



Summary of our Business Plan

2015 to 2020

Introduction

We are a local company proud of the services we have been providing to our customers for the past 150 years. Our ambition is to carry on providing excellent service for many years to come and we know that the only way to achieve this is to put customers at the heart of our business.

We set out in this Plan what our customers have told us following the most comprehensive engagement process we have ever undertaken. We explain how we have responded and how we have built a Business Plan that:

- meets our statutory obligations;
- gives customers what they want; and
- keeps prices at current levels before inflation.

We have listened carefully to the views of our customers and stakeholders in preparing our Plan. We have also taken into account the challenging economic conditions. As a result we have reviewed the assumptions made in our Draft Business Plan and responded by changing our Plan so that there will be no increase in prices before inflation over the next five years.

Our Business Plan is demonstrably rooted in evidence of customer priorities. They are:

- **A reliable supply of good quality drinking water, available whenever required.** In the short-term, avoiding interruptions is our priority by better network management and more effective operational response.

In the longer-term, we will address resilience with mains upgrade schemes that improve our ability to distribute the output from our storage reservoir at Bough Beech to wherever it may be needed in our supply area. This is part of our continuing strategy for responsible management of water resources;

- **Effective leakage control.** We have never missed an annual leakage target despite our target level being 10% below our economic level of leakage. But our customers believe we should do more. Alongside improved communication of what we are doing, we are committing to reduce leakage even further; and
- **Affordability.** We have always tried to strike a balance between being tough on those who won't pay their water bill and providing help for those genuinely struggling to pay. It is only by getting this balance right that we have been able to achieve industry leading levels of debt recovery. We have good customer support for the introduction of a social tariff. We are proposing to offer a 50% reduction in charges to those in real financial difficulty.

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Statement from the Board



This Plan is designed to deliver good outcomes for customers and the environment now and in the future while ensuring the Company continues to meet our statutory obligations.

Our Business Plan – 2015 to 2020

The process for developing our Plan has been very different compared with previous price reviews. The regulatory approach has shifted and companies have more freedom to develop their own distinctive plans. We have responded to the challenge by:

- taking full ownership and responsibility for our Plan;
- carrying out extensive customer research to find out what customers want and what they are prepared to pay for;
- placing efficiency and innovation at the heart of our approach to business planning;
- ensuring a fair balance of risk between the Company and our customers;
- taking account of the potential impact of increases in wastewater bills on our customers;
- embracing the role of the Customer Challenge Group (CCG);
- setting targets for which we will be held accountable in future; and
- putting in place robust and effective assurance processes.

We identified five 'Outcomes' or goals that we know from our research are important to our customers.

The 'Outcomes' are to:

- provide a reliable and sufficient supply of safe, high quality drinking water;
- offer good value for money and keep bills at a fair and reasonable level;
- increase the resilience of our network to drought, flooding and equipment failure;
- deliver consistently high levels of service; and
- reduce our impact on the environment, while seeking to make a positive contribution to its quality.

Each of these is matched with appropriate 'measures of success' and targets for the next five years, to ensure our customers and ourselves know whether we are meeting expectations, exceeding them or falling short.

In August 2013 we published our Draft Business Plan and sought customers' views. We were pleased that 84% of both household and non household customers supported our Plan.

In our Draft Business Plan we had proposed a price increase of £7 before inflation. However, having listened carefully to the views of our customers, our Customer Challenge Group and elected representatives, we have challenged the assumptions we made in our Draft Business Plan. These challenges have resulted in us revising our assumptions about future efficiency and financial returns. We have changed our Plan and prices will not now increase before inflation from 2015 to 2020. We consider that prices cannot fall further. This is because of cost pressures (the single biggest of these

being increased power prices) and the need to recover a significant shortfall in income due to lower demand under regulatory mechanisms put in place at the last Price Review. We are also making additional investments in leakage reduction and resilience of our network to meet our customers' priorities.

We are pleased that the introduction of a social tariff has received good support from our customers. The Board is very aware of the need to provide assistance to customers struggling to pay their water bill and has decided to implement a pilot scheme in 2014 whereby we will discount bills by 25% (50% from 2015) for those in genuine financial difficulty. The first year of this scheme will be fully funded by the Company including the charges discount, and the cost of setting up and administering the scheme. This 'pilot' will aim to provide discounts for at least 2,000 households who are most in need.

Key elements of this Business Plan are supported by a major review of our water resources. Our Water Resources Management Plan (WRMP) assesses our requirements for the next 25-year period to ensure the longer term sustainability of our operations. This has provided the necessary context for the Board to assess the capital investment required during the five years of this price review. An important part of the Plan is the inclusion of projects that are a continuation of our strategy to make the Company more resilient to droughts, flooding and equipment failure. This work will also have

the benefit of reducing customers' dependency on a single treatment works for their water supply.

For the first time retail competition will be introduced for all non household customers in 2017 to stimulate higher service levels and offer more choice for customers. We welcome this challenge and are actively embracing the opportunities presented. Our imminent application for a Water Supply Licence reflects our intention to build upon the excellent service we already deliver to customers in our area of supply. This is confirmed by our recent acquisition of two new customers from 'cross border' supplies. We are also an active participant in the Open Water programme, providing some of our senior staff to contribute to a number of the workstreams.

The whole Board has considered this Plan and it has been rigorously reviewed and challenged by our non-executive directors. This process included a detailed review of the assumptions and the risks as well as assessing the findings from our external assurance providers. All our estimates and data contained in the Plan have been arrived at independently of other water companies. Our Customer Challenge Group (CCG) has reviewed our customer engagement programme as well as assessing how effectively our Plan reflects customer and stakeholder priorities and reported its findings to the Board and Ofwat.

We will be held accountable by a mixture of financial and reputational incentives. The Plan includes mechanisms for rewards and penalties on specific delivery incentives. We have also set criteria for how we will share outperformance with customers should it exceed certain trigger levels.

This Plan is designed to deliver good outcomes for customers and the environment now and in the future while ensuring the Company continues to meet its statutory obligations. It is also designed to strike the right balance between the needs of all our stakeholders and most importantly those of our customers.

Jeremy Pelczer
Chairman
December 2013

The highlights of our Plan



For no increase in bills above inflation we will:

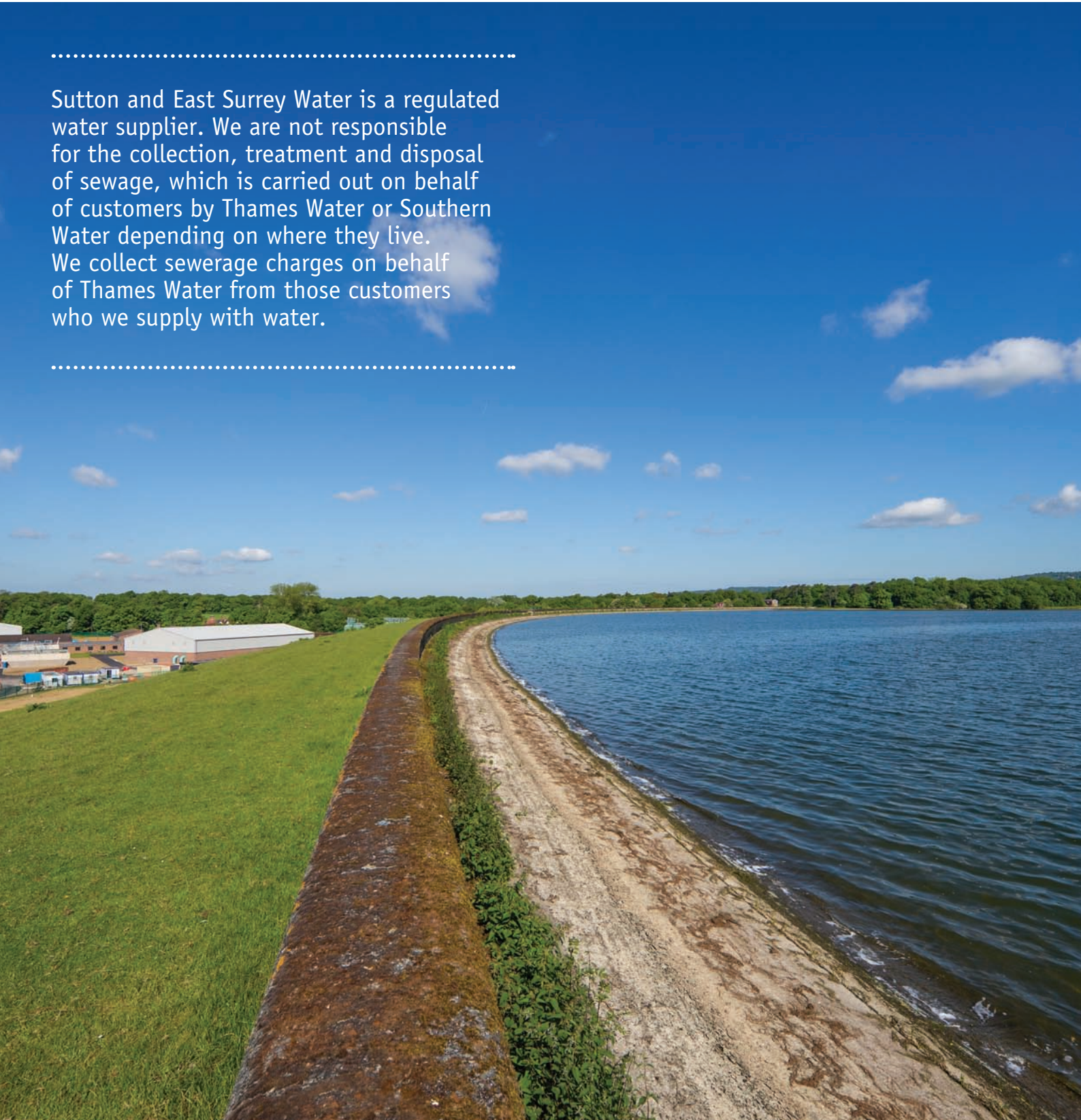
- reduce leakage;
- reduce interruptions to supply, whatever the cause;
- reduce the number of bursts that occur on our pipes;
- introduce a social tariff to help customers in real financial difficulty;
- maintain a high standard of compliance with UK water quality standards;
- increase the resilience of our network, including the number of homes that can be supplied by more than one treatment works;
- increase the proportion of homes with a meter;
- embrace competition;
- constantly promote innovation to become more efficient;
- provide enhanced services to our household and non-household customers; and
- continue to have a positive influence on the local community we serve.

About us

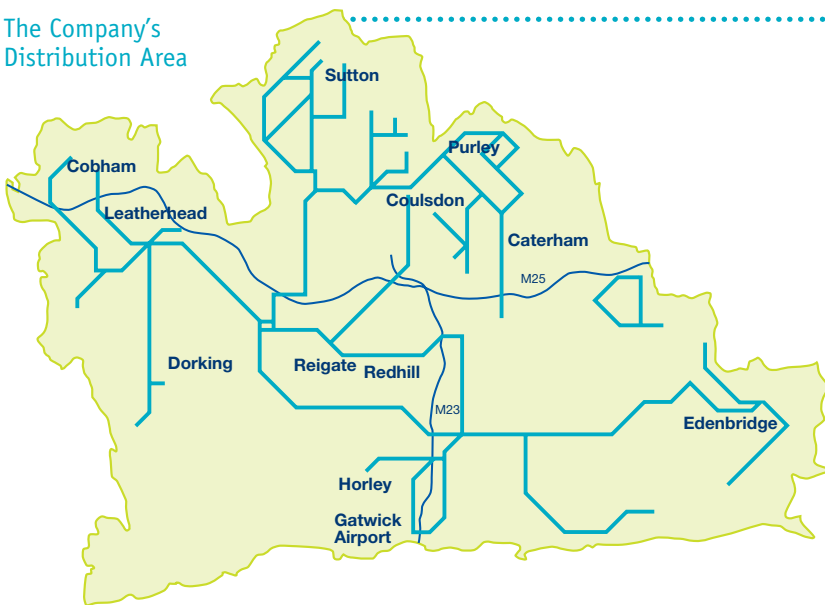
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Sutton and East Surrey Water is a regulated water supplier. We are not responsible for the collection, treatment and disposal of sewage, which is carried out on behalf of customers by Thames Water or Southern Water depending on where they live. We collect sewerage charges on behalf of Thames Water from those customers who we supply with water.

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The Company's Distribution Area



We supply water to **265,000 homes** and **17,000 businesses** in an **835 square kilometer area** extending across the London Boroughs of Croydon, Merton and Sutton, as well as East Surrey and parts of Kent and Sussex.

We serve over **675,000 people** in the region which includes the towns of Redhill, Reigate, Dorking, Leatherhead, Cobham, Sutton, Purley, Caterham, Coulsdon, Edenbridge and Horley.

Last year, our eight treatment works supplied **153 million litres per day** into a mains network, **3,400km long**, owned and managed by the Company. Average domestic consumption last year was **161 litres per head per day** – among the highest in the country – and reflects the particular socio-economic profile of the population in our area.

The Company's 'raw' sources of water include one **surface water reservoir, which accounts for 15% of the supply.** This is filled by pumping water from the River Eden, normally between November and April. Underground aquifers yield the remaining **85% of supply via boreholes** and wells from which groundwater is abstracted.

Water quality is generally extremely good. The presence of minerals in some places does make the water naturally hard, and unlike other water companies, our treatment processes include softening.

We operate on a five-yearly cycle called an Asset Management Plan (AMP) period. AMP5 refers to our current regulatory period (2010-2015). This Business Plan sets out our plans for AMP6 (2015-2020).



835km²

Distribution Area



153m

Litres of water supplied per day; 161 litres per head, per day.



675,000

People served



265,000

Homes supplied with water



17,000

Businesses supplied with water



£186

Average household bill



15% of water extracted from surface water

85% of water abstracted from groundwater supplies

Our progress to date

We are on track to deliver on the promises we made to Ofwat on behalf of customers for this regulatory period (2010 to 2015):

- We are meeting all our statutory obligations.
- KPI performance is in line with regulatory targets or better than expected.
- We have continued to provide our customers with a high standard of service which is reflected in and supported by high levels of customer satisfaction.
- We have achieved all of the above within Price Limits.
- We have been innovative in our approaches to managing our business and operations.
- Our current performance demonstrates a track record of delivery that supports our commitments for the future.

We promised:

Water resources

To make an additional 5 million litres per day available by 2012/13 by extending our surface water treatment works in Kent.

We are delivering:

The £17m treatment works extension – our biggest ever capital project – was completed in Spring 2013.

We promised:

Leakage

To meet the leakage target set by Ofwat of 24.5 million litres per day.

We are delivering:

Leakage has been maintained at or below our target during this regulatory period.

We promised:

Metering

To help customers save water and money by installing 32,000 water meters over the five years to 2015, meaning nearly 50% of our customers will be metered by 2015.

We are delivering:

Over 19,000 meters had been installed by April 2013 and we are on track to install the remaining 13,000 meters by 2015.

We promised:

Water efficiency

To double our expenditure on water efficiency measures to encourage a reduction in demand.

We are delivering:

We have already outperformed our water efficiency target for the regulatory period, reducing customers' water consumption by an estimated 1.37 million litres per day.

We promised:

Asset maintenance

To maintain the serviceability of our assets in a stable condition.

We are delivering:

This will be achieved by us investing over £70m by 2015 to replace over 117km of water mains and maintain the pipes, pumps, treatment plant and other equipment.

Regulatory KPI performance

Our KPI performance is consistently in line with or better than the targets agreed with Ofwat. We have summarised our performance below. The regulatory reporting changed in 2011/12 and we have restated the 2010/11 data for consistency purposes.

There have been no significant variations in the base service level of performance compared to the outputs set out in Ofwat’s Final Determination, December 2009. We expect to retain these assessments in 2013/14 and 2014/15.

The below assessments are based on Ofwat’s traffic lighting system where green ● means meeting or exceeding target.



Innovation and efficiency

Value for money is extremely important to our customers and stakeholders. They expect more for less. We achieve this by being innovative in our day to day operations to reduce costs and become more efficient. Recent examples which demonstrate our track record include:

- Work management – We were the first utility in the world to adopt Google Maps technology as part of our new tablet-based communication system for remote working. The system recouped the Company’s investment within four months;
- Water treatment – We have developed a quick test for the pesticide metaldehyde which allows us to make decisions on when to abstract water from the River Eden, improving the quality of the water in Bough Beech reservoir and ultimately contributing to driving down treatment costs;



- Energy management – As customer demand reduces, we shut down two of our water treatment works for a few months every year over winter which reduces our costs and allows for more efficient scheduling of major asset maintenance; and
- Embedding innovation in the company – We have created a regular Innovation Day which is dedicated to showcasing how ‘thinking outside the box’ is transforming our lives – and our business – for the better. The purpose is to engage with our employees, contractors and partners to identify areas for future innovation.

	KPIs	2010/11	2011/12	2012/13
Customer experience	SIM Score	● 83	● 77	● 81
	Water supply interruptions – hours per total properties served	● 0.47	● 0.16	● 0.25
Environmental impact	Greenhouse gas (GHG) emissions	● 31.2	● 30.7	● 29.3
	Pollution incidents (water)	● 0	● 1	● 0
Reliability and availability	Serviceability water non-infrastructure	● Stable	● Stable	● Stable
	Serviceability water infrastructure	● Stable	● Stable	● Stable
	Leakage	● 24.5	● 23.6	● 23.7
	Security of supply index	● 100	● 100	● 100
Financial	Return on regulatory capital value	● 6.12%	● 6.32%	● 5.70%
	Credit rating	● BBB	● BBB	● BBB
	Gearing	● 71%	● 75%	● 76%
	Interest cover	● 1.2	● 1.2	● 1.3

What customers and stakeholders have told us

- We engaged with over 2,000 household customers and 650 non household customers.
- There was also full engagement with our Regulators and our Customer Challenge Group.
- Key topics of discussion which consistently emerged related to:
 - leakage;
 - interruptions to supply;
 - water resources and resilience;
 - prices and value for money;
 - social tariffs;
 - discolouration, taste and odour; and
 - effective communications.
- The highest priorities for customers were leakage and interruptions to supply.
- Regulators' focus was on prices, resilience, the environment and per capita consumption.
- Implementing a social tariff received widespread approval from customers.
- 84% of household and non household customers supported our plans.
- Only 14% of household and 16% of non household customers did not support our plans.
- Our Customer Challenge Group concluded that the customer engagement and research employed by the Company was appropriate and sufficient; and followed best industry practice.
- In the CCG's opinion the Company has strived to meet statutory obligations, maintain the current level of service and maximise affordability and sought to provide value for money for customers.



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We embarked on the largest programme of customer engagement in our history to make sure customers are at the heart of our Business Plan. We have spent 18 months talking to our customers and stakeholders about the service that they want from us both now and in the future.

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We describe here our approach to engaging with our customers, regulators and other stakeholders, the views and priorities that they expressed, how we have addressed and responded to those views and how we have used them to inform our Business Plan.



Flow chart summarising customer engagement process

Agreed with CCG the format, scope and methods by which we would engage with customers and stakeholders to maximise each opportunity and ensure approach in line with best practice

Customers and stakeholders engaged with us via events, focus groups, telephone and internet surveys or in response to seeing consultation documents on our website or via other channels

We used the information from these interactions to assess how we could change our Business Plan to better meet customer and stakeholders needs and priorities

We took proposals back to our business for discussion and development. All feedback was thoroughly considered and next steps determined ('feasible' or 'not feasible')

We then re-engaged with customers and stakeholders to propose how we could incorporate needs and priorities into the Business Plan or set out reasons why it was not possible or practicable

All developed proposals subjected to independent external assurance, reviewed by CCG and submitted to our Board for approval to form the basis of our outcomes, measures of success and targets ('our promises') for the next five years

Our Business Plan and annual reporting of progress against our promises will be made publicly available and subject to independent verification to ensure we are accountable to our customers and stakeholders

What customers and stakeholders have told us



The table opposite summarises our customer and stakeholder engagement programme. Throughout the process, we have endeavoured to follow best practice as identified by Ofwat and UKWIR as well as guidance from our Customer Challenge Group, Accent (our market researchers) and our peer reviewer. This has provided valuable input to support the development of a robust, comprehensive and effective programme that ensures our Plan has been subject to close scrutiny and can be demonstrated to reflect the priorities of our customers and stakeholders where appropriate.



Customer engagement programme

Research	Start	End
Willingness to Pay – Qualitative research	Aug 2012	Oct 2012
Willingness to Pay – Quantitative research	Feb 2013	April 2013
Online Panel – Strategic Direction Statement	April 2013	May 2013
Strategic Direction Statement – consultation	May 2013	July 2013
Online Panel – Outcomes and measures of success	May 2013	May 2013
Online Panel – Water Resource Management Plan – Stage 1	May 2013	June 2013
Water Resources Management Plan – consultation	May 2013	Aug 2013
Water Resource Management Plan – Stage 2	July 2013	Sept 2013
Social Tariff – Qualitative research	Aug 2013	Sept 2013
Draft Business Plan consultation	Aug 2013	Oct 2013
Social Tariff – Quantitative research	Sept 2013	Nov 2013
Business Plan Acceptability Testing	Aug 2013	Oct 2013

Continued

The top themes that have consistently emerged from customers and other stakeholders throughout the research, and which have driven the development of our Business Plan, are:

- Leakage;
- Interruptions to supply – planned & unplanned, but particularly the latter;
- Increasing resilience – protecting customers from the risk of longer term stoppage;
- Value for money;
- Implementation of a social tariff;
- Discolouration;
- Taste and odour; and
- Effective communications.

Our Final Business Plan, and the thoughts, ideas and proposals that went into the development of that Plan, has been shaped by the discussions, consultations and workshops we have held from our first CCG meeting through to the latest consultation on social tariffs and acceptability testing. As the Plan has developed during this time, the entire Board has been involved in key decisions and has given its own input to key documents like the Strategic Direction Statement, the Draft Water Resources Management Plan, and the Draft and Final Business Plans.

Acceptability testing showed that customers were satisfied with our Draft Business Plan. We could have submitted that Plan. However, we have challenged ourselves still further and shifted the balance of risk from future uncertainties away from our customers. We have demonstrated our willingness to accept these risks while committing to give customers the levels of service they want.

The key areas, in addition to customer consultation, where engagement with our stakeholders has shaped our Plan are:

- **National Environmental Programme**
Our proposals as discussed with the Regulators are included in this Business Plan;
- **Water Resources**
Our Plan is consistent with our Statement of Response to representations made to our Draft WRMP. In particular, we have amended property and population forecasts and our PCC. The impact on our Business Plan is a lower distribution input that affects prices and costs;
- **Water Resources in the South East**
Our Business Plan is consistent with the regional strategy for the South East as determined by WRSE modelling. Beyond the AMP period there are some issues of timing, but these are not material at this stage. A key area of our long term plan is to provide a bulk supply to South East Water; and
- **Strategic Environmental Assessment (SEA)**
Our SEA has been updated to address comments made by Natural England. This has no impact on our Business Plan for the AMP6 period, but is important as part of our longer term planning.

Based on our extensive customer research and stakeholder engagement, we are confident that we have a high level of customer support for our Final Business Plan which delivers improvements in customers' key priority areas for prices that will only increase by inflation.

How customers have shaped our plans



The table shows in more detail how we have responded to our customers' and stakeholders' feedback and challenges and how they have shaped our Plan:

Company Outcome	Draft Business Plan	Customer and stakeholder feedback	Final Business Plan
Outcome 1 Providing a reliable and sufficient supply of safe, high quality drinking water	We offered to reduce the risk of supply interruptions even further. A reduction of 5%, equivalent to 1,000 properties, would have added £3 to the average bill by 2020.	Customers were satisfied with the current level of service.	Not included in our Final Business Plan.
	We proposed bringing forward a programme of compulsory metering from 2020 to 2015. This would have added an additional £3 on average to bills and saved approximately 1.6 Ml/d water.	Willingness to pay research and acceptability testing did not indicate wide support for this option.	Compulsory metering will not start before 2020.
Outcome 2 Offering good value for money and keeping bills at a fair and reasonable level	We carried out some specific research to ask customers and stakeholders if they would support a Company proposal to introduce a social tariff.	We received a mandate from the majority of our customers to introduce a social tariff. Quantitative research showed support ranging from 68% to 78%. Qualitative feedback from events and responses to our consultation also clearly showed the majority of customers supported the principle of the tariff.	We will introduce a 'pilot' social tariff in 2014/15 to help customers in genuine financial difficulty which will be fully funded by the Company. The full scheme will then commence as planned in 2015/16.
	We asked customers and stakeholders if they would support the Company's proposal to introduce a social tariff with the option of an "opt out" for those who were opposed to the scheme.	Support for introducing a social tariff dropped when the option of an opt out was discussed.	Our scheme will not offer an opt out.
	Our Draft Business Plan proposed a 3.8% increase excluding inflation on the average annual household bill by 2020 (which translated into a £7 increase) in order to deliver the outcomes put forward in our Plan.	Willingness to pay research, responses to our consultation and findings from our acceptability testing showed high levels of support towards both individual elements and the Plan as a whole. Where there were choices, more people preferred the Company's plans than the options presented to them which would have increased or reduced the level of investment.	We will deliver the outcomes for no bill increase above inflation while maintaining the levels of service proposed in our Draft Business Plan.

Company Outcome	Draft Business Plan	Customer and stakeholder feedback	Final Business Plan
<p>Outcome 3 Increasing the resilience of our network to drought, flooding and equipment failure</p>	<p>We proposed increasing resilience by accelerating our programme to eliminate single source dependency by 2020 (the number of customers that can be supplied by more than one treatment works). This would have added £5 to the average bill by 2020.</p> <p>We proposed slowing down our resilience programme which would have meant no further resilience projects in the 2015 to 2020 period leaving 64% of customers reliant on a single source. This would have reduced the average bill by £3 by 2020.</p>	<p>There is broad support for our long-term strategy of improving resilience. It is both a customer priority and also it has been made clear by Government, through the Water Bill, that it expects companies to increase resilience of their networks.</p> <p>Acceptability testing showed that around half of both household and non household customers preferred the Company's plans while the other half was split broadly equally between preferring more or less investment.</p>	<p>Our Draft Business Plan proposal does not change. We will increase the number of customers that can be supplied by more than a single treatment works from 36% in 2015 to 56% by 2020 and to 100% by 2025. This is in line with the long-term strategy we have been pursuing since 2005 as well as addressing affordability by delivering it incrementally.</p>
<p>Outcome 4 Delivering consistently high levels of service</p>	<p>We set ourselves tough targets to improve our customer services score without increasing prices. This will be achieved by:</p> <ul style="list-style-type: none"> • a mixture of extending choice in the ways that customers can manage their account, whenever and wherever they choose (e.g. website and smartphone apps). • exploring ways which technology can help customers save on their water bills (e.g. smart metering). • providing advice that is timely, accurate and the best we could possibly give. 	<p>There were some key issues that people wished to see more effective communication about:</p> <ul style="list-style-type: none"> • how SESW intends to meet customer expectations. • more information with regards to temporary use (hosepipe) bans, (namely the likely duration and reasons for implementation), ways to conserve water in the home and the Company's investment plans for future services. • what SESW is doing in terms of its corporate social responsibilities. 	<p>We will:</p> <ul style="list-style-type: none"> • publish an annual engagement programme so stakeholders and customers know what to expect and how to get involved. • further develop our online community including use of social media. • report our performance at an annual stakeholder event and within our Annual Report. • retain the CCG so that it continues to play a part in monitoring the Company's performance and evaluating the effectiveness of our engagement.
<p>Outcome 5 Reducing our impact on the environment while seeking to make a positive contribution to its quality</p>	<p>Our Draft Business Plan proposed to reduce our leakage target by 0.5 MI/d from 24.5 MI/d to 24.0 MI/d by 2020.</p> <p>We stated that we could reduce the leakage by a further 0.5 MI/d to 23.5 MI/d by 2020. This would have added £2 to the average bill.</p> <p>Per capita consumption in our Draft Business Plan was based on the figures in our Draft Water Resources Management Plan.</p>	<p>While leakage management is one of our customers' key priorities, the findings of the willingness to pay research and acceptability testing are less conclusive. Between two fifths and a half of customers would like to see more investment to reduce leakage.</p> <p>The EA and Ofwat expressed concern about our high PCC and the rate of fall. Also the EA questioned our population and property figures.</p>	<p>Our leakage target will reduce by 0.5 MI/d to 24.0 MI/d by 2020. We have included a financial penalty if we do not meet this target to reflect the importance that our customers place on reducing leakage.</p> <p>We reviewed our population and property projections following the receipt of new ONS data. We also reviewed our micro-component analysis of PCC, and our normalised base year distribution input. The revisions made result in a fall in PCC from 162.8 litres per head per day in 2014/15 to 157.3 in 2019/20.</p>

Our plan for 2015 to 2020

Our overall aim is to continue to be a well-run, respected and successful business. With the help of the Customer Challenge Group and our own independent research, we have identified five main 'Outcomes' for customers.


These 'Outcomes' embody our promise that we will:

Our performance can be assessed by examining our proposed 'Measures of Success' and the targets or milestones to be achieved by 2020.

Incentives are described as financial or reputational based on the package developed by the Company or the existing regulatory incentives. There are additional financial consequences – such as Guaranteed Standards of Service penalty payments to customers – if our service or performance fails to reach certain standards.

We set out here how we plan to deliver each of our 'Outcomes' and how we are proposing to measure our success.

1 Provide a reliable and sufficient supply of safe, high quality drinking water



2 Offer good value for money, and keep bills at a fair and reasonable level



3 Increase the resilience of our network to drought, flooding and equipment failure



4 Deliver consistently high levels of service



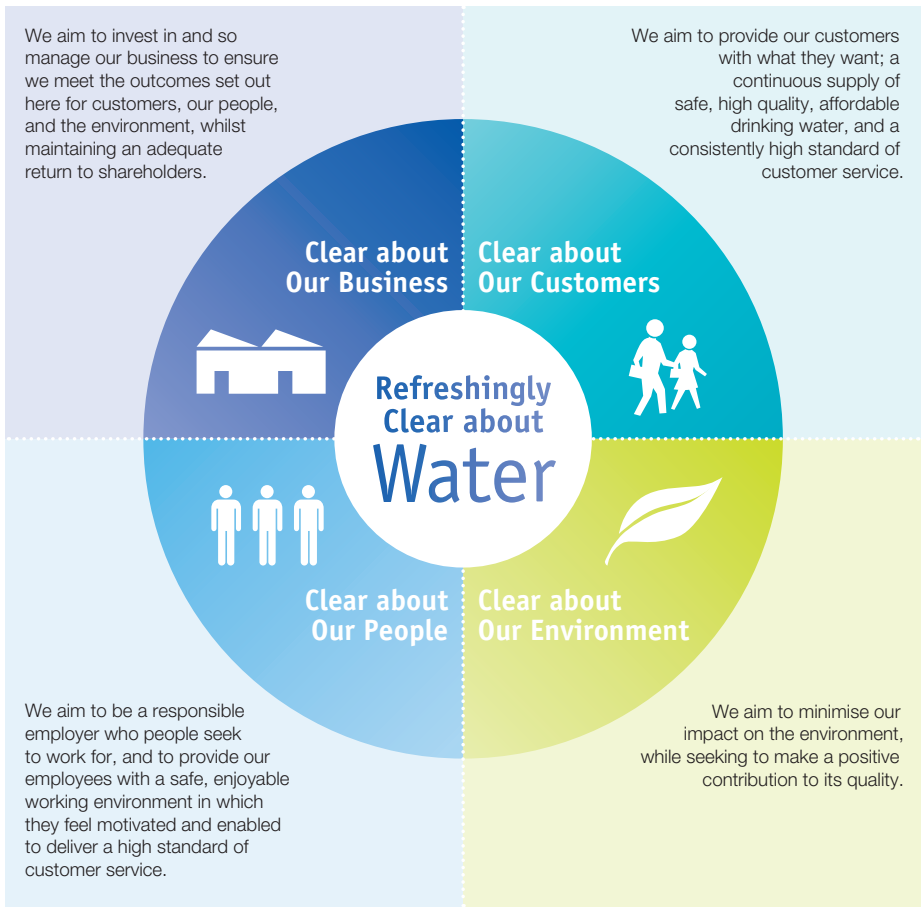
5 Reduce our impact on the environment while seeking to make a positive contribution to its quality



Outcome	Measurement	Our Plan	Incentives
1 Provide a reliable and sufficient supply of safe, high quality drinking water	Average time properties affected by supply interruptions more than 3 hours	0.25	Financial
	Number of water main bursts per annum	290	Reputational
	Security of Supply Index for a dry year (note that a figure less than 100 indicates there is greater risk of having to impose restrictions)	100	Reputational
	Overall drinking water quality index	100%	Reputational
	Number of customer contacts for discolouration, taste and odour	350	Financial
2 Offer good value for money and keep bills at a fair and reasonable level	Number of customers that are in water poverty and receiving assistance	5,000	Reputational
	Bad debt as a % of total turnover	Less than 1% of turnover	Reputational
	% of customers who consider that our bills are unaffordable	Less than 15%	Reputational
3 Increase the resilience of our network to drought, flooding and equipment failure	The number of times on average we impose a Temporary Use Ban	No more than once every 10 years	Reputational
	Number of customers that can be supplied by more than one treatment works	56%	Reputational
4 Deliver consistently high levels of service	The overall level of satisfaction expressed	91%	Reputational
	SIM Score	88	Financial
	Number of complaints per 1,000 properties	6.6	Reputational
5 Reduce our impact on the environment while seeking to make a positive contribution to its quality	Leakage (MI/d)	24.0 MI/d	Financial
	Per capita consumption (litres/head/day)	156.9 l/h/d	Reputational
	Number of children and adults receiving environmental education	Over 10,000	Reputational
	Gross operational greenhouse emissions per MI/d of water delivered	525	Reputational
	Number of severe pollution incidents	0	Reputational

Our overall aim:

To continue to be a well-run and respected, successful business



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We celebrate our 150th Anniversary this year and we would not have come this far without the forward-thinking vision of our founders and the dedication and expertise of our employees. Those same principles still shape our business today.

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In order to achieve our vision of continuing to be a well-run, respected and successful business, we will keep customer priorities at the heart of our planning and ensure high standards of leadership and governance in managing our resources. We have responded positively to Ofwat's paper on Board leadership, transparency and governance indicating that we will comply fully with the six principles proposed.

- We will continue to operate a sound business model that will attract investors and maintain our credit rating by:
- working in an innovative and efficient manner to achieve the best value for our customers;
 - minimising bad debt; and
 - maintaining a sustainable business which meets the aspirations of stakeholders.

- We will also continue to engage with the local community to:
- run and develop our highly regarded schools' education programme;
 - support local charities and WaterAid; and
 - support local community initiatives and events as appropriate.

As far as our employees are concerned, we aim to be a responsible business that attracts the right calibre of employee and to be a business that people want to work for. We will do this by:

- providing a safe and pleasant working environment;
- providing employment opportunities for young people;
- consulting and listening to our employees; and
- ensuring our employees are capable, well informed, motivated, engaged, and given the training they need to carry out their work safely, effectively and efficiently.

We have set four measures of success:

- Financial health as measured by our credit rating;
- Community engagement as measured by number of days we contribute to supporting our local community;
- Employee satisfaction as a percentage score in our annual survey; and
- Health and safety performance, as measured by number of RIDDORs and lost time accidents.

We will monitor, measure and report our success in all of these areas.



Outcome 1

Providing a reliable and sufficient supply of safe, high quality drinking water

.....

Quite rightly, ready access to a reliable and sufficient supply of safe, high quality drinking water is our customers' top priority. Our research shows that interruptions to supply are one of our customers' biggest concerns. There is however an understanding that there is a need for Temporary Use Bans in times of drought.

.....

What we have achieved

In the current regulatory period (2010 to 2015) we have:

- carried out maintenance work in a manner that ensures that we minimise the number of interruptions customers experience;
- improved our water resource position by increasing the capacity of our surface water treatment works;
- consulted on our Draft Water Resources Management Plan and sent Defra a response to all representations received. Our Water Resources Management Plan sets out our long term programme for balancing supply with demand; and
- maintained a very high water quality standard.

Our Plan for the future

Our Plan is to continue to offer a reliable and sufficient supply of safe, high quality drinking water for 2015 and beyond. In addition we will be improving our demand management and starting work on our long term plan to increase resilience.

A reliable supply

We will continue to replace mains that are in poor condition in order to control leakage and the number of interruptions experienced by customers – two of our customers' top priorities. We will also continue to carry out our repair and maintenance work quickly and efficiently in order to minimise the time during which customers are affected.

A sufficient supply

According to our latest forecasts, we have enough water to meet average and peak demands until after 2020. However in the five years from 2015 to 2020, and to ensure that we can meet increasing demand from new and existing customers we need to:

- **Fit water meters to an additional 32,000 properties**
Water meters encourage customers to monitor their water use, ultimately reducing demand and ensuring there is more to go round. We will continue to fit a water meter on change of occupancy and provide free meters for customers who request them.
- **Continue and enhance our successful water efficiency programme**
We will carry on offering customers free water efficiency devices such as shower timers and tap aerators. Our award-winning education programme for children will also encourage the next generation of consumers to be 'water wise'. We will also enhance our water efficiency efforts by starting a programme of audits for non household customers and metered customers with high consumption.
- **Carry out the phased expansion of our water treatment works**
We have already made a major investment in order to increase the output of our surface water treatment works. We will start the next stage of this work towards the end of the AMP6 period. This is an important element of our resilience programme and will add crucial extra capacity to meet rising demand beyond 2020.

- **Increase resilience**

Longer term plans for balancing supply and demand are covered by Outcome 3.

- **A safe to drink, high quality supply**

The quality of our drinking water (as monitored by the Drinking Water Inspectorate) is already very high and we aim to ensure that it continues to be wholesome and safe to drink by constantly monitoring our treatment works, service reservoirs and mains network. We receive very few complaints about discolouration, taste and odour – indeed, most customers cannot tell our water from the bottled variety – but when we do, we follow them up quickly to determine the cause and find a solution. We will continue to maintain this already very high level of service.

Choices

We consulted our customers on the following choices:

- **Reliability of supply**

Increasing the amount of money we spend on our mains network can improve the reliability of supply. Replacing older, leaking mains at a faster rate would reduce the number of interruptions to supply as a result of bursts, and help to control leakage. The Draft Business Plan assumed more investment in the mains network than we are currently spending and our research indicated that there is some willingness to pay for this. We also asked customers if they would pay a further £3 on the average bill by 2020 to reduce the risk of supply interruptions which was equivalent to a 5% reduction benefitting 1,000 properties. There was some support for this but not sufficient to justify amending our Plan.

- **Quantity of water available for use**

We asked our customers if they wanted us to increase headroom (the difference between water available for use and the demand for water) and resilience to drought by bringing forward a programme of compulsory metering which we currently intend to start in 2020. We calculated that this would add an additional £3 on average to bills and save approximately 1.6 ML/d of water. This might also help us to reduce leakage. Again, there was some support for this but not sufficient to justify amending our Plan.

We have set five measures of success:

- **The average time properties have been affected by supply interruptions of more than three hours**

Our target is to reduce the average time that properties are affected by supply interruptions. Our aim is to minimise the number of properties affected by supply interruptions, and ensure that affected customers are inconvenienced for as short a time as possible. This is regardless of whether the interruption is unplanned (e.g. due to a burst pipe) or due to planned maintenance work, where we have warned the customer in advance.

Measurement	AMP5 Benchmark	AMP6 Target
Supply interruptions > 3 hours per total number of billed properties	0.294	0.25

- **Condition and reliability of the mains network**

We measure the condition of the mains network by recording the number of burst mains we experience. There is a direct relationship between the total length of the pipes we replace each year and the number of bursts on the network. Our information systems and technical judgement enables us to target the investment in the right areas of the network. Our target is to replace enough pipes to ensure bursts reduce or do not increase. Other benefits of replacing poorly performing mains include leakage reduction and improved water quality.

Measurement	AMP5 Benchmark	AMP6 Target
Number of burst pipes per annum	309	290

- **The Security of Supply Index (SoSI)**

The SoSI is an indication of whether we have enough water to supply our customers taking into account growth in demand from existing customers and new development. A SoSI of 100 mean that we have adequate resources to meet demand in a dry year. It does not mean that there will never be restrictions. Our target is to maintain a SoSI of 100.

Measurement	AMP5 Benchmark	AMP6 Target
Available water to meet demand in a dry year	100	100

- **Drinking Water Inspectorate's index for water quality**

The overall drinking water quality index is a measure of our level of compliance with the standards set to ensure our water supplies are safe to drink and aesthetically acceptable to our customers. It is based on a prescribed number of tests on samples of our drinking water that have been taken from customers' taps and our supply points (at our treatment works). Our target is to achieve 100% compliance every year.

Measurement	AMP5 Benchmark	AMP6 Target
Overall drinking water quality index	99.98%	100%

- **Number of contacts about taste, odour and discolouration**

Our research has told us how important the taste, odour and visual quality of our water is to our customers. Very few people complain about the quality of our water, but we are not complacent. We have targeted the number of taste, odour and discolouration contacts (not just complaints) as this is a measure of how well we maintain and operate the mains network, and that if a problem does arise, we minimise the number of customers affected. Often, taste and odour issues arise out of a problem with the customer's own plumbing and are outside of the Company's control. We consider that our current benchmark represents a very good level of service and we are therefore not proposing a change in the AMP6 period.

Measurement	AMP5 Benchmark	AMP6 Target
Number of customer contacts	350	350

Outcome **2**

Offering good value for money and keeping bills at a fair and reasonable level

Our annual research shows that the majority of our customers already believe we offer good value for money. We do not however consider this a mandate for higher bills. We are acutely aware that household and non-household customer budgets are under severe pressure.

The message from our customers is clear: they do not want to pay any more for their water supply than they have to; they expect service levels to be maintained and would like to see some improvements. That means that we need to work smarter, continue to think innovatively and keep costs down. To be fair to all customers, we also need to minimise bad debt and explore ways of supporting those customers who have genuine difficulty paying their bills.

At the same time, we need to ensure that we remain a properly financed company with a sound business model, in order to raise money for long-term investment in our assets and maintain our credit ratings.

What we have achieved

Our prices are set at a level that enables us to finance the daily operations necessary to provide a reliable supply of safe, high quality drinking water. Our customers' views on 'value for money' suggest that our prices are about right.

But not every customer can afford to pay their water charges. Fortunately, we have relatively few customers in debt for water charges compared to other water companies. We intend to keep things this way by continuing to support those who cannot pay, and taking action against those who choose not to pay.

Our Plan for the future

We aim to deliver consistently high levels of service at no extra charge (Outcome 4). We have also declared that we will continue providing a reliable, sufficient and safe supply of high quality water (Outcome 1), that we will increase the resilience of our network (Outcome 3) and will seek to make a positive impact on the environment (see Outcome 5). We will aim to provide competitive prices for our business customers.

In order to keep bills as low as possible, we will prioritise our expenditure on only the most essential things. But alongside this, we also want to expand the ways in which we help our customers to pay their bills.

Social tariff

We carried out a consultation with customers explicitly to look at their views on social tariffs. We already offer two schemes, WaterSure and ClearStart, to assist customers who are having trouble paying their bills. As a consequence of the consultation work carried out, we have decided to go further and plan to introduce a new lower tariff that will provide a discount for those who find it most difficult to pay. We will work with the Citizens Advice Bureau (CAB), local Housing Associations and others in this sector to ensure that we only give this discount to those in genuine need.

In 2015/16 this tariff will reduce bills for those who benefit to around half of what they would normally pay. It will be funded by an additional charge to other customers of no more than £2 per year. Our customer research suggests that there is strong support for a modest increase of £2 per year to support the introduction of this tariff.

The Board is very aware of the need to provide assistance as soon as possible and has decided to implement a pilot social tariff in the 2014/15 charging year, whereby we will discount bills by 25% for at least 2,000 of our customers in genuine financial difficulty. This pilot scheme will be fully funded by the Company, including the charges discount and the cost of setting up and administering the scheme. We plan further consultation with the CAB and other interested parties, such as housing associations, on the most effective way to implement the pilot. We will learn from this engagement work how the scheme can be expanded to account for the higher number of customers who will be awarded the discount in 2015/16.

Building on this new discounted tariff, we will also seek to develop relationships with other parties in the debt sector, such as debt advice charities, who can help customers to manage their finances. We will however continue to pursue those who decide not to pay us even though they can afford to.

Other ways we will help

As for other ways of keeping bills affordable, water meters have an important part to play and their installation can, in many cases, result in lower bills. We plan to install a further 32,000 meters in the five years 2015-2020.

At the same time, we will provide water efficiency advice (and offer free devices) to save metered customers money on both water and energy bills. All newly metered customers receive advice on how they can reduce their consumption.

We will also be trialling 'smart' meters that can tell customers instantly how much water is being used. The combination of all of these things will enable everyone to 'do their bit' to reduce environmental impacts by finding ways to lower their water use.

Choices

In our Draft Business Plan we offered customers the choice of including a new social tariff. As discussed above, this will be implemented.



We have set three measures of success:

- **Proportion of customers that are in water poverty and receiving assistance**

Our target is to ensure that customers who are in water poverty receive the level of assistance they need so that we do not make their situation worse.

Measurement	AMP5 Benchmark	AMP6 Target
Number of customers that are in water poverty and receiving assistance	239	5,000

- **Customer perception of value for money, as captured in our tracker surveys.**

As part of our tracker survey, which we carry out twice a year, we ask customers for their views on the value for money that our bill represents.

Measurement	AMP5 Benchmark	AMP6 Target
% of customers who consider that our bills are unaffordable	17%	Less than 15%

- **How effectively we are managing bad debt expressed as a percentage of total turnover**

It is really important that we identify and offer assistance to those customers that struggle to pay their bills, but in the interest of all our customers, it is equally important that we collect all revenue to which we are entitled in order to help keep prices as low as we can.

Measurement	AMP5 Benchmark	AMP6 Target
Bad debt as a % of total turnover	0.83%	Less than 1% of turnover

Outcome 3

Increasing the resilience of our network to drought, flooding and equipment failure

The exceptionally dry period leading up to April 2012 showed that, however carefully we manage and conserve our water, there are external factors that we cannot control.

The UK Climate Projections 2009 indicate that summer temperatures could rise while average rainfall could decrease. This, along with population growth, would increase demand for water at a time when there may be less available in the natural environment. We need to plan and be prepared for these challenges and manage the risks.

What we have achieved

We have written and consulted on a Draft Water Resources Management Plan (WRMP). Our WRMP outlines the steps we are proposing to meet growth in demand from new and existing customers for the next 25 years. The actions we are intending to carry out in the next five years are described in "Outcome 1". Taking into account these actions, our planning shows that we have sufficient resources to meet demand in the short to medium term. However, Temporary Use Bans, like restrictions on the use of hosepipes, will still be required in very dry periods. We are, and still will be, vulnerable to two dry winters in a row where we will need to implement Temporary Use Bans and three dry winters in a row, which would require the implementation of much more severe restrictions. We are mindful that more than 60% of our customers are dependent on a single source; they can only be supplied from one of our treatment works. This means that in the event of a serious failure at one of our works, a large number of customers could be without water.

Our Plan for the future

Our intention is to meet forecast increases in demand, increase the resilience of our supply network and reduce the risk of lengthy interruptions due to treatment works failure.

Meeting longer term increases in demand

It is clear from our investigations that we will need to continue with our 'twin track' approach of balancing supply with demand. In the short to medium term, this means reducing leakage and managing demand through water efficiency and metering initiatives, while also providing additional resources by further increasing the capacity of our surface water treatment works.

In the longer term, our Water Resources Management Plan considers a number of options including:

- reducing leakage further;
- compulsory metering;
- further increasing the treatment capacity of the works at our surface water reservoir;
- increasing the capacity of our surface water reservoir;
- taking bulk supplies; and
- development of additional ground water resources.

Our preferred Plan is based on the premise that we will have sufficient resources to meet demand until 2040 while we continue to operate within our stated levels of service. It is unlikely to include an increase in the capacity of our reservoir or the taking of a bulk supply. Consistent with our Final Business Plan, it will contain a programme to reduce leakage, a metering programme, continuing water efficiency measures and our plan to increase the treatment capacity of the surface water treatment works.

As part of the Water Resources in the South East Group, we have been working closely with other neighbouring water companies and the Environment Agency to explore further opportunities for sharing resources across the South East region. Our preferred Water Resources Management Plan will align closely with modelling work carried out by that Group.

Increasing resilience

We propose to continue the long-term programme we started in 2010 to increase the resilience of our network. The programme for the 2015-20 period includes:

- Increasing the treatment capacity of the works at our surface water reservoir; and
- Installing 8km of large diameter mains. These trunk mains will allow us to utilise the additional water that we are making available at our surface water treatment works and will improve our capacity to withstand a long-term drought.

Reducing vulnerability to treatment works failure

The proposals to increase resilience described above will also have the benefit of reducing our vulnerability to a treatment works failure. Currently, the majority of our customers can only be supplied from a single treatment works. This means that if we have a significant treatment works failure, we will only be able to supply all the customers fed from that works for up to 24 hours (subject to demand). Our proposed trunk main plan will mean that by 2020 we expect to be able to supply over 56% of customers from more than one treatment works and by 2025, all of them.

Choices

We consulted customers on the following choices:

- **More resilience**
Our resilience is delivered by a small number of large schemes; it is not possible to deliver it incrementally. We asked our customers if they wanted us to accelerate our resilience programme to allow all customers to be connected to more than one treatment works by 2020, explaining that this would add £5 to the average bill by 2020.
- **Less resilience**
We also asked customers if they would prefer us to stop the resilience programme at 2015 which would reduce the average bill by £3. This would mean no further resilience projects in the 2015 to 2020 period.

There was not widespread support for either of the choices offered. Customers generally supported our planned and progressive improvements.

We have set two measures of success:

- **The number of times on average we have had to impose restrictions on the use of water (a Temporary Use Ban) over the last 10 years**

The Company's target level of service is that a ban on the use of hosepipes and unattended watering devices (a Temporary Use Ban) should occur no more than once every 10 years on average. The word 'average' is important: it does not mean that temporary use restrictions will only be applied once every ten years.

Our proposed measure of success reflects our level of service.

Measurement	AMP5 Benchmark	AMP6 Target
The number of times on average we impose a Temporary Use Ban	Once in every 10 years	Once in every 10 years

- **Percentage of properties that are connected to more than one treatment works**

As discussed above, our Plan is to increase the resilience of our network and to reduce the number of customers that rely on a single treatment works for their supply. Taking into account work we are carrying out in the current AMP5 period (2010 to 2015) 36% of our customers will be connected to more than one treatment works by 2015. Our Plan is to increase that to 56% by 2020, and to 100% by 2025.

Measurement	AMP5 Benchmark	AMP6 Target
Number of customers that can be supplied by more than one treatment works	36%	56%



Outcome 4

Delivering consistently high levels of service

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It is important that we listen to our customers' enquiries and respond quickly and efficiently. If, for any reason, we fall below the high standards we set ourselves, we want to know so that we may take appropriate action to improve our service.

.....

The 'Service Incentive Mechanism' (SIM), introduced in 2011 has encouraged us to provide better customer service. It also allows customers to compare our service with that of other water companies.

The SIM measures two aspects of customer service delivery; an assessment of the number of customers that have had to make contact with us either with an enquiry or to complain, and a quarterly survey of customers' views on how well we have handled all types of contact.

What we have achieved

The Company's performance improved noticeably in 2012/13 over the previous year. We also saw the number of written complaints fall for the third year in a row.

Our Plan for the future

Even one complaint or disappointed customer is one too many, so we have set ourselves tough targets to improve service where possible without increasing prices. The recent restructure of our Customer Services team is already yielding results. We have also invested in our website and in the provision of applications for smartphones. We want to give all our customers a choice of ways in which to manage their account, whenever and however they choose.

If customers prefer to speak to us in person, we will strive to answer the call as quickly as we can and provide a friendly, accessible and personal service so that, whatever the issue, customers feel comfortable speaking to us. In addition, we want the advice we provide to be timely, accurate and the best we could possibly give.

We are also exploring ways in which technology can help customers to save on their water bills, starting with 'Smart Meters'. Like their gas and electricity counterparts, these are expected to help customers monitor their water use, so they can budget accordingly. They also provide a useful early warning should there be an undetected leak or a tap left running. We plan a trial of these meters with selected customers to see if they are as helpful as we envisage. If they are, then we intend to provide them for all our metered customers in the AMP6 period.

Choices

We did not offer our customers any choices during the customer consultation period. There is no compromise. It's up to us to improve the service we offer, and we intend to do so.



We have set three measures of success:

- The level of satisfaction expressed by customers in response to the twice yearly tracker surveys we carry out

Measurement	AMP5 Benchmark	AMP6 Target
The overall level of satisfaction expressed	88%	91%

- The Service Incentive Mechanism industry customer service score achieved by the Company

Measurement	AMP5 Benchmark	AMP6 Target*
SIM Score	80	88

*It should be noted that the SIM mechanism may change from 2015 onwards. The target for 2020 is based on the current methodology. There will be a reward and penalty incentive mechanism for this measure of success, which is set by Ofwat.

- The number of complaints per thousand billed properties

Measurement	AMP5 Benchmark	AMP6 Target
Number of complaints per 1,000 properties	9.3	6.6



Outcome 5

Reducing our impact on the environment while seeking to make a positive contribution to its quality

We take our impact on the environment very seriously and we plan to meet all our environmental obligations. Our impact on the environment is linked to the amount of water we abstract, the way we carry out our day to day activities and any pollution events that might occur as a consequence of our actions.

We can influence our impact by:

- minimising the amount of water we take from the environment;
- selecting carefully where we take water from the environment;
- managing our use of power and chemicals; and
- operating in an environmentally sensitive manner.

Minimising the amount of water we take from the environment involves reducing the amount of water we lose through leakage and operational use. It is also about encouraging customers to use less water by providing them with meters and water efficiency devices and educating them on how to use water wisely.

What we have achieved

We are well aware that low water flows in rivers and low ground water levels can affect the environment. We have worked hard to keep the amount of water we take from the environment to a minimum, wasting as little water as possible through leakage and operational use, so that as much as possible of the water we abstract goes to customers. Our water quality team also works in partnership with local farmers, landowners and industry to raise awareness of water pollution issues and encourage the adoption of best practice when using pesticides.

We have worked hard to educate customers to be “water efficient” so that using water wisely becomes the norm. We offer free water efficiency devices and have an award winning education programme. We also reach out to customers at local events.

We have reduced our greenhouse gas emissions and have a very good record in respect of pollution incidents.

Our Plan for the future

We will continue to work in a sustainable way and, where possible, to make a positive contribution to the quality of the environment. We intend to do this by:

- reducing our leakage;
- reducing the amount of water per person we take from the environment;
- reducing our carbon footprint and greenhouse gas emissions;
- minimising the impact on the environment of any maintenance and improvement works we carry out and making a positive improvement where we can;
- continuing to improve the quality of the raw water sources that supply our treatment works by working with farmers and landowners;
- working with government, regulators, other water companies and agencies for a sustainable future for water supply in the South East of England; and
- complying with our statutory environmental obligations.

Leakage

We take leakage very seriously and are well aware that customers expect us to have a low level of leakage and fix leaks as soon as they are detected. We have consistently had the lowest – or one of the lowest – levels of leakage in the industry since privatisation in 1989 and operate below what is called the economic level (the level below which it is cheaper to develop an additional resource). Nevertheless, reducing leakage is one of our customers’ top priorities and our aim is to get down to 24.0 MI/d by 2020. This is 0.5 MI/d below our current target. We will also start an open and honest debate with our customers so they can gain a greater understanding of leakage and how we can work together to reduce leakage to acceptable levels.

Water efficiency

Our per capita consumption is currently one of the highest in the industry. This is mostly associated with our geographical location and our customer base. Our job is to influence customers’ behaviour and encourage them to use water wisely. We already do this through a very active water efficiency programme. The anticipated savings from our current programme mean that we will improve on Ofwat’s water efficiency target for the current period. However we plan to enhance our water efficiency programme from 2015 to help reduce per capita consumption and further counter increased demand from new properties.



Outcome 5

Continued



Metering

Metering also has a role to play in reducing demand. Customers who are metered are considered to use about 10% less water than before they were metered. In addition, we assume that leakage from customers' supply pipes will reduce because it will be detected sooner. We plan to meter an additional 32,000 previously unmeasured properties between 2015 and 2020. All new properties are metered and are generally built to higher standards of water efficiency.

Through metering and water efficiency, we will reduce average per capita consumption from 162 to 157 litres per head per day between 2015 and 2020.

Managing our use of power and chemicals and reducing our greenhouse gas emissions

Encouraging customers to use less water and reducing leakage help us to limit the amount of water we take from the environment. This enables us to reduce our power and chemical usage, which then has a positive effect on our greenhouse gas emissions. We reduce these further by ensuring that, when we replace plant or machinery, we purchase the most efficient modern equivalent.

Catchment management

We will continue to work with farmers, landowners and the chemical industry to improve the quality of the raw water that reaches our sources. This can be achieved through better control of the chemicals that are applied to land, particularly farm land, and encouraging farmers to look at alternative, more environmentally friendly products and practices. We are already working with farmers to trial the use of an alternative to metaldehyde (a product used for controlling slugs and snails).

Making a positive contribution to the environment

We have a good track record of making a positive contribution to the environment. We carry out environmental screening for all our major projects, and work with planners and other stakeholders before construction in order to ensure that any new scheme is designed to limit our environmental impact. As part of a project, we work with local stakeholders, where possible, to see how we can add some value to the environment. Examples of this include pond improvements within a SSSI and charity planting schemes. We also give our employees the opportunity to "give-a-day" to local charities: a number have helped with Surrey Wildlife Trust projects and others built a "test track" in the gardens at Headley Court, the armed forces' dedicated rehabilitation centre. We plan to continue with activities of this type, giving something back to the local community as we work in their area by helping to enhance local environmental amenities.

Environmental obligations

We have a number of environmental obligations specific to the Company. These include:

- the National Environmental Programme (NEP) for water quality;
- the NEP for water resources;
- installation of screens to comply with the Eel Regulations; and
- other Water Framework Directive and River Basin Management Plan obligations which have not been quantified.

In addition, the Environment Agency and Ofwat would like us to consider implementing an Abstraction Incentive Mechanism (AIM) designed to encourage a reduction in abstraction at environmentally sensitive sites.

Choices

As explained above, we intend to reduce leakage as part of the solution to meeting new demand from increases in properties and population. We have set ourselves a target to reduce our leakage by 500,000 litres a day by 2020. As part of the customer consultation for our Draft Business Plan, we offered customers a choice to reduce leakage by a further 500,000 litres per day by 2020 for an increase of £2 on the average bill. Of all the choices we offered this was the most popular. However the level of support was not compelling enough to be included in our Final Business Plan.

We have set five measures of success:

- **Level of leakage measured in litres per day**

By reducing leakage we reduce the amount of water we need to take from the environment. Our plan for 2015 to 2020 is to reduce leakage by 500,000 litres per day. Our current regulatory target is 24.5 MI/d and by 2020 we plan to reduce it to 24.0 MI/d.

Measurement	AMP5 Benchmark	AMP6 Target
Megalitres per day (MI/d)	24.5 MI/d	24.0 MI/d

- **Per capita consumption in litres per head per day (to measure the effect of water efficiency activities)**

Through metering and water efficiency we will reduce average per capita consumption. We will also work closely with our non household customers to reduce their waste. Ultimately this means that we will not have to take as much water from rivers or the ground.

Measurement	AMP5 Benchmark	AMP6 Target
The average amount of water used per head	162 l/h/d	157 l/h/d

- **Number of children and adults engaged in environmental education activities**

Helping our present and future customers understand the impact that their use of water can have on the environment is a key part of our demand management programme.

Measurement	AMP5 Benchmark	AMP6 Target
Number of children and adults receiving environmental education from the Company	6,221	Over 10,000

- **Greenhouse gas emissions**

We will reduce the amount of water we take from the environment, operating our operational works as efficiently as we can and installing more energy efficient plant.

Measurement	AMP5 Benchmark	AMP6 Target
Gross operational greenhouse gas emissions per megalitre of water delivered	529	525

- **Number of severe pollution incidents**

Accidents can happen, sometimes due to events outside our control. Nevertheless, our target will be no incidents.

Measurement	AMP5 Benchmark	AMP6 Target
Number of severe pollution incidents	0.3	0

Costs, affordability and financeability

Cost Forecasting

Reliable forecasting of costs (and revenues) is one of the fundamental characteristics of the way in which we manage our business. All cost forecasts (for both operating expenditure and capital expenditure) are produced by the managers who will be responsible for their delivery. Our established internal challenge process demands that relevant benchmarks be produced and past performance against previous forecasts is taken into account. Internal challenge processes are operated as a matter of routine, both by executive management and by the Board to ensure we are striving to be more efficient whilst not compromising our operational integrity.

These normal management processes have underpinned our approach to forecasting costs for this Business Plan. All have been produced bottom up by the responsible managers, subject to normal internal challenge, and in addition reviewed by Black and Veatch as our technical assurers (who have also reported to our Customer Challenge Group on the assurance they have provided).

Expenditure Forecasts

Our total expenditure forecast for the period 2015-20 is an increase of £15.7m which is just over 6% higher in real terms than that forecast for 2010-15.

The increase in forecast expenditure reflects both customers' priorities (as expressed through our customer research) and unavoidable increases from input costs.

The key operating cost drivers of the increases are:

Power prices	£4.4m
Manpower increases	£2.3m
Non Household Market Costs	£1.2m
National Environmental Programme (NEP) Studies	£1.2m
Highway Charges	£0.9m
Leakage	£1.0m

All expenditure forecasts have been subject to efficiency challenges.

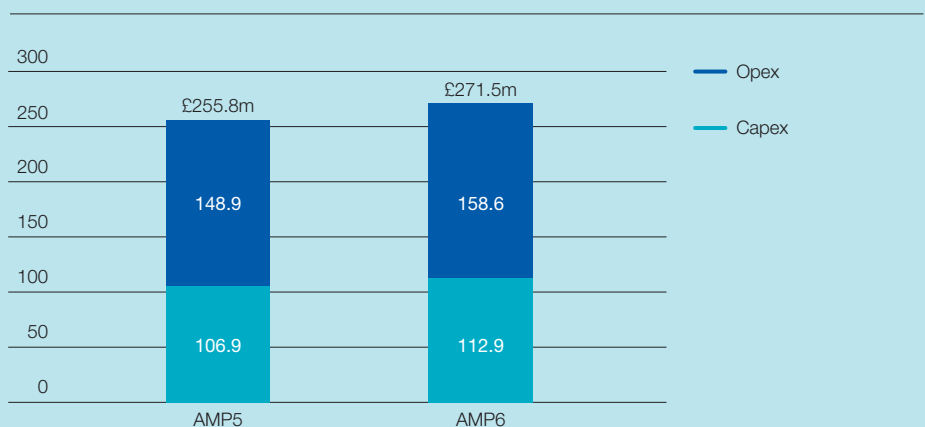
Efficiency

We have applied efficiency challenges to our expenditure forecasts at all stages in their compilation, and our base operating cost forecasts already incorporate identified net savings. We have in addition gathered evidence on the likely scope for efficiency gains, including both the "frontier shift" gains all companies should be able to achieve, and the scope for Company specific efficiencies based on our current performance relative to other companies.

In the absence of the operating cost econometric models produced for previous Price Reviews, the latest positioning of the Company in terms of relative efficiency is not as evident as has been the case in the past. However, at the last price review, the Company was ranked as Band A (Lower) according to Ofwat's own operating cost models and a "catch up" efficiency target of 0.3% was included in our Final Determination from Ofwat. Since then the Company has made significant efficiency gains and has outperformed the operating cost allowances for the first three

Totex Forecasts

(£m –2012/13 Prices)



years of AMP5 significantly. We also consider that we have at the least maintained our relative efficiency. The graph below shows the increase in our operating expenditure (including inflation) since 2007/08 relative to the average for Water Only Companies and emphasises the extent to which we have improved upon our relative efficiency in the last three years. The Final Determination included an overall operating cost efficiency target of 0.55%, which the evidence of our performance since the last Review strongly indicates should set a ceiling on the target proposed for AMP6.

With the new approach to cost assessment based on Total Expenditure ("Totex"), consistency of efficiency assumptions between capital and operating expenditure is more important than in the past. The differences at the last price review between the efficiency targets for operating costs (0.55%, as described above) and capital expenditure (ongoing efficiencies of 0.4% pa, and one-off negative "relative efficiency adjustments" of -0.9% for infrastructure and -5.3% for non-infrastructure

– which actually increased allowed expenditure above that proposed by the Company) are no longer sustainable, and consistent targets are needed.

As a result, our Plan assumes efficiency targets of 0.5% for both operating and capital expenditure, with no uplift on capital projects for relative efficiency.

Special factors

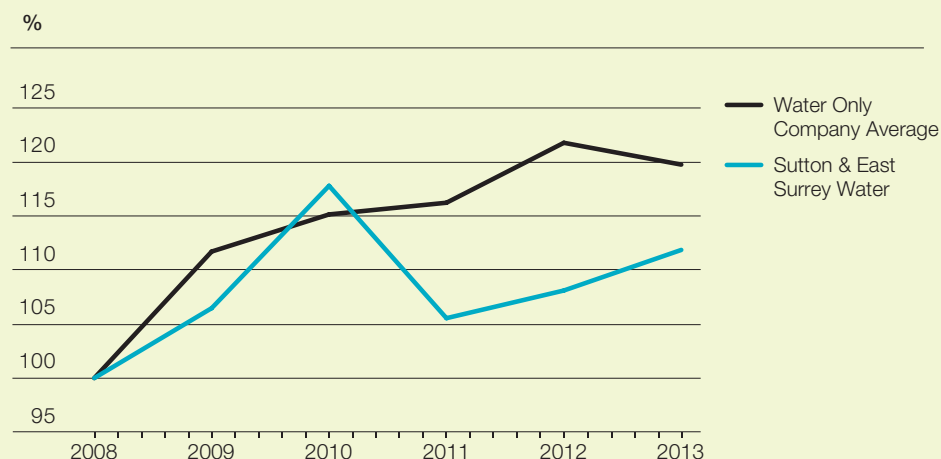
At previous Price Reviews, the Company has submitted evidence that certain of its costs are atypical of the industry as a whole and need to be taken into account when making comparisons with other companies for the purpose of determining efficiency targets (the so-called "special factors" adjustment). The shift to a Totex approach to cost assessment and to the determination of the "efficient" level of costs to be included in prices to customers may modify, but will not obviate the need for such "special factors" to be taken into account.

The Company is proposing four such special factor adjustments for:

Water Softening	£3.3m pa
Water Treatment Complexity	£2.2m to £3.5m pa
Regional Labour Costs	£0.7m pa
Regional Capital Costs	£3.6m pa

Operating Cost Relative Performance

(2007/08 to 2012/13)



Costs, affordability and financeability continued

Affordability

We have one of the best debt records in the industry. We have nevertheless seen the cost of debts continue to rise over the past few years, coinciding with the economic downturn. We have responded by adopting new approaches for customers who do not pay their water charges, hence our Plan does not include any increased costs associated with bad debt. Trying to ensure that our bills are affordable for the vast majority of our customers and, persistently pursuing those who will not pay, while at the same time helping those who have genuine difficulty affording their bills, are all key parts of our retail strategy.

We are committed to doing everything we can in the future to keep our charges for water supply as low as possible. This includes the continued provision of practical water efficiency advice for all our customers. It is an important part of our non household retail plan which is based on great service for a fair price.

We introduced our Restart Programme in 2013 to allow customers to focus on the payment of their current year water charges without being concerned about being pursued for their arrears. Then, when they can afford to, customers start to contribute towards the arrears. If they

maintain payments of their arrears for at least 3 months, then we will start to write off their debt at an amount equal to that which they repay.

We are proposing to bring forward to April 2014 the introduction of a social tariff, originally planned for implementation from April 2015. In the specific research we have carried out the social tariff has attracted the 'broad support' required from customers, with 74% stating that they accepted the scheme as proposed. It will involve charging non-eligible customers an extra £2 in order to subsidise bills for eligible customers by 50%. Our proposal to bring forward the implementation of the scheme in 2014 as a pilot is accompanied by a promise that it will be fully funded by the Company in this first year, including the charges discount, set up and administration costs.

Financeability

Financing

Within the constraints of affordability for customers, the Company's financing Plan seeks to ensure that:

- the Company is able to obtain sufficient funding in the form of debt and equity needed to fund the expenditure required to fulfil our customers' priorities;

- the Company is able to satisfy the ratios required under its index linked bond; and
- a reasonable balance has been struck between rewarding investors for carrying downside risk on returns and sharing outperformance with customers.

Cost of Capital

We have sought third-party professional advice on an appropriate range for the cost of capital for a small water-only company and on the specified rate appropriate for the Company.

Oxera were commissioned to collect data on the components of the cost of capital and estimate a range for water-only companies.

Company-specific advice was then obtained from Frontier Economics.

In estimating an appropriate value for the Weighted Average Cost of Capital (WACC) for the Company, Frontier Economics considered the following factors:

- the appropriate level of gearing;
- the cost of debt including the small company debt premium;
- the market parameters for the cost of equity (risk-free rate and ERP);
- the small company equity premium; and
- the arguments relating to an appropriate position within the range.

Taking account of the evidence outlined above, the Board agreed that 4.75% is the appropriate WACC to use in our Plan. The range and calculations are shown in the table.

Our dividend policy has been drawn up on a basis consistent with the cost of equity and starts from an assumption that distributions should be in line with a 7.0% return on regulatory equity value. The primary constraints on planned distributions are the covenants associated with our index linked bond, which require significant restrictions of dividends in 2015/16 and more particularly in 2016/17. Our Plan also includes a proposal for sharing the benefits of outperformance.

Weighted average cost of capital

	Low	Company Plan	High
Cost of debt	3.0%	3.25%	3.6%
Risk-free rate	1.25%	1.5%	1.5%
ERP	5.25%	5.50%	5.50%
Asset beta	0.35	0.40	0.45
Equity beta	0.88	1.00	1.13
Cost of equity	5.8%	7.0%	7.7%
Gearing	60%	60%	60%
Tax	20%	20%	20%
WACC (vanilla)	4.1%	4.75%	5.2%



Incentives, risks and rewards

We have developed financial and reputational incentives, with significant input from our customer research, the CCG and stakeholder engagement.

There are three Company developed financial incentives and the Ofwat financial incentive, the Service Incentive Mechanism.

The Company developed incentives are summarised in the following table with their potential financial impacts per annum for the Company. Each incentive has the following structure:

- a band around the target level where no penalty or reward is incurred (this is defined by the upper and lower band); and
- a cap and collar for the incentive beyond which no further penalty or reward is incurred.

The potential downside and upside from the incentives is expressed as a percentage of annual turnover. Taking the incentives together, the range is +0.29% to -1.33% of annual turnover. Any penalties and/or rewards incurred during any year do not automatically impact on prices for customers in the following year. Instead these are accumulated into a penalty/reward pot to be assessed at the end of the regulatory period in 2020.

If the accumulated pot turns out to be a net reward or a net penalty, this will be

communicated to customers and agreement established as to whether this should be a reward for the Company or returned to customers. We have concluded that the simplest and most transparent mechanism is to combine the amounts over the AMP6 period and consult with customers on the outcome. For example, if it is to be returned to customers, there are various options such as a bill reduction, more investment in the network, leakage reduction, innovation, community projects or further assistance on social tariffs.

Sharing Outperformance

We are proposing to share financial outperformance above a certain trigger level on an equal basis with customers. This maintains incentives for shareholders, as there will be a target level above which benefit sharing starts. We have developed a simple way to link the outperformance directly to the equity dividends. We are assuming an equity return of 7%, and suggest that an equity return above 10% in any year is shared equally between shareholders and customers. Therefore the shareholder bears all the risk if the return falls below 7% in any year, and keeps any gains between 7% and 10% to compensate for this risk.

Overview of financial incentives

	Leakage (ML/day)	Interruptions (>3 hours interruption per total number billed properties)	Discolouration (Contacts)	Total
Target	24.0	0.25	350	
Penalty cap	26.0	1.0	500	
Upper band	24.5	0.5	375	
Lower band	23.5	0	325	
Reward collar	22.0	N/A	250	
Period	Annual	3 year rolling average from 2018	5 year rolling average applied in 2020	
Financial downside	-£400k -0.68%	-£225k -0.39%	-£150k -0.26%	-£775k -1.33%
Financial upside	£120k 0.20%	N/A N/A	£50k 0.09%	£170k 0.29%

How our plans impact on the bill

The key cost movements affecting prices to customers are:

- Lower Financing Costs**
 As reflected in the reduction in the weighted average cost of capital proposed by this Plan, which reduce the average household bill by £7.50.
- Efficiencies**
 Efficiencies already delivered during the 2010-15 period and those proposed for the 2015-20 period reduce the average household bill by a further £4.70.
- Adjustments from 2010 to 2015**
 Principally recovering a significant shortfall in revenue in the 2010-15 period adds £4.00 to bills in the 2015-20 period.

- New Cost Pressures**
 The impact of power prices on our operating costs, increases bills by £6.30.

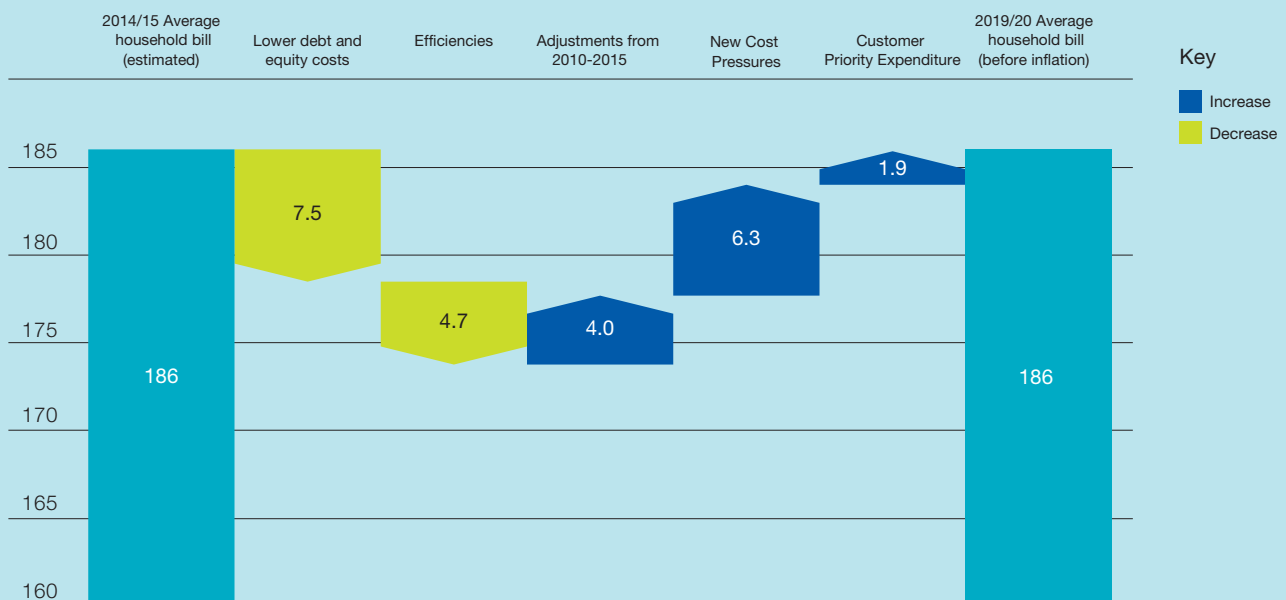
- Expenditure on Customer Priorities**
 Including additional work to reduce leakage and improve the resilience of our supply network, adds £1.90 to bills.

For those customers who contribute to but do not benefit from our proposed new social tariff, an additional £2 will be added to their bill from 2015/16. The proposed 50% reduction in bills for those in genuine financial difficulty will offset this increase when considering the average price paid by all our customers.



The chart shows the impact of our proposed changes in prices on the average household bill on a like-for-like basis, taking the estimated average bill for 2014/15 as a start point. This does not reflect the impact of inflation or the increasing proportion of customers who will have a meter.

Average household bill movements



Board governance and assurance

Board governance

The Company takes its obligations for good and effective corporate governance extremely seriously and applies standards appropriate to the nature and ownership structure of the business. The Board is committed to achieving the highest standards of corporate governance. We initiated a review process in response to the September 2012 update to the UK Corporate Governance Code and as a result of the issues raised by Jonson Cox in his lecture in March 2013 titled "Observations on the regulation of the water sector". The Board has also considered the principles set out in Ofwat's paper titled "Board transparency, leadership and governance" (September 2013). As a result we have implemented a number of changes, including the appointment of a Senior Independent Director, improved transparency in our 2013 Annual Report and the publication of our Board Committee terms of reference on our website.

The Board includes three independent non-executive directors who constructively challenge and help develop proposals on strategy and bring strong independent judgement, knowledge and experience to the Board's deliberations.

The Board prepared for the business planning process by reviewing Ofwat's series of methodology papers and responding in a constructive, consistent and challenging manner. We expressed strong support for the direction of travel that Ofwat was proposing regarding the risk based approach to regulation, the importance of customer engagement and Board ownership.

In February 2013, the Board devoted much of its annual strategy day to the development of strategic issues based on initial feedback from customer focus groups in the autumn of 2012. The non-executive directors challenged the executive directors in a number of areas to ensure that the response from customers, especially on topics such as leakage, was being appropriately reflected in Outcomes and Targets. This meeting also included a session with the CCG chair, to enable the Board to understand fully the role and responsibility of that Group.

The Managing Director and Engineering Director have attended all the CCG meetings and have made themselves accessible to all members of the CCG. The Board has received regular feedback from CCG meetings and customer research findings, and developed our strategy accordingly.

In March 2013, the Board reviewed and approved the Draft Water Resource Management Plan which was sent to the Secretary of State.

The business planning governance structure, assurance programme and appointments were discussed and approved by the Board. The executive directors held challenge meetings with the relevant Senior Managers, focussed on the future totex requirements in the wholesale and retail parts of the Plan. Specific business cases have been documented for any incremental changes or key areas of expenditure and these have been challenged internally by the executive directors and by our external assurance provider. The relevant Senior Manager or Director has signed a declaration confirming the integrity of their data and assumptions.

The Board met on 31 July 2013 to consider the Draft Business Plan (DBP) and consider the feedback from the CCG meeting on 29 July 2013. The DBP was approved in principle subject to a final discussion on the document in August 2013 prior to its publication. The Board also reviewed and approved the contents of the August 2013 submission to Ofwat.

In August 2013 the Board approved the publication for further consultation of the Draft Business Plan, which included a potential household bill increase of £7 by 2020 (excluding inflation).

In September 2013 the Board considered Ofwat's published views on the general approach they expected from Companies and received an update on the agreed programme, the assurance process and initial feedback on the Draft Business Plan consultation process. The Board reviewed and commented on the key assumptions to be included in the initial financial modelling for the Final Business Plan.

In early November 2013 the Board finalised the key assumptions to be included in the Final Business Plan prior to its release in draft format to the CCG.

The Board noted that there was strong support (84%) for the £7 bill increase in the customer acceptability research and considered and challenged the key assumptions and comments on the changes since the Draft Business Plan. The Board then asked the Senior Independent Director to review the WACC assumptions and report his findings. As a result it was agreed that a figure of 4.75% should be used, which was supported by third party evidence from Frontier Economics. This updated research on the WACC combined with further review of efficiencies, listening carefully to the views of all our stakeholders and after full consideration of the challenging economic conditions, led the Board to conclude that prices should not increase in real terms from April 2015 through to March 2020. The Board also determined that the Plan would still deliver Outcomes in line with our customers' priorities in addition to meeting our regulatory obligations and targets.

The Board reviewed the customer research relating to a possible social tariff and agreed that one should be introduced from 2015, with a 'pilot' scheme adopted in 2014.

The Board received an update on the external assurance work by Black and Veatch. They welcomed the findings which provided assurance on the robustness of the component parts of the Business Plan.

Details of the three Outcome delivery "financial" incentives, and the financial rewards and penalties were agreed in principle. A mechanism for sharing outperformance based on a level of equity dividends in excess of 10% in any one year was discussed and agreed.

The Board reviewed the Company's Statement of Response on the Draft Water Resource Management Plan and agreed that it could be sent to the Secretary of State.

Assurance

We have embraced the move to a more proportionate, targeted and risk-based approach to regulating the water industry. This approach puts the onus on the Company to have in place effective and proportionate assurance for our Business Plan submission. This will in turn give confidence to our customers, Board, Customer Challenge Group, stakeholders and regulators that we are taking decisions based on the best available information and that our Plan is robust, realistic and accurate. Our assurance process is therefore designed to make sure that our Business Plan accords with Ofwat's methodology and the requirements of our stakeholders and customers. To achieve this objective, we have:

- established a Steering Group to oversee the preparation of the Business Plan;
- commissioned "best in class" experts to support the Company in preparing a high quality Plan;
- adopted an assurance model widely recognised as best practice (the "three lines of defence");
- assessed the Business Plan against a comprehensive set of success criteria; and
- subjected our plans to independent, external scrutiny (technical review: Black & Veatch; financial review: KPMG; customer engagement: Customer Challenge Group).

Final Business Plan approval

The Board considered the findings in the assurance reports from Black and Veatch and KPMG. The CCG Chair reported to the Board on the highlights of the CCG report to Ofwat.

The Board reviewed the draft of the Final Business Plan and approved it for submission to Ofwat on 2 December 2013. The Board reviewed and agreed to sign the Compliance Statement as they were satisfied that there are sufficient procedures and controls in place to ensure that the information in the Business Plan is reliable, complete and accurate, and that there are sufficient processes and internal systems of control in place to meet fully the Board's obligations for the provision of this information.



Future engagement

We have undertaken our most extensive customer and stakeholder engagement programme to help us to develop our Business Plan.

Customers and stakeholders will continue to shape our future. We will share our performance against our Business Plan with our stakeholders and we are committed to a programme of ongoing and enhanced stakeholder engagement.

- We will further develop our online community to support our stakeholder and customer engagement programmes.
- We will embrace stakeholder engagement as business-as-usual.
- We will publish an annual programme so stakeholders know what to expect.
- We will report our performance in our annual report and at an annual stakeholder event.

While our regulator, Ofwat, is not insisting on our continued involvement with the Customer Challenge Group, our view is that there would be a logical extension of its existing role in monitoring the Company's performance and evaluating the effectiveness of our external engagement. We believe that this sends out a clear message about our willingness to be held accountable to our customers, Ofwat and other stakeholders for the delivery of the Outcomes and commitments promised in our Business Plan.



For the latest information, please visit our website.



Online

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