understanding of customers, their needs and priorities and used effective and innovative methods to engage with them in a two-way and transparent process on issues that mattered to customers.

SWW's approach

The Panel is confident that customer engagement is firmly embedded into SWW's practices and is conducted as part of daily business. The activities undertaken for this price review sought to build on this foundation and the company's was focused at ensuring that views from all customers, communities and stakeholder groups were gathered and understood from the outset.

SWW has demonstrated that it recognises that a basis of sound research and engagement is essential to ensure that its proposed initiatives and investment programme comprehensively reflect customer priorities and the value they place on SWW's services. SWW has conducted a vast array of research to specifically inform the development of the business plan to 2025 and has incorporated these outputs alongside its review of feedback received directly from customers through day to day contact, co-creation workshops used to re-design the customer leakage process, and the outputs from ongoing customer engagement activities, such as long term tracking survey, and have demonstrated to the Panel that it fully and effectively understands customer's priorities and has ensured that these priorities make up the fundamental building blocks of the company's plan.

SWW's PR14 plan which was built on a strong foundation of customer engagement was assessed by Ofwat, although SWW has recognised that new techniques and technologies would assist it in understanding the range of issues that really mattered to customers. SWW's approach to engagement for PR19 introduced a number of new activities and approaches all split between four key phases, as outlined below:



- Establishing priorities;
- Understanding how customers value services;
- Understanding how customer balance and trade-off services and costs; and
- Ensuring the plan delivers for and protects customers.

Establishing priorities	Understanding how customers value services	Understanding how customers balance and trade-off services and costs	Ensuring the plan delivers for and protects customers
<ul style="list-style-type: none"> •Tracking research •Priorities research •OPM research •PC research •Social media sentiment •Customer contacts •Future customer priorities •Customer segmentation research •Consultations 	<ul style="list-style-type: none"> •Stated preference (SP) research •Second stage SP studies •Bathing water RP study •Avertive behavior RP research •Value transfer and market data literature research •Customer playback sessions 	<ul style="list-style-type: none"> •Interactive video "EngageOne" •Customer support for long-term affordable investment in services •Consultations •Stakeholder workshops •Local investment focus groups / Playback sessions •Acceptability research 	<ul style="list-style-type: none"> •ODI research •Risk and reward research •Greed redeem schemes •Advizzo •Protecting vulnerable customer research •Future customers requirement research

The sampling strategy, developed at the outset in conjunction with the REAV, ensured that data gathered throughout the programme was robust enough to enable meaningful segmentation, and that all customer groups were effectively represented, including those in vulnerable circumstances.

For each step of the process, results were aggregated along with evidence collected from a range of sources and techniques to ensure there was an appropriate interpretation of customer input (see infographic above).

The activities undertaken included surveys using a number of different methods (11,000 respondents to online surveys as well as computer assisted personal interviews (CAPI) and face-to-face surveys), two stakeholder workshops, five forums and over 70 regional focus groups. The activities were numerous, diverse, and carefully targeted, providing good coverage of the customer base. They were designed to be complementary and enable cross-checking and validation. This engagement was reviewed and scrutinised by the REAV and the WFCP throughout the process. The Panel was confident in its view that SWW had taken a comprehensive approach to ensuring a range of engagement activities and in analysing how data was collated and used.

As a starting position, PR14 performance commitments were tested with customers alongside Ofwat bespoke and SWW’s bespoke measures as a starting position. Overall, the priorities were broadly consistent with those at PR14, but saw the environment, vulnerability and affordability moving higher up customer priorities.

The Panel noted that only one of the top three service priorities for household customers had changed between PR14 and PR19 with controlling water loss due to leakage or bursts replaced with ensuring the quality of bathing waters, reflecting the increasing importance that customers place on this area. It was evident that customers valued a balanced approach across all priority areas. Outputs from these sessions were shared at the WFCP, LREI and REAVs where they were scrutinised and challenged.

SWW also engaged with retailers throughout the customer engagement process for PR19, with everyday conversations continually happening with retail customers on service and policy issues. Retailers were also invited to attend the stakeholder workshops held across Devon and Cornwall to provide direct feedback and input on the company’s proposals. 11% of attendees at these workshops were made up of business customers or retailers. Members of the WFCP, LREI and REAV also attended, with the summary reports shared with and reviewed by the REAV and the WFCP, who were satisfied with the extent to which business retailers had been considered.

SWW was committed to ensuring that it employed a range of innovative techniques to its engagement approach for the development of this plan to enable a broader range of customer views to be gathered.



SWW's approach

Comparative data and animated surveys were used online to give context to service issues whilst also bringing them to life, electronic voting was used in focus groups, and peer reviews were in place from the outset to ensure the engagement was of the highest quality and that areas for improvement were identified and acted on early. The Panel was also assured that the company's engagement was a two way process – with the company educating customers through focus groups, publications such as proposals and choices, and online animated surveys as an example, rather than solely requesting feedback from customers.

As shown in the challenge log, the WFCP, LREI and REAV challenged SWW on all aspects of its engagement, from the initial development of its approach through to ensuring answer choices were logical, and confirming that best practices were used for sampling and analysing results.

The REAV Chair, in a joint report with the LREI Chair, formally reported to the WFCP on 20 July 2018 that the company's customer research and engagement could be relied upon and was incorporated into the PR19 business plan to deliver customer priorities and statutory obligations. The WFCP was confident in accepting the content within this joint report.

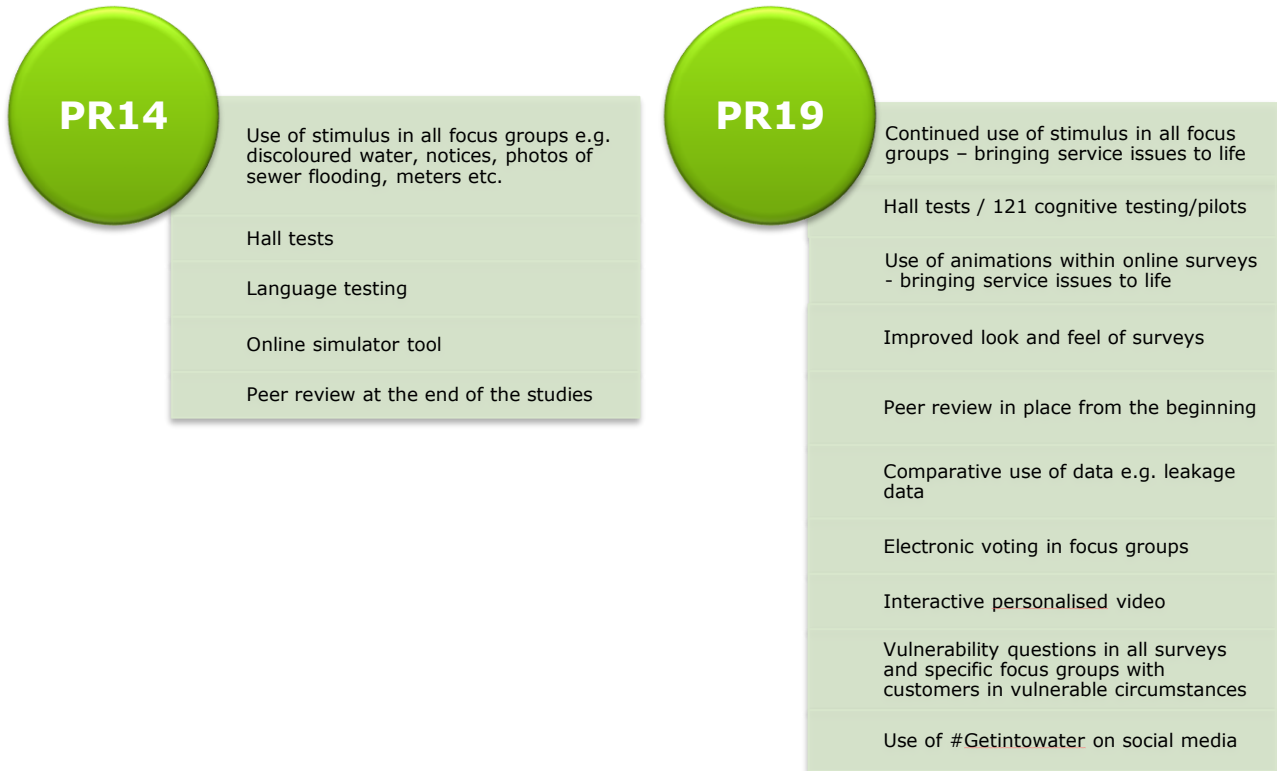
Step change from PR14

SWW has built on the customer engagement undertaken for PR14 and developed a range of innovative approaches to expanding the way in which customers are engaged with. In particular, the Panel was impressed by the animation and personalisation of online surveys which helped to ensure that customers were informed about what they were answering and to more accurately capture their preferences. Additionally, the peer review of the approaches, shared with the REAV sub-group, provided additional confidence to the Panel that the surveys and specific questions were worded questions in a satisfactory manner and therefore could receive consistent responses from customers.

Furthermore, the Panel challenged SWW on the robustness of the engagement and was assured in the response SWW provided detailing how customers priorities were played back continuously throughout the process to ensure that any fluctuation in priorities was identified and understood at the earliest opportunity. The Panel was satisfied that the customer priorities captured at the outset remained the same throughout the process, illustrating the robustness of the initial research.

The image below illustrates some of the ways in which the Panel was assured by the step change in engagement from PR14 to PR19.





Customer engagement outputs

The Panel and REAV sub-group in particular have reviewed and evaluated all aspects of the SWW customer engagement process from the facilitator selection for focus groups and wording in surveys, to the triangulation approach and peer review of methods used.

The Panel reviewed and challenged the priorities for SWW’s business plan to ensure they reflected a sound understanding and reasonable balance of customer views. As part of this, a number of documents and reports and outputs were reviewed, including, but not limited to the following:

- Overall approach to customer and stakeholder research and engagement;
- Presentation and report on methodology and outputs including a consolidated list of customer (end user) priorities undertaken in December 2016;
- Presentation and report on methodology and outputs from the priority ranking survey;
- Project briefs and topic guides;
- SWW’s valuation strategy, including the triangulation of evidence discussed; and
- Workshop to discuss the stated preference questionnaire, attributes and presentation of information within the surveys.

During this process, the REAV sub-group was closely engaged with the Head of Regulation and Customer Engagement, who led SWW’s customer engagement. The Chair of the REAV sub-group shared the discussion points and challenges on SWW’s customer engagement to the wider Panel at each meeting, providing confidence and assurance to the WFCP that the REAV was undertaking its role effectively.

The REAV sub-group confirmed with SWW early on in the process how BW customers’ priorities would be included in the business plan and whether region needed to be reflected in customer priority ratings. SWW confirmed that it aggregated customer priorities and that customer groups, including BW customers, are weighted appropriately, based on the size of the customer base. The Panel also challenged whether customers in the Bournemouth region had different views to those customers in the South West, and received reassurance from the company based on a drill down of its research that there was consistency in the measured supported by customers across both groups.



A recurring topic with regards to customers in the South West was whether they were aware of the £50 government contribution and if the removal of this contribution would affect their preferences (discussed further in **Section 4** of this report). Based on this being a decision made by government and not by SWW, the Panel was advised that the company would build its plan on the assumption that this contribution would be retained, but it would have in place a plan and a mechanism to support those customers who would be pulled into water poverty as a result of its removal. This was a frequent area of discussion and debate at each WFCP meeting. SWW shared that extensive research and analysis had been undertaken regarding both awareness of the contribution and customer acceptability of its potential removal, and provided the Panel with results at each stage, confirming that c.32,000 customers (around 7% of customers) would be pulled into water poverty if the government contribution was removed. Based on the significant impact that the removal would have on customer bills, the Panel challenged the company to ensure that these results were shared with Members of Parliament.

The Panel received assurance from the company that regardless of the decision made by the government in 2019, the company had committed to ensuring that bills would be affordable for all customers. SWW shared that this would be achieved through the application of targeted support for those customers who would be pulled into water poverty if the £50 government contribution was removed. The Panel was also provided with a detailed overview of the methods and techniques that would enhance the company's current affordability 'toolkit', as described in **Section 4**.

With regards to the development of the company's acceptability testing, the REAV sub-group challenged the company on its inclusion of the guidance issued by CCWater in its acceptability testing approach. CCWater issued a briefing note around its expectations on water companies' testing of customer views on acceptability of their Business Plans for the 2019 Price Review. The note included the recommendation that companies' acceptability testing should include the views of uninformed customers on how acceptable the overall bill impact is without going into detail about proposed service improvements. The REAV noted that the company's approach was broadly in line with CCWater's expectations, with the exception of the inclusion of an 'uninformed' question. The company explained that the reason for this decision was the number of variants already included within SWW's acceptability testing (i.e. with or without the £50 government contribution, and with or without inflation). Views of the REAV sub-group were sought to determine whether it was satisfied with the approach the company had taken. CCWater challenged that the majority of customers are 'uninformed'; and therefore including this within the testing would ensure that the views received were representative of the average consumer. Other members of the REAV sub-group felt that it was more important that the £50 government contribution and inflation variants were included and that to keep the survey to a manageable length for customers the 'uninformed' question could be excluded. As there was a mix of opinions with regards to the best approach to take, the company made an adjustment to its approach and modified the survey variants to reflect the inclusion of the 'uninformed' question in the second phase of its acceptability research.

Business engagement

SWW ensured that its engagement incorporated non-household (NHH) retailers in a number of ways, from specific stakeholder workshops and direct interviews with the retailers operating in the company's region, through to SWW directly liaising with NHH customers on wholesale issues on a day to day basis.

The stakeholder engagement workshops included other stakeholders besides companies and it was during these workshops where the most direct feedback from businesses was collected. These stakeholder workshops covered stakeholder and business views on SWW's current performance, including areas for improvement. The workshops also included reviews of the PR19 process and the investment for the Water Resources Management Plan. The feedback from these workshops was shared with the Panel, so that the Panel could review results around the different proposals and challenge SWW to ensure these stakeholders' views were incorporated into planning, such as pollutions incidents being an areas for improvement. Beyond the qualitative feedback, the stakeholder workshops afforded attendees an opportunity to vote on specific items, such as which SWW performance and improvement options were preferred. The Panel also reviewed these quantitative results to better understand the priorities of customers, such as the preference to focus on the demand-side solutions, rather than supply-side.

From these results, as well as the feedback from the attendees that the workshop did cover the right topics, the Panel was satisfied that business customers were appropriately engaged and that SWW is able to deliver a plan



that benefits all customers. As a result, the Panel was satisfied that it did not need to challenge SWW further regarding the engagement undertaken with business customers.

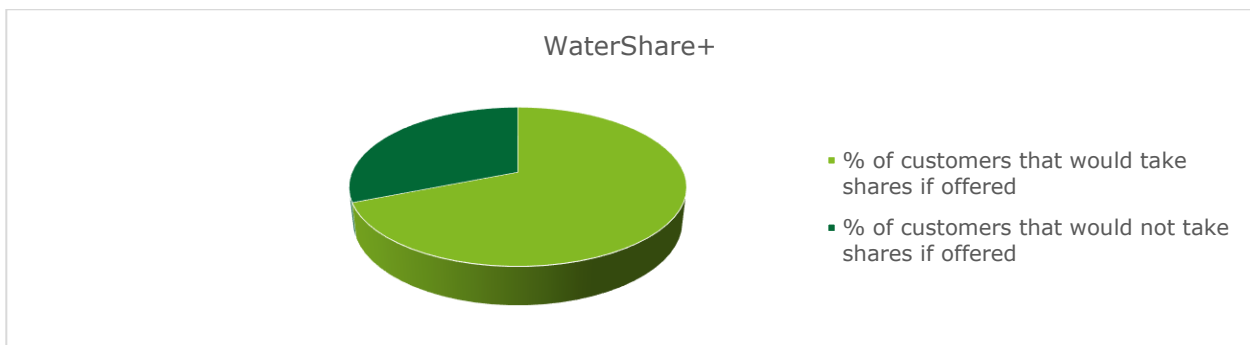
Engagement on WaterShare

As part of its customer engagement, SWW engaged with stakeholders to gather their feedback on the WaterShare mechanism, which was viewed positively by customers. WaterShare was created after PR14 as a performance sharing mechanism that was set up to share financial benefits with customers when SWW was outperforming its business plan and protect customers when it was underperforming.

SWW has made clear to the Panel its intention to further enhance the WaterShare framework, introducing the concept of WaterShare+ early in 2018. The company shared the plans for, and outputs of, its engagement with customers in seeking to understand what they would consider to be an appropriate method for sharing financial benefit. Using the principles of the sampling strategy, customers were asked about their views on a variety of financial benefits, including bill reductions, 'cash back' distributions, investment in local community and environmental projects, investment in services, and share ownership to help inform the development of the framework.

The Panel reviewed the customer engagement that supported this approach, and SWW informed the Panel on how it developed what features WaterShare+ would include. The Panel appreciated the broad considerations employed in developing WaterShare+ and understood that share ownership was not something that could be replicated by the rest of the industry, noting also that this proposal goes beyond the current regulatory mechanisms.

The Panel were assured by the company that it believed was that this was the right thing to do for customers, and the Panel was confident that the company's objective for this framework is to further empower customers by offering them a direct stake in the business. Based on the research, the Panel understood that **69%** of customers would choose to take shares in the company if offered, but challenged as to what this would mean for the remaining **31%** of customers, as shown in the diagram below. The Panel was assured that the WaterShare+ framework would include a package of options for customers to choose from, with share ownership being one of these options.



When the final framework for WaterShare+ was shared in July 2018, the Panel was unanimous in its endorsement of this proposal as an innovative vehicle to share outperformance with customers, built on customer priorities.



Example challenge areas

- Methodology approach and execution
- Sampling approach and demographics
- Inclusion of cost and willingness to pay
- Balance of engagement – intergenerational and regional
- Business engagement
- Use of studies for triangulation



The Panel challenged SWW on how the customer engagement was conducted. Specific points of challenge are drawn out with further detail below.



i. Methodology approach and execution

The Panel raised the following challenges:

- There were challenges regarding several aspects of the focus groups, such as the facilitators being used, the prompts provided, whether or not personnel from SWW should be present, and how and whether the findings from the focus groups were an accurate reflection of customer views.
- A challenge was raised if customers should be made aware of the 'whole' cost of their bills, which would give them a sense of proportion on how different investments contribute to bills (e.g. environment scheme contributes 1% and employee pay contributes 10% to customer bills) and whether this could impact their preferences.
- The Panel challenged how customers were educated regarding the content in surveys and the specific wording of questions and the contextual information provided. The members of the sub-group offered support to develop the educational material as they were well positioned to comment whether the information provided lead respondents to particular answers. Additionally, there were questions on whether splitting categories for priority ranking into clean, waste and retail was confusing for the customer engagement groups.

SWW response:

- SWW agreed that one focus group out of the more than 20 held at that point did not adhere to the necessary standards and arranged for two more focus groups to be conducted. SWW advised the Panel that customers complete a task before the focus group so that they are aware of topics like affordability, customer service and metering and are not only relying on the prompts. The company confirmed that it had sat in on focus groups for every price review since the 1990s advising that it is not uncommon within the sector and is also a practice adopted by CCWater. The Panel was happy with this response believing it resulted in improved feedback from customers being considered by SWW.
- SWW provided additional information with further context to customers on other, non-specified, costs that may impact bills in order to satisfy the Panel's challenge about ensuring customers could accurately indicate their preferences, which the Panel reviewed and was happy with.
- SWW confirmed that customers were provided with a range of information on what they should consider when making choices in focus groups, which included comparative data. SWW also confirmed that the Water Resources survey and show cards with contextual information were shared with the EA and NE for comment, and the Panel was satisfied with this. SWW shared that the majority of customers put priorities under the right heading, and that having these specific categories generated conversation and additional feedback from customers. Additionally, SWW asked customers for their five year priorities, extrapolated these over 25 years and also repeats this process every five years. SWW stated that it can be difficult to get longer term viewpoints from customers but the company does try to incorporate that into its research.



ii. Methodology of engagement – sampling and demographics

Panel challenge:

- The WFCP challenged the strategy and calculations used for sampling and stratifying the customer groups to better understand the demographic splits and why those particular groups were chosen.

SWW response:

- SWW confirmed that the approach in the sampling strategy is based on industry best practice. Regarding the demographic of customers included in the engagement process, SWW confirmed that experience has shown that these groupings make it easier to identify different viewpoints. Furthermore SWW engaged external specialists to manage and support its customer engagement activities, and commissioned research, and obtained expert advice and opinions in key areas.





iii. Inclusion of cost and affordability in quantitative research

Panel challenge:

- The Panel asked why cost and affordability hadn't been included in the quantitative research. Although willingness to pay is tested, the Panel questioned whether SWW had overlooked the second most important priority.

SWW response:

- SWW explained that affordability was an overarching priority rather than a specific area for investment that could be tested quantitatively. For the surveys two aspects were covered: 1) things SWW will/can do; and 2) the cost of doing them. In line with the research carried out for the PR14 business plan, customers were engaged on their priorities, with this research which was followed by the core willingness to pay research. The company shared that the role of customer preference research for PR19 was to understand the priorities of customers, along with understanding the value of those services. The primary aim of the main stage stated preference study was to provide customer values for a broad range of water, wastewater and environmental service measures, based on customer's willingness to pay to maintain or improve service levels for these areas. The results provided a robust set of values that inform the triangulation of customer evidence for the plan.
- SWW added that the final phase of testing covered how acceptable the overall plan was for customers, which was tested using a number of different variables (e.g. inclusive and exclusive of inflation, different bill levels, inclusive and exclusive of the £50 government contribution).
- The analysis of cost and affordability results came out during acceptability testing of those initiatives, although in the Panel's view this was more so in the qualitative research than the quantitative research. Overall, the Panel agreed that affordability had been considered appropriately.



iv. Balance of engagement – intergenerational, customer and shareholder, regional

Panel challenge:

- The Panel challenged how different priorities from different groups were balanced. For example, how BW customers' priorities, which may be different from SWW customers' priorities, were integrated when allocating investment across the areas, and whether a regional balance was needed in the priority rankings.
- The Panel also challenged how the priorities of shareholders and customers were balanced and how the company considered intergenerational fairness. The Panel observed that customer engagement must be relevant and focus on customers' interest and not purely be self-serving.

SWW response:

- SWW confirmed that it will be submitting one business plan to Ofwat that covers SWW and BW presented as an aggregation of customer priorities. The company confirmed that the plan has been built from the bottom up, and is comprehensively grounded in customer research and engagement from customers across the whole region.
- SWW confirmed that at PR14 two groups of future customers were engaged with, both aged 16-18. For PR19, the company classified future customers as those between ages 16-30, and engaged with four groups. SWW advised that all groups received and used the company's product, but the term future refers to the fact that they were not current bill payers. The four future customer groups engaged covered different topic areas: priorities/service levels, value of services, education, engagement and participation, and trust and reassurance. Engagement on these topics helped inform the company across a number of areas including the current business plan, the future vision, future communication, innovation and participation.
- SWW shared that it found that customers on the whole understood that 'cheap today' meant 'expensive tomorrow' in relation to asset health in particular. To achieve fair representation of views in focus groups SWW ensured that there was a distribution of age and customer demographics. SWW added that a key theme from its engagement was that most customers believe that investment should be smoothed over time, rather than storing up issues for the future.
- SWW confirmed, that in general, the concept of fairness, by not avoiding issues and therefore passing on costs to future generations, was a critical belief throughout the customer engagement workshops.





v. Business engagement

Panel challenge:

- It was unclear to the Panel what types of business were included in customer engagement and what was meant by “retailer”. The Panel felt it needed to be clarified if a retailer was a water seller or any business that was a water customer.

SWW response:

- It was clarified that “retailers” refer to water companies serving non-household (NHH) customers, introduced following the opening of the NHH retail market on 1 April 2017. Retailers in this area include Pennon Water Services (the incumbent retailer for both SWW and BW), Castle Water, BusinessStream, and WaterPlus.



vi. Willingness to pay

Panel challenge:

- The Panel challenged SWW that, in developing the Plan, the WTP studies should be crafted with appropriate context so as to get as realistic valuations as possible from customers.
- The Panel challenged the process employed when consulting with customers on willingness to pay, asking specifically whether customers are aware of their current service levels in real terms and the relative cost/benefit of an increased or decreased level of service.
- It was also noted that asking customers about willingness to pay by 2025, eight years ahead, could be too far out for them to give proper and informed consideration.
- The Panel challenged whether SWW has accurately communicated the trade offs in terms of bill levels and service.
- The Panel also challenged SWW regarding how the differences between BW customers and SWW customers’ willingness to pay would be accounted for.

SWW response:

- It was made clear to the Panel that more detailed preference surveys include contextual information to help customers provide informed responses. SWW stated that this research was useful for triangulation and cross-checking.
- The company advised that levels of service were clearly represented during the research and that the survey was designed in such a way that customers were able to differentiate between the relative benefits and dis-benefits. SWW added that the use of comparative performance in its research and engagement was one of the key changes from the engagement at PR14. Alongside this, SWW advised that it provided to customers a version of its Annual Performance Report (APR) published at the end of July that would also include comparative performance.
- The company confirmed that the willingness to pay results would be weighted to account for the variance in the SWW and BW bill levels.



vii. Triangulation

Panel challenge:

- The Panel challenged whether the stated preference study should be used in the triangulation process and clarified that if using this study, then it would be seem sensible to ensure that the fuller context is provided by the company to respondents to this survey, including what was required by the company and what could be driven by customer feedback.

SWW response:

- The company stated that a range of evidence was brought together for triangulation and values from multiple studies were sourced. SWW also confirmed that SWW’s PR14 customer values, some benchmark values that have been calculated from other companies PR14 research (based on the EA’s RBMP2 evidence base), and the EA’s 2012-13 bathing waters research were also utilised when triangulating for that service area.
- The company explained the balance on the content and detail that can be included for one service area in the study. The company also confirmed that the survey was tested with customers to determine what is manageable in terms of the number of service areas, the explanatory content, and the choice tasks. As this



was not the only piece of customer evidence that used, it was not necessary to add survey length and potentially over-emphasise this aspect of service relative to others.

Evidence reviewed

- Establishing customer priorities research
- 2050 vision - look, feel and language
- Proposals and choices consultation
- Vulnerable customer – Priority Services Register research
- Performance commitment and ODI research
- Customer playback sessions
- Service improvement research
- Quantifying priorities – ranking, phasing and willingness to pay
- OPM deep dive workshops
- Customer leakage co-creation workshops
- Stated preference – main study
- Stated preference - water and wastewater services second stage studies
- Stated preference – water resources second stage studies
- Revealed preference – avertive behaviour – post event surveys
- Revealed preference – avertive behaviour (post freeze and thaw)
- Local and regional investment focus groups
- Future customer research
- Stakeholder workshop report
- Risk and reward research
- Revealed preference: TCM bathing water study
- Value for water surveys
- Pollutions – willingness to pay research
- Isles of Scilly – willingness to pay research
- Customer support for long term, affordable investment
- Behavioural economics (GreenRedeem pilot and Advizzo)
- Subjective wellbeing research
- EngageOne water resources online survey
- Triangulation data and summary report
- Retailer engagement
- Acceptability testing research and outputs



Position of the Panel

- The Panel has comprehensively and effectively reviewed and challenged the inputs to the customer engagement as well as the results and is therefore satisfied with the extensive evidence provided by SWW detailing its customer engagement approach and transparency of SWW in the process.
- Furthermore, the Panel was satisfied with the response to its challenges and comfortable that SWW has undertaken an extensive and thorough approach to its customer engagement.
- The Panel considers that
 - The qualitative and quantitative phases of research were comprehensive and carried out appropriately;
 - SWW has used a sampling strategy to ensure consistency of information collected through every quantitative survey and flexibility to enable increasing sampling sizes to ensure sub categories of customers were captured; and
 - The valuation strategy included triangulation within the methodology and is robust.
- The Panel is confident that the results from the customer engagement have informed the business plan. For instance, customer preferences for a balanced approach and for bills to remain affordable and not fluctuate have been accounted for in the business plan.
- The Panel was impressed with the depth and breadth of the customer engagement. Whilst there were challenges regarding the content of the engagement, which were resolved, the Panel is confident that SWW has ensured that a wide range of feedback from both current and future customers was taken into account.
- As mentioned above, the Panel and sub-group challenges covered every area of the customer engagement journey, from sampling, survey and focus group development, to results and inclusion in the business planning. The surveys and results have been thoroughly reviewed by the Panel and therefore the Panel is confident that the work has been thorough.



4 Affordability and vulnerability

Customer engagement on affordability and vulnerability

Introduction

Whilst affordability and vulnerability are often overlapping concerns, and have been an area of frequent discussion and challenge throughout the business planning process, they are both wide ranging and dynamic subject areas with a range of associated research, views and considerations.

The Panel understands that customers may be able to afford their bills, but may nonetheless be vulnerable: for other reasons they may have difficulty accessing services or paying their bills. And vice versa, a customer may be in a circumstance that makes them vulnerable, though may not have any difficulty in paying their bill. The Panel has challenged the company to ensure that it is able to clearly identify the circumstances that make customers vulnerable, to find ways of engaging with them and to determine the best way to provide targeted support. In turn, the company has assured the Panel that its approach to tackling affordability and vulnerability is built on a solid foundation of existing knowledge and experience, robust and extensive research and will enable the company to address water poverty effectively for all customers by 2025. Ensuring the affordability of water bills for all customers is a key stated priority of SWW’s Board. For the Panel, Ofwat has highlighted this as an important area of all business plans and stated that CCGs are expected to comment on the overall approach taken by the company, and to examine the customer engagement that the company has undertaken around this topic.

Given the particular circumstances of the South West region, in terms of higher than average bills and lower than average incomes, and the possibility of the termination of the current £50 government contribution on each bill, the WFCP has been acutely aware of its remit in this area. The Panel was particularly keen to ensure that

- SWW had taken appropriate steps to understand what affordability means to all of its customers and that this is properly reflected in the business plan;
- The company clearly understands what vulnerability means for customers, and is able to demonstrate that its approach is targeted, effective and efficient;
- SWW delivered a high quality of customer engagement around affordability and vulnerability;
- The measures that SWW is proposing to deliver affordable bills to all are supported by its customers; and
- Customer views have been reflected in overall bill impacts of final plan – bill acceptability and measures to address those in debt/struggling are acceptable and effective, with appropriate measures proposed to raise awareness of vulnerability and the affordability assistance available to customers.

The company has also proposed three bespoke performance commitments in relation to vulnerability, with each in relation to the company’s Priority Services Register (PSR). The Panel is confident that the company’s approach to vulnerability is effectively addressed in these three performance commitments, along with having customer support for these commitments.

SWW’s approach

Affordability

Throughout its engagement with customers, SWW has considered how to deliver affordable bills for all customers, both current and future customers, and those struggling (or at risk of struggling) to pay, using an accepted measure of affordability in terms of bill proportion of disposable income, amongst other methods. SWW published a report on affordability in September 2017 entitled ‘tackling water affordability in partnership’ which detailed its approach to tackling water poverty and reducing bad debt, including considering affordability in the long term, something that the company has built on in its approach.



SWW's approach

SWW shared with the Panel that water poverty has been steadily increasing since the early 2000's, and with it the level of help that the company has funded to support customers struggling to pay. To provide some additional context and to illustrate the company's knowledge and experience in this area, the Panel was provided with the timeline of growth of the company's affordability toolkit.

The Panel challenged the company on how water poverty was calculated, which SWW confirmed as the recognised marker of 5% of disposable income, which satisfied the Panel.

Since acquiring Bournemouth Water, SWW has expanded its research and support for those customers most in need to those in the Bournemouth region, although it highlighted that the research demonstrated that, in general, water affordability in the BW region is less of an issue than in the SWW region, with average combined bills 14.3% / 22.6% lower than the SWW area (with the varying percentages representing whether the sewerage element of the bill is with Wessex Water or Southern Water). Alongside this, the average net annual income is 12.8% higher than in the SWW area. In further support of this, the Income Deprivation Domain which measures the proportion of the population in an area experiencing deprivation relating to low incomes also shows the BW region at 10.8% which is significantly lower than the national average of 14.5% and SWW at 13.6%.

As well as understanding the extent of water poverty in the region by analysing bill to income ratios and how customers perceive how affordable their bills are, the company also used external data sources to map areas of deprivation to build up a picture of what life is like for households across the region, which helped the company to identify where customers are struggling the most. This information also allowed the company to drill down on particular areas to target.

The company has been monitoring the affordability of water and sewerage bills as part of its long term tracking survey since 2012, and shared that although this is a good indicator of the affordability issues faced by customers, it is based on customer perception. In all quantitative surveys carried out for PR19 the company included an affordable bills question which allowed analysis of the data to understand how the different circumstances of customers impacted the results. This research continued to demonstrate that price and affordability remain the highest priority for customers.

A recurring challenge from the Panel was with regards to the current £50 government contribution which is key to the affordability of customer bills (in the South West area) at present. SWW is aware of the scale of the impact that the removal of this government contribution would have, and has shared the outputs of this research with the Panel and at the Panel's request with local Members of Parliament to provide further background and insight to support the government in its decision making. SWW's research shows that the removal of the £50 government contribution would push around of 7% households (c.32,000) into water poverty. The Panel challenged the company extensively around this element, noting the materiality of this change on customer bills.

Defra have written to the company to confirm that a decision on the continuation of this contribution will not be made until 2019. The company has confirmed to the Panel that regardless of the government's decision, the company will deliver on its commitment to ensure that bills are affordable for all. When challenged by the Panel on how the company would achieve this, SWW provided a detailed overview of the package of support measures that would enable this, confirming that this would be targeted through flexing the scope and range of the affordability package for those customers who would be pulled into water poverty as a result.

Through the company's engagement with customers, it has reported to the Panel that customers have shown support for a series of measures to help those that are least able to pay, with the company testing this in focus groups along with listening to the feedback that customers have provided who have received support from the company's schemes already in place, and also from the third parties who administer or apply on behalf of customers. Through the extensive willingness to pay testing, greater support for social tariffs have been seen – with an increase to roughly £9 from £2 for a cross subsidy. The research also confirmed that customers are also supportive of widening the eligibility thresholds to help more customers with perhaps a little less support, rather than a smaller group of customers receiving lots of support. SWW has demonstrated that this feedback is evident in its package of measures by extending its social tariff through removing the



SWW's approach

current benefits cap and carrying out bill to income assessments to address water poverty for all customers by 2025.

In addition SWW confirmed that customers also support receiving more water efficiency advice and access to low cost water saving devices amongst other water efficiency measures as the company's analysis shows that addressing high water use customers will also help to bring them out of water poverty. Future customers have also confirmed that they are supportive of water efficiency measures and see solutions to future affordability challenges as needing customer involvement as well as the company. SWW also shared that wider stakeholders support a level of increase to the current affordability package, but their views were mixed as to how far the company should go.

Customers have told SWW through its research that while metering is the fairest way to pay for what households use, they still value the choice to switch, which is again one of the key components of the company's affordability package.

The company has also considered bill impacts on all customers under a range of scenarios and tested different packages of proposals and bill / service combinations with customers to understand the acceptability of these approaches to customers. Alongside driving the overall choices and investment levels in the business plan and average bill levels, both now and in the longer term, the company's plan includes enhancing its existing affordability toolkit to provide appropriate assistance for those struggling or at risk of struggling to pay in its plan.

SWW also confirmed that its Board has provided its full assurance that bills will be affordable for all customers. Based on the research and data provided to the Panel along with the comprehensive approach set out by the company, the Panel, in its review and challenge of the company's proposals, has provided its full endorsement of the company's affordability and vulnerability package, with the Chair of the REAV commenting that this was a package that the company should be proud of, and the Chair of the BW CVG commenting that the package as a whole demonstrated great ambition from the company.

Vulnerability

Understanding vulnerability is a key component to ensuring that the service the company offers to customers in vulnerable circumstances is targeted and effective. The Panel was supportive of the company's approach to defining vulnerability, with the company not operating a rigid definition in recognition of the potential transient and multi-layered properties of vulnerability, recognising that any customer could find themselves in a circumstance that makes them vulnerable and the degree of support required will vary dependent on personal resilience and existing support networks. This approach is further reflected in the registration on the company's Priority Services Register which is focused on the service that customers require rather than the underlying cause of vulnerability. The Panel is confident the company clearly understands that there is no 'one size fits all' approach to vulnerability.

To understand the scale of vulnerability, the company uses data from government and third sector sources to map vulnerability indicators and understand the areas which are most significantly impacted by multiple incidence of vulnerability.

The Panel is also confident that the company truly understands broad range of ways in which customers can find themselves in vulnerable circumstances, focuses on high quality training and support to its staff, delivered in partnership with charities including MIND, to highlight situations and triggers, and empowers staff to tailor their approach based on the circumstance. The company confirmed that this inclusive and adaptable approach enables the company to deliver the highest levels of service to customers, regardless of their circumstances.

The company explained that it used a tool developed by Oxford Consultants for Social Inclusion to build a profile of vulnerability across the region, drawing on approximately 900 data sets from government and third sector sources. SWW advised that understanding the overview of vulnerability across the region and which communities are particularly impacted by multiple indicators of vulnerability not only enables better targeting of promotional activities to increase the awareness of the company's Priority Services Register (PSR) along



SWW's approach

with helping to identify local, regional and national organisations with which to build partnerships to raise awareness of, and improve access to the available support to help the company better understand the impact of specific vulnerabilities on customers, and to provide training to frontline staff.

SWW provided the Panel with further research illustrating that proportionately the highest household bills in the SWW supply area are paid by those charged on an unmetered basis, which lower income groups are more likely to experience. SWW also noted that metering among social housing properties is lower than the regional average and that tenanted debt accounts for 80% of all customer debt. SWW explored customers' views on wanting investments to happen at a pace that is affordable for all but still includes protection mechanisms in place for customers that genuinely struggle to pay. There was clear support in its research for social tariffs.

SWW confirmed to the Panel that it is further developing its vulnerability mapping to enable a greater understanding of where there are communities that may be less resilient to incidents, such as the freeze and thaw experienced in March 2018. With regards to this incident, the Panel was provided with a clear overview of the company's approach to ensuring that those most in need, as indicated by its own Priority Services Register and through liaison with other agencies, were effectively supported, by the company and through its partnership with the Red Cross.

The activities of the freeze and thaw shifted the conversation to how SWW was able to identify and serve vulnerable customers. On the publication of Ofwat's review of the freeze and thaw, the Panel noted that the company received praise for its efforts in such extreme circumstances. Ofwat commented that *'South West Water demonstrated good communication with wider stakeholders to respond to the needs of customers in vulnerable circumstances, including its customers service team receiving training from the charity MIND and the Red Cross supporting their efforts to distribute bottled water to customers'*. The Panel commended the company on the way in which it managed the incident, and was encouraged by the company's proactive approach to carrying out research with customers in the areas most affected to understand first-hand their experiences and ultimately where the company could further improve.

SWW provided the Panel with assurance that its sampling strategy considered a wide range of customers in vulnerable circumstances and not just those with financial vulnerability but also those with non-financial vulnerability (e.g. those with long-term illness or disability). SWW made sure to include vulnerable customers in all its focus groups to confirm that those customers' views were considered. SWW also held special focus groups with customers in vulnerable circumstances at various stages of the research, discussing what is important to measure and incentivise in this area. Furthermore, regional focus groups were also held to include customers in vulnerable circumstances to ensure SWW understood the different aspects of vulnerability and how it affects these customers. All quantitative surveys had quotas set to ensure customers who may struggle financially and customers who need additional support were well represented – particularly when asking about service levels and price.

The approach clearly demonstrated by the company allowed the Panel to be confident that customers in vulnerable circumstances are considered in each strand of its research, and that protecting customers who are in financial and non-financial vulnerable circumstances was a key focus area, but that was balanced with ensuring that inappropriate incentives and unintended consequences are avoided.

SWW's affordability toolkit is focused on lowering bills through reduced tariff and/or water usage, maximising household incomes through welfare checks along with looking at synergies to reduce other household bills. The company will deliver this alongside the continuation of the existing affordability toolkit to support a reduction in existing customer debt. In order to maximise the reach and take-up of these schemes, the company will extend its targeted work and partnering arrangements. The five key



areas of the affordability toolkit are illustrated below at a high level.



The Panel is assured that the company has considered all customers in its approach to engagement. Customers have been asked their views on all activities undertaken to build the business plan. SWW has engaged and listened to customers most hard to reach through a myriad of channels, such as community events, through existing relationships with field based staff, and liaising with customers face to face. By further building trust with customers the company believes this has helped identify ‘silent strugglers’ who aren’t in debt with the company but are, or are in danger of, struggling to pay.

The Panel challenged the company on whether the package as a whole would be cross subsidised. SWW confirmed this would not be the case as the level of customer support did not align with the scope of the company’s commitment to addressing water poverty. Instead SWW committed to funding that would bolster the package and achieve this commitment, believing this to be the right thing for customers, especially in light of the uncertainty relating to the £50 government contribution.

At each Panel meeting, SWW presented the investment plan and performance commitments and explained the impact on pricing and bills. This regular update allowed the WFCP to query SWW on specific areas, such as leakage reduction and asset updates and how that would impact bills. This assessment of affordability fed into SWW’s development of its investment choices and overall programme. SWW recognised that alongside a plan that is acceptable and affordable to most, there was a need to enhance support for significant categories of customers who would find bills hard to afford. The Panel reviewed its response and is satisfied that the measures proposed are in line with customer views and properly identify those in need of support.

With regards to vulnerability, the company shared with the Panel its understanding that there is significant scope to increase the number of households on the Priority Services Register, with 12,000 customers currently registered but research and analysis into the extent of vulnerability in the region indicating there could be in the region of 250,000 households that are eligible to be registered on the PSR. However, the company pointed out that whilst households may be eligible they may choose not to register. The Panel challenged the company on how it would seek to identify these additional customers, with SWW confirming that the most important aspect being to further increase the awareness of the PSR and the associated support available. The Panel noted that the company has the highest level of awareness for its PSR at 52% (as reported in CCWater’s ‘Water Matters’ survey).

The company advised that its strategy is to continue to increase awareness and understanding of vulnerability, using internal and external data sources to build up knowledge to ensure that the services it offers are the right ones. Alongside this SWW has confirmed it will seek feedback from customers and third party organisations to regularly tailor this support. In conjunction, the company will data-share with utilities, where allowed, and continue to work with third party organisations to promote the services available, to ensure that customers who need any kind of support are known to the company.

With regards to data sharing, the company advised that 83% of customers were happy to provide the company with sensitive information in order for the company to tailor the services they receive, though only 41% of customers said they would be happy for the company to share this information to avoid customers having to register more than once, though customers are happy for their details to be shared with organisations such as the Red Cross in order to them to provide alternative water supplies and other support.

The company shared that whilst it engages regularly with local, regional and national groups to ensure it maintains its understanding of the impact of vulnerability on customers and shares best practice, there is always more to learn on a subject so diverse. The Panel was encouraged by the company’s regular benchmarking of its PSR offering against organisations in the water industry and outside of the water industry such as energy to ensure it is aligned with best practice.



Example challenge areas

- Willingness to pay and the communication of trade-offs
- Investment in leakage reduction
- Possibility of specific tariff for wealthy customers
- Brexit stress testing
- £50 government contribution and its effect on pricing
- Inclusion of vulnerable customers
- How customers in adverse conditions are supported



i. Willingness to pay

Panel challenge:

- The Panel raised the concern that customers may not be aware of their current service levels in real terms and the relative cost of an increased or decreased level of service, and that asking customers about willingness to pay by 2025, eight years ahead, could be too far out for them to give proper and informed consideration. Furthermore, trade-offs and whether SWW has accurately communicated the trade off in terms of bill levels and service were a concern to the Panel.

SWW response:

- It was made clear to the Panel that more detailed preference surveys include contextual information to help customers provide informed responses. SWW stated that this research was useful for triangulation and cross-checking.
- The independent consultants leading the willingness to pay research also confirmed that when customers first entered into focus groups or surveys they were uninformed. However, these sessions were used as two-way processes, whereby customers were also educated whilst providing their views and once they understood more about the company they often had a different opinion to their original one.



ii. Investment in leakage reduction

Panel challenge:

- The WFCP wanted to understand the drivers behind cost efficiency and the trade-offs that SWW considered, especially around leakage. Specific challenges included how the investment would impact customer prices and hence their willingness to pay to achieve the mandated 15% reduction in leakage. It was noted that the 15% target in the business plan did not align with the Water Resources Management Plan (WRMP), which stated an 8% reduction target.

SWW response:

- SWW confirmed that the WRMP methodology outlined that unless there is material evidence as to why a 15% reduction shouldn't be targeted, the company would need to target this reduction. SWW set its leakage PC target at the presumed 15% reduction in the 2020 Final Determination targets. In the draft WRMP the company stated that reducing leakage by 15% would mitigate most future risks (relating to water resources) over the upcoming 25 year period, but would give rise to large bill increases. However the company confirmed that in setting its revised target at 15%, along with reflecting this in the final WRMP when published to ensure alignment of targets, there would be a low impact to bills.
- SWW explained that extensive research has been undertaken with customers in this area. A multi-criteria assessment was used to assess the best value plan, taking into account customer priorities, valuation, and timing. The plan selected considered the best overall balance of:
 - Target beyond the sustainable economic level of leakage (SELL)
 - Low, but not zero, bill impact
 - Upper Quartile performance on m³/Km
 - Better than largest percentage reduction since PR14
 - Does not plan on a worst case scenario



iii. Tariff for the wealthy to pay more

Panel challenge:

- When discussing innovative initiatives to differentiate SWW's plan for PR19, the Panel questioned whether introducing a tariff aimed around the wealthy paying more would help to manage affordability.

SWW response:

- SWW informed the Panel that revenue controls have to be developed in such a way that they don't discriminate, in accordance with the legal tests around tariffs.

iv. Brexit stress testing

Panel challenge:

- The Panel questioned what testing had been done regarding the impact of Brexit, combined with the cost of debt, and whether due consideration had been given to how this could impact customer bills.

SWW response:

- SWW noted that, as a UK domestic business, it expected limited direct operational impact due to Brexit. However, it observed that some of its supply chain partners have a significant proportion of EU Nationals on their workforce so may face resourcing challenges after Brexit. The Panel agreed with the position overall, but noted that programmes such as upstream thinking which are predicated on agri-environmental schemes would need to be re-evaluated.
- The company also stated that the impact of Brexit was being closely monitored through the company's corporate risk register and understood that a downturn in the economy as a result of Brexit could lead to greater issues with affordability of bills, and increasing the number of customers that may require support through its affordability toolkit.

v. £50 government contribution

Panel challenge:

- The Panel highlighted the potential impact of the removal of the £50 government contribution on the business plan for PR19 and price levels, as well as customer expectations, as awareness of this contribution is very high among SWW customers. The Panel questioned if willingness to pay with and without the contribution would be tested, and challenged the reliability of the research that assumed that the contribution would continue.
- The Panel also challenged whether the company had shared the outputs of its initial acceptability testing with MPs regarding how many additional customers would be pushed into water poverty by the removal of the £50 government contribution and if SWW would look to bridge the affordability gap if the £50 contribution is removed.
- The WFCP believed that the underlying reasons why the original £50 government contribution was made still exist. The impact that issues such as the level of water bills relative to other areas and the current predictions of demographic changes within the region will have on vulnerability were all noted.

SWW response:

- SWW provided context on the £50 government contribution which had been instituted to address affordability and fairness of pricing to recompense for SWW missing out on allocation of "green dowry" on privatisation of the water industry. As it is not time-bounded, nor index-linked, it is gradually reducing in value in real terms. SWW confirmed that willingness to pay with and without the contribution was tested. It also explained that the government decision on continuing the contribution will not be made until after the Ofwat submission and SWW is moving forward on the assumption that the contribution will be continued.
- The company clarified that regardless of the outcome, it would ensure that bills were affordable for all customers through the tailored application of SWW's affordability package for those customers pulled into water poverty.
- SWW confirmed that local MPs were appraised of customer sentiment, and clarified that as a matter of principle for all customers, regardless of segmentation, the removal of the £50 is unacceptable. The business plan will be submitted on the assumption that the £50 government contribution will be retained. However, SWW

advised the Panel that regardless of the outcome, the company would ensure that measures are put in place for bills to remain affordable for all customers, with support targeted at customers drawn into the water poverty definition by the removal of the £50 contribution.



vi. Calculation of number of vulnerable customers



Panel challenge:

- The Panel raised a challenge regarding how SWW was considering which customers were and were not vulnerable, and not limiting it to customers without access to IT.
- The Panel asked about the accuracy of SWW's calculation showing that 29% of survey respondents have long-term illness/disability.

SWW response:

- SWW confirmed that it was not specifically defining vulnerability as a lack of access to the internet, but was focused on understanding what aspects led to customers being vulnerable so that SWW could develop innovative solutions with tangible benefits for vulnerable customers.
- The company confirmed that it does not have a rigid definition of vulnerability, instead understanding that there are a range of factors that can make any customers vulnerable at any time due to the often transient nature of vulnerability. The company also advised that its research indicated that up to 250,000 customers could be vulnerable, providing extensive scope to increase the number of customers on the priority services register. However, it was made clear to the Panel that these long-term illness/disability numbers were self-reported and that it was not investigated further.



vii. How SWW customers are helped in adverse conditions

Panel challenge:

- The Panel questioned SWW's response during the freeze and thaw of 2018, and how SWW located and served vulnerable customers.

SWW response:

- It was explained to the Panel that SWW worked with authorities and other companies and agencies, sharing data where allowed and were able to deliver support like bringing bottled water to those at risk.
- SWW also shared its comprehensive report to Ofwat on the freeze and thaw ("Out in the cold") which contained analysis of the regional weather event and impact, SWW's response and its collaboration with other agencies and authorities in the region. While it concluded that SWW's handling of the event had minimised the disruption and inconvenience for customers, some lessons were identified which are being taken on board. SWW has also received the cross-sector report from Ofwat which commended SWW's response and from which any further learnings will be identified.



Evidence reviewed

Affordability

- Affordability and vulnerability package
- Acceptability testing research and outputs
- Engagement report presented to Ofwat
- Peer review report
- Future customer research

Vulnerability

- Affordability and vulnerability package
- Vulnerable customer research (priority services register)
- Customer playback sessions
- Videos of customer focus groups
- Engagement report presented to Ofwat
- Freeze and thaw report

Position of the Panel

Affordability

- The key focus of the affordability customer engagement and related work is that bills remain affordable.
- There is assurance from the Panel that affordability considerations have been effectively integrated into customer engagement and considered in drafting of the business plan.
- The Panel has been satisfied with SWW's response to concerns regarding the £50 Government contribution. Whilst the lack of certainty makes this a more challenging aspect to incorporate into the business plan, the Panel appreciates that the plan included the assumption that it will continue and is happy that customer engagement has verified customers are aware and included scenarios where the contribution is removed.
- The challenges provided by the REAV sub-group were focused on ensuring that vulnerability was clearly defined and understood by customers during the engagement activities. There were not any outstanding areas of challenge.
- Vulnerability is an aspect of providing sound customer services. Beyond the engagement and freeze and thaw response, the Panel was made aware of how the company was engaging with customers around the priority service register and data sharing with other organisations so it could understand what customers are comfortable within this sphere.
- From the customer engagement as well as the freeze and thaw report which allowed the Panel to understand how SWW would resolve issues, the WCFP was satisfied that SWW has considered vulnerability. This gave the WCFP comfort that SWW had the resources and ability to identify and support vulnerable customers.

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- Vulnerability is an aspect of providing sound customer services. Beyond the engagement and freeze and thaw response, the Panel was made aware of how the company was engaging with customers around the Priority Services Register and data sharing with other organisations so it could understand what customers are comfortable in terms of personal information being shared.
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5 Outcomes, PCs and ODIs

Customer engagement on performance

Introduction

A key part of the CCG’s role has been to provide assurance that Performance Commitments (PCs) are based on robust customer engagement and reflect customers’ views, have been determined appropriately drawing on multiple sources and embody an appropriate degree of stretch. The company has been required by Ofwat to develop a set of common PCs as well as being invited to set bespoke PCs for more company-specific outcomes that are important to SWW customers. In undertaking its scrutiny of SWW’s PCs the WFCP has been required to challenge the company on how it has set its initial service levels for 2019-20 and to ensure that comparative data on SWW’s performance has been appropriately shared with the Panel and taken on board by the company in determining its PC targets.

Section 3 sets out the Panel’s views on the robustness of the company’s customer engagement and that the research conducted was focused in large part on determining service improvement preferences and willingness to pay (WTP) estimates that would be used to calculate cost beneficial PC targets with differing degrees of stretch and packages of commitments with different overall bill levels. This section sets out how the data from that customer was drawn together to develop the PCs in the plan and the Panel’s views and conclusions on the resulting PC targets. Overall the feedback from SWW customer engagement was positive and resulted in consistent priorities and strong support for the outcomes and performance commitments developed during PR14 and updated for PR19.

For the Outcome Delivery Incentives (ODIs) companies have been required by Ofwat to consult customers on their development. The WFCP’s remit has been to challenge SWW on how well its ODI rates reflect evidence on customer preferences; how well the company has undertaken and reflected customer views in arriving at any proposals on in-period ODIs or reputational incentives, and the overall size of the company’s ODI package.

Using the ODIs and PCs linked to customer research, among other information such as legislative obligations and costing assumptions, SWW developed its high level investment plan. The investment programme is a key building block of the SWW business plan and has been developed over the last 18 months using a suite of models, analysis and drivers to create a range of investment scenarios and outcome options. Potential investment scenarios have been shared with the WFCP and the LREI sub-group at each meeting since November 2017.

SWW’s approach

SWW’s extensive customer engagement was central to informing the development of PCs and ODIs, as it produced the evidence on customer valuations of service improvements.

The company’s approach was built on the framework that was introduced in PR14, bringing together triangulated and validated customer valuations, efficient solution costs, robust scenario analyses around potential PC target levels, and a clear approach for estimating marginal costs and marginal benefits given the inherent joint costs of service provision. From this research SWW sought to allocate business plan costs and benefits across PCs, forecast performance delivery strategies, and understand ODI parameters. PCs were developed based on a detailed assessment of financial and non-financial impacts. Customers also reviewed subsets of PCs so that SWW could understand the support for specific measures, views on overlaps, and coverage of outcomes and priorities, and what is measured, how they are defined, and the units used. The result of this research showed that there was high support of the measures tested by the company, with 66 PCs being proposed by customers. Transparency was important to customers so they can easily understand what measures relate to service interruptions. SWW used this research to design the PCs with clear definitions, measurement approaches, data and forecasting stretching targets. SWW also undertook a business review to confirm that the PCs could be supported and that they cover all parts of the water cycle



SWW's approach

and all price controls. The company also shared that the overall package needed to balance customer views on there not being too many measures, along with measuring the areas they felt most strongly about.

SWW ensured that in communicating to customers, simplicity and transparency was an imperative in order for customers to understand what is included. SWW has engaged customers on checking if its performance measures are stretching by conducting historical and peer comparisons and sharing the outputs with customers. In doing so, SWW highlighted the importance to customers that the final measures reflect local issues. SWW engaged with its customers on the factors it takes into account and explained how the company has balanced these factors when setting its performance commitment levels using multiple data sources.

To communicate its approach with the Panel, this process was covered at every meeting, with SWW providing updates on the engagement with customers on PCs and ODIs and how the results influenced what was selected by SWW. Additionally, SWW created a dedicated valuation and triangulation workshop that was carried out with the WFCP on 31 January 2018. Further detail of the triangulation process was shared with the WFCP in subsequent meetings. In order to best capture the Panel's challenges once the PCs and ODIs were finalised, there was a separate meeting with SWW where the ODIs and PCs were the only item on the agenda.

As part of the approach to setting PCs and ODIs, the WFCP meetings included a standing agenda item to review and challenge the development of the customer engagement, triangulation and other procedures and information that SWW used in developing these. Additionally, the willingness to pay (WTP) research which was presented and challenged at both the REAV and WFCP meetings also showed the importance customers placed on SWW's PCs. There was no customer support for scheme specific PCs and therefore none were developed.

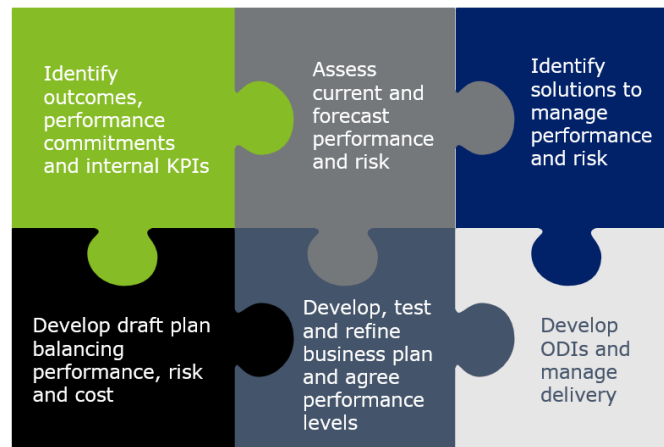
After reviewing the levels of customer engagement, the Panel was tasked with understanding whether SWW had applied the Ofwat methodology correctly, with regards to the ODIs and PCs. SWW informed the Panel on the definitions, differences in performance levels and incentive mechanisms, and the key changes from PR14 to PR19. SWW explained that, in line with the Ofwat methodology, it used customer engagement to establish priorities, understand how customers valued service and balanced competing preferences, and to ensure the plan delivers for customers. This process was coordinated with SWW business planning to identify outcomes, PCs, and internal KPIs, assess risks and forecast performance, agree performance levels and then develop the ODIs. SWW tested the full range of PCs with customers, including:

- Ofwat common PCs,
- Ofwat recommended measures,
- SWW internal review of potential asset health measures,
- SWW and BW PR14 measures,
- Potential bespoke measures, and
- Potential measures from customer engagement and other utility approaches.

The Panel asked whether or not this customer research linked to areas such as WTP and overall customer sentiment and SWW confirmed that WTP research drove incentive rates. Additionally, the Panel sought to understand other data used to ensure targets were stretching and the company confirmed that its review included other utilities performance, such as energy companies. The presentations from the dedicated ODI workshops on 3 and 4 April 2018 provided further detail on how SWW ensured that PC levels (PCL) were stretching. SWW used comparative data and other consultations to set PCLs in the upper quartile, where possible.



The Panel reviewed these customer interest areas and priorities, and was confident that they had been adequately incorporated into the PCs. The six step process outlined below was used to integrate the results of the customer engagement into the business plan and develop ODIs and PCs:



A number of key components were considered when developing ODIs, including customer willingness to pay for changes in service, incremental costs for changes in services, stretching targets based on upper quartile and customer evidence, performance probabilities, and uncertainty mechanisms. Both financial and reputational incentives were considered, and the Ofwat formula was used to set ODI incentive rates.

SWW shared with the Panel the process it followed in order to provide the company and the WFCP with confidence that SWW's plan reflected the right values. This was discussed at length, with SWW summarising its consideration of all aspects of the plan including:

- Solutions
- Costs
- Tariffs
- Outcomes
- Performance commitments
- Targets
- ODIs
- Operational response
- Protection for customers

Confirming that the company had the right values was achieved through triangulation against over 900 data points including the stated preference surveys, customer playback sessions and all priorities research. A fundamental aspect of this engagement was for the company to be clear about what it was asking and how it would be used in the plan.

Customers have been consulted widely as part of an extensive suite of customer research and engagement. For example, customer workshops took place to review the full list of potential PCs, including previous SWW and BW PR14 measures, Ofwat proposed mandatory measures, options for bespoke measures and asset health options. These workshops helped determine how to define the measure, and whether it should be financial or reputational. Additionally, as part of this engagement, SWW provided customers with an understanding of how SWW would be incentivised to deliver against the PCs. This included explaining the incentive mechanisms (financial penalties or outperformance payments or reputational incentives), enhanced incentive rates, whether or not payments would be in-period or AMP payments, and impact on bill volatility. In particular, SWW undertook "Balancing Risk and Reward" research with customers to further test ODI development.

Statutory requirements

A recurring topic of challenge was in regards to asking customers about statutory obligations. The Panel did not think that statutory requirements should be subject to customer preference, and therefore should not be presented alongside non-statutory requirements for prioritisation and preference purposes. Specifically, the



Panel's concern was that while it is acceptable to ask preference questions to inform business planning, it is not technically correct to present different outcomes for a statutory requirement when there is no option based on preference, such as number of pollutions.

Due to the significant challenge presented by the Panel on placing statutory pollution requirements amongst customer preference options, SWW sought further understanding on the matter. SWW presented this challenge to the external consultants conducting the stated preference research (Eftec and ICS Consulting), who advised that it is good practice across regulated industries to ascribe monetary values for aspects of service that are taken into account in business planning. Eftec and ICS Consulting noted that in PR14 all water companies were required to evidence the proposed PCs using valuation evidence; this was the case for all PCs, even those with a legal driver. ICS also concluded that it is important to value all PCs, including those regarding pollution to understand the value customers place on the service changes allowing them to be compensated for poor service through the ODIs. SWW confirmed to the Panel that the consultants concluded that pollutions should be included as an option in the customer preference research. Further to this, Professor Ken Willis (an expert in the valuation of environmental goods and services) concluded that it was appropriate and valid to value a change in service even if this has a legally prescribed standard.

SWW then sought to understand what other water companies are doing in regard to pollution preferences. They noted that an industry sharing study organised by Accent showed the valuations (anonymously) of 15 companies from PR14 as well as Scottish Water. This shows that Category 3 pollutions was the most common measure (included in at least five companies research) but more severe events (Category 1 or 2) were also included alongside or instead of the more minor events in the main stated preference study. Based on this review of other companies, SWW concluded that it is confident that including pollution is in line with what other water and sewerage companies are doing, and felt it was a risk to exclude this from its research. As such, pollution was included in the Stage 1 preference study.

With a variance in the views of the company and the Panel, a member of the LREI sub-group, Professor Ian Bateman, reviewed the challenge from an independent perspective. He concurred with SWW's position that the valuation of a statutory requirement did not suggest that this requirement would not be met. He also highlighted that there were advantages of undertaking such validation and as that would enable the company to examine the economic case for going beyond the statutory requirements.

SWW confirmed that research on pollutions was only used to inform the company's approach to reducing Category 3 Pollutions in AMP7 and beyond, and that SWW did not apply the research to Category 1 and 2 Pollutions as it planned for zero. The research was used to help inform some economic values to set ODI rates and the Panel was satisfied with this response, stating that it appreciated the transparency of the company in explaining how these valuations were employed, and that it felt the challenge to be fully resolved.

Performance commitment development

Performance commitments and ODIs were a standing agenda item at each WFCP and LREI sub-group meeting, with discussion and engagement on all aspects of the company's approach.

The company confirmed that its approach to ensuring well-evidenced performance commitments included a range of activities that included customer focus groups, face to face interviews, telephone and online quantitative surveys, and an interactive personalised video.

The REAV challenged the company on whether customers were being educated through the process, to ensure that it was a two-way process. The company confirmed that customers are provided with information on what they should consider when making choices, along with bill increases and decreases and inflation impacts on household income, and information on current service levels as just a few areas of focus. For specific workshops on environmental aspects the company provided the Environment Agency and Natural England with showcards for comment, along with supporting research and engagement.

The company shared that its engagement, as part of both business as usual and specifically for PR19, involved an iterative process to ensure that the company understood and applied customer views correctly. The REAV sub-group were supportive of the four stage **inform, listen, replay** and **implement** approach, with the 'inform' stage specifically focused on educating and updating customers. The company also confirmed to the Panel that that all engagement was in line with the sampling strategy developed with the REAV.



In total 16 focus groups were undertaken to explore performance commitments with customers, as summarised in the 'Understanding Performance Commitments and Outcome Delivery Incentives' report produced by ICS and reviewed by the Panel. These workshops spanned the South West and Bournemouth regions, and contained business representatives along with observers from SWW, the WFCP, and the LREI and REAV sub-groups.

Prior to the workshops, all aspects of the approach were reviewed and challenged in detail by the REAV sub-group. During the engagement process, customers were informed about all aspects that would be considered in developing PCs, alongside customer priorities including the requirement for them to meet regulatory and legal obligations along with business needs such as financing and the safety and wellbeing of employees.

The Panel had insight into the entire process behind the development of PCs: from reviewing the stimulus and the questions used in the surveys, to the initial list of PCs, how these evolved through customer engagement through to how SWW ensured that its priorities are both stretching and aligned with customer priorities.

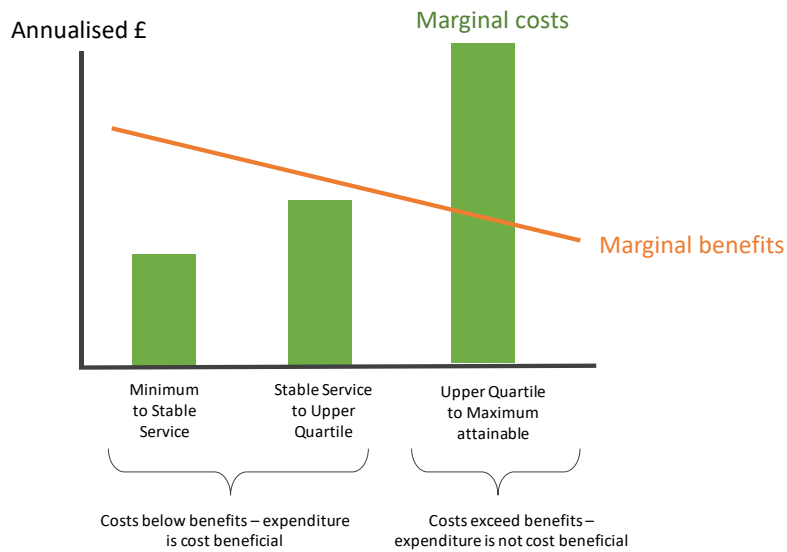
The company shared with the Panel its approach to stated preference surveys, using a mix of tried and tested methods, such as discrete choice experiments, along with an innovative new method of best and worst scaling where respondents pick aspects of service they like the most and least. The company advised that discrete choice experiments were favoured in the testing process with customers, but that the mix of testing enabled further confidence for the REAV sub-group and the Panel that customer views align with priorities.

The Panel was supportive of the company's valuation programme, which was discussed frequently in meetings and during a specific workshop covering this in depth. The Panel understood that this was based on a range of different sources, including the willingness to pay studies which had been extensively reviewed and scrutinised by the REAV, revealed preference studies and market data. These aspects were detailed in the main stage stated preference reports shared with the Panel for discussion and review.

Overall the Panel was assured that the engagement carried out resulted in consistent priorities and strong support for the outcomes and performance commitments developed during PR14 and updated for PR19.

In its presentations to the Panel, SWW provided a transparent and comprehensive view on how the company ensured its PCs were appropriately stretching. A key way the company evidenced this was by showing current and comparative performance, throughout the process alongside its own forecast and actual performance. Furthermore, the customer and stakeholder research and engagement activities discussed previously were used together with cost benefit analyses and marginal benefit and marginal cost estimates (see example below) to produce SWW's PCLs. These estimates informed SWW's analysis to ensure its performance commitment levels are stretching, which the LREI in particular challenged extensively to provide the WFCP with confidence in this area.



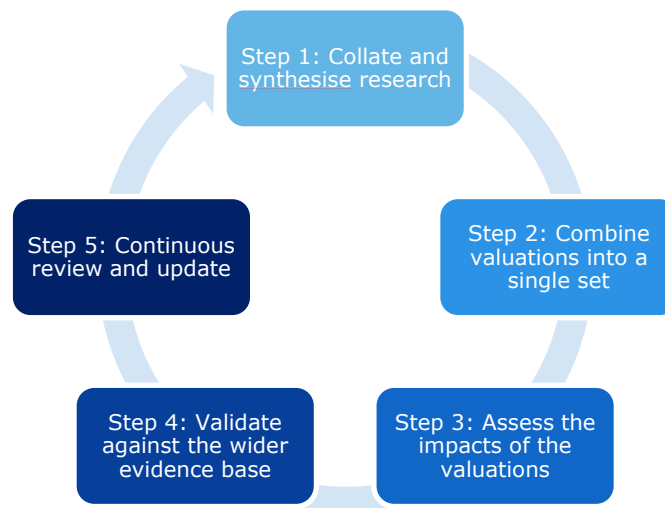


Triangulation

Triangulation was an area discussed at length by the Panel and the sub-groups, with specific workshops and learning sessions arranged to help illustrate how the process works, in order for the Panel and sub-groups to more effectively challenge the company. SWW explained that its five-step triangulation process was developed to triangulate the non-financial impacts and customer valuations following discussions with the Panel, in line with guidance from Ofwat and CCWater.

CCWater challenged the company on the fact that its triangulation approach did not incorporate customer contacts. The company confirmed that it had demonstrated that its strategy aligned with CCWater’s proposed strategy, in all areas other than including customer contacts as a triangulation point. The company confirmed that it understood the value in customer contacts, and explained contacts were used in targeting investments. For example, the company could overlay the geographic split of customer contacts about a specific area and ensure that investment was focused in those locations.

The company confirmed that it used over 900 data points to triangulate customer values, and deliberately avoided a process that involves subjective judgments to form triangulated values.



Triangulation covered SWW primary research, of which there was a significant increase in research compared to PR14, as well as non-SWW evidence, such as academic research, government data and PR14 values. All sources were individually reviewed for ‘robustness’ and ‘relevance’ – using a clear set of definitions and based on scores, weights were attached to each evidence to provide a weighted average value which are then used in cost benefit analysis and the design of ODIs.

The company was keen to ensure that the Panel had a real insight into the engagement undertaken with customers by providing it with the same material and stimulus in the dedicated workshops and learning sessions.

From the outset, this work was peer reviewed by Professor Ken Willis of the University of Exeter. As mentioned in the customer engagement section, engaging Professor Willis at the beginning of the customer engagement was a learning SWW incorporated from PR14. This enabled SWW to benefit from his review and challenge throughout the PR19 planning process, and provided assurance to the WFCP and both sub-groups.

Setting initial service levels

From the outset, the company confirmed that both SWW and BW were on track to meet their 2020 performance commitments which was important for the Panel to understand when considering initial service levels. The Panel challenged the company on measures that weren't currently hitting the targets (e.g. pollutions) and wanted to understand how this performance would be improved, in practice to enable this target to be met. For each of these scenarios, SWW presented its plan to address and reach the target. For example, with regards to pollutions performance SWW presented its pollution improvement strategy which had previously been presented to the EA. SWW advised that the company is mid-pack in absolute numbers of pollution incidents, but when these numbers are normalised (per 10,000km sewer), SWW is an outlier. The Panel asked which measure the company is assessed on, and SWW clarified that for ODIs the company is assessed on absolute numbers, but for the EA Environmental Performance Assessment (EPA) the company is assessed on normalised performance. SWW understood that this is an area where it needs to drive improvement which is what its pollutions improvement strategy would deliver.

Separately, there was a challenge from SWW to the EA on the way in which performance is measured, normalising by comparing performance by per 10,000km of sewer. The company explained to the Panel the drawbacks it believed this measured presented, which had been shared with the EA during the consultation on this measure initially. This was an extensive area of debate and challenge, with the Panel ultimately challenging the company to improve its performance in this area, regardless of the measure used. SWW confirmed that the focus for the company was on driving down the total number of pollutions, but wanted the Panel to understand how the measure used to inform this assessment affected the company's relative performance.

Common and bespoke PCs

The company confirmed to the Panel that the following four performance commitments would be included as part of its overall suite of commitments:

1. Mains bursts
2. Sewer collapses
3. Unplanned outages
4. Treatment works numeric compliance

The Panel was assured that all PCs, including the common PCs defined by Ofwat, were based on extensive customer research. The customer research around asset health in particular showed that customers understood that lack of activity and investment around asset health in the short-term can lead to more expensive issues in the future.

For the bespoke PCs, SWW relied on its customer engagement to confirm that the PCs reflected the issues that were most important to customers. For example, bathing waters was the second highest priority from customers and extensive research including valuation studies and economic analysis were performed in relation to this. A key challenge from the Panel on this commitment was whether the company could effectively influence bathing waters, and as such whether a performance commitment was appropriate.

The company reiterated that bathing waters was the second highest priority for customers, and as such was appropriate to have a dedicated performance commitment in recognition of this. The company also shared the extent of its proposed investment in this area in order to deliver further benefits to customers. When sharing its initial design of this performance commitment with the Panel, the company was challenged on the use of the Defra bathing water classification results in determining a reward or penalty as this was not a direct correlation to the performance of the company, given the extent of the variables that can impact bathing water quality.



SWW advised the Panel that this method mirrored the performance commitment in place for PR14, and whilst there were a number of factors that can influence this, such as the weather, the company understood these risks but explained that its package of ODIs needed to balance risk and reward. The company took on board the feedback from the Panel and presented at the next LREI sub-group a redesigned performance commitment around bathing waters which incorporated the aspects below.

- Penalty only for Bathing Waters dropping a class where this is a result of SWW assets or activities;
- Reward for BW's WINEP improvement scheme improving to agreed position (as per the WINEP) i.e. an incentive to deliver well and early; and
- Reward for Bathing Water improved in class (or appropriate risk reduction) at locations where SWW has completed WINEP investigations and delivers or instigates the improvement actions.

The Panel was satisfied with the redesigned bathing water framework, although challenged the company to detail the way in which the ODI out / underperformance payments would be applied in practice.

One challenge put forth by the LREI sub-group was to develop a biodiversity scorecard to support the company in developing a biodiversity measure, as SWW's initial plans did not quantify biodiversity. The development of the biodiversity scorecard was discussed at length in many of the LREI meetings and initially led by Natural England with input from the company, Devon Wildlife Trust, Westcountry Rivers Trust and the Environment Agency. The intention of the scorecard was to evaluate the wider impacts of the investment programme on biodiversity as well as the statutory requirements, and to take account of the positive impacts of enhancement and compliance issues. The action of developing the scorecard was assigned to Natural England and this was delivered in conjunction with SWW and other LREI sub-group members. The Panel felt that the challenge and influence of the LREI was clear throughout the development of the scorecard, and the Panel was pleased to see customer support for the inclusion of the biodiversity scorecard in the company's final package of performance commitments.

SWW shared with the Panel that based on customer preferences there would be 18 bespoke performance commitments, which all linked back to the customer priorities.

With regards to exemptions, the Panel was satisfied that the limited number of exemptions proposed were justified by customer support.

Abstraction incentive mechanism (AIM)

SWW has historically not had any sites that required an abstraction incentive mechanism (AIM), but are seeking to introduce one to demonstrate sustainable abstraction, through working in partnership with the EA. Customers initially struggled with AIM and were confused to what extent it made a difference between how normal river abstraction occurs and abstracting water from environmentally sensitive spots along the river. Customers were clear that they support moves that encourage lower abstraction but were more familiar with other methods – such as demand management or reducing leakage.

The proposed AIM site on the River Otter has been developed in conjunction with the EA. This bespoke PC formed part of the early submission to Ofwat on 3 May 2018. The approach of SWW for environmental compliance was strengthened by an independent peer review and application of best practice.

Leakage PCs

SWW set its leakage PC target at the 15% reduction, which differs from the figure that the company reported in its draft Water Resources Management Plan (WRMP), on which the LREI sub-group challenged the company. The company explained that the draft WRMP was published ahead of the Ofwat PR19 final methodology and that the research and analysis pointed out that a 15% reduction could lead to a big increase in bills. Since SWW agreed on a 15% reduction it put in place measures to protect customers from significant bill increases, indicating instead a low (but not zero) bill impact through embedding this reduction in its investment programme. The Panel was advised that extensive research had been undertaken with regards to customer views on leakage, including the interactive personalised video that sought customer views on water resources which confirmed that customers had a greater preference for supply side solutions, with action being taken in the near future rather than leaving issues for future generations to manage. Alongside this video, the company shared that a wealth of other methods had been used to engage with customers in this area, including both



qualitative and quantitative research, the WRMP consultation, stakeholder workshops and the wider proposals and choices consultation.

Customers felt strongly that SWW and BW had a role to play in saving water, and demand management was seen as a big gap in this area. When challenged on how the company had determined its plan in this area SWW confirmed that it had used a multi-criteria assessment to assess the best value plan, and that the plan would consider the overall balance of benefits, which including reaching upper quartile performance, and going beyond the sustainable economic level of leakage (SELL), whilst reiterating that the bill impact would be low. SWW confirmed that its analysis of costs and benefits in this area shows that its proposed plan is cost beneficial. The Panel understood that customers are concerned about affordability and wanted a balanced plan rather than too much focus on one measure, and the company considers that a 15% reduction is deliverable within the five year period.

Transparency of PCs

The WaterFuture Customer Panel, since merging with the WaterShare Panel in September 2017, has extensive experience of how the company's WaterShare mechanism operates. On a quarterly basis the Panel reviews both actual and forecast performance, and on an annual basis publishes an independent report detailing its findings. With the WaterShare framework and in-period ODIs, the Panel is confident that SWW is already mindful of how under and outperformance is communicated to customers.

SWW has also taken on board customer feedback to produce a customer version of the Annual Performance Report (shared with the WFCP, and containing comparative data). Additionally, SWW will continue to use its website and the Discover Water website to disseminate performance information during the next period. SWW has also developed new and innovative ways to provide this information to customers in the form of a video (building on the success of the animated customer research on water resources) which will inform customers about how the company measures performance and how well performance aligns to targets. SWW will also continue to publish the customer magazine, WaterLevel, to communicate with and educate customers on performance.

As part of reviewing and challenging the development of ODIs, the Panel received assurance that the research showed the WaterShare framework (from PR14) has had a positive effect on customer opinion, that SWW had a sharing mechanism in place already, and that SWW has monitored its PR14 commitments and is on track to meet 2020 commitments.

Current and forecast 2019/20 performance against industry average or upper quartile (where available) was used in customer research so that customers had better information to understand SWW's performance in context of its peers.

ODI development

The Panel was assured that customers had been consulted extensively on ODIs, and was informed that this research aimed to obtain the principles on which ODIs should be based, including:

- Which aspects of service should have ODIs;
- Views on the principles of accelerated rewards and penalties for industry-leading or poor performance;
- Bill volatility – what is tolerable or acceptable; and
- How rewards and penalties should be returned to customers

Alongside this, this customer views were sought on the application of ODIs in practice, including:

- Which PCs are best as reputational or financial ODIs;
- Where financial – whether reward or penalty, or penalty only is preferable; and
- Where accelerated rewards and penalties are appropriate

Based on the company's engagement with customers, the Panel was presented with the outputs of the research, and was able to challenge the way in which this had been applied. Additionally, a dedicated ODI workshop was run for the Panel to further explore the ways in which the ODIs had been developed, along with the extent of the research undertaken and previously shared with the REAV.



SWW also tested the targets with customers and presented results to the Panel, evidence that they were stretching, based on SWW aiming for upper quartile performance and the results from customers. The company also looked at the different probabilities for performance and reviewed uncertainty mechanisms to confirm that the risk is balanced and does not overly reward or penalise SWW. The Panel was satisfied with the level of customer engagement used during the development of PCs and ODIs.

SWW communicated to the Panel that its position was that all financial ODIs should be in-period as this incentivises behaviour focused on delivering for the customer and highlighted that the company was one of three companies to agree to an in-period licence adjustment allowing for in-period penalties and rewards at PR14. SWW's view aligned with customer research, with customers wanting financial incentives for those aspects of service considered the most important and/or where further investment is needed to improve service. Customer research also showed that reputational incentives are preferred for those aspects of service that are less important to improve.

Further research showed that the reward and penalty mechanisms were most popular for: supply interruptions, internal and external flooding, bathing water, leakage and demand management, resilience investment around flooding, customer service, and biodiversity. Overall, customer research showed that customers wanted protection from bill volatility and the evolution of the WaterShare framework will help SWW deliver on this. The Panel challenged SWW on how WaterShare+ would do this, and whilst the exact framework is still to be finalised, the Panel was satisfied that customer research showed enthusiasm for a share-ownership type capability.

There were two instances where customer research showed that customers would accept bill volatility: leakage and internal sewer flooding. Almost all customers were highly supportive of enhanced penalties and rewards. Customers agreed with this even though it could affect the bill and lead to volatility, and considered it logical and fair to have accelerated rates in place.

As described above, extensive customer research has informed the overall ODI package. In particular, SWW's risk and reward survey has shown there is considerable support for financial incentives as long as they are reasonable and affordable for customers. The range proposed by SWW is 1%-3% of the RORE range in any one year. Four RoRE packages were tested – zero RoRE, 1% RoRE, 3% RoRE, and 5% RoRE. When customers were asked to rank the four incentives packages in order of preference, the packages with zero incentives or 5% RORE range were the least popular, with the 1-3% range having the most customer support. SWW shared the ODI package at each WFCP meeting for review and challenge by the Panel. This document showed for each of the ODIs the maximum penalty and reward for each PC.

Resilience ODIs

With regards to resilience, the engagement showed that customers want and expect a reliable service from SWW. Although customers expect SWW to be prepared for all risks and incidents, it is those that are more likely to occur that customers want SWW to prevent against as a first priority. SWW found that as long as it mitigates risks and deals with issues quickly when they arise, customers seemed to be satisfied. Specific ODIs relating to resilience were developed and submitted in line with the early submission process in May: Resilience in the Round (water) and (wastewater). Customer research showed that there was support for these to be financial. Additionally, there was a connection, in customers' minds, between resilience and asset health resilience and that these are key considerations and therefore, asset health and resilience PCs have been developed to drive improvements that have both immediate and long term benefits to customers.

Investment plan

The investment programme was refined throughout the customer engagement process to ensure that the investments were effectively optimised in line with customer priorities. SWW noted that there had been extensive customer support for its investments, but price remained a key influencer. Understanding how customers balance and trade-off services and costs was one of SWW's key themes for the business plan. Research included consultations with customers, stakeholder workshops, local investment focus groups, acceptability research and the interactive 'EngageOne' video. Through this engagement, customers challenged SWW to review whether it would be possible to deliver the initiatives but for less, which the company has taken on board in developing the business plan – most notably in stage 4: 'Develop draft plan balancing performance, risk and cost'. Customer support for the plan was further evidenced with the final results of customer acceptability testing, with 88% of SWW customers and 92% of BW customers finding the company's plan acceptable, in real terms.



The LREI sub-group challenged the company regarding whether the investment plan balanced priorities for shareholders along with customers. SWW responded that the purpose of the investment plan is to provide a fair balance between competing stakeholder, regulator and customer priorities – in simple terms, achieving a programme that delivers most benefit and value for the most efficient cost. Timing and pace of the investment was also a key consideration.

Other challenges on the investment plan related to whether the pressure to keep bills low could lead to a greater level of risk in the future with longer term consequences around underinvestment. However, SWW responded that this has been tested with customers, that they preferred a balanced approach and want to pay their fair share rather than passing on a burden to future generations. Furthermore, customers communicated that they were supportive of the package of improvements, but wanted the company to go further in reducing costs. SWW retained the stretching PCs and decreased the proposed investment programme though identifying further cost efficiencies.

Both the Panel and LREI sub-group were informed of the process for developing the investment plan by SWW. Initially the reports provided by SWW were high-level and therefore the challenges from the Panel asked for more detail. However as the year progressed, updated investment reports from SWW with details on each of the scenarios have demonstrated well-justified investment plans which comply with statutory and legislative obligations.

Additional challenges from the Panel focused on the need of the company to reduce pollutions and reflect this in the business plan. The company has responded to this challenge and has put ambitious reduction targets in its current version of the business plan (zero serious and 33 Category 3 incidents). The Panel agrees that the pollution reduction target is stretching and ambitious. The company has also responded to the permit compliance challenge by targeting 100% and has opted for a penalty only ODI. As this aligns with WISER, the Panel is content.



Example challenge areas

- Calculation of ODI rewards
- Priority of financial penalties over reputational penalties
- Difference of customer preferences depending on demographic/geographical location
- 2050 plans
- Success of initiatives and reliance on customers
- Statutory obligations
- Performance on pollution incidents
- Bathing water PC and ODI
- Sharing of outperformance
- Comparison of different investment scenarios



i. Calculation of ODI rewards

Panel challenge:

- The Panel queried how the potential ODI reward was calculated by SWW and whether there were differences between the SWW and BW figures.
- The Panel challenged whether customers supported the proposed return on regulated equity (RoRE) range.

SWW response:

- SWW confirmed to the Panel that this was due to the increased RoRE, which increased from +/- 2% at PR14 to +/- 3% at PR19 equating to about £40 million. SWW added that Ofwat would be looking for a balanced portfolio of rewards and penalties. SWW also confirmed that there would be differences between ODI rewards at different companies. To provide some additional insight, the company advised that the ODI package at PR14 equated to approximately £30m, though, as seen through the WaterShare Panel, performance annually equates to roughly £2-3 million.



- SWW advised that the RoRE range proposed was based on customer feedback, as detailed through the risk and reward, a quantitative survey undertaken to explore customer's views on key principles underpinning the ODIs. The risk and reward report, reviewed by the Panel, also confirmed the research on ODIs undertaken in advance of the survey including:
 - customer attitudes to ODIs in principle;
 - what variability around the bill is preferable (i.e. the RoRE range);
 - the balance of financial incentives around asset health and service based measures;
 - What should happen if ODIs payments exceed the proposed amount (e.g. cap it, roll over, share through WaterShare); and
 - segmentation analysis to understand if different customer types have similar or dissimilar views.



ii. Priority of financial penalties over reputational penalties

Panel challenge:

- The Panel challenged that companies can often struggle with Performance Commitments and ODIs, as it would be natural for companies to apply a greater level of focus on financial penalties rather than reputational penalties.

SWW response:

- SWW confirmed to the Panel that all PC measures, financial or reputational, were defined by customers. In order to fully define the performance commitments supported by customers, including common performance commitments and those bespoke to the company, extensive research was undertaken.
- The company advised that customers also commented on the application of ODIs in practice including which PCs are best as reputational or financial ODIs, and where financial whether reward or penalty, or penalty only would be preferable, and also where accelerated rewards and penalties are appropriate.
- SWW confirmed that customers wanted financial incentives to be used for those aspects of service considered most important and/or where further investment is needed to improve service. Reputational incentives should be used for those aspects of service less important to improve, in customers' views. SWW also explained that performance commitments are developed based on a detailed assessment of financial and non-financial impacts. A five-step valuation process was developed to triangulate the non-financial impacts and customer valuations following discussions with the WFCP. The triangulation method and evidence scoring was peer reviewed and challenged by Professor Ken Willis of Exeter University and reviewed in detail with the WFCP.
- The company also confirmed that regardless of whether a PC was reputational or financial it was still a priority for customers, and that reputational penalties would have the same amount of focus placed on them as financial ones. SWW added that it would report on its performance, but that many of the reputational measures would also be reported on externally by organisations such as CCWater.

iii. Difference of customers depending on demographic/geographical location

Panel challenge:

- The Panel asked about the differences between SWW and BW customer views, specifically whether the customer preferences were significantly different due to the variance in demographics across the region.

SWW response:

- SWW confirmed that the views of both sets of customers were very similar, even when considering aspects such as affordability and age, and as detailed in the proposals and choices, their priorities aligned. SWW also noted there was consistency around measures that customers did and did not like.



iv. 2050 Plans

Panel challenge:

- The Panel challenged that the company's vision to 2050 may not be ambitious as some other water and sewage companies and questioned whether it was SWW's intention to be an industry leader.



SWW response:

- SWW advised that the vision for the company is to be industry leading or upper quartile, but that it must ensure the plans are fair and affordable. Additionally, SWW explained to the Panel that the business is confident that the ODIs proposed reflect a balanced package, and stated the importance of ensuring that performance measures were not cherry picked based on areas of solid performance.

**v. Success of initiatives and its reliance on customers****Panel challenge:**

- The Panel challenged how much the pollutions improvement strategy relied on increasing the responsibility placed on customers and if these community initiatives would get the company into the green category on the EPA table.

SWW response:

- SWW advised that the delivery of the pollutions improvement strategy was the responsibility of the company, and whilst the strategy incorporated a number of different streams, it was not relying on customers to deliver.
- SWW described some of the initiatives that also included customers, (including Think Sink! and Love Your Loo) but reiterated the need for the company to own the problem and not shift burden onto customers and communities.
- SWW confirmed that these initiatives wouldn't get SWW to the green EPA category if they were treated as standalone initiatives, but as they form part of a greater programme to deliver the required decrease in the absolute number of pollution incidents, the company was on track to achieve the target.

**vi. Statutory obligations****Panel challenge:**

- This was a significant and ongoing area of discussion for the Panel over a number of months.
- The Panel challenged that statutory requirements should not be presented alongside non-statutory requirements for prioritisation and preference purposes. Specifically, the Panel highlighted that a 'law breaking activity' (i.e. worsening pollution performance to below the statutory required level) should not be offered as a preference to customers as it not an option.
- The Panel explained that the statutory requirements outlined in the EA and Natural England's Water Industry Strategic Environmental Requirements (WISER) included that pollution incidents must trend towards zero. The Panel noted that other statutory aspects, such as drinking water quality, are not offered alongside other preference options.

SWW response:

- The company advised that it accepted the challenge from the Panel (specifically the Environment Agency), but was confident in its approach, noting that it was aware of other companies' approaches being consistent with SWW's.
- Professor Ian Bateman, a member of the LREI sub-group, offered to review the challenge from an independent perspective with this being his area of expertise. Professor Bateman provided a detailed response (which is recorded in the challenge log) which summarised that he considered the argument presented by the company to be sufficient. Professor Bateman stated that the valuation of a statutory requirement in no way suggests that this requirement will not be met, and of course it would be illegal to fail to satisfy such requirements. Professor Bateman highlighted that advantages of undertaking such a valuation would be to examine the economic case for going beyond the statutory requirements.
- SWW explained that during PR14 a similar themed challenge was raised regarding pollutions. In this instance, the EA challenged that the company wasn't being punitive enough with regards to penalties for pollutions. SWW responded to the EA's challenge by applying an in-period pollutions ODI penalty. Once all Final Determinations were published, SWW was the only company that had an in-period penalty for pollutions. The Panel accepted this response and commented that the level of customer consultation was clear and highly transparent. The Panel understood why the company held the view that it needed to include pollutions as part of the willingness to pay research.





vii. Performance on pollution incidents

Panel challenge:

- The Panel challenged whether the investment plans were sufficient to achieve sufficient reduction in SWW's on pollution incidents which is among the poorest of all water companies based on the EA's normalised performance measures. In the EA's recently-published Water and Sewerage Companies' Environmental Performance Report for 2017, SWW was rated the worst performer for pollution incidents. The Panel member from the EA highlighted that the EA and Defra have "zero tolerance" for pollution incidents and reiterated the need to drive improvement in this area.

SWW response:

- SWW recognised the need for it to improve its pollution incidents performance and the need for investment. However, it noted that its poor relative position was in part due to the denominator used in the normalisation (10,000km of sewer) and that SWW would be mid-table if based on number of sewerage works.
- The company reiterated to the Panel that whilst it did not agree with the normalisation method applied, and had raised this with the EA during a consultation on this method, it remained committed to improving pollutions performance, targeting the lowest absolute numbers in the industry by 2020.



viii. Bathing Water PC and ODI

Panel challenge:

- The Panel did not believe that the Defra bathing water classification results should be used to determine an ODI penalty or reward as Defra bathing water classification results cannot be directly correlated to SWW's performance or service provision during the next AMP period of 2020-2025. This is because Bathing Water Classification results can be affected by many variables outside the company's control - in particular weather. For example a very wet summer would have more impact on Defra's Bathing Water Classification than anything the company does, and similarly a dry hot summer could yield good bathing water results because run-off from the land wasn't ending up on beaches during sampling. Therefore, this may not be a fair outcome for customers as SWW is not providing them with a 'service' that the company has control over and likewise, under performance and out-performance against this measure doesn't necessarily correlate with actual performance.
- The Panel was concerned that if customers better understood this ODI mechanism, they would not support higher bills for results not fully within SWW's control and that it is fairer for customers if the Bathing Water PC has an ODI that incentivises SWW to deliver an actual service SWW over which has control.

SWW response:

- The company initially responded that as it is investing £40million in this area it is difficult to imply that that SWW does not have control in this area. SWW stated that the first question that the company and Panel needed to answer was whether it was right to have a measure around Bathing Waters, which as this the second highest customer priority (bathing and shellfish waters) there is little doubt that anyone would not be in agreement with having a bathing waters measure, which the Panel was in agreement with. Secondly, the company needed to ensure, as mandated in the Ofwat methodology, that the package of measures includes a balance of risk and reward. The resultant risk in terms of the impact of weather, which can also affect many other PCs, is one that, on balance, the company is willing to accept. SWW also did not want to put in place any exclusions as a result of weather like some other companies chose to do at PR14.
- Following further discussion, SWW proposed a revision to the ODI:
 - Penalty only for Bathing Waters dropping a class (may need to be planning class) where this is a result of SWW assets or activities;
 - Reward for BW's WINEP improvement scheme improving to agreed position (as per the WINEP) i.e. an incentive to deliver well and early; and
 - Reward for Bathing Water improved in class (or appropriate risk reduction) at locations where SWW has completed WINEP investigations and delivers or instigates the improvement actions.
- SWW is confident in the research it has undertaken with customers both at PR14 and PR19 demonstrating customer support for Ofwat's methodology, where customer bills go up when outcomes and service



improvements are delivered rather than the previous Ofwat methodology where these price rises are baked in at the start of the regulatory cycle and trued up at the end of the period. This matter was still outstanding.



ix. Sharing of outperformance

Panel challenge:

- The Panel challenged SWW on its proposed mechanism for sharing outperformance with customers and if WaterShare would continue in its current state.

SWW response:

- The company confirmed that the existing WaterShare mechanism would be further developed based on customer feedback. This mechanism was discussed at a high level in the majority of Panel meetings, and the detail shared on WaterShare+ framework had been defined based on customer engagement around potentially owning company shares.



x. Comparison of different investment scenarios

Panel challenge:

- The Panel queried what the difference was between the various investment scenarios presented by SWW and the level of detail that was provided.
- The Panel also challenged the company on how it planned to demonstrate that priorities between shareholders and customers were balanced in the investment scenarios proposed by the company.

SWW response:

- SWW noted that it has to provide a Board assurance statement confirming compliance with statutory and legislative obligations that and any investment programme put forward by the company will achieve. The larger investment scenario allocates the additional £100 million to replace or significantly upgrade the Alderney works, improvement of strategic water mains, connections and pumping to provide alternative water supplies, investment in reinforcement of mains in order to reduce the number of customers reliant on a single source supply, investment in protection against cyber-crime, smart meter installation, and investment to protect high risk wastewater treatment sites from the effects of coastal and fluvial erosion. SWW also noted the challenge surrounding balancing priorities of customers and shareholders and explained the purpose is to provide a fair balance between competing stakeholder, regulator and customer priorities. SWW wanted to achieve a programme that delivers most benefit and value for the most efficient cost and, therefore, timing and pace of the investment was also a key consideration.

Evidence reviewed

- Customer surveys
- Understanding performance commitments and ODIs
- WFCP ODI workshop outputs
- Consultation-on-the-outcomes-framework
- Delivering outcomes for customers report
- Outcome delivery incentives presentation
- ODI Performance report



Position of the Panel

- There was a specific Panel session, split over two days to accommodate all attendees, that was dedicated to reviewing the customer feedback on performance commitments and ODIs and providing challenges back to SWW.
- It was clear during the review sessions mentioned above that SWW had put a substantial resources behind getting customer feedback, sampling, and aggregating results to confirm it has a clear view of the customer regarding design of PCs and ODIs. Specifically, the Panel queried SWW on any differences between SWW and BW customers, and SWW had research to show both sets of customers were very similar.
- The Panel agreed that the level of customer engagement and use of triangulation to determine the appropriate measures was robust and provided confidence that performance commitments reflected customer views.
- There was a continuing debate related to some environmental performance commitments, namely the one regarding bathing waters, as the Panel's view was that other factors (for example weather) influence the measure. Whilst bathing waters was customers' second highest priority, the Panel wanted to ensure that the performance commitment was something that SWW can reasonably influence.
- The Panel member from the EA initially disagreed with the company's position on pollution incidents and reiterated that the plans need to deliver on SWW's statutory obligations. Further correspondence between the member and SWW was held and a mutual understanding and the Panel was satisfied with the approach.
- As described above, there was a specific session to discuss the proposed performance commitments and the customer research supported them. The Panel agreed it was a positive session and that its comments have been incorporated effectively.
- It was noted that the investment programme continuously evolved to integrate the views of the customer as the plan targets improvements for the 14 common performance commitments
- Initially, there was challenge about the level of granularity in the investment plan, but until there was consensus around performance commitments, asset health and other areas (e.g. cost adjustment claims), SWW was unable to provide more detail. As the detailed plan has now been developed and provided, there has been broad support from the Panel.



6 Resilience and innovation

Integrating resilience and innovation in the PR19 process

Introduction

As part of considering how resilience fits into its business plan, SWW was tasked with understanding customers' expectations on SWW's service, customers' appetite for risk, and how customer behaviours could contribute to resilience. SWW received feedback from customers that they want reliable service, but expect SWW to be prepared for relevant risk issues. SWW ensured that future customers were captured in customer engagement and that strategic initiatives such as "Love your loo" were discussed. Additionally, the freeze and thaw situation and resulting report provided the Panel with compelling evidence that SWW focused on the customer with consistent decisions and clear communication, utilised data to allow efficient resource deployment and monitoring of the SWW network, and that there are areas for improvement both from a technology perspective and by developing people to perform at a high standard.

SWW's approach

Resilience is a key focus of the company and is something that is consistently reviewed across a number of areas including supply chain, people, assets and finance. As part of its ODIs, SWW has included bespoke resilience measures that have customer support.

An independent assessment of SWW's resilience was undertaken by an external consultant. The assessment was positive, with a few areas noted for improvement. To enhance resilience, SWW introduced the Resilient Service Improvement (RSI) project as a change programme to address challenges around delivering a reliable and responsive service to customers. Many improvements to SWW's resilience had already been addressed as part of the debrief after the freeze and thaw.

Considering resilience and innovation from a broader perspective, it was also discussed that Pennon (SWW's parent company) is financially resilient and in a strong financial position due to it being a public listed company and some of the long-term approaches taken. For example, Pennon exited an expensive debt instrument, which cost millions of pounds in the short term, but was made with regards to long term benefits in a drive to push costs and bills down and as a result SWW now has a lower cost of debt. Additionally, SWW responded to the Ofwat consultation on proposals for PR19 business plans related to "Putting the sector back in balance" and shared this response with the WFCP.

From an innovation perspective, SWW has built on its customer engagement approach from PR14, using new approaches such as electronic voting in focus groups and interactive videos. SWW launched interactive and personalised video experiences based on customer locations, which were tailored to engage, educate and inform customers on long term issues. Topics covered included water resources, demand and supply options, and timescales associated with water provision and risk. Customer feedback to SWW was that these videos were engaging and appealing.

SWW also increased social media campaigns to reach customers. Since the introduction of the #getintowater campaign, SWW noted a 33% increase in Facebook followers and a 47% increase in related engagement. Similarly, there was a 13.4% increase in Twitter followers and a 106% increase in engagement through this channel. Using new methods of engagement such as these widened the customer engagement and captured a greater breadth of feedback for incorporation in the business plan.

In explaining its approach to resilience and innovation to the Panel, SWW highlighted that its preferred investment programme reduces customer bills in real terms and the investment plan not only provides for substantive environmental improvements across drinking and waste water to meet statutory environmental and



quality obligations and target improvements for the 14 common performance commitments, but also resilience initiatives. Key investment areas also include:

- Bournemouth Water new water treatment works;
- Investment in the adoption of the Isles of Scilly assets;
- Leakage improvements;
- Drinking water quality programme;
- Improvements at catchments that are designated drinking water protection areas;
- Flood risk improvements;
- Wastewater quality programme (WINEP);
- Metering; and
- Resilient service improvement (RSI).

A key area of concern identified during the customer engagement, was that resilience to flooding was very important. Customers understand that this risk may be low and SWW's position is not protect against 'all risks', but ensure the right balance and make sure the emphasis is on getting the day to day right for customers. During the freeze and thaw, the Panel was kept updated on the actions taken by SWW, what assets and infrastructure was impacted, and how any learnings were being incorporated into PR19. It was apparent that SWW's management procedures and incident management structure ensured a clear process for decision-making. The Panel was kept abreast of how SWW was responding and reviewed the final report on SWW's approach.

Financial resilience and innovation

The company confirmed that Pennon Group had carried out extensive customer research regarding the Group's taxation strategy, as published on 23 March 2018 and corporate governance was discussed with the Pennon CEO and the SWW Managing Director during private sessions with the Panel. The company also shared with the Panel its 'putting the sector back in balance' response which highlighted the transparency of the company's corporate and financial structure. The company shared that the driver of this consultation was around removing complex financial engineering from the industry to regain trust with the public.

One aspect of this was the company's view on performance related pay, that it would be appropriate to be transparent and describe the type of performance that leads to pay rewards. As stated in **Section 4**, the Panel challenged SWW on how it balances both customer and shareholder expectations which is related to this area. The company also stated that it also believe that 'unearned' gains should be returned to customers. Since PR14, SWW has voluntarily returned £15m - £20m to customers following this principle, using the WaterShare framework.

With regards to the low cost of embedded debt, the company stated it has the lowest cost of embedded debt in the industry as a result of the decisions made previously by the company to exit an expensive debt instrument, which cost millions of pounds in the short term, but was made with regards to long term benefits in a drive to push costs and bills down. This aligns with the company's position stated in its response to Ofwat that that high levels of debt are not good for the sector and do not afford customers the right level of protection.



Example challenge areas

- Resilience of supply chains while ensuring appropriate participation from smaller, regional-based organisations
- Review of initiatives for content and strategic fit
- Overlooking 'everyday' innovation





i. Resilience of supply chains

Panel challenge:

- The Panel challenged SWW regarding the resilience of its supply chains and how resilience is considered during supplier selection.

SWW response:

- The company reminded the Panel that stress testing the resilience of local suppliers sometimes ends up with larger, non-local suppliers being prioritised. As part of SWW's strategic agenda, the company strived to consistently find a balance between supporting the regional economy and placing extensive emphasis on stress testing.
- SWW had undertaken a resilience assessment to support the Board in providing assurance in this area, with the outputs of this being the catalyst for the RSI project currently being designed. This project is an open-minded approach as to how the business should meet key challenges now and in the future, e.g. around out of hours customer support.



ii. Review of initiatives for content and strategic fit

Panel challenge:

- The Panel raised the fact that there were a number of green, housing and digital engagement initiatives, nationally and locally and that it may be worthwhile for SWW to review for content and strategic fit.

SWW response:

- SWW developed a pollution insight dashboard won 'IT initiative of the year' at the Utility Week awards. Additionally, education initiatives such as 'Love Your Loo' and 'Think Sink!' are contributing to influencing behaviours and will remain a continued focus of the company.
- The next generation of WaterShare, WaterShare+, is more innovative, targeted and incorporates customer views.
- SWW also shared that WaterLevel was the customer focused version of the stakeholder proposals and choices document and had been produced to maximise customer input into its plans. A separate copy of WaterLevel is being produced for BW and SWW customers.



iii. Overlooking 'everyday' innovation

Panel challenge:

- The Panel challenged SWW not to overlook where its innovation has become part of "business as usual" especially as part of customer engagement.

SWW response:

- SWW responded that innovation was central to all SWW plans and is a key focus for Ofwat throughout PR19. With regards to engaging customers, SWW has shared some of the background around the innovation so that customers have the correct context when the final business plan is submitted.
- The company accepted the feedback from the Panel, and confirmed that within business plan and its supporting documents that these themes are noted.



Evidence reviewed

- Freeze and thaw report
- Putting the sector back in balance consultation response
- Resilience Service Improvement (RSI) programme objectives and overview
- Independent resilience assessment overview
- Customer engagement examples of innovation

Position of the Panel

- The Panel recognised the innovative approaches adopted by SWW in its customer engagement to understand customer views and priorities.
- The Panel is satisfied that the SWW resilience plan incorporates customer views.
- In addition, the Panel is confident that SWW has the capabilities to be resilient in difficult situations as shown during the freeze and thaw.



7 Securing confidence, assurance and cost efficiency

Ensuring that the plan delivers for customers

Development of the Panel's approach

In reflecting on the process of engagement of the WFCP for PR19 the Panel has felt that considerable progress has been made in developing a strong and well-balanced approach to both its governance and role in providing challenge to SWW. A number of the Panel members were engaged in the PR14 process and on the subsequent WaterShare Panel and as a consequence had knowledge of the sector, the Price Review process and expectations of stakeholders. New members of the Panel were required to get up to speed quickly, and workshops and teaching sessions were especially helpful in this regard.

The Panel adopted a series of good governance practices and was able to be assured that it was meeting its obligations as detailed in its ToR and the expectations of Ofwat and other regulators. These included the introduction of independent sessions, exclusive of the company at the start of each WFCP meeting, along with separate sessions for the Panel and SWW Non-Executive Directors (NEDs), again without company senior management being present, which was something that was continued from PR14. Whilst the Panel had no material concerns to raise with the SWW NEDs, it appreciated this direct access and the insight that the NEDs afforded the Panel.

The Panel was also encouraged by the attendance of the SWW and Pennon Board members from an early stage in the process, and by the Panel-led appointment of an independent report writer. Panel members were able to offer substantive challenge throughout the process, both during and outside of meetings, and this was reflected in the challenge log, with no topics being off-limits during the process. The Panel felt that the Chair was effective in his role by allowing open debate whilst respecting the remit of the Panel.

All Panel members have expressed the view that the process under PR19 has seen an improvement in the journey and would want to ensure that the lessons learnt and processes are used as a starting point for the next Price Review, PR24. In particular, the continuation of access to company NEDs, and the attendance of Board members, along with holding independent Panel-only sessions prior to meetings will further enhance the Panel's role and effectiveness.

One consideration for any future Panel will be the question of diversity, recognised by the WFCP in respect of gender, ethnicity and age, which in itself is an issue faced by many Boards and organisations in the South West but nonetheless should look to be addressed at PR24. Notwithstanding this, the Panel felt that its membership encompassed the necessary range of skills and experience to provide informed and robust challenge to the company, and commented that the extensive engagement and collaborative working with environmental regulators and representatives in particular has been beneficial, with the biodiversity scorecard held up by the Panel as a key output of this collaboration.

Challenges

The Panel and both sub-groups have challenged the company extensively throughout the entire process, with 426 challenges raised in total. A challenge log was populated from the outset for the WFCP and the REAV and LREI sub-groups and at each meeting the challenge log was reviewed to ensure that the challenges were recorded accurately and that the company's response was acceptable to the Panel. The challenge log was also published on the SWW website alongside the minutes approved by the WFCP Chair.

Some challenges were discussed across different Panel and sub-group meetings, such as the Environment Agency's challenge regarding the inclusion of statutory obligations in stated preference research, and the Panel's challenge to the company on its current pollution performance.



Only one challenge remained outstanding, which relates to the Bathing Waters ODI. The Panel member drawn from the Environment Agency has challenged the detail regarding outperformance payments for the Bathing Waters ODI. Specifically, that the company should not be rewarded for delivering improvements faster than planned across the AMP, stating that this does not seem genuinely stretching, and instead that the company should only be rewarded for delivering schemes outside of the eight agreed. The Panel and the company remain unaligned in this area, with the company confident in the design of its out / underperformance metrics, noting that delivery of bathing water schemes earlier in the AMP will deliver additional benefit to customers.

Corporate governance, taxation and financeability

Corporate governance, taxation and financeability are all areas that have been discussed at length by the Panel, both in the main WFCP meetings and during the independent sessions with the NEDs. The Panel challenged the company on the transparency of its finance and governance arrangements in light of the focus that was being placed on water companies in the media. Throughout a number of these discussions, the Panel received assurance with regards to the transparency of the company's corporate structure along with confirmation that the company is committed to adhering to the highest standards of corporate governance. This is documented in the company's annual performance report which was shared with the Panel pre-publication, and contained independent reports from the WFCP Chair and the Chair of the CVG.

In challenging the company on its approach to taxation, the company shared that it had engaged with customers in order to help assess what the approach and strategy with regards to tax should be. This information was used to shape Pennon's taxation strategy which was published in March 2018.

In line with the recent 'putting the sector back in balance' the company also shared its dividend approach with the Panel to ensure that the Panel was aware of the principles that apply to the dividend policy. The company confirmed that this was aligned with the Ofwat's methodology and guidance and as such do not plan to make any changes to it, but wanted to provide the Panel with the opportunity to input, which the Panel appreciated with no concerns raised.

The Panel has been assured by the company that its plan is financeable and no further steps are required to address financeability constraints. The company shared with the Panel that, as detailed in its annual performance report, the Return on Regulated Equity (RoRE) performance continues to be sector leading, and that the company is currently outperforming its PR14 business plan in this respect. The company also confirmed that its regulated gearing of 60.4% is in line with Ofwat's notional regulated gearing for PR14 which was set at 62.5%.

The Panel challenged the company on its financial resilience in light of the Carillion breakdown, with the company confirming to the Panel that resilience is a key focus of the company and something that is consistently reviewed across a number of areas including finance, people, assets and the wider supply chain. The company also confirmed that it arranged for an external assessment of its financial resilience to demonstrate effectively its position and strength in this area.

The Panel sought further information from the company on the 'green finance' deal entered into by Pennon Group and South West Water to the value of £80m, and was further satisfied in understanding the company's commitment to incorporate its environmental and social values its wider banking facilities, with the Panel learning that better environmental performance and cleaner beaches will drive lower margins for Pennon.

Transparency

The Panel believed that the company had been transparent with it throughout the process. For example at the ODI workshops the company comprehensively demonstrated the breakdown and detail of the way in which ODIs out / under performance payments were calculated.

Alongside this, the Panel appreciated the visibility that the company provided to it with consultations and reports prior to its submission to enable the Panel to comment. For example, the freeze and thaw report was also independently reviewed by a member of the LREI sub-group and the putting the sector back in balance consultation and the company's draft response to the EA confirming how it would meet the requirements set in the WISER document were all shared with the Panel.



Assurance

The Panel challenged the company on how it would assure its whole business plan in one of the final meetings, with the company providing confirmation that a range of assurance activities had already been undertaken on key aspects, such as the multiple peer reviews on its customer engagement throughout the process, to the technical and financial audits on over 100 data tables and commentaries that would be submitted with the business plan, carried out by Jacobs and KPMG. Alongside this, the company confirmed that it had also appointed Ernst & Young to assure its overall plan and each of the nine detailed documents explaining the key assessment areas in detail.

The Chairs of the WFCP, LREI and REAV each provided the Panel with a report providing assurance on the work of their respective groups. The LREI and REAV Chairs stated that on the basis of the satisfactory conclusion of the remaining challenges they were satisfied they can provide assurance to the WFCP that the results of the customer research and engagement can be relied upon, and have been incorporated into the PR19 business plan to deliver customer priorities and statutory obligations. The WFCP Chair confirmed that, supported by its two sub-groups, the WFCP has provided independent challenge to the company on the quality of the company's engagement with customers and how the results of this engagement have driven decision making and the development of the PR19 business plan. Their reports noted that their assurance is not intended to provide an endorsement or opinion on the company's overall business plan.

The Panel Chair also shared that the DWI had written directly to the CCG chair providing their support for the company's proposed quality schemes (see Appendix XIV).

Customer acceptability of the company's plan

In seeking the acceptability of its plan with South West and Bournemouth Water customers, the company carried out a phased programme of research which included regional investment focus groups along with quantitative acceptability, whilst also drawing on qualitative evidence. A wide range of variables was used when testing with customers, including: with and without the £50 government contribution, with and without the impact of inflation, and adding in an 'uninformed' variable in response to a challenge from the Panel that this would ensure that the views were representative of the average consumer.

In the first phase of testing for SWW customers, whilst there was strong support for the activities within the company's plan, customers were concerned with affordability and challenged the company to protect them from the impact of inflation. Taking this feedback into consideration the company carried out a second phase of testing with a reduced bill that retained the same activities and targets through applying further efficiencies internally. For BW customers only one phase of testing was carried out with customers finding the company's plan to be very acceptable.

The Panel was informed that the final acceptability results for SWW and BW were 88% and 92%, respectively, when the plan was presented in real terms, demonstrating an increase on the acceptability of both companies' plans at PR14. The Panel was satisfied with these results, believing that this demonstrates that SWW's plan is widely supported by customers.

Investment plans

The Panel was provided with visibility of the company's proposed investment plans from November 2017, with the company confirming that its programme would deliver 100% compliance with statutory, legislative and quality obligations.

The company provided the Panel with detail on how the optimisation process for its investment programme worked, along with how cost and benefits were calculated and the way in which the programme was aligned with customer priorities.

At meetings of the LREI sub-group and the WFCP where the investment plan was discussed, the company provided a breakdown of where this investment would be focused. This included elements such as 'waterfall' diagrams indicating where investments would be made to take the company from its forecast performance levels to industry leading targets. Alongside this, the company provided an overview of the major investments making up the programme, which the Panel was able to review and challenge.



One area where the Panel challenged the company was where the company intended to fund its pollutions strategy, as it wasn't displayed as a single investment line. The company confirmed that this was spread across multiple areas of the programme as it was an approach targeting numerous areas of improvement to achieve the overall target, which included pumping stations, combined sewer overflows, investigations, network maintenance and sewage treatment works.

The company also shared that in carrying out its first phase of acceptability testing customers had shared that they were supportive of the company's plans but wanted to be protected from the impact of inflation, and as such the company had applied a further level of efficiency to its overall investment programme in order to bring down the level of customer bills. The Panel confirmed that in reducing the investment programme the company had maintained the same commitments and targets associated with the initial value of its plan tested during the first phase of acceptability engagement.

Cost adjustment claims

Cost adjustments claims should reflect unique local situations that would not be handled adequately in the Ofwat efficiency models. A crucial element in Ofwat's assessment of the validity of those claims will be to see evidence that customers supported the specific projects generating these claims for additional investment. The WFCP has been required to scrutinise and challenge the company's approach to confirm that is based on evidence of customer priorities obtained through robust engagement. It is important in this regard that the company has considered a range of alternative options for meeting customer priorities and that the proposed cost adjustment claims represent the best value for customers in the long term.

SWW conducted cost adjustment analysis to identify valid claims and concluded two claims were relevant related to Knapp Mill Water Treatment Works (WTW) and for the Isles of Scilly (IoS). The WFCP was taken through the analysis, including SWW's approach to identify both advantageous and disadvantageous factors, and then how it determined the best options for customers by reviewing if the proposal aligned to customer priorities and that there was evidence that the solution provides values to customers in the long-term.

With regards to customer support, the company explained to the Panel that the investment at Knapp Mill was a statutory obligation, based on the current risk to quality at this site, and was supported by the DWI, as per the report submitted to the Panel.

SWW's approach

SWW followed a robust and systematic process that included various levels of internal and external challenge in order to rationalise the list of cost adjustment claims submitted. After developing a long list, starting from SWW's claims submission from PR09, claims were discarded that were no longer considered unusual or were now immaterial or insignificant to SWW. This process led to Bournemouth Water Knapp Mill water treatment and Isles of Scilly being submitted in the company's cost adjustment claim submission to Ofwat in May 2018.

SWW was invited to undertake a due diligence review of the water and wastewater services and assets on the Isles of Scilly (IoS). Working alongside the Defra-chaired working group, with the EA, DWI, Ofwat, Defra, Tresco Estates, The Duchy and the Council of the IoS, SWW submitted a draft business plan to Defra in May 2017. The business plan set out in detail the proposed plan for each of the five islands (St Marys, Bryher, Tresco, St Martins and St Agnes). The draft business plan was reviewed by the working group during the summer of 2017 and there was a consensus to recommend to the Minister that the plan should be accepted.

SWW conducted willingness to pay (WTP) research with SWW customers (BW and IoS customers were not included) on the investment regarding the Isles of Scilly. The company shared with the Panel and both sub-groups the customer research in October 2017 outlining these results and the associated willingness to pay outputs. SWW also communicated to the Panel that investment in IoS was irrespective of all other factors, such as additional funding from the Duchy. Discussions with Defra, EA and DWI confirmed that they accepted the deferment of investment to 2025-30 for Tresco and that this will be reflected in the regulatory undertakings for the IoS. Representatives of Tresco were also supportive of the deferment, which the Panel were satisfied with.



SWW presented its approach for Knapp Mill at the meeting that the representative from the DWI attended. There was limited discussion on the SWW approach for Knapp Mill, on recognition of the challenges faced with regards to quality, and the support from the DWI for these improvements. The Chair of the BW CVG also commented that Knapp Mill improvements wouldn't have been possible prior to BW being acquired by SWW.



Example challenge areas

- Customer research regarding IoS and customer WTP
- Pollutions investment



i. Customer research for IoS



Panel challenge:

- The Panel challenged whether willingness to pay results for the Isles of Scilly was an issue for the company with regards to its plans.

SWW response:

- The company confirmed that following an initial review of the willingness to pay research for the Isles of Scilly, the company had re-profiled its proposed investments over two AMPs rather than one, based on the fact that customers' willingness to pay in this area equated to £3.91 which would not accommodate the initial investment proposal. This level would be achieved by deferring investment in Tresco, and the Isles of Scilly and the Duchy were happy with this approach. CCWater had previously been provided with this research and SWW stated that it was likely that Ofwat will not apply the same tests to the Isles of Scilly, treating instead this section of the plan in isolation. The company added that it had also received more clarity from the EA on aspects such as standards of permits and confirmed that there were no differences to the challenges in investing in this area than in other areas on the mainland being that there is always the opportunity to do more.



ii. Pollutions investment

Panel challenge:

- The Panel challenged whether the company's proposed investment, specifically with regards to pollutions, would enable the achievement of the stretching targets in this area.

SWW response:

- The company confirmed that it was confident in its approach to significantly improve pollutions performance, and believed the investments to be spread across the most appropriate areas, even with the additional efficiencies identified in line with customer feedback on willingness to pay. The company also reiterated its focus on delivering industry leading performance in respect of both normalised and absolute pollutions.

Evidence reviewed

- Isles of Scilly customer research and willingness to pay



Position of the Panel

- The Panel reviewed both the customer research underpinning the cost adjustment factor submission as well as the investment programme that was updated with the IoS included.
- The Panel confirmed that the investment plan is acceptable to customers in both SWW and BW and reviewed customer research stating they were supportive of the proposals within the plan but wanted the company to protect from the impact of inflation.
- The Panel understood that the company further reduced the investment programme through extensive internal challenge on efficiency, thus reducing the overall size (financially) of the investment programme whilst retaining the initial scope and performance commitments.
- The Panel was satisfied that the investment plan incorporates customer views and had no outstanding challenges on the matter.



8 Conclusion

WFCP's overall conclusion

The WFCP is satisfied that it has performed its role in all respects as defined within its Terms of Reference and can offer Ofwat the assurance that the SWW PR19 Business Plan comprehensively reflects the high quality, extensive engagement to gain customer and stakeholder views carried out by the company. Furthermore it endorses the customer engagement process undertaken as being highly effective in gaining the views of current and future customers. The Panel has consistently considered the requirements of Ofwat on the Panel and has engaged with Ofwat directly through the attendance of the Chair at relevant meetings and workshops, along with taking account of their additional requests of the Panel through this CCG engagement process which added further context to the PR19 process.

The Panel has received positive and constructive engagement from SWW, with the SWW Managing Director, Pennon CEO and the SWW Regulatory Director present at each meeting along with members of the Executive and the leadership team attending to present and discuss papers, responding to challenges and taking on board feedback from the Panel.

The Panel has also met independently with the Executive with Non-Executive Directors of SWW, including the Chairman, to understand the commitment of the Board to the development of the PR19 business plan. Whilst the Panel raised no material concerns during these sessions, it appreciated the insight afforded by these meetings.

Closed sessions with Panel members took place at the start of each Panel meeting, during which the Panel discussed its purpose and objectives, progress towards milestones, effectiveness of the company's engagement and any areas of concern. The independent report writer was also in attendance at these meetings to ensure that any key discussion points could be incorporated into the Panel's independent report to Ofwat. The WFCP and its established sub-groups (Legislative, Resilience and Environmental Investment (LREI) and Research, Engagement and Vulnerability (REAV)) have engaged with SWW through a series of meetings, workshops, and conference calls with a total of 55 meetings having taken place. The sub-groups have been empowered to undertake the detailed challenge of the company in their respective areas, reporting back to the Panel at each WFCP meeting. Additionally, members of the Panel and sub-groups also attended customer engagement sessions as observers, to experience the company's engagement with customers first-hand. Through review and challenge of the company's engagement for PR19, along with understanding the extent of the company's business-as-usual customer engagement, the Panel is confident that the company has listened and responded to the challenges put forward by its customers, stakeholders and the Panel, and that it has incorporated these views effectively into its business plan.

The WFCP reviewed outputs from customer research and engagement and consultation exercises, challenged SWW about how it has interpreted the results of its customer engagement and provided feedback on SWW's outcomes and performance metrics. Throughout this process, the WFCP has provided significant challenge to SWW on a number of different matters to which SWW responded along with making changes to the way in which it has carried out or applied its customer engagement.

The Panel and sub-groups also reviewed all aspects pertaining to outcomes, performance commitments and outcome delivery incentives, from the design of engagement surveys and the sampling strategy, through to the final reports, peer reviews and final proposals developed by SWW, scrutinising and challenging throughout, and were impressed with the extent and innovation demonstrated in its approach to gaining customer views in relation to this.

The company has demonstrated to the Panel through the process that its plan is built with customers at its heart, from empowering and giving them a greater say in the business through WaterShare+, along with making a commitment to address water poverty for all customers by 2025, regardless of the impact of government decision in 2019 on the continuation of the £50 contribution, and the associated material impact that this will

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

The Panel has confidence that the proposals within the plan have been effectively challenged and scrutinised and represent the best interests of customers whilst delivering on all legislative obligations and improving service performance. The Panel is also satisfied that the company has produced a plan that along with delivering for customers, will also deliver real benefits for the environment and the wider community, and is based on a robust investment programme that has the support of customers, as illustrated by the results of the company's acceptability testing for both SWW and BW customers. The Panel was satisfied over the robustness of the testing carried out and was confident that the final acceptability results of 88% (SWW) and 92% (BW) demonstrated strong customer support for the company's proposals. The Panel was also impressed with the way in which the company responded to the challenge from customers who were supportive of the plan but concerned about affordability and as such challenged the company to protect further customers from the impact of inflation, which the company did through retaining its stretching performance targets and applying an additional level of efficiency.

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

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

9 Appendix table and references

The below table lists the appendices included in the final report:

Appendix number	Appendix name
I.	WFCP Terms of Reference
II.	WFCP/WSP governance approach
III.	WFCP biographies
IV.	REAV Terms of Reference
V.	LREI Terms of Reference
VI.	Independent Report Writer Terms of Reference and biographies
VII.	Panel and sub-group attendance matrix
VIII.	WFCP Action log
IX.	WFCP Challenge log
X.	REAV Challenge log
XI.	LREI Challenge log
XII.	ODI workshop presentation
XIII.	ODI – Applying incentives presentation
XIV.	DWI report to CCG Chair
XV.	WFCP Aide Memoire summary and evidence base
XVI.	REAV Aide Memoire summary and evidence base
XVII.	LREI Aide Memoire summary and evidence base
XVIII.	Attached items to WFCP, REAV and LREI aide memoire summary and evidence base documents
XVIII.i	Customer engagement report
XVIII.ii	Research and engagement timeline
XVIII.iii	ICS Eftec peer review
XVIII.iv	Oxera peer review
XVIII.v	Stakeholder workshop summary
XVIII.vi	Performance commitments to 2025
XVIII.vii	Table of scenarios by PC
XVIII.viii	Customer research report – Performance commitments
XVIII.ix	Approach to developing PCs
XVIII.x	Research – Risk and reward report
XVIII.xi	DWI presentation
XVIII.xii	Isles of Scilly research
XVIII.xiii	Challenges on performance to 2020
XVIII.xiv	Affordability and vulnerability package
XIX.	Final report of the REAV and LREI sub-group Chairs
XX.	Final report of the WFCP Chair

The below list are the documents, beyond anything already listed in the appendix table also support the information included in the report and are available on request from SWW.

1. Valuation and peer summary review
2. WFCP, LREI, and REAV meeting minutes
3. Main stage stated preference research

10 Glossary of terms

AIM	Abstraction Incentive Mechanism	PCL	Performance Commitment Level
AMP	Asset Management Plan	PR14	Price Review 2014
APR	Annual Performance Report	PR19	Price Review 2019
BW	Bournemouth Water	PSR	Priority Services Register
CATI	Computer Assisted Telephone Interviewing	RCV	Regulatory Capital Value
CCG	Customer Challenge Group	REAV	Research, Engagement and Vulnerability [sub-group]
CEO	Chief Executive Officer	RORE	Return on Regulated Equity
CVG	Customer View Group	RBMP	River Basin Management Plan
Defra	Department for Environment, Food and Rural Affairs	RSI	Resilient Service Improvement [programme]
EA	Environment Agency	SELL	Sustainable Economic Level of Leakage
EPA	Environmental Performance Assessment	SWW	South West Water
F2F	Face to Face	TOR	Terms of Reference
ICS	Institute of Customer Service	WASC	Water and Sewerage Company
IoS	Isles of Scilly	WFCP	Water Future Customer Panel
LREI	Legislative, Resilience and Environmental Investment [sub-group]	WINEP	Water Industry National Environment Programme
NE	Natural England	WISER	Water Industry Strategic Environmental Requirements
NED	Non-Executive Director	WRMP	Water Resources Management Plan
NHH	Non Household	WSP	WaterShare Panel
ODI	Outcome Delivery Incentive	WTP	Willingness to Pay
PAYG	Pay-As-You-Go [expenditure]	WTW	Wastewater Treatment Works
PC	Performance Commitment		