Our strategic priorities

Addressing affordability and delivering for customers

South West Water

Bournemouth Water

Isles of Scilly Water

BRISTOL WATER

Executive summary

Our business plan is the right plan for right now and it delivers against our customers' top priorities, as well as meeting statutory requirements and setting us up to deliver for the long term.

Our plan is supported by 74% of customers - a 10-point increase on our AMP7 plan, and has been recognised as outstanding by Ofwat.

Running a water company is a privilege, as we recognise customers cannot choose their provider. Our New Deal achieved a first in the sector, to change the nature of the relationship customers have with their local water company, putting them in control and building a socially responsible business model, where customers become shareholders. Around 90,000 customers - four times the number of institutional shareholders - now have a direct say in how their water company is run with the support of an independent WaterShare+ Customer Advisory Panel, who ensure we are held to account for delivering performance. That's the equivalent of 1 in 14 households.

It also means in the run up to developing this business plan, we have had more direct feedback and engagement than ever before, and we have listened to the views of more than 250,000 customers. With double the levels of investment in tackling the issues that matter most to customers, this plan has received overwhelming support from customers for increased investment, and over 90% of customers supported our programmes for tackling the key challenges in our region.

We outlined in our business plan submission in October the progress we had made for K7 delivery and the associated affordability aspects.

In tackling affordability, it is about two things, keeping bills as low as they can be for all customers and secondly supporting those who are struggling. We have always been focused on being as efficient as we can be in delivering services, and in keeping bill increases to 2025 well below inflation.

That's why we continue to support customers and communities having provided over £100m of customer support with 132,000 customers benefiting from one or more of our affordability initiatives , building awareness of our customer out-reach engagement programmes.

As a result, over 98% of customers across all our regions find their bills affordable.

And against our customer commitments, 70% of our ODIs are ahead or on track.

And given you can't choose your water provider; we believe you should have a say which is why we continue to grow our unique water share plus scheme – where we have over 90,000 shares issued with a growing regional engagement.

It's also a plan where we have seen a step change in the willingness of customers to pay; up from £10-£15 in our last plan to £50 in this. However, we remain focused on keeping inevitable rises as low as possible, and whilst investment levels are doubling, bills won't.

In our October submission, we identified the need for bills to increase by £2 a month in 2025, increasing by £9 a month by 2030, and for Bristol Water customers, rising by c.£3 per month by 2030. We set out our commitment to ensure that every customer can afford to pay their bill, with our package of affordability support and progressive and fair charges both playing a part.

We have considered the Draft Determination – and sought to ensure we can continue to deliver our well supported plans to further improve service and environmental outcomes.

We have strived to balance our deliverables with the impact on customer bills across our regions. We had already assumed significant cost efficiency that allowed lower than otherwise bill increases and our response to the Draft Determination results in customer bills being held at the same level as our business plan submission (with a slightly lower increase for Bristol Water Customers).

In the Draft Determination, Ofwat has reduced revenue (by supressing the RCV run off rates). This has an impact of increasing the risk of funding and delivery (by stretching the balance sheet) and ultimately costs customers some c£60 more in the future.

We therefore want to return to our plan, which is critical to balance delivery, improvements, financeability and, most importantly, reflects customers' priorities. In so doing, we have adopted Ofwat's assumptions around modelling costs and WACC, whilst still aligning bills broadly with the levels proposed in our Plan.

Our Draft Determination results in bills for SWB increasing by £9 per month by 2030 and Bristol by c£2 per month by 2030.

We have also challenged ourselves to ensure more support is given to customers who find themselves in need and have increased our shareholder supported funding to £24m, by introducing two shareholder supported funds.

Areas of alignment

◉	Ofwat found that there was sufficient evidence that customer views were taken into consideration and reflected in our business plan. This included evidence that customers support cross subsidising customers who are struggling to pay. There was consideration of affordability for the generality of customers and the affordability challenges faced by customers struggling to pay.
◉	Ofwat found that our long-term delivery strategy was appropriately informed by customer priorities and views on affordability and acceptability.
◉	Ofwat supports the need for the majority of investments in our plan. 90% of these investments are required to meet statutory requirements and our plan receives high levels of customer support.
◉	Our plans for affordability support meet Ofwat's minimum expectations, with a support package of over £200m identified.
◉	Additional £5m shareholder funded customer support fund to be established, taking the total to £24m.
◉	We are supportive of Ofwat's proposals for D-Mex and BR-Mex and we welcome the symmetrical incentive design.

Areas for further consideration

	Ofwat intervention	Representation
1.	Bill increases in the DD are materially lower than in our plan. This creates a revenue gap of c.£200m which removes all financial headroom from our plan.	Restore bill increase as per our plan to reflect our DD response. We have demonstrated that these bills are affordable and that customers support our plans. → Further info: Cost and Efficiency
2.	RCV run off rates reduced from 4.6% to 4.1% in order to reduce customer bills in the short term.	RCV runoff rate no longer reflects the natural rate and defers some of the bill increase to the future. This is contrary to customer views on longer term bill profiling as customer prefer smooth or front end loaded bills. → Further info: Risk and Return
3.	C-MeX design	We provide feedback on the design of the metric, supported by detailed analysis. → Further info: Outcomes

Our plan for 2025-30

Our plan is the right plan for right now. It balances affordability, deliverability and investability to deliver the greatest transformation in water and wastewater services in generations.

The right plan for right now

Running a water company is a privilege, given customers can't choose their provider. Our New Deal achieved a first in the sector, to change the nature of the relationship customers have with their local water company, putting them in control and building a socially responsible business model, where customers become shareholders. Circa 90,000 customers, four times the number of institutional shareholders, now have a direct say in how their water company is run with the support of an independent WaterShare+ Customer Advisory Panel, who ensure we are held to account for performance. That's the equivalent of 1 in 14 households.

Strategic priorities	Customer top 10 priorities
Water quality and resilience	1 Clean, safe water supply
	6 Reduce leakage
	7 Resilience to extreme weather
Storm overflows and pollutions	2 Prevent pollution
	3 Protect bathing waters
	4 Prevent sewer flooding
	9 Less reliance on storm overflows
Net zero and environmental gains	5 Boost nature & wildlife
	8 Protect rivers
Addressing affordability and delivering for customers	10 Excellent customer service & responsiveness

It also means in the run up to developing this business plan, we have had more direct feedback and engagement than ever before, and we have listened to the views of more than 250,000 customers. With double the levels of investment, in tackling the issues that matter most to customers, this plan has received overwhelming support from customers that we should invest more, and where levels of support for tackling the key challenges in our region are upward of 90%.

We are tackling the biggest challenges head on: storm overflows and pollution, water resources and drinking water quality, climate change and environmental improvements. Our plans double investment over the next five years to make continued improvements that will safeguard our water supply and services and protect the environment.

74% of customers consulted in our region found our plan acceptable and supported the level of investment we are proposing as well as the bills we will need to charge.

It's also a plan where we have seen a step change in the willingness to pay, up from £10-£15 in our last plan to £50, although we remain focused on keeping inevitable rises as low as possible, and whilst investment levels are doubling, bills won't.

Affordable bills

In our October submission, we identified the need for bills to Increase by £2 a month in 2025, rising to £9 a month by 2030, compared with 2025. We set out our commitment to ensure that every customer can afford to pay their bill. Smart metering, together with our package of affordability support for those who need extra help and fair charges through new tariffs all play an important part.

Delivering for customers

In an ever-changing world, with businesses increasingly providing an always available, digital experience, we want to provide a similarly responsive and tailored service that aligns with our customers' needs and expectations. Our customer and digital vision looks at how we deliver our services. We aim to provide a service that makes life easy and helps all those who use it understand what we are doing, the progress we are making and how they are charged for services.

Affordable bills for all

We managed bill increases through ambitious efficiency challenges and then introduced a £200m package of affordability support to ensure that bills are affordable for all. The bill increases we set out in our business plan were among the lowest in the sector.

We committed to extend our existing pledge for zero customers in water poverty.

We use industry leading affordability modelling to accurately identify the level of support required and to ensure that support is targeted to the customers who need it.

Through this combination of relatively low bill increases and an enhanced package of affordability support, we are confident that our plan is affordable.

Bill levels

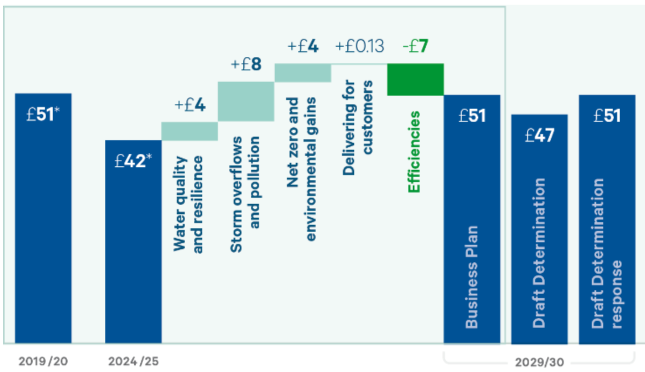
The cost estimates within our plan were developed using best practice techniques and validated by third party experts. We challenged ourselves to test whether customers had already paid for the activities we were proposing. We then applied an ambitious efficiency target, taking out £600m of totex (13%) before submission of our plan to Ofwat.

Bills have reduced in the DD, principally due to Ofwat deferring £200m of revenue from AMP8 into the future, principally by reducing totex and RCV runoff rates. The increase in the WACC is an upward pressure on bills.

Our DD response provides the additional information Ofwat requires to justify our totex costs. We absorb the increase in the cost of capital by forgoing c. £175m totex increases from Ofwat's models.

South West and Bournemouth Water

2029/30 average household bill per month
South West Water



* Actual billing £41 per month

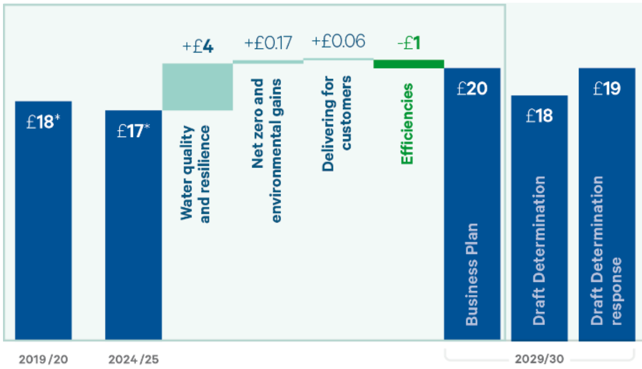
In our October submission, the average combined bill in for household customers living in our South West Water region was £620 in 2030.

The draft determination gives a 2030 bill level of £561, a 13% increase from a bill level of £497 in 2025.

Our DD response returns the SWW and Bournemouth combined bill level to £620, consistent with our submitted plan and our affordability and acceptability testing.

Bristol Water

2029/30 average household bill per month
Bristol Water



* Actual billing £17 per month

In our October submission, the average combined bill for household customers living in our Bristol region was £238 in 2030.

The DD gives a 2030 bill level of £215, a 3% from £209 in 2025.

Our DD response returns the bill level to £233 by 2030, £5 lower than our October submission.

“don't think anyone wants to see their bills going up at all, but I think if something's really worthwhile then I think people would accept it, but it's got to be something that doesn't seem like a minor issue."
Male, SEG ABC1. Aged 18-45

We have corrected the Draft Determination bill profile for BRL in our response. For SWB, the profile matches that of the DD. We have extensive affordability support in place to look after those who struggle to pay their bill.

Affordability support

For some customers, any bill increase will be unaffordable, and they will need support to pay for the water they need. We recognise that in a cost-of-living crisis any increase in bills is challenging. Almost one third (32%) of our household customers said that they struggled to pay at least one of their household bills (some, most or all of the time) in 2023-24.

We made a commitment in our previous plans to ensure that by 2025 we would eradicate water poverty across South West Water and Bournemouth Water, and that no customers in Bristol Water's region would live in water poverty. We are doubling down on this commitment, ensuring that none of our customers will be in water poverty by 2030. Our plan includes our largest ever package of affordability support, with over £200m of support through discounted tariffs, water efficiency measures and metering, and since our submission, we have committed to provide Enhancing affordability to support even more customers, including 2 shareholder supported funds, increasing support by £5m to £24m.

"Affordability is a significant concern for many sections of our community, the WaterShare+ Panel strongly support the company's ongoing and unique business plan commitment to eliminating water poverty. Meeting this has involved industry leading support over 2019 to 2024 and has clearly helped to mitigate the cost of living crisis for customers. I strongly welcome the company decision to repeat this commitment in the new Business Plan – a greater challenge given the proposed bill increases."

Lord Matthew Taylor, Chair of the WaterShare+ Panel

Our affordability toolkit helps us support the customers that need it:

Lisa (North Devon) Thinks Opt-Out Survey (April 2024)

We know how important it is that this fund goes to work from 2025-26 and, enabled by our innovative water poverty model we have a plan to reach out to and engage with customers in need of our support as quickly as we can, meaning wherever possible customers will benefit from the savings available in each and every year of AMP8.

Over 28,000 metered customers have been auto enrolled onto support tariffs since July 2022 with this innovative approach to continue and accelerate in AMP8 with steps being taken to ensure that wherever possible no metered customers will remain in water poverty.

Metering and water efficiency remains at the forefront of our affordability toolkit with our model also able to tell us based on occupancy the unmeasured customers who would benefit from a meter and for those with a meter allows us to target our efficiency support: Using this data we are and will continue to:

- engage with these customers individually, in their communities and through our ever growing partnerships to promote our risk free lowest bill metering guarantee
- continue to utilise and target our new unmeasured Assist tariff to customers most in need of support.
- target the promotion of free water saving devices and offer audit and intervention.

Innovative and Fair Charges

Customers have told us that they have concerns that bills are not fair, and we have seen customers' confidence drop that bills represent value for money. We have been working hard to ensure we review and challenge our existing tariffs so they reflect cost reflective charges across our different tariff groups, whilst also looking at new and progressive tariffs, to ensure we balance charges and costs fairly across all our customers – whether residents, businesses or visitors. We also want to ensure that our bills and tariffs are structured in a way that they are progressive and support customers' actions to use only the water they need.

There is increasing concern across the utility sector that standing charges may be regressive and discourage efficient use. Customers raised these concerns in discussions groups around our tariff plans, and have asked for simple, clear messaging to be echoed in tariff structures around water efficiency. We are currently exploring whether there is benefit to our customers in reducing our standing charges, ensuring that low users' bills are fairer, and increasing our volumetric charges to ensure we recover our Allowed Revenues, both of which will encourage better water efficiency.

Water efficiency and affordable bills go hand in hand. To meet Ofwat's challenge to set tariffs that promoted better environmental outcomes and were affordable, we developed four tariffs, which we committed to trialling this year. Customers have told us they understand that tariffs could incentivise water efficiency could help customers to use less water and make bills more affordable.

Colliford Water Efficiency Trial

Our water efficiency trial, run between February and April 2024, built on our Stop the Drop challenge and rewarded eligible household customers if they collectively reduced consumption in that period, ensuring that water levels in our Colliford Reservoir met predetermined targets. We paid out £10 because the target was met.

Our Smart Saver Tariff Trial

We started our Smart Saver Rising Block Tariff trial in April 2024, with 500+ SWW household customers on smart meters in North Devon.   Our communications with customers were developed with help from our behavioural insights experts, Thinks Insight & Strategy, who undertook research on our behalf immediately after the trial launch. This research revealed that customers were generally agreed that a tiered approach was logical and rational, that the tariff had financial implications for customers and the environment, but that it could have adverse effects on low-income large families as well as those suffering from medical conditions.

Early signs are that the tariff is encouraging customers to think about their water use and make changes, but the trial is in its infancy and further analysis will be required to confirm this is a long-term effect, and whether change is the result of the tariff or other interventions.

Additional tariff trials starting soon

In October 2024, we will begin two more tariff trials, our Seasonal Tariff and Summer Peak, with participants, household and non-household, in Bournemouth, Bristol and South West Water.

Intergenerational equity

In its PR24 methodology, Ofwat required company boards to provide assurance that the company's plans deliver fairness between current and future customers. We set the RCV runoff at the natural rate to provide a smooth profile for current and future customers. We used our

> **"During the summer period when we get a lot of holiday makers coming down into Cornwall and Devon, and places like that. So that puts bigger stress on the water supply."**
> Male, Aged 65+, SEG ABC1, South West Water

> **"I feel there is a real appetite for change in the South West. We have more water scarcity than other areas, therefore more impetus for change."**
> BW Bristol, 45-70

LTDS to manage long term investment profiles and bill impacts.

In the DD, Ofwat reduced our RCV run off rates from 4.6% to 4.1% in order to reduce customer bills in the short term.

On the face of it, a bill reduction for customers compared to the Business Plan is welcome. However, the lower RCV run-off means that future customers would pay a higher bill and therefore implies an imbalance in intergenerational equity. In addition, this revenue deferral removes the financial headroom needed for the investment programme, and makes it uninvestable. Customers understand the need for financial health for those organisations providing critical services and paying a fair bill also needs to ensure financial health as well as delivery of improving services.

Our extensive research consistently shows that our customers prefer a smooth, or even front end loaded bill profile over the long term. For example, our Affordability and Accepting Testing customer research (September 2023) shows that customers of all generations, both current and future bill payers, supported intergenerational equity – each generation of customers paying their own fair share over the life of the asset. Only around 20% supported back-end loaded bill impacts that put pressure on younger and future bill payers.

Ofwat's intervention in our plan has the consequence of costing customers £60m over the period, an additional £7 per annum from 2030.

In our response we provide evidence that Ofwat should reinstate the RCV runoff rates we used in our plan to rebalance intergenerational equity and ensure our plan has sufficient financial headroom.

"Cost is going to be an issue for a lot of people, but if you don't pay for it, it's never going to improve. It needs to improve for future generations"

Male, C2DE, Age 18-45, SWW

Retail price control

Our business plan identified £240m of totex expenditure required to deliver our retail services. The DD allowed £249m based on the average cost to serve. These prices are equivalent to nominal terms as the retail allowance does not get inflated.

Performance Commitments

From 2025, Ofwat intends to increase the strength of incentive on C-MeX to drive a step change in the service delivered to household customers so that it is comparable with the service received from other companies in other sectors.

Overall customer service is measured by C-MeX, which is constructed relative to CES (perception / experience) and CSS (specific service feedback). We believe given the current industry positioning the focus should have a greater weighting for CSS.

We have undertaken detailed analysis using four different models to test alternative design parameters. Following this analysis we conclude that:

- The survey method is not robust. Recurring questions and concerns within the industry have been raised regarding the variance in scores between digital and non-digital surveys, whether the Digital Online Correction Factor (OCF) remains appropriate, and the lack of an online Check and Challenge process. The proposed removal of both the OCF and check and challenge process alongside the move to the predominantly email and SMS CSS survey will lead to a reduction in scoring, further impacting a company's ability to achieve reward against the UKCSI approach and resulting benchmark.
- In our view, the balance of the CSS versus CES surveys (see diagram below) should be based on 90% CSS and 10% CES to reflect the level of direct control that the company has on the outcome.

The use of UKCSI is sub optimal. Our modelling over the last AMP shows that the underperformance and reward has a greater correlation with the fluctuation in the all-sector average UKCSI score than it does with changes to the average industry C-MeX scores. This is driven by wider economic factors outside of the industry's control, which further challenges the appropriateness of the use of UKCSI in determining the ODI outcomes.

We have modelled the 2023-24 C-MeX results using the existing and proposed weighting and methodology. In each of the models, no company would have qualified for outperformance in 2023-24, meaning that the ODI is neither symmetrical nor consistent with other ODIs.

Our recommendation is that Ofwat removes the cross-sector benchmark and revert back to a relative incentive approach (comparing a company's C-MeX score with other water companies), which would ensure there is consistency in how incentives for C-MeX, D-MeX and BR-MeX are calculated.

Further information is provided in our representation document → Outcomes

We are supportive of Ofwat's proposals for D-Mex and BR-Mex and we welcome the symmetrical incentive design.

Adjustments required in the final determination

The following adjustments are required in the final determination.

Area	Adjustment / why
Bill increases	Restore bill increase as per our plan to reflect our DD response. Without this increase there is a £200m revenue gap to our plan.
RCV runoff rate	Restore natural rate of RCV runoff, as per our plan
C-MeX design	Reconsider design of metric and incentive

Summary

There are extensive areas of alignment between our affordability and delivering for customers priority and the DD.

We urge Ofwat however to reconsider its approach to RCV runoff as this is not only consistent with our customer views on intergenerational equity, but also creates a revenue gap which erodes our financial headroom to an unacceptable level.

We also ask Ofwat to reconsider its design of the C-MeX performance commitment to ensure that it effectively incentivises and rewards improved customer satisfaction. Our recommendation is that Ofwat removes the cross-sector benchmark and revert back to a relative incentive approach (comparing a company's C-MeX score with other water companies), which would ensure there is consistency in how incentives for C-MeX, D-MeX and BR-MeX are calculated.