



PR19 Business Plan

Performance commitments: delivering ambitious performance

3 September 2018

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1. Introduction

In this appendix to Chapter 2: Our pledges, incentives and bills we explain why we consider each our final performance commitment targets to be stretching. To make sure that we have set ourselves stretching targets we have used information about all water and wastewater company performance where it has been available. We have also looked beyond the sector for best practice performance where relevant.

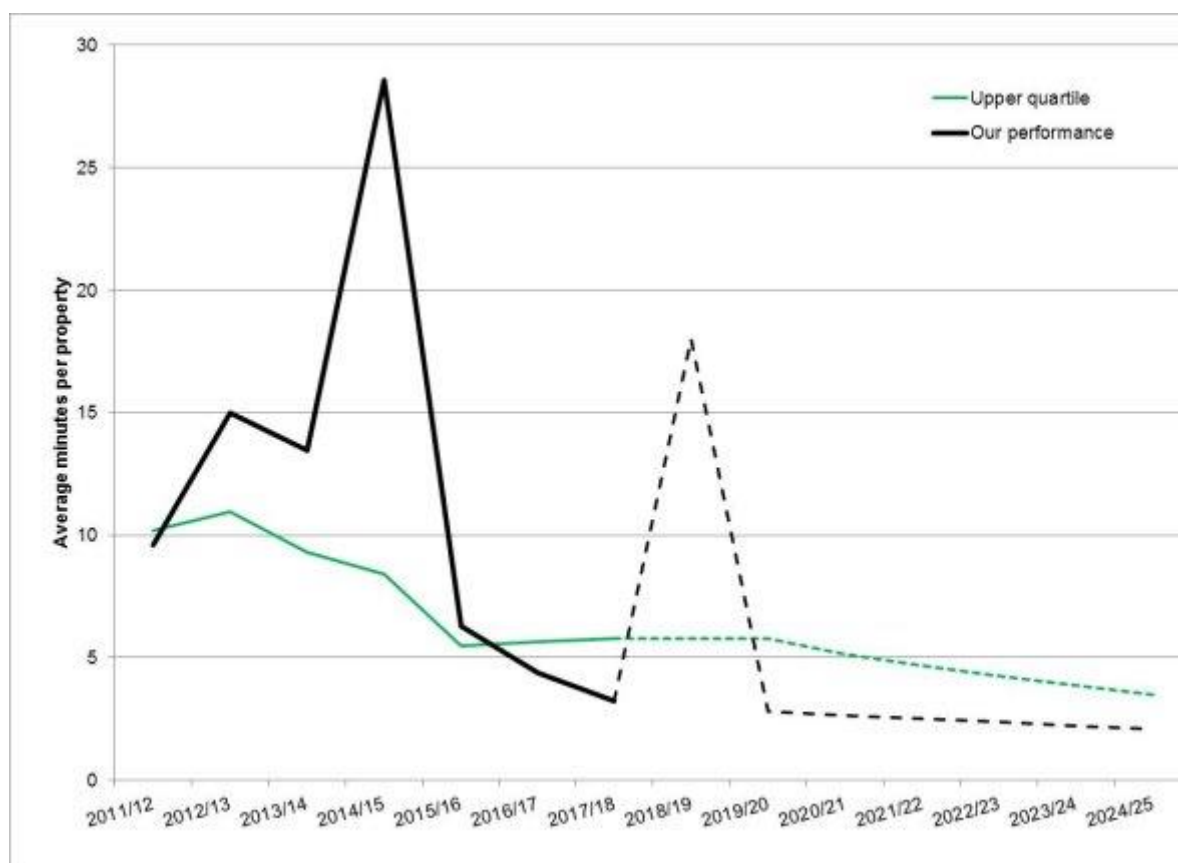
Each pledge and the performance commitments that will be delivered in meeting these pledges is discussed separately in the following chapters. We provide evidence of how we reached each of our performance commitment targets and why each is stretching.

In Chapter 3: Delivering retail services and Chapter 4: Delivering wholesale services you will find information about how we will deliver these performance commitments.

2. High quality water all day, every day

2.1. Supply interruptions

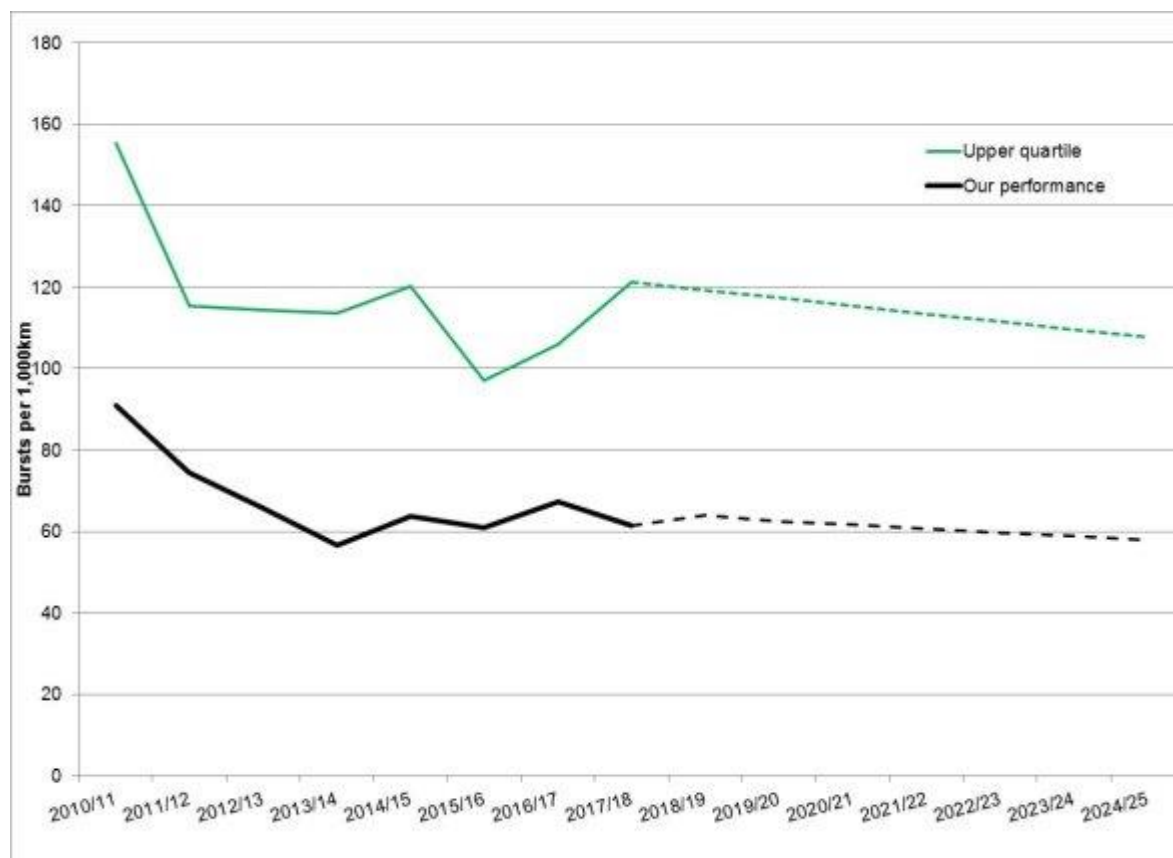
Ambitious performance is necessary as this is one of our customers' top priorities. We have consistently been one of the best performing companies and last year we had the second best performance. However, we expect our performance for this year to be significantly worse than normal due to lengthy interruptions to customers in Merstham in May and Reigate in August. Such events are not regular. We are targeting a continued reduction in the average number of minutes lost (for interruptions that last more than three hours) which will ensure our customers continue to receive one of the best services in the country.



We are also committed to finding ways to make sure that we have no interruptions that last more than three hours and our longer-term commitment is to achieve this by 2035.

2.2. Mains bursts

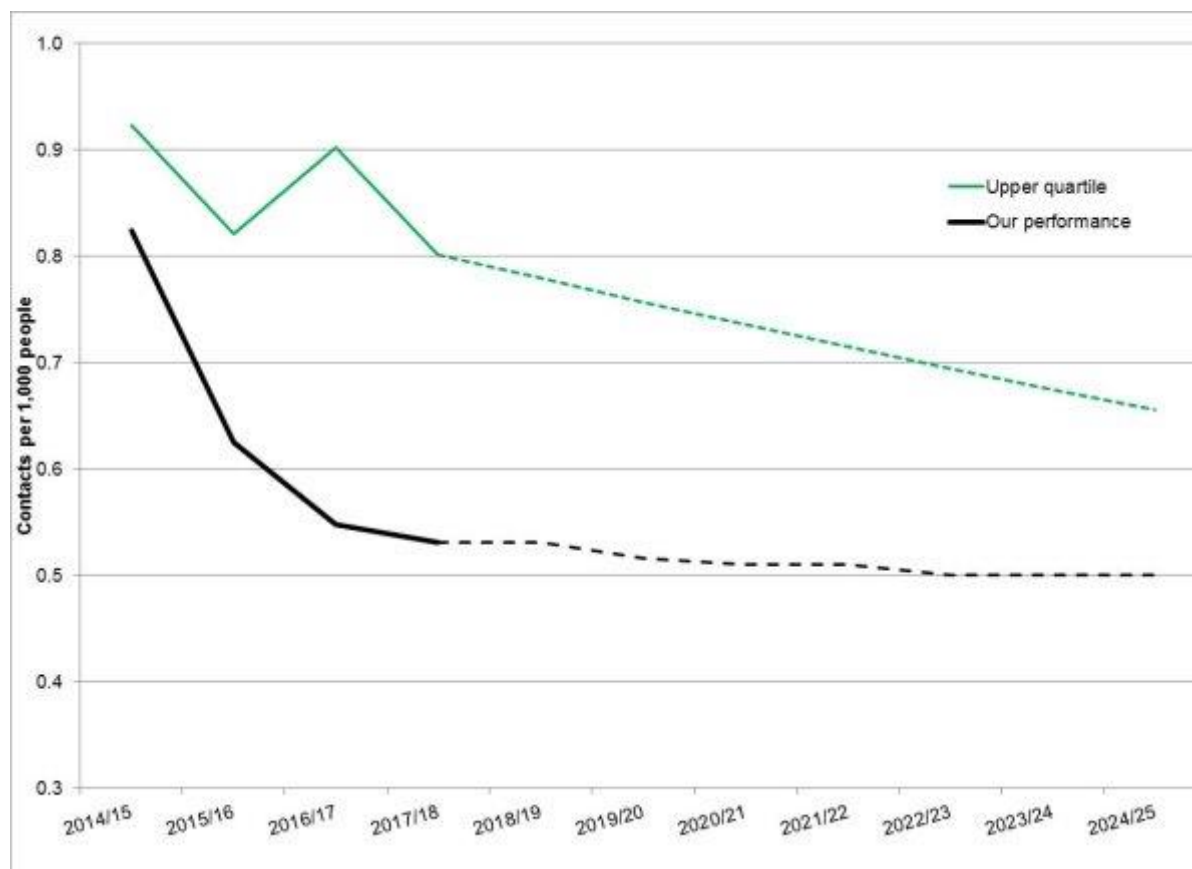
Bursts are inconvenient for our customers and the wider communities we serve who may be impacted by road closures as we work to fix the burst. We have a strong track record in minimising bursts through continual investment in replacing our network. We have the lowest number of bursts per 1,000km of all water companies in the country. In 2017/18 the next best performing company had 60% more bursts per 1,000km than we did. We are committed to reducing the number even further.



Eliminating all risk of bursts on our network would be too expensive as it would mean replacing mains at a significantly faster pace than we are planning. We are committed to continuing to reduce bursts by a further 25% by 2035.

2.3. Customer concerns about their water

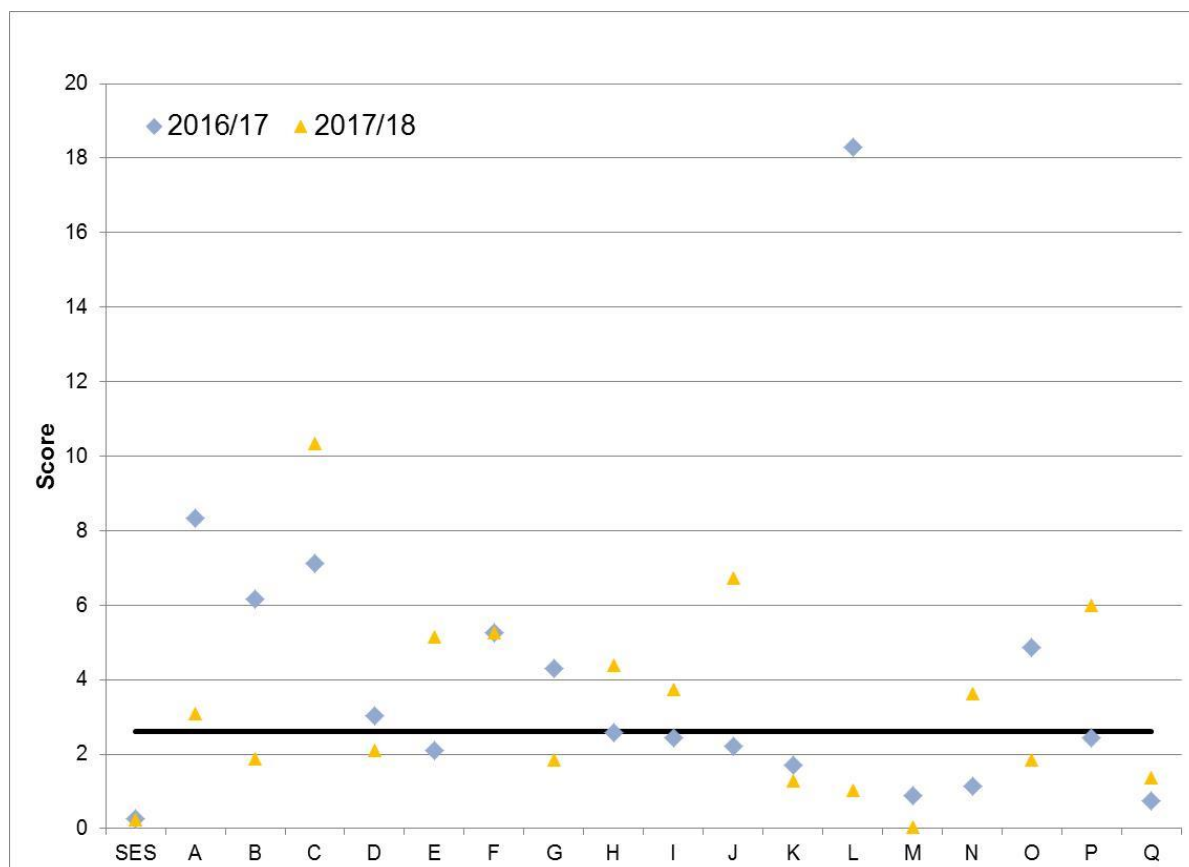
Our customers expect high quality water and do not want to be inconvenienced by finding that they need to contact us because their water doesn't taste, smell or have the appearance it should. Our customers have to contact us less about the quality of their water than the vast majority of customers across the country. We are committed to maintaining this high level of performance which will be more stretching in the coming period because we are planning more activity on the network which can temporarily impact the taste and appearance of the water we deliver.



We will continue to manage the potential impact of our own network improvements and take action when third parties access our network illegally, which is a significant cause of the contacts we receive. We will also continue to provide useful information to our customers so they know more about how their own plumbing may be the cause of water quality issues. By continuing to work this way we intend to keep the number of contacts per customer at current levels for years beyond 2025.

2.4. Water quality compliance

High quality water is expected by all our customers. The Drinking Water Inspectorate is changing the way it assesses companies' compliance with water quality standards. We have adopted the new scoring system – the Compliance Risk Index – as our performance commitment. We will target full compliance, and therefore a score of zero. The incentive framework allows for a 'deadband' on this performance commitment meaning we will not be financially penalised for high levels of performance that narrowly miss the target of zero, often due to factors outside of our control (like customers' plumbing). We have set our deadband at a score of 2.6 reflecting the mid-point of known industry scores over the last two years. The chart below shows each companies' performance (with ours on the left of the chart). The black line represents the mid-point of 2.6.



2.5. Customer confidence

We want all our customers to be confident that we can supply them with a reliable supply of high quality water. But we don't think a target of 100% is possible – we do make mistakes and can't always keep all our customers happy all the time. We consider that a target of 90% is stretching and will ensure we focus on delivering against our customers' expectations.

3. Fair prices and help when you need it

3.1. Supporting customers in financial hardship

We have a strong record of supporting our customers in financial hardship through providing discounts to their bill through our Water Support Scheme. We will build on this with our commitment to support more customers. We operate in a relatively affluent area of the country but there are still many customers that need financial assistance – which could be due to temporary situations or a longer-term need. Analysis by the Consumer Council for Water (CC Water) shows that, as a proportion of our total customers, we offer support to the second highest number of customers when compared to other water and wastewater companies.¹

Financial support is primarily funded by other customers meaning that a proportion of our customers' bills are used to provide the support we offer. We therefore engaged with our customers in reaching a stretching performance commitment that was acceptable to them. Chapter 1: Our Engagement Strategy provides detail on the way we engaged and the results of that engagement. In summary, we are committed to providing financial support to 19,000 customers by 2025 which is more than double the current number of customers supported. We have included the bill impact of providing this level of service in our forecast of bill movements in Chapter 2: Pledges, incentives and bills, which shows the expected change in bills for households contributing to the Water Support Scheme. If we find that in a year there is not the demand for support expected then the funding provided through other customers' bills will be ring-fenced for use in future years and ultimately refunded if it is not used by 2025.

3.2. Vulnerable support scheme awareness

Our research has indicated that there is more we should be doing to raise awareness of the support we offer. We have therefore set a target that requires a year-on-year increase in awareness. We have used data from CC Water's Water Matters² customer survey to set the starting position of 44% awareness in 2017/18 and will grow this each year to 58% by 2025, in-line with the trend shown in the CC Water data.

3.3. Vulnerable support scheme helpfulness

We want to make sure we offer services that are helpful and provide the right type of support. Clearly it is most important that the services we offer are helpful to those that use them but we also consider it useful to test whether all our customers think they are helpful as anyone could find themselves in need of a little extra help at some point in their lives, or know someone that does.

We have not previously asked our customers for feedback on this and therefore have set a target of 80% based on an expectation that the majority of customers will consider the services helpful but that we know there will be room for improvement. While important to track customers' views on this matter we will also use the opportunity this creates to seek feedback on what other services we could offer to adapt our services going forward.

¹ [CC Water: Staying afloat: Addressing customer vulnerability in the water sector \(2016-17\)](#), September 2017, Table 2

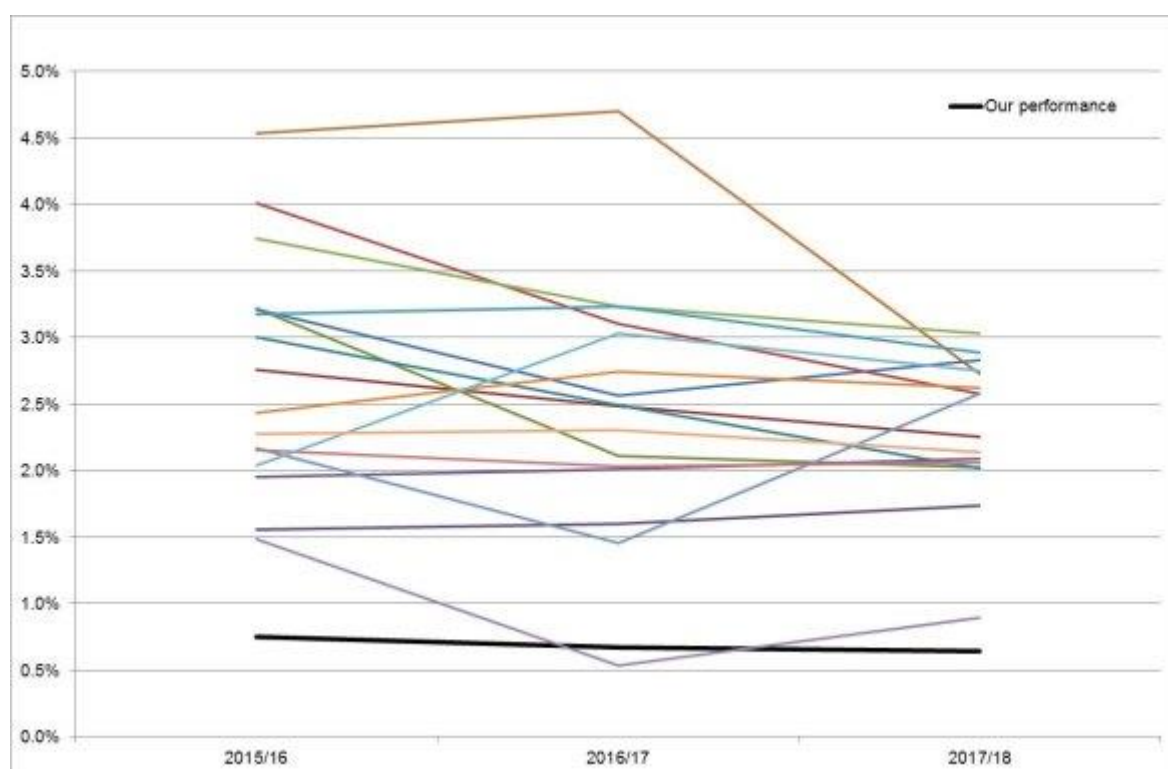
² [CC Water: Water Matters 2017](#), July 2018, page 65

3.4. Deliver value for money

Making sure that we keep bills as low as possible and provide information to our customers so they can understand what their money is being spent on is important. We have found, through our regular conversations with customers, that there are a small number of people that do not think they should pay for water and it is very difficult to persuade them otherwise. But we will work hard to demonstrate the value we bring and therefore we have made our target more stretching from the current level of less than 15% of customers being dissatisfied with the value for money of the service they receive to less than 10% for 2020 to 2025.

3.5. Managing bad debt

Our approach to the collection of revenue, including the range of payment options and schedules offered to customers, and our processes if customers do get into debt with us are the reason for our industry leading position on debt management. The chart below shows our debt as a percentage of turnover and how it compares to other water and wastewater companies.

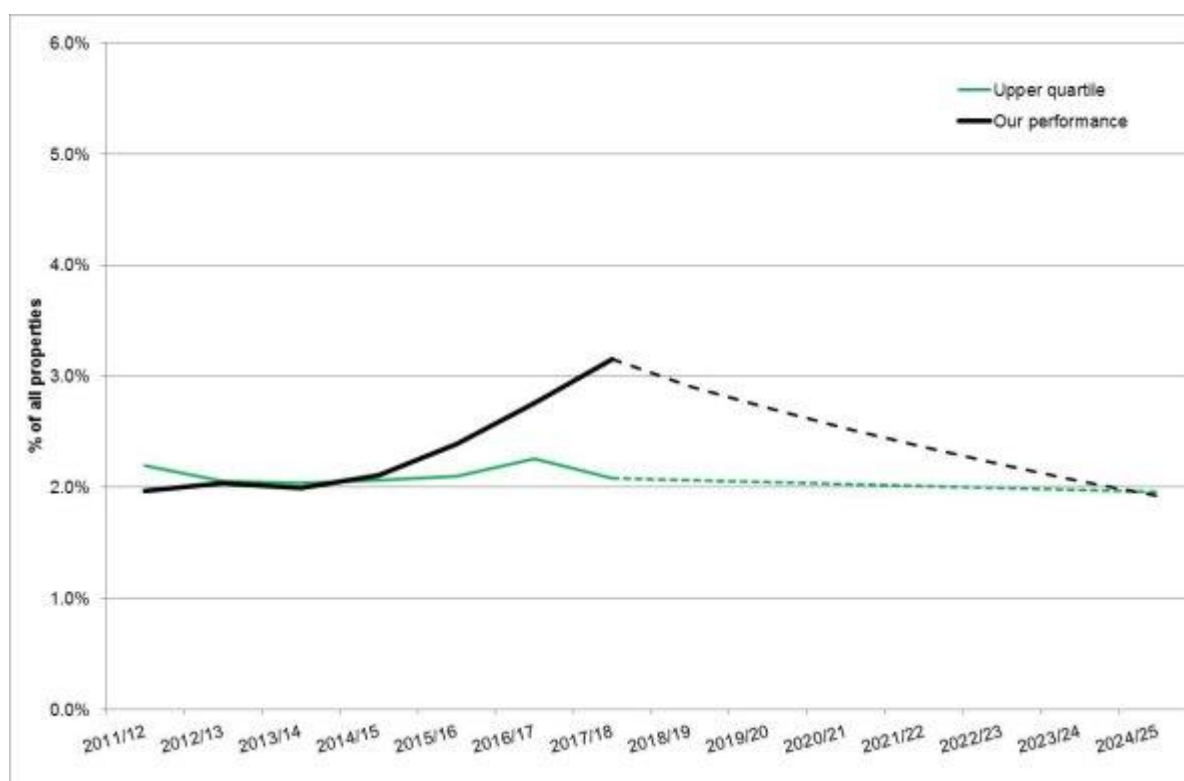


We intend to maintain this industry leading position. We have set a target of keeping debt as a percentage of turnover below 0.8% which is consistent with the current target. This is above our current level in recognition that there are a number of factors in relation to customers' personal finances that are outside our control which may lead to increases over time in the performance we report.

3.6. Void properties

Managing the number of void properties means making sure that customers are paying for the water they use. We have strong track record in managing the volume of void properties, as seen in the chart below, but in recent years we have seen the volumes increase. We consider that this is due to a combination of:

- Increased rate of house moves and increased metering leading to a temporary increase in void properties as changes to accounts move through the internal systems
- Increased property development in our area and not keeping our systems as up to date as they need to be, resulting in properties being classed as void when they should be removed from the system
- An increased volume of rental properties meaning that customers are using water and not paying for it as it is not clear to them that they need to contact us, or they choose not to.



The chart above provides data on household voids only as that was the data available to us for other companies. We have taken the decision to target reducing all voids which will include business properties because the impact on our customers of people using water and not paying for it is the same irrespective of the type of property.

We have set the target to reduce the proportion of voids each year based on a trial we are currently conducting to evaluate the scope to reduce our current level of voids.

4. A service that is fit now and for the future

4.1. Risk of severe restrictions in a drought

This measure looks at the percentage of the customer population at risk of experiencing severe restrictions in a 1-in-200 year drought, on average, over 25 years. There is a risk of severe restrictions if demand for water is expected to be higher than the supply available in the scenario described. We operate as one water resource zone because we can now move water around our network to meet demand. Therefore if there is a risk to one customer there is a risk to all.

We have assessed our supply demand balance under a severe, 1-in-200-year drought for our Water Resources Management Plan (WRMP19). Our baseline position is that we have a surplus in supply until 2047/48 under this level of drought severity. Therefore the risk of customers experiencing severe restrictions using this metric is zero for each year up to 2045 for both our baseline and final plan. Our performance commitment demonstrates that there is zero risk of severe restrictions over 2020 to 2025 which is the best level of service that can be provided.

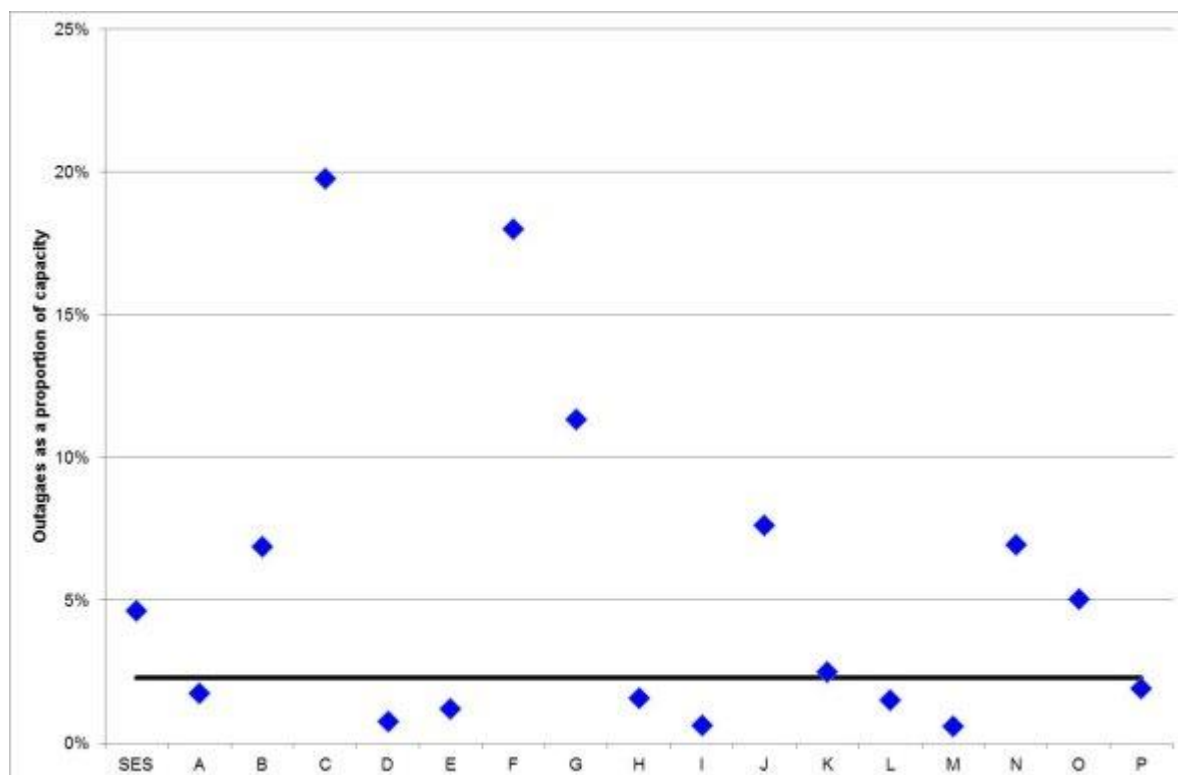
4.2. Risk of supply failures

We are progressing our strategy to make sure that 100% of our customers can be supplied by more than one treatment works to improve the resilience of supply to all. We are continuing the programme of work started in 2010 and will achieve our aim, which is supported by customers, to increase resilience for 100% of our customers by the end of 2025.

4.3. Unplanned outages at treatment works

An unplanned outage at a treatment work could affect the water supply to our customers by restricting the volume of water available. We minimise the chance of unplanned outages by investing in the maintenance, and where efficient to do so, the replacement, of assets at our treatment works.

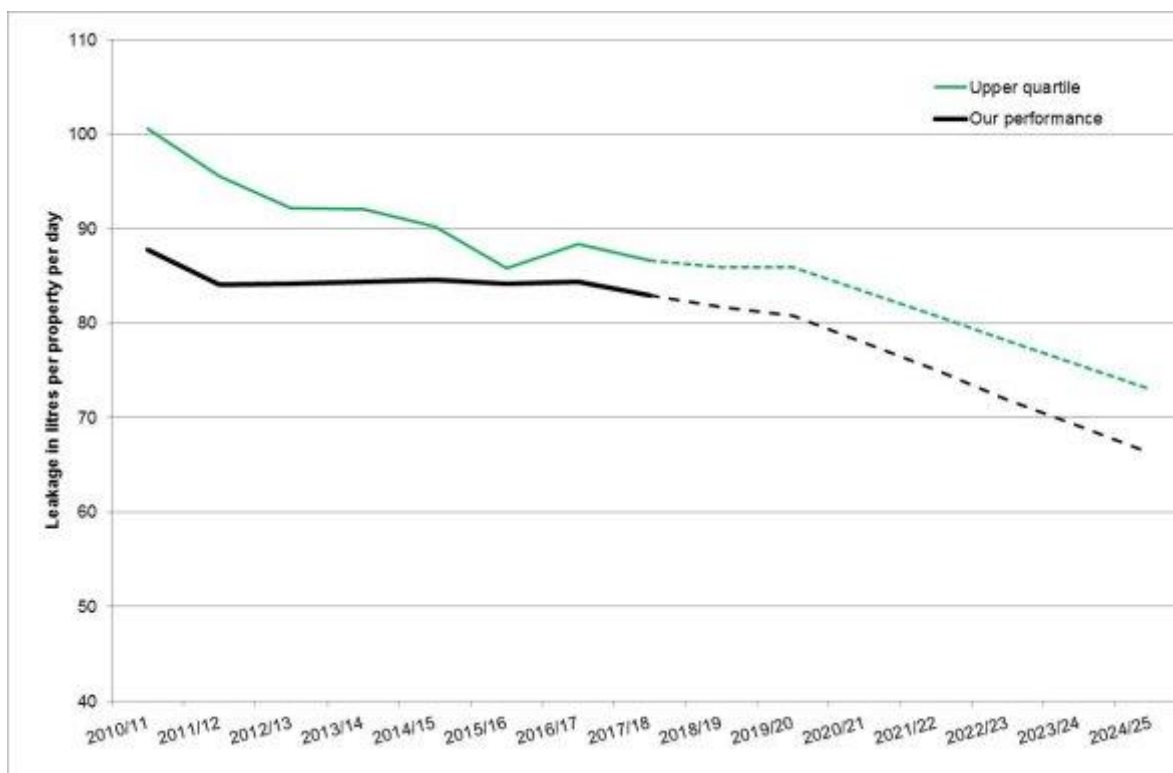
We only have one year of information on other companies' performance on which to assess whether our proposed target is stretching. The chart below shows each companies' performance (with ours on the left of the chart) for 2017/18.



Our performance commitment target of 2.3% in each year (represented by the black line in the chart above) is stretching as it is lower than our current performance. Our targeted performance does however remain above the upper quartile of companies' performance (based on the small sample of data available). We have chosen to focus investment on our commitment to make sure that all customers can be supplied by more than one treatment works which ensures that supplies to customers are not affected by an unplanned outage if it happens. We therefore consider that it would be inefficient to invest any further in improving performance on this measure.

4.4. Leakage

Customers do not like to see us waste water as they understand it's a scarce resource. We are asking our customers to reduce the amount of water they use and therefore it is only right that we work even harder to reduce the water lost from our network and our customers' supply pipes. We have consistently met our leakage target and been one of the best performing companies. Only one company had a lower level of leakage per property in 2017/18.



But we know there is more to do and our customers support this. Therefore, we are committing to reduce leakage by 15% by 2025 and by at least 50% by 2045. We consider that this will continue to mean that our customers receive one of the highest levels of service in the country.

5. Excellent service, whenever and however you need it

5.1. Customer satisfaction (C-MeX)

All water companies in England and Wales are currently trialling this new measure of customer satisfaction which will look at the satisfaction of customers that have contacted us and the wider customer base that we supply water to. The measure is designed to make sure it is stretching as Ofwat will compare all water companies' satisfaction scores against each other and publish league tables on an annual basis.

5.2. Developer satisfaction (D-MeX)

All water companies in England and Wales are currently trialling this new measure of developer satisfaction which will look at the satisfaction of customers that rely on us to provide service related to a new connection to the water supply. This may be someone developing a single property, a large house builder or a company that has chosen to do most of the work themselves and just needs us to do part of the work (a self-lay company or New Appointment and Variation). The measure is designed to make sure it is stretching as Ofwat will compare all water companies' satisfaction scores against each other and publish league tables on an annual basis.

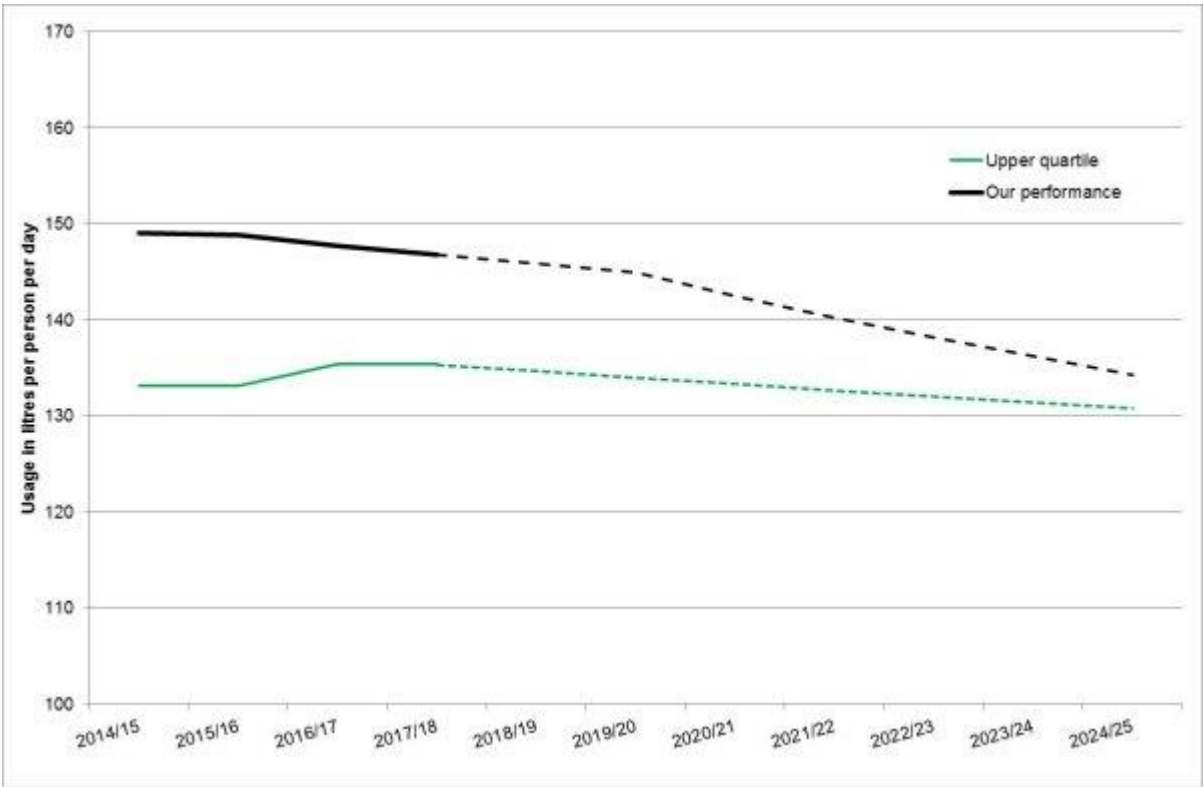
5.3. First contact resolution

Most customers never have to contact us. But when they do we understand our customers' time is important to them so we need to make their experience as effortless as possible. We are working towards a position where we address the vast majority of our customers' queries first time, every time and that is why we are targeting a continual improvement each year to 85% resolved first time by 2025. Delivering this target will ensure that our customers' are receiving a level of service in this area that they get from leading service providers in the UK.

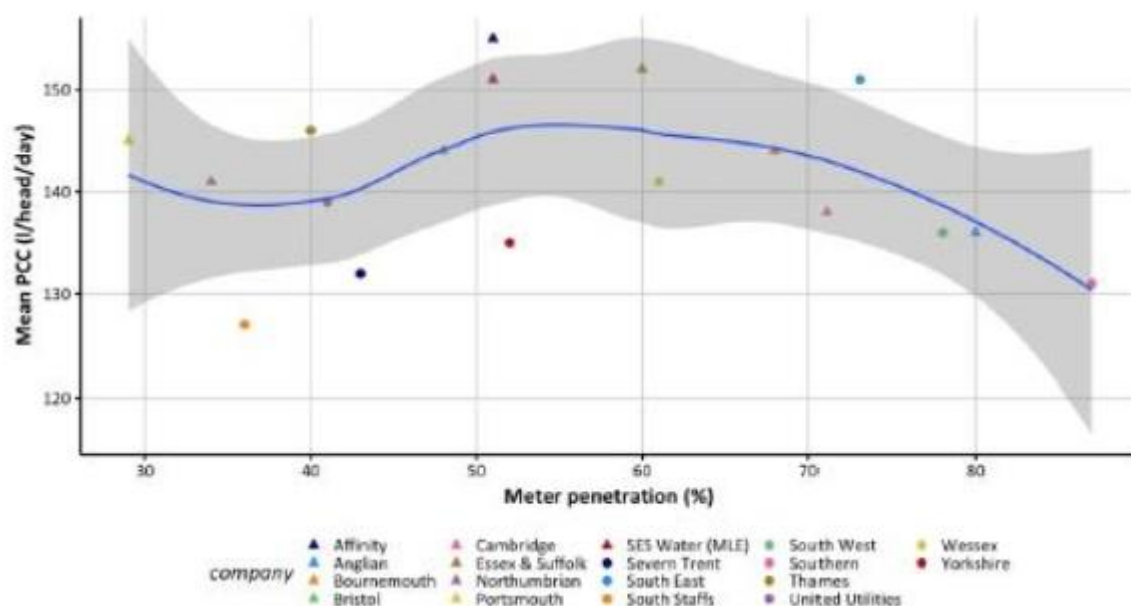
6. Supporting a thriving environment we can all rely upon

6.1. Usage (per capita consumption)

Per capita consumption (PCC) in our area is higher than the national average. PCC is calculated by recording the volume of water used by customers that have meters and by making an assumption (based on a range of inputs) for the volume of water used by customers that do not have a meter. Our current method of calculation is different from the method that we are required to apply going forward. The change in calculation has reduced the PCC we report by c. 8%. The information in the chart below uses the new method of reporting.

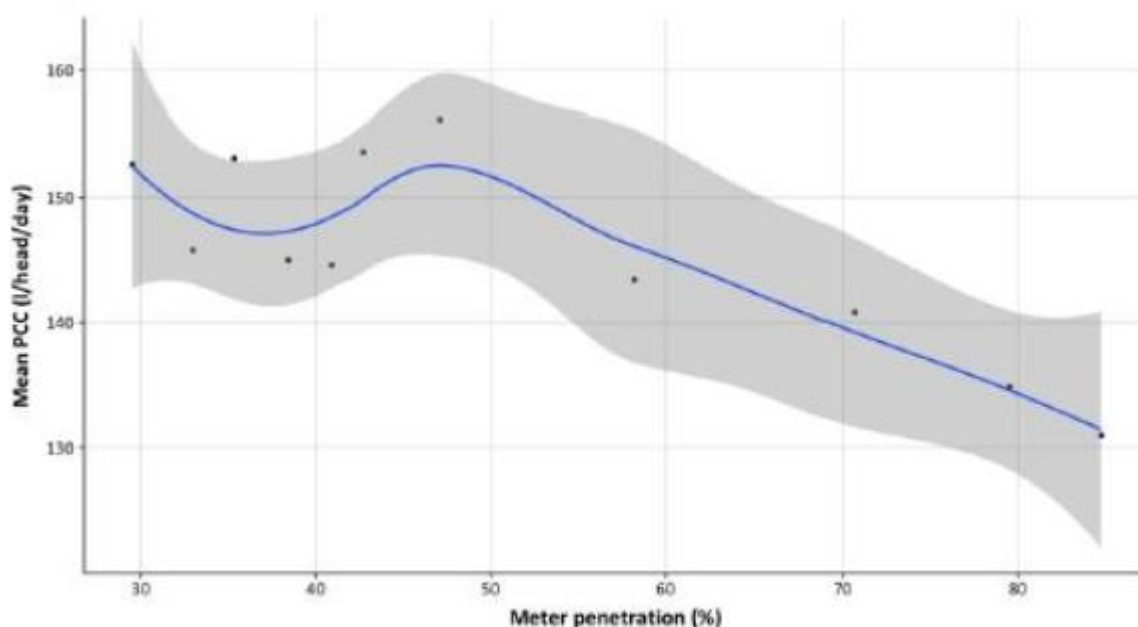


We are committed to helping our customers use water wisely through a range of water efficiency measures and by increasing the number of customers in our area that have a meter. As a result of this planned activity we are committing to reducing PCC by 7.3% by the end of 2025. The chart above shows that even with 90% of our customers on meters by 2025 the PCC in our area will still be above the forecast upper quartile of the industry. Though we note the significant uncertainty in forecasting the upper quartile for PCC. It is however difficult to make a fair comparison across companies for PCC as they cannot be viewed on a like for like basis because each company is in a different position in terms of meter penetration – which is one of the key factors that changes PCC. The chart below plots PCC against meter penetration for water companies in England. The blue line represents the line of best fit and the grey area shows the associated standard error. It shows that as meter penetration goes above 50% the PCC trends downwards.



Source: Analysis conducted for us by Artesia Consulting, August 2018

There is evidence that PCC will naturally be higher in the south east of England due to its relatively drier weather. We therefore asked Artesia to look at Southern Water as a representative comparator to show that our PCC is stretching for a company operating in this part of the country that now has the level of meter penetration that we are planning to have by 2025. The chart below shows the trend of PCC and meter penetration for Southern Water based on its reported figures.



Source: Analysis conducted for us by Artesia Consulting, August 2018

It shows that at our current meter penetration (54%), Southern Water's PCC would have been similar to ours. This provides a useful comparator to show that our PCC target will be stretching but also gives confidence that it is deliverable. Particularly when considered in the context that we are one of only three companies that have taken action to reduce PCC over the last four years. So while our PCC may remain higher in our area than in other companies'

areas, our plans to reduce PCC appear to be significantly more stretching than we have seen companies target in the past.

In the longer-term our performance commitment target is aligned with the ambition set out by the National Infrastructure Commission in their April 2018 report and targets a reduction to 118 litres per person per day by 2050.

6.2. Greenhouse gas emissions

Since 2010 we have reduced our emissions per megalitre of water by almost a third. In June 2018 we started purchasing only electricity that has come from renewable sources which is expected to result in a year-on-year decrease in emissions of 73%. We have therefore already minimised greenhouse gas emissions from our water supply operations, so our aim is to maintain our emissions per megalitre of water we supply at this new significantly lower level over the period from 2020 to 2025. We will continue to take targeted action to reduce emissions as outlined in Chapter 9: Our Environment.

6.3. Pollution incidents

No pollution incidents are acceptable and therefore we have set a target of zero for category 1 and 2 incidents (as categorised by the Environment Agency).

6.4. Abstracting water to treat (Abstraction Incentive Mechanism)

We are unable to apply the Ofwat methodology for the Abstraction Incentive Mechanism (AIM) in full. This is because we have no locations where abstracting water from the environment meets the criteria specified. In consultation with the Environment Agency we have therefore adapted the guidance to develop a mechanism that will still achieve the objectives of the AIM.

We consider this demonstrates our willingness to seek to do the right thing and stretch ourselves to deliver what our communities value, regardless of a strict interpretation of regulatory mechanisms. Chapter 4: Delivering wholesale services provides more information on our approach to the Abstraction Incentive Mechanism.

6.5. Improving land through biodiversity

We have linked our commitment to increase the biodiversity on the land we own to attainment of the Biodiversity Benchmark awarded by the Wildlife Trust.³ There are a number of steps needed that will see us put in place a range of actions that will make our sites even more attractive environments for wildlife and plants, stretching us beyond what we do now. We will also use this as an opportunity to learn about actions that can be taken across our sites to enhance biodiversity beyond the commitment we are making to attain the benchmark at three sites by 2025.

6.6. Improving rivers through delivery of WINEP

The Water Industry National Environment Programme (WINEP) is the programme from the Environment Agency that outlines the actions that we need to complete to meet our environmental obligations including the Water Framework Directive (WFD). We will complete 24 investigations or actions between 2020 and 2025 and deliver the requirements by, or before, the dates required.

³ [Biodiversity Benchmark](#), Wildlife Trust website