

Briefing for Ofwat Non-Executive Directors and senior leadership

This document has been prepared in accordance with the guidance issued by Ofwat on 3 August 2018.

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1. Background

1.1 Company pen picture

Welsh Water is a water and wastewater company serving 3.1 million people in Wales, Herefordshire and parts of Deeside. Welsh Water has been owned by Glas Cymru since 2001. Glas Cymru is a company limited by guarantee and has no shareholders. Its sole purpose is to enhance the interests of the customers and communities that it serves.

1.2 List of attendees

The attendees for the business plan presentation meeting on 1 October will be:

Alastair Lyons, Chairman of the Board

Peter Davies, Chairman of the Customer Challenge Group

Chris Jones, Chief Executive

Mike Davis, Director of Strategy & Regulation

Daniel Davies, Head of Regulatory Strategy

Alun Shurmer, Director of Customer Strategy & Communications

More detailed attendee biographies are included in Appendix 1.

2. Key business plan metrics

PR19 key themes

We will improve value for money through lower bills, more help for those in vulnerable circumstances, improved performance and bold new service offerings:

- £22 reduction in average household bills (5%, before CPIH inflation) – with the best record on reducing bills since 2000
- Company plans to fund 50% increase in social tariffs to help 150,000 ('customer dividends')
- Service targets generally at "upper quartile" (including leakage, sewer flooding and pollutions)
- Sector-leading targets for customer trust and business customer satisfaction
- Expand priority service register four-fold to 100,000
- Free supply pipe leak repairs (every time)
- "WaterFair" scheme - customers with repeated service problems won't pay
- New GSS scheme for developers - automatic compensation
- New surface water removal incentive scheme
- Lead supply pipe replacement for 7,000 homes.

Our Welsh Water 2050 vision guides our plans, with increased investment to deliver "resilience in the round":

- RainScape (sustainable urban drainage) – 10 priority catchments
- LandScape – 23 catchment management schemes
- Comprehensive remediation of 17 priority water networks
- Major new waterworks for south Wales
- National Environment Plan, including four Sustainable Management of Natural Resources catchments
- New dam safety requirements - 29 priority sites
- Water Resource Management Plan to 2050.

We will deliver "more for less" by reducing our costs by a further 10% (£300m) over the period, with the best cost reduction record since 2000:

- Record £73m funding for science, innovation and research
- Project Cartref (Home) - new "stopwatch" technology and behavioural change to promote demand management and 15% leakage reduction
- Water Resilient Communities – co-delivery across all our well-being goals

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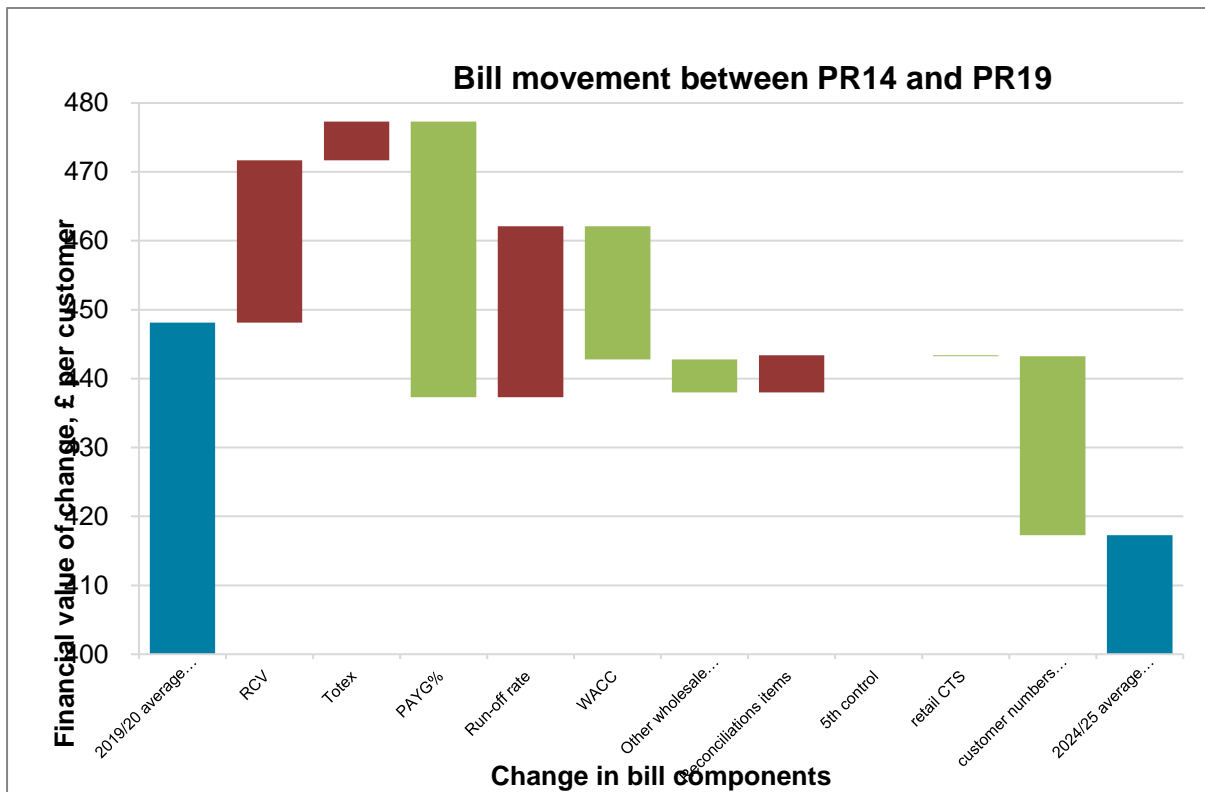
- Brecon Beacons mega-catchment – following Catskills model in New York
- RainScape cuts cost of compliance with EU Directives from £650m using conventional engineering to £130m
- “WaterShare” scheme will return ODI rewards to customers, 50% via bill reductions and 50% via future ‘customer dividends’.

Further detail is provided in our Chairman’s Open Letter (appendix 2).

Table 2.1: Waterfall chart

The data in the table and chart show the movement between the 2019/20 average household bill forecast at PR14 and the PR19 forecast for 2024/25.

Inputs (at 2017/18 prices)	£ per customer
2019-20 Bill projected at PR14	448
Changes between 2019/20 and 2024/25	
Change in RCV	24
Change in RCV run-off	25
Change in WACC	(19)
Change in customer numbers	(26)
Change in totex	6
Change in PAYG rate	(40)
Change in other wholesale items	(5)
Change in retail CTS	(0)
Change in reconciliation items	5
2024-25 Bill	417



Explanation of movement in customers' bills

The major factor driving the decrease in customers' bills between 2019/20 and 2024/25 is the reduction in the cost of capital. This is partly offset by the expiry of Capital Incentive Scheme revenue adjustments from PR14 that applied during 2015-2020.

Movement in the average household bill 2020-2025

(at 2017/18 prices)

	£	£
Allowed bill in 2019/20		439
Expiry of Capital Incentive Scheme adjustments from PR14		6
Reduction in the cost of capital		(28)
Impact of AMP7 Totex	36	
Less: cost efficiencies	(33)	
Other	(3)	
	0	
Allowed bill in 2024/25		417
Less: company contribution to social tariffs		(12)
Forecast average bill in 2024/25		405

Subject to the final outcome of PR19, we expect to increase our financial contribution to social tariffs ('customer dividend') from £5 million in 2017/18 to £19 million in 2024/25. This would reduce the average household bill by £12 in 2024/25.

Customer Expectations

Our customer participation programme over recent years has involved detailed input from 40,000 customers, using innovations such as our Chatbot questionnaire on social media, our new Online Customer Community and our Youth Board to ensure that we have listened to the "seldom heard". This engagement has built on a comprehensive understanding of our daily feedback from customers, supplemented by a wide-ranging programme of independent market research, all overseen by the CCG.

Consistent themes have emerged, which the Board used to set the strategic parameters for our plan:

- affordability is a key concern for customers but there is no overriding desire to reduce bills at the expense of other considerations,
- customers would not countenance any deterioration in service levels, even if this meant lower bills,
- given affordable bills, customers in general are prepared to pay for investment to ensure the long-term resilience of our essential public services,
- the greater the level of information customers have about our company's unique ownership structure and our plans for the long-term, the greater is the overall level of trust and support for our plans,
- customers expect us to harness innovation and efficiency to keep down bills, whilst communicating effectively the benefits of investments for customers and the environment,
- there is majority (but not universal) support for more help for those customers who are genuinely struggling to pay, and
- customers expect us to protect the environment and contribute more broadly to the well-being of the communities we serve.

Customers were also given the opportunity to choose between differing options for bills and service, with the results being reflected in our final business plan.

Customers' perception of the value for money of our final plan increased by 16% to 81%, as compared to the current service – reflecting the lower bills, better service and more investment for the long-term.

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Table 2.2: Key business plan metrics

Metric	PR14 (2019-20) 31 March 2020 estimate	PR19 (2024-25) 31 March 2025 estimate	2019-20 to 2024-25 % change (leakage and PCC)
Number of residential water only customers (000s)	83.659	91.798	
Number of residential wastewater only customers (000s)	134.643	141.803	
Number of residential water and wastewater customers (000s)	1194.212	1237.071	
Total leakage (MI per day) Based on PR19 definition, annual average	169	143	-15%
Leakage (cubic metres per km of main per day) Based on PR19 definition, annual average	6.1	5.10	-16%
Leakage (litres per property per day) Based on PR19 definition, annual average	116.8	95.8	-18%
Per Capita Consumption (PCC) Based on PR19 definition, annual average	145	138	-5%
ODI RoRE range	-1.4% to +0.5%	-1.5% to +1.2%	
Appointee WACC (real RPI)	3.54%	2.4%	
Appointee WACC (real CPIH)	4.56%	3.4%	
Credit rating – actual financial structure	INV GRADE	Baa1/BBB+/BBB+	
Metric	PR14 (2015-2020 Average)	PR19 (2020-25 Average)	
Adjusted interest cover notional	1.59X	1.35X	
FFO net debt notional	6.97%	7.08%	
Metric	2017-18 Actual	PR19 (2020-25 Average)	
Actual gearing	57%	59%	
Adjusted interest cover actual	1.5X	1.3X	
FFO net debt actual	7.0%	7.1%	

Commitment to financial resilience

The Board's approach to ensure the financial resilience of Welsh Water post 2020 is to:

- maintain a secure, investment grade credit rating in our central case financial projection and in a range of downside financial scenarios, looking forward to 2030;
- continue to target gearing at around 60% in our central case;
- maintain a stable level of 'customer dividends' consistent with that gearing objective; and
- enhance customer trust by being transparent about our future financial resilience - we published a 12-year financial viability statement in our 2018 Annual Report.

We have modelled Ofwat's financial stress cases, together with combined scenarios of our own, which we consider are severe but not implausible. For both the actual and notional companies, our analysis gives a reasonable expectation that the company would remain financially viable to 2030, meeting the minimum requirements in the round for retaining an investment grade credit rating in all cases.

Table 2.3: RCV

Control	1 April 2020 (£m) Opening RCV 2017-18 FYA (CPIH deflated)	30 March 2025 (£m) Closing RCV 2017-18 FYA (CPIH deflated)	% growth
Water resources RCV	194	307	59%
Water network Plus RCV	1,639	2,037	24%
Wastewater network Plus RCV	3,576	3,813	7%
Bioresources RCV	220	205	(7)%

Table 2.4: Dividends

Metric £m	2015-16	2016-17	2017-18		
Outturn (nominal prices)					
Dividends (based on PR14 actual company structure)	0	30	0		
Outturn (nominal prices)	2020-21	2021-22	2022-23	2023-24	2024-25
Dividends (based on PR19 actual company structure)	14.7	15.8	17.0	18.1	19.3

Dividend Policy

Because we have no external shareholders, we do not pay dividends outside our group. Our dividend policy is published in our Annual Report and explains that up to £100 million in total of intra-group dividends can be paid, where these are used to invest in closely related commercial activities, the returns on which are used to the benefit of Welsh Water's customers.

Otherwise, all financial surpluses in Welsh Water are used directly for the benefit of our customers ('customer dividends') We plan to maintain a stable level of 'customer dividends' consistent with keeping gearing at around 60%, with those dividends being used to fund benefits of highest value to customers, informed by ongoing research and engagement. Our plan to 2025 allows for £85 million of Welsh Water's money to part finance the costs of social tariffs, which in other water companies are funded by cross subsidies from other customers.

3. Appendices

Appendix 1: Company presentation attendee biographies

Alastair Lyons – Chairman

A chartered accountant by training, Alastair has 18 years' experience as a non-executive chairman of both listed and private companies. During an extensive executive career in financial services, he was Chief Executive Officer of both the National Provident Institution and the National & Provincial Building Society, Managing Director of the Insurance Division of Abbey National plc, and Director of Corporate Projects at National Westminster Bank plc. He is Chairman of Harworth Group plc and of EUI and AECS, two of the operating subsidiaries of the Admiral Group. Alastair previously served as Chairman of the Admiral Group, the direct motor insurer, from 2000 to 2017, Chairman of Towergate Insurance, Chairman of Serco, the international services group, and Senior Independent Director at Phoenix, the life assurance consolidator. He has also been a Non-Executive Director of both the Department for Transport and the Department for Work and Pensions. He was awarded the CBE in 2001 for services to social security.

Chris Jones - Chief Executive

Chris became Chief Executive in September 2013 having previously been Finance Director of Welsh Water since May 2001. He was one of the architects and founder directors of the new non-shareholder company Glas Cymru, which acquired Welsh Water in May 2001. He has also previously served as Director of Regulation of Welsh Water and South Wales Electricity plc. Before joining Welsh Water in 1995, he was a Director at National Economic Research Associates and, prior to that, worked for HM Treasury. He is Deputy Chairman of the Prince's Trust Cymru Advisory Council since 2009 and has been a Non-Executive Director of the Principality Building Society and Trustee of the Institute of Welsh Affairs.

Peter Davies – Chairman, Customer Challenge Group

Peter's career background is in the field of corporate responsibility working for the Confederation of British Industry, Department of Trade and Industry and Business in the Community. Awarded the OBE in 1995 for work in establishing links between business and education under the DTI's Enterprise Initiative Peter was Managing Director at Business in the Community UK from 1995 to 2005. He returned home to Wales in 2005 and was appointed Commissioner for Wales and Vice Chair of the UK Sustainable Development Commission. Following the closure of the UK Commission he was appointed to be Wales' first Sustainable Futures Commissioner and chair of the Climate Change Commission for Wales from 2011 - 2016. He was awarded a CBE in 2016 for his work in these roles. His current project portfolio focused on working in support of communities, citizens and consumers and includes chairing the Wales Council for Voluntary Action, the Size of Wales charity, being a Director of

Pembrokeshire Community Energy and a member of the BT Wales Advisory Board. He joined us as chair of the Customer Challenge Group in February 2016 and has been appointed for a five year term.

Mike Davis – Director of Strategy & Regulation

Mike has been the director of regulation since 2008 and before that held a number of financial positions in the business. Before joining Welsh Water in 2001 he had been finance director at a number of private start-ups in the media and telecoms sector. He qualified as a chartered accountant with PwC in 1993. He has been a Non-Executive Director of RCT Homes, a registered social landlord.

Daniel Davies – Head of Regulatory Strategy

Daniel joined the company in 2015, and has led the PR19 project team as well as leading on liaisons with the Welsh Government. He has a background as an economist working in a variety of strategy, policy and project management roles, including stints at the World Economic Forum, the Global Fund, and Save the Children.

Alun Shurmer – Director of Customer Strategy and Communications

Alun joined the company in 2012. Alun worked as a press officer in the House of Commons and then Communications Manager for the London Congestion Charge. At TfL, he was a member of the team who looked after media relations following the 7/7 bombings. Alun was Plaid Cymru's Head of Communications for the 2007 Assembly Elections which resulted in Plaid joining the government. He then joined BBC Cymru Wales as Head of Communications.

Appendix 2: Business plan executive summary

An open letter from the Chairman of Welsh Water to our customers

This business plan is the culmination of over two years' work by the Board of Dŵr Cymru Welsh Water – and we would like to thank all those thousands of customers and other stakeholders, including the Customer Challenge Group (CCG) and our independent Members, who have contributed their views during this process to help make this the most customer-driven business plan Welsh Water has ever produced. Because we have no shareholders, our company culture is always to strive to do a better job for our customers, both now and long into the future.

Our customers' priorities reflect the unique social, topographical and climatic features of the areas we serve, especially in terms of the long-term challenges we face:

- the impact of climate change, such as the increased risks from more extreme and frequent rainfall events for urban flooding and reservoir safety;
- population growth and increased urbanisation, especially around Cardiff, Swansea, Chester and Hereford;
- increased stress on the environment from the potential intensification of land-use and greater risks of floods and droughts;
- tighter quality standards for drinking water and environmental protection;
- preserving the resilience of essential public services with an ageing infrastructure; and
- rising customer service expectations (from households, businesses and developers).

In this document, we set out our plans for bills, service standards, investment and value for money for customers over the five years to 2025, and beyond. We also explain how we intend to report each year on delivery against the overall plan and the 'Measures of Success' contained within it, so our customers and other stakeholders can judge for themselves how we are progressing.

[The Board's approach to PR19 and Welsh Water 2050](#)

The Board set out its approach to PR19 at the outset of the process in September 2016. It decided its business plan to 2025 and beyond should:

- be driven by the views of customers, elicited through an unprecedented programme of customer research and engagement;

- be developed in the context of a long-term plan that looked forward a generation – Welsh Water 2050 – similarly reflecting the views of customers;
- set ambitious targets to improve costs, service and resilience for the benefit of customers, harnessing innovation and new ways of working;
- have a particular focus on the needs of customers in vulnerable circumstances, including those struggling to pay their water bill; and
- incentivise through objective, and stretching, performance measures for the business and management to deliver improved value for money and resilience for customers, and enhance the financial, corporate and operational resilience of the business.

During 2017, the Board developed its long-term vision for Welsh Water in 2050, “*to become a truly world class, resilient and sustainable water service for the benefit of future generations*”. It decided to adopt a new long-term strategic planning approach, informed by a review of international best practice in resilience planning (notably the Rockefeller Foundation 100 Resilient Cities initiative). This approach is based on the Welsh Water Resilience Wheel, which captures all aspects of what it means to be a resilient public service provider – including assets, systems, people, finances and governance. Using this approach, we consulted extensively with our customers and worked with them, the CCG and numerous stakeholders to develop 18 Strategic Responses, which we will need to deliver over the next six five-yearly regulatory periods, in order to meet the challenges and opportunities of the future.

This business plan for 2025 and beyond has been developed from the outset as an ambitious, but affordable, step towards the achievement of the Welsh Water 2050 vision. Customer engagement work has demonstrated very strong support from across our customer base for taking this long-term planning approach, recognising the importance of future investment and innovation to preserve the resilience of the essential public services we provide, which is so important to customers and the environment.

Listening to our customers

Welsh Water is the only private, non-shareholder-owned water company in the UK. Our vision is “to earn the trust of our customers, every day”. As such, it is natural for us to want our business plans to be informed by the greatest degree of customer insight and customer involvement we can achieve, so we can really be sure we are delivering against customers’ priorities and that we strike the right balance between customer bills, service standards and investment in long-term resilience.

For this reason, we have a comprehensive ongoing programme of gathering customer insight, guiding the decisions we make each year. We have built on this comprehensive knowledge base through an unprecedented programme of customer engagement, firstly in the formulation of Welsh Water 2050 and then in the development of our plans for the period 2020 to 2025 and beyond.

This programme of customer involvement over recent years has seen around 40,000 customers sharing their views with us through our 'Have Your Say' and PR19 campaigns, at a wide range of shows and events across our region, as well as directly via our online engagement site. We have introduced successful innovations in this process to increase the numbers and spread of customers getting involved – using tools such as our Chatbot questionnaire on social media, our new Online Customer Community and our Youth Board.

We have supported all this engagement with a comprehensive programme of independent market research, using a wide range of qualitative and quantitative techniques to ensure a truly representative view of customer opinion is obtained, especially from the 'seldom heard'. We have been greatly helped in this by the work of our Customer Challenge Group (CCG) and the Consumer Council for Water (CCWater), who have challenged us throughout the process on the methods used, the coverage achieved, the interpretation of the results and their integration into our planning process.

We have gathered a wide range of customer opinion through this programme, which is reflected in many aspects of the detail of our plan. Overall, certain consistent themes have emerged which have been repeated through the many exercises and engagement channels:

- Affordability is a key concern for customers – but there is no overriding desire to reduce bills at the expense of other considerations.
- Customers would not countenance any deterioration in service levels, even if this were reflected in lower bills.
- Given the overarching consideration of keeping bills affordable, customers in general are prepared to pay to finance investment to ensure the long-term resilience of the essential services they receive.
- The greater the level of information customers have about our company's unique ownership structure and our plans for the long-term, the greater the overall level of trust in the company and support for our plans.
- Customers expect us to harness innovation and efficiency to keep down the cost to customers, while communicating effectively the benefits of investments for customers and the environment.

- There is majority (but not universal) support for more help for those customers who are genuinely struggling to pay their water bills.
- Customers expect us to protect the environment and contribute more broadly to the well-being of the communities we serve.

In some cases, our customers' views may be somewhat different to those of the customers of other water companies, probably reflecting our unique ownership model, a particular sense of community in Wales, and also the impact of the overarching long-term policy framework set out in the Well-being of Future Generations (Wales) Act 2015.

Strategic Parameters for PR19

Having carefully considered all this customer sentiment, the Board set 10 key Strategic Parameters for our business plan to 2025:

- **Affordability** – customers as a whole should see a reduction in the average bill in real terms, reflecting the reduction in the allowed “level of profitability” post-2020 (the “return on capital”).
- **Social tariffs** – Welsh Water should aim to expand its funding for social tariffs through its unique “customer dividend”, to help more of those struggling to pay, while keeping the cost of the support from other customers at around current levels (in real terms).
- **Long-term resilience** – should be enhanced, through a significant investment programme targeted at the most urgent Strategic Responses identified in Welsh Water 2050, covering drinking water, environmental protection and future service resilience.
- **Stretching performance targets** – must be set, in particular for service areas where our performance falls short of our customers' expectations, while ensuring all existing standards of drinking water quality, customer service and environmental protection are at least maintained.
- **Ambitious new service offerings** – should be developed, offering improved value for money across all customer segments – households, businesses, developers, and those in vulnerable circumstances.
- **Innovation, efficiency and collaborative working** – should be maximised in the plan, while taking advantage of new market opportunities wherever possible, so we can deliver ambitious plans at an affordable cost.
- **Demand management** – should be a particular priority, promoted through innovative new approaches, working with customers and communities.
- **Customer-driven** – customers should be given an opportunity to choose between different packages of service and bills, through quantitative and qualitative market

research carried out in the spring of 2018, with customers' overall preferences being reflected in the final business plan.

- **Incentivise performance** – the plan will incentivise management and the business to drive improved outcomes for customers, with all net 'rewards' being used for the benefit of customers through a new WaterShare scheme.
- **Financial resilience** – maintained by keeping the gearing of the business at around 60%, safeguarding our access to funding from the financial markets even in the event of severe or combined risk scenarios.

Affordability

Welsh Water has kept the increase in the average household customer bill to below Retail Prices Index (RPI) inflation in each year over the 10 years to 2020 – an unprecedented record. We intend to build on this by reducing average bills by £22 or 5% over the next five years (before the impact of inflation). This bill reduction can be achieved through the reduction in the allowed rate of profitability expected for the sector ("the return on capital" or WACC) and by innovating to materially improve efficiency within our business. In this way, we plan to deliver a substantial bill reduction, while simultaneously increasing levels of investment to improve service performance and long-term resilience.

In addition, we will target more help to those customers who are most struggling to pay their bills, for example by promoting metering where appropriate. We plan to increase the number of customers benefitting from social tariffs from around 100,000 today (by far the highest rate of support in the sector) to around 150,000 by 2025 – this will cost Welsh Water itself around £85 million over the period ('customer dividend' money that in other companies would have been paid out in shareholder dividends).

Improved service and value for money

Businesses, developers and households will see improved value for money, in that they will both see lower bills (from the reduced return on capital), and experience improved service levels, receive bold new customer service offerings, and benefit from increased investment to improve the long-term resilience of our public services and the environment.

We have set *stretching performance targets* for the next five years and beyond, following a process of detailed challenge by the Welsh Water Board and the CCG. While maintaining the current very high levels of drinking water quality and environmental performance, we will target by 2025:

- a 15% reduction in leakage levels (which have already been roughly halved in the last 20 years)
- a reduction in the numbers of customers experiencing temporary discolouration or taste and odour issues with their water supply, from 2.8 to 2.0 (contacts per 1,000 customers)
- a reduction in supply interruptions, which are particularly important for businesses as well as households, from 12 to eight minutes a year per customer
- a 10% reduction in incidents of sewer flooding of customer premises each year, which would otherwise be on an upward trend due to climate change, from 300 to 273 a year
- a 20% reduction in pollution incidents (which are predominantly minor 'category 3' incidents), from 112 to 90 a year, and
- the number of customers receiving a service below our defined minimum-threshold levels will be reduced by 18%, from 1,500 to 1,230, meaning fewer 'worst-served' customers suffering repeated water supply outages, sewer flooding or low water pressure.

Our plan includes incentivisation arrangements for the business (Outcome Delivery Incentives – ODIs) which could result in underperformance payments (equivalent to 1.5% of our return on equity – RORE) or outperformance payments (equivalent to 1.2%). These ODIs have been selected and scaled to reflect customers' views, as ascertained through a wide range of customer research sources. In aggregate, they are towards the lower half of the Ofwat-prescribed range, which does reflect a general questioning by our customers of the appropriateness of such incentives, given our unique status as a non-shareholder company. In response to these views, we are proposing a new 'WaterShare' mechanism, through which half of any net reward would be immediately returned to customers through lower bills, with the remaining half being used for the benefit of customers as 'customer dividends' after consultation with customers, regulators and the CCG.

We are also planning to introduce a range of *innovative new customer service offerings*, including:

- a new strategy for a more personalised service for customers in vulnerable circumstances, increasing the number of customers registered to receive priority services from around 26,000 now to 100,000 by 2025;
- 'WaterFair' – giving a free service to 'worst-served' customers, until we can address or mitigate the root cause of their repeated service failure;
- a free leak repair service on customers' supply pipes (no longer limited to one free repair every three years);
- a free lead pipe replacement scheme, targeting 7,000 customers by 2025;
- a new Guaranteed Standards Scheme for housing developers, meaning that they will receive automatic compensation if we fail to hit specified performance timescales;

- a unique surface water removal incentive scheme for developers;
- for business and non-household customers, an extended range of co-created 'value-added' services, such as water efficiency and advanced metering technology;
- a priority response service for development applications which would end a case of "bed blocking" in hospital; and
- as a major step in demand management, a new service for households to fix leakage on customers' pipes and appliances, identified through the widespread use of innovative measurement technology (Project Cartref – 'Home'), to reduce leakage on customers' plumbing, improve water efficiency and help customers save money.

Welsh Water 2050 - Resilience in the Round

In the next regulatory period we plan an increased investment of around £2.3 billion across our business (compared to around £2 billion in this period), financed by exacting cost efficiency targets rather than increases in customers' bills. This investment programme will enable us to make a significant step towards the long-term objectives set out in Welsh Water 2050, in particular in the quality and supply of drinking water, enhanced resilience and improving the environment. Priority investments for the period to 2025 (AMP7) include:

- catchment management plans – working with other land users as our first line of defence for drinking water quality – including the Brecon Beacons Mega Catchment
- comprehensive "zonal studies" investment to refurbish and redesign those priority drinking water networks that give most problems for customers, particularly in terms of acceptability and interruptions – covering 17 zones networks and some 920,000 customers (costing around £130 million as part of a plan covering AMP6, AMP7 and AMP8)
- a substantial extension of our RainScope programme for sustainable urban drainage solutions, covering 10 priority catchments, and reducing sewer flooding
- a major investment programme to enhance the safety of our reservoirs, meeting new requirements to make them resilient to future severe storm risks resulting from a changing climate (costing around £115 million as part of a plan covering AMP6, AMP7 and AMP8)
- a substantial National Environment Programme (NEP4), determined by Natural Resources Wales and the Environment Agency, which will directly improve some 400 kilometres of rivers towards good ecological quality (costing around £300 million, as part of an NEP4 programme covering AMP7 and AMP8)

- delivery of investments to ensure sufficient supply for all customers, in line with the requirements of our Water Resources Management Plan to 2050, in light of expected environmental, population and climate changes
- a major new water treatment works in our most populous south east Wales area, meeting enhanced DWI regulatory requirements and significantly increasing resilience, while improving both efficiency and performance (costing around £90 million, as part of a project covering AMP7 and AMP8) and
- Drainage Area Plans to be developed across the region, with four priority ‘whole catchment’ solutions being implemented in partnership with a range of other land users, through an innovative Sustainable Management of Natural Resources (SMNR) approach

The Board has overseen a process of challenging the design and delivery options to achieve these desired outcomes in the most cost-efficient way, including through the use of demand-management techniques and metering, catchment-level planning and the incentivisation of other land-users.

Delivering for customers – innovation, efficiency and collaborative working

To deliver our ambitious plans for customer service and increased investment in resilience, without needing to increase customers’ bills, we need to harness the power of innovation, efficiency and collaborative working right across our business.

Innovation: our business plan includes a record budget of £68 million for research, development, science and innovation, with examples across all aspects of the plan. Innovation ranges from scientific research and the adoption of new technology, through to making better use of the large quantities of data we have in our business and learning from leading organisations in other sectors and other countries. Some representative examples of innovation that we are planning in the next five years include:

- introducing peak flow wastewater treatment technology to supplement RainScape schemes that we have pioneered – delivering a sustainable solution for urban drainage problems in Llanelli and Swansea for around £130 million, as compared to an estimated £650 million cost for a conventional engineering solution;
- partnership with the Natural Environment Research Council (the only one in the water sector) and with the G4W group of water research centres at UK universities, to develop new solutions and methods of working;
- a leading participant in the international Smart Water Networks Forum of utilities, pioneering SMART network management techniques, based on real-time data monitoring and analysis; and

- successful “best practice” partnerships with leading international water service providers, Oasen Drinkwater in the Netherlands and HOFOR in Denmark.

We will also embrace the opportunities from developing market mechanisms to seek better-value outcomes both for our customers and those of other water providers – and we are already actively pursuing specific prospects for increased cross-border trading, notably in the areas of bioresources and water resources.

Efficiency: since we became a non-shareholder company, Welsh Water has the best record for reducing operating costs of all of the water and sewerage companies in England and Wales (according to Ofwat data). Our business plan includes an ambitious target to further reduce our annual operating costs (“Botex” – including asset maintenance costs) by around 12% by the end of the next five-year period, through a wide range of cost-saving initiatives, better methods of working and using data to better prioritise our activities. This in turn contributes to a saving in total costs (“totex” – including capital investment) of around £300 million or 10% in the next five-year period, as compared to our current level of costs.

In part, we can make these savings through working closely with our Capital Alliance of leading international engineering and design companies. They are working to a rolling, five-year capital programme, with greater incentivisation and opportunity to identify worldwide innovation in design and delivery, while maximising efficiency through maintaining a stable supply chain that avoids the peaks and troughs in workloads which have been evident in previous five-year investment periods.

Working together: a common theme in our innovation strategy is to find better ways of working with partner organisations and customers, so as to deliver our common goals (as set out in the Well-being of Future Generations Act) more sustainably and more cost-effectively. Some noteworthy examples of the scope for collaborative solutions include:

- adopting successful techniques from the Catskills water supply catchment of New York State in the Brecon Beacons Mega Catchment programme, where we will work with a wide range of partner organisations and landowners to improve raw water quality and reduce treatment costs;
- a commitment from Welsh Water, Wales and West Utilities and Western Power Distribution to work together and to share appropriate customer information, so we can all do a better job in targeting help to customers in vulnerable circumstances;
- working with social landlords, government energy conservation programmes and community groups to promote Project Cartref (‘Home’), which will help achieve a

15% reduction in leakage and improved water efficiency, through working with customers to fix background leaks on their pipes and appliances; and

- creating Water Resilient Communities (as in the Rhondda Fach pilot), in which we will work with a wide range of local groups to help us better meet the unique needs of that community, while they help us to deliver some of our priority objectives more effectively, such as help for customers struggling to pay their bills whom we are unable to contact through traditional channels.

Responding to the view of our customers that we should help bring wider economic and well-being benefits to the community we serve, we will also continue to expand our programmes of environmental education for children in our region, the customers of the future, and our provision of recreation and access to the environment.

Keeping our customers informed and involved

In our business plan, we have set out targets for 47 ‘Measures of Success’, both to 2025 and beyond, against which we can measure progress in delivering our plan. We will publish this information each year for customers and stakeholders in an Annual Performance Report, which will also summarise the progress we have made against the 18 Strategic Responses set out in our Welsh Water 2050 vision.

We are also committed to regularly engaging with our customers throughout the period to 2025 on issues that are of real importance to them, such as how we use any financial surpluses for their benefit via ‘customer dividends’. This continuing programme of customer involvement will build on the innovative techniques used for the first time during the planning for PR19 and will be supplemented by day-to-day decision making, informed by our geospatial ‘customer sentiment’ tracking system. This regular flow of information from customers will both help us to fine-tune our operations during the five-year period to 2025, and also to be well prepared to further develop our Welsh Water 2050 vision and distil future five-yearly business plans from a strong and ongoing understanding of our customers’ priorities.

Board assurance

The Board of Welsh Water has provided in-depth leadership throughout the development of this business plan, supported and challenged at every stage by the CCG. The resulting business plan meets the strategic parameters set by the Board last year and it has ensured the targets for cost efficiency, service performance, future resilience and support for vulnerable customers are ambitious, but also deliverable and affordable.

At the end of the process, the Board commissioned independent research into the overall acceptability of the plan for customers, which found that 92% of our customers found the plan acceptable and 95% found it affordable, with consistently high support across all customer groups, including the “seldom heard” and business customers. Customers’ perception of the value for money of our final plan increased by 16% to 81%, as compared to their view of the current service – reflecting our plans for lower bills, better service and more investment for the long-term.

Through review of the key risks to the delivery of the business plan, the Board is assured the business will remain financially resilient to severe, combined-downside scenarios, given the maintenance of a gearing level of around 60% in our central case. The Board has also overseen a comprehensive programme of internal and external assurance of the plan itself.

Our plans fully take into account the Welsh Government’s Strategic Priorities and Objectives Statement, as well as the Water Strategy for Wales. Our long-term planning approach in Welsh Water 2050 is closely aligned with the Well-being of Future Generations (Wales) Act and has been publicly endorsed by the Welsh Government Environment Minister.

We will continue to publish comprehensive performance information each year, together with open disclosure of our policies for ‘customer dividends’, gearing, executive remuneration and long-term financial viability. By acting at all times as an independent company which follows the UK Corporate Governance Code, we will further build trust amongst our customers and stakeholders, in a way that is entirely appropriate for the provider of an essential public service.

As a result of this exhaustive process, we are confident our ambitious business plan to 2025, set in the context of our long-term resilience vision set out in Welsh Water 2050 and based on our ongoing engagement with our customers, will enable us to continue to meet our obligations as the supplier of an essential public service and to “earn the trust of our customers every day” - not just for the next five years but for generations to come.



Alastair Lyons

Chairman

Appendix 3: CCG report executive summary

Below is the executive summary of the CCG report for Welsh Water's Business Plan. The full report has been submitted to Ofwat and can be found on the [CCG's webpage](#). (A Word document version is attached)

Executive Summary

1. There has been a step-change in the Company's customer involvement activities compared to PR14, with 30 pieces of research engaging over 40,000 customers with 9,000 participating in formal research that has contributed to the formation of the business plan. The CCG recognises this step-change in customer engagement from PR14 and that this body of research, along with other sources of customer evidence, has provided the basis for building the business plan. The PR19 Business Plan has been influenced by the views of customers throughout its development – as opposed to have been developed by the Company and then amended by consultation.
2. The Company set out with the aim to build the plan from bottom up with an understanding of customer priorities shaping the design of the draft plan, which was then the basis of acceptability testing with customers. The final acceptability research indicates high levels of support from customers with 80% uninformed and 92% informed accepting of the plans. The acceptability research also shows 81% of customers felt it was good value for money.
3. The CCG recognises the importance of the work that the Company has done in attempting to take a long term view through Welsh Water 2050. This plan was developed by the Company with expert input and, extensive customer engagement through the consultation resulting in changes to the strategic responses in the final plan. The 2050 plan provides the context for the PR19 plan and the CCG believes it is important that the Company demonstrates how the plan will deliver Welsh Water 2050 without placing undue burdens on future generations.
4. The Customer Challenge Group's six strategic challenges presented to the Board in May 2017 set out the evidence the CCG would expect to see in ensuring an effective process for customer engagement in the development of the business plan. These challenges reflected the Ofwat best practice guidance and the specific context of business operations in Wales. The Company has responded to these challenges in the development of the business plan as summarised in [Appendix 01](#) 'Company Responses to Strategic Challenges'. The CCG wants to ensure the Company applies this framework in delivering the PR19 business plan to build a more informed and involved customer base.
5. The responses to the strategic challenges demonstrate that the Company has applied a range of research approaches and innovative techniques, as well as drawing on in-house data. The CCG commissioned Dr Dimitrios Xenias, a CCG member, to undertake an independent Customer Research Assurance Report ([Appendix 02](#)). This report indicated that

the Company had broadened the research scope, expanded the range of methods applied and the breadth of available data. The report highlighted areas for improvement but concluded that *“the Company has been successful in securing an understanding of the views of its customer base from the phase 1 research and triangulation process”*¹ (page 4). The CCG supports this finding and agrees that the Company has been successful in securing an understanding of the views of the customer base.

6. The CCG did raise challenges over elements of the process in this phase of building the business plan, which were highlighted in the ‘Research Assurance Report’. These concerns are outlined in more detail in the report, with Company responses in [Appendix 3](#), but can be summarised as the:
- a) challenges for the CCG in responding to the scale and timelines of the research programme reducing opportunities for co-design.
 - b) complexities with the initial triangulation process, which while comprehensive, was complicated.
 - c) nature of the Willingness to Pay methodology despite the improvements from the PR14 process.
 - d) need for a clearer narrative to provide an overview of the process to demonstrate how the individual elements of the research stages contributed to the big picture.
 - e) lack of clarity in the process by which the evidence base was being assimilated and applied to the decision making.

These last two points related to the desire of the CCG to see a clear ‘golden thread’ in the narrative between the evidence base, the measures of success and the Welsh Water 2050 Objectives. This was a strong and consistent challenge from the CCG throughout the ongoing process of building the business plan from the customer evidence base. The final PR19 submission from the Company includes documentation which demonstrates how customer evidence was applied to decision making in the formation of the business plan.

7. The customer evidence base was used to establish the Measures of Success for the business plan using a triangulation process which drew on a range of evidence to establish a view of customer priorities. The second phase involved the application of the triangulation process to the evidence base to establish the targets or performance commitments against each measure. The CCG did provide challenge to this process but agrees that the measures as a whole do provide an effective performance framework that reflects customer priorities. Specific key points on which the CCG engaged with the Company in this process are set out below:

¹ [Appendix 02 Research Assurance Report](#) (page 4)

- (a) The Company set out 45 measures of success, (subsequently amended following Ofwat feedback to 47) which was initially challenged by the CCG as being too many measures. It was further reviewed by the CCG and agreed that all measures were relevant to provide for a comprehensive business plan.
 - (b) The application of the Willingness to Pay methodology to the establishment of the performance commitment, with the concerns being acknowledged by the company which applied a wider range of sources of data to the process of target setting.
 - (c) While the CCG accepts that these measures provide an effective performance framework, it has stressed that some of the high-level measures may not be sufficient on their own, as they provide a quantitative figure which may not reflect the qualitative impact that is desired. For example, affordability and vulnerability related metrics will need to be supplemented by regular monitoring on the quality of assistance provided according to customer views; the Company has agreed to report on this qualitative element of this measure in a separate report.
 - (d) The CCG challenged the ambition of the performance commitments, particularly on priority measures of success for customers. The CCG stressed the need for a clear line-of-sight between the Welsh Water 2050 plan and the progress represented through the performance commitments in the PR19 plan. The CCG questioned whether enough of a start was being made in the key areas of water supply interruptions, per capita reduction levels, leakage, customer acceptability of water quality, pollution incidents, kms of rivers improved and lead pipe replacement. The CCG review of the Performance Commitments is summarised in [Chapter 6: Measures of Success](#).
- 8 The CCG accepts that while it encourages the Company to be ambitious across a range of measures this must be balanced against the evidence which shows the high level of financial vulnerability within the customer base in Wales. This needs to be fully recognised within the business plan, and its delivery, both in terms of affordability and other support for those who find it difficult to pay. The CCG supports passing through the reduction in cost of capital to reduce customer bills. In the acceptability testing 95% of customers considered the plan to be affordable, although 30% thought that it would be “a stretch”. This though is dependent on the Company keeping operating costs down, supporting vulnerable customers while clearly communicating with customers to keep them informed and engaged in the work it needs to undertake for customers.
- 9 The customer research indicates that while affordability is an issue, bill reduction is not an overriding concern for most customers who support investment for the long term. The CCG notes that the Company intends to drive efficiency savings to deliver an increase in its investment plans for the next AMP. The options testing phase of the Acceptability Research did indicate that a small majority of customers were in favour of a smaller bill reduction to allow for extra investment. The CCG felt that this was not a strong enough mandate for the Company to proceed with the additional options in the business plan and the associated additional cost on the customer bill. The CCG welcomed the compromise of including the top priority extra investments in the plan while keeping the proposed level of bill reduction.

- 10 The issue of support for customers in vulnerable circumstances has been a key focus as set out in the CCG challenge to the Company's draft strategy. The Company's commitment to increase engagement with Priority Service customers, from 2% to 8% in-line with the current energy sector benchmark, is welcome, but the CCG notes that Ofgem are seeking the energy sector to offer a far higher level of engagement in servicing various degrees of vulnerability. The CCG stressed the need for the Company to consider a holistic cross-sector, community-focused approach to enable customer participation and has put particular significance on the Water Resilient Community pilot in Rhondda Fach. The CCG supports the adoption of the Water Resilient Communities project as a mainstream approach within the business plan. We encourage the Company to go beyond the minimum number of five communities in five years, to ensure the wider application of learning across the business operations and to extend the collaboration with other companies.
- 11 The CCG welcomes the Company's commitment to continue to increase the number of customers supported through assistance schemes, given the number of low income customers in Wales. However, it has asked for consistency in reporting against the target of 148,000, distinguishing between the targets for the HelpU social tariff and the WaterSure Wales assistance. The CCG welcomes the continued ambition but notes that the most recent customer research did not demonstrate enough support to justify an increase in social tariffs cross-subsidy on bills beyond current levels. This result, along with the high potential numbers of eligible customers, the Company's view on the likely reductions in profits to return to customers and evidence of the need for better targeting, indicates that a new approach in the Company's assistance package going forward is required. The Company committed to working with the CCG to further develop the new affordability and vulnerability strategies in the autumn of 2018.
- 12 Ofwat were clear in their methodology that they expect companies to engage with customers on the design of their rewards and penalties. The Company did not include reference to ODIs in its final quantitative acceptability testing of the business plan. This was an issue raised through the CCG by the Consumer Council for Water, who felt that there was opportunity for the Company to find an effective way of engaging customers on the impact of ODIs in the quantitative research. The Company undertook qualitative research on the application of ODIs of the acceptability testing, which influenced the design of the proposed ODI model. This research indicated only limited support for ODIs but also highlighted the difficulty of engaging customers on the detailed design of the ODI scheme, not least in that customers are confused as to its application in the not-for-profit model.
- 13 The Company should ensure that there is a transparent approach to the application of the ODIs to ensure customers understand how the rewards and penalties are being applied. While recognising that the final quantitative acceptability testing research did not include a discussion on the potential impact of ODIs on bills, a key concern for CC Water, the CCG supported the approach the Company is proposing for ODIs, as consistent with customer views from the qualitative research that took place on ODIs which are: a greater focus on penalties;

prioritisation across the measures which are important to customers; the application at the lower end of the range to minimise volatility and retain customer confidence; the plans for returning any net reward to benefit customers through a Water Share scheme.

- 14 The CCG is pleased that the Company responded to its challenges to focus on Non-Household customers in Wales. In particular we note that the Company has incorporated a Non-Household Customer Experience Measure (B-Mex) which will replicate the Household customer C-Mex in Wales. In the context of no option for those customers to swap suppliers we think this is an important measure to include in the Company's performance measure suite.

- 15 Customers and stakeholders have high expectations of the Company's contribution to environmental improvements. The scale of ambition for environmental improvement and the degree to which that can be achieved in the PR19 business plan has been the focus for negotiations with Natural Resources Wales (NRW) and the Environment Agency (EA) in agreeing the National Environment Programme. Neither the CCG nor the Independent Environment Advisory Panel² were engaged in this process as it related to statutory obligations. The NRW and EA annexes set out their views on the Company's proposals for the delivery of the National Environment Programme and the wider environmental ambitions for the business plan. The CCG supports the importance placed on "avoiding storing up problems for future generations", but believes that proposals for phasing the NEP can potentially lead to better value for money outcomes for customers and supports Welsh Government's encouragement for the Company to seek out opportunities through alternative ways of working to identify different approaches to deliver environmental improvements in order to deliver value for money for customers, today and in the future.

- 16 The CCG has been supportive of the importance of initiatives such as 'RainScape' and investment in catchment management schemes, which provide opportunity for customer participation. Customers support nature-based approaches and there is strong commitment across stakeholders to develop catchment management schemes. This is an area where the CCG expects strong leadership and ambition from the Company in embedding this approach as core to the business operation. The commitment to the application of the principles of the sustainable management of natural resources as required through the Environment (Wales) Act provides the opportunity to demonstrate innovative models of working with customers and stakeholders alike. This is reflected in the Company's agreement to deliver on the principles set out in the 'Blueprint for the 2019 Price Review in Wales'³ issued by the NGO umbrella organisation, Wales Environment Link, who are represented on the CCG.

² <https://www.dwrcymru.com/en/Environment/IEAP.aspx>

³ http://www.waleslink.org/sites/default/files/blueprint_for_the_2019_price_review_in_wales.pdf

- 17 It is important to recognise that the Dŵr Cymru not-for-profit business model provides the foundation for a much stronger and trusting relationship with customers who ‘have their say’ in how the return of value is distributed. The CCG will want to ensure that the Company uses this relationship to deliver leading practice in customer participation and coproduction in the delivery of the business plan.
- 18 The CCG has worked closely with Welsh Government through its PR19 Forum to ensure that the business plan reflects the legislative framework and the priorities set out in the devolved Government’s ‘Water Strategy’⁴ and the ‘PR19 Strategic Priorities and Objectives Statement’⁵. The Welsh Water 2050 plan has been based on the frameworks of the Well-being of Future Generations⁶ and Environment (Wales)⁷ Acts and the CCG would expect progress against the business plan to be reported against this framework demonstrating its contribution to the achievement of the national well-being goals.

In summary

This report demonstrates the scale of engagement the CCG has had with the Company throughout the process of developing the plan. The plan has been influenced by customers and the contribution of the CCG throughout its development.

It is the CCG’s view that the Company has been successful in securing an understanding of the representative views of its customer base, and that this evidence has been used to develop the performance commitments and customer bills in the business plan. The final acceptability testing demonstrates strong support for the plan that meets customers’ expectations, representing improved value for money.

The CCG’s push for ambition in the plan recognised the necessary balance between addressing the affordability needs of the customer base in Wales and the need to make progress against the ambitions of Welsh Water 2050, in line with customers’ expectations. The plan sets out to deliver a reduction in bills and increased investment levels with stretching efficiency targets to keep costs low. The CCG will continue to challenge the Company to be ambitious through innovation and the participation of customers in delivering solutions.

⁴ <https://gov.wales/docs/desh/publications/150521-water-strategy-for-wales-en.pdf>

⁵ <http://www.assembly.wales/laid%20documents/gen-ld11283/gen-ld11283-e.pdf>

⁶ <https://gov.wales/topics/people-and-communities/people/future-generations-act/?lang=en>

⁷ <https://gov.wales/topics/environmentcountryside/consmanagement/natural-resources-management/environment-act/?lang=en>

Appendix 4: Current operational performance

Table 4.1: PR14 Performance Commitments

The table below shows which PR14 performance commitments have been met and which have not been met over the PR14 period. This table is not for Service Incentive Mechanism (SIM) data, for which table 4.2 has been provided. For financial ODIs it also indicate total forecast outperformance payment or underperformance penalty for the PR14 period.

No.	ID (eg W-A1)	Performance commitment	2015-16 PCL met? ⁸	2016-17 PCL met?	2017-18 PCL met?	2018-19 PCL met? (forecast)	2019-20 PCL met? (forecast)	Cumulative ODI (outperformance payments or underperformance penalties) £m to 4 decimal places 2012-13 prices, net of tax	
								15/16-17/18 Actual	18/19-19/20 Forecast
1	A1	Safety of drinking water – Mean Zonal Compliance	No	No	No	No	No	0	0
2	A2	Customer acceptability (drinking water) - contacts per 1,000 population	No	No	No	No	No	-1.8600	-3.7200

⁸ **PCL met?** - if the performance commitment level (PCL) for the reporting year was met, or is forecast to be met, enter 'Yes'. If the PCL for the reporting year was not met, or is forecast not to be met, enter 'No'. If a PCL has not been set for the reporting year enter "-" (hyphen).

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No.	ID (eg W-A1)	Performance commitment	2015-16 PCL met? ^s	2016-17 PCL met?	2017-18 PCL met?	2018-19 PCL met? (forecast)	2019-20 PCL met? (forecast)	Cumulative ODI (outperformance payments or underperformance penalties) £m to 4 decimal places 2012-13 prices, net of tax	
								15/16-17/18 Actual	18/19-19/20 Forecast
3	A3	Reliability of supply - minutes lost per property per year	Yes	Yes	No	Yes	Yes	-3.9000	0
4	B1	Abstraction for water for use - % compliance with abstraction licences, as regulated by NRW	Yes	Yes	Yes	Yes	Yes	n/a	n/a
5	B2	Treating used water - % compliance of WwTW	No	No	No	No	No	n/a	n/a
6	B3	Preventing pollution - number of incidents (Cat 3)	Yes	Yes	Yes	Yes	Yes	2.8200	1.7390
7	C1	Adapting to climate change - the volume of surface water removed from the system, expressed in number of properties equivalent	Yes	Yes	Yes	Yes	Yes	0	0
8	C2 - w	Carbon footprint - gigawatt-hours (GWh) of renewable energy generated	Yes	Yes	Yes	Yes	Yes	n/a	n/a
9	C2 - s	Carbon footprint - gigawatt-hours (GWh) of renewable energy generated	Yes	Yes	No	Yes	Yes	n/a	n/a
10	D2	'At risk' customer services - number of customers who have experienced poor service	Yes	Yes	Yes	Yes	Yes	n/a	n/a
11	D3	Internal sewer flooding - properties flooded in the year	Yes	Yes	Yes	Yes	Yes	3.3480	2.5420
12	D4	Business customer satisfaction	Yes	Yes	No	Yes	Yes	0	0
13	D5	Earning the trust of customers - % of customers surveyed that say they trust the company	Yes	Yes	Yes	Yes	Yes	n/a	n/a
14	E1	Affordable bills - annual increase	Yes	Yes	Yes	Yes	Yes	n/a	n/a

DWR CYMRU WELSH WATER

No.	ID (eg W-A1)	Performance commitment	2015-16 PCL met? ^s	2016-17 PCL met?	2017-18 PCL met?	2018-19 PCL met? (forecast)	2019-20 PCL met? (forecast)	Cumulative ODI (outperformance payments or underperformance penalties) £m to 4 decimal places 2012-13 prices, net of tax	
								15/16-17/18 Actual	18/19-19/20 Forecast
15	E2	Help for disadvantaged customers (customers benefiting from social tariffs)	No	Yes	Yes	Yes	Yes	n/a	n/a
16	F1	Asset serviceability	Yes	Yes	Yes	Yes	Yes	0	0
17	F2	Leakage	Yes	Yes	Yes	Yes	Yes	0	0
18	F3	Asset resilience - % of critical assets that are resilient against a set of criteria	Yes	Yes	Yes	Yes	Yes	0	0
Total cumulative financial ODI								0.4080	0.5610

Table 4.2: PR14 Service Incentive Mechanism (SIM) Performance

SIM Performance	2015-16	2016-17	2017-18
Total annual SIM score (out of 100)	83	83	85

Appendix 5: PR19 proposed performance commitments

Table 5.1: Common Performance Commitments

No.	Common performance commitment ⁹	ID (eg W-A1)	2019-20 forecast performance level (where relevant)	2024-25 proposed performance commitment level	ODI type	In period / end of period ODI	2019-20 to 2024-25 % change (leakage and PCC PCs)
1	Water quality compliance – the DWI's Compliance Risk Index (CRI), a score greater than or equal to zero, where zero is least risk	Wt1	0	0	Under-performance	In period	
2	Water supply interruptions – average supply interruption greater than 3 hours (minutes per property)	Wt2	12	8	Out-performance & Under-performance	In period	
3	Mains bursts – number of water mains bursts per 1,000 kilometres of total length of mains	Wt4	133.2	128.4	Under-performance	In period	

⁹ This table includes all PR19 common performance commitments with the exception of C-Mex and D-Mex, as the design of these is different.

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No.	Common performance commitment ⁹	ID (eg W-A1)	2019-20 forecast performance level (where relevant)	2024-25 proposed performance commitment level	ODI type	In period / end of period ODI	2019-20 to 2024-25 % change (leakage and PCC PCs)
4	Unplanned outage – proportion of unplanned outage of the total company production capacity (%)	Wt5	1.57%	0% change from 2019-20 performance	Non-financial incentive		
5	Leakage – megalitres per day (Ml/d), three-year average	En4	171	148.2	Out-performance & Under-performance	In period	13%
6	Per capita consumption – average amount of water used by each person that lives in a household property (litres per person per day), three-year average	En5	145	139	Non-financial incentive		4%
7	Risk of severe restrictions in a drought – percentage of the population the company serves that would experience severe supply restrictions (e.g. standpipes or rota cuts) in a 1-in-200 year drought	Ft1	4.42%	0%	Non-financial incentive		
8	Treatment works compliance – % compliance with environmental permits at water and wastewater treatment works (EA's Environmental Performance Assessment definition)	En1	100%	100%	Under-performance	In period	
9	Internal sewer flooding – number of incidents per year (sewerage companies only)	Rt1	300	273	Out-performance & Under-performance	In period	

DWR CYMRU WELSH WATER

No.	Common performance commitment ⁹	ID (eg W-A1)	2019-20 forecast performance level (where relevant)	2024-25 proposed performance commitment level	ODI type	In period / end of period ODI	2019-20 to 2024-25 % change (leakage and PCC PCs)
10	Sewer collapses – number per 1,000 kilometres of sewer (sewerage companies only)	Rt3	7.5	0% change from 2019-20 performance	Under-performance	In period	
11	Pollution incidents – category 1-3 pollution incidents per 1,000km of sewerage network, as reported to the Environment Agency and Natural Resources Wales (sewerage companies only)	En3	29	24	Out-performance & Under-performance	In period	
12	Risk of sewer flooding in a storm – percentage of population at risk of sewer flooding in a 1-in-50 year storm (sewerage companies only)	Ft2	3.63%	5% reduction from 2019-20 performance	Non-financial incentive		

Unplanned outages and risk of sewer flooding in a storm are new measures. Our current forecasts for the 2019-20 performance levels are uncertain and we will revise the forecasts next year when we have an additional year's data.

Appendix 6: Expenditure

Table 6.1: Totex

Total expenditure	Price Base	PR14 final determination 2015-2020	Proposed for PR19 2020-2025
Water network plus (£m)	2017-18 FYA (CPIH deflated)	1,418	321
Water resources (£m)	2017-18 FYA (CPIH deflated)		1,326
Wastewater network plus (£m)	2017-18 FYA (CPIH deflated)	1,558	1,403
Bio resources (£m)	2017-18 FYA (CPIH deflated)		126
Residential retail costs	Outturn (nominal prices)	243	296

Table 6.2: Direct Procurement for Customers (DPC) proposals

No.	Project name	Total project cost (£m) 2019-20 to 2049-50 2017-18 FYA (CPIH deflated)

We assessed two significant schemes within our PR19 investment programme for DPC, considering technical suitability and value for money for customers on a whole life cost basis. We concluded that neither scheme was suitable for delivery under DPC. We will continue to assess the emerging DPC market for further opportunities.

Appendix 7: Trust, confidence and assurance

The Board of Welsh Water has provided in-depth leadership throughout the development of this business plan, supported and challenged at every stage by the Customer Challenge Group. The resulting business plan meets the Strategic Parameters set by the Board in September 2017 and the Board has ensured that the targets for cost efficiency, service performance, future resilience and support for vulnerable customers are ambitious but also deliverable and affordable.

At the end of the process, the Board commissioned independent research into the overall acceptability of the plan for customers, which found that 92% of our customers found the plan acceptable and 95% found it affordable, with consistently high support across all customer groups, including the “seldom heard” and business customers.

Through review of the key risks to the delivery of the business plan, the Board is assured that the business will remain financially resilient to severe, combined downside scenarios, given the maintenance of a gearing level of around 60% in our central case. The Board has also overseen a comprehensive programme of internal and external assurance of the plan itself.

Our plans allow us to meet our statutory and legal duties, and fully take into account the Welsh Government’s Strategic Priorities and Objectives Statement, as well as the Water Strategy for Wales. Our long-term planning approach in Welsh Water 2050 is closely aligned with the Well-being of Future Generations (Wales) Act and has been publicly endorsed by the Welsh Government Environment Minister.

We will continue to publish comprehensive performance information each year, together with open disclosure of our policies for ‘customer dividends’, gearing, taxation, executive remuneration and long-term financial viability. By acting at all times as an independent company which follows the UK Corporate Governance Code, we will further build trust amongst our customers and stakeholders, in a way that is very appropriate for the provider of an essential public service.

As a result of this exhaustive process, we are confident that our ambitious business plan to 2025, set in the context of our long-term resilience vision set out in Welsh Water 2050 and based on our ongoing engagement with our customers, will enable us to continue to meet our obligations as the supplier of an essential public service and to “earn the trust of our customers every day”, not just for the next five years but for future generations to come.

Alastair Lyons, Chairman