



RETAIL BUSINESS PLAN FOR NON-HOUSEHOLD CUSTOMERS 2015-2020

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Key Facts

We are an independent company unique in the industry as we are majority owned by a Trust on behalf of our employees

150

We are proud to have served the local community for over 150 years.

693,000

Over 693,000 people use our clean drinking water every day

18,500

We provide clean drinking water to 18,500 business premises

3,200

Our area of supply has a network of over 3,200 kilometres of underground mains.

176

We serve the cities and towns of Portsmouth, Chichester, Fareham, Gosport, Havant and Bognor Regis.

On average, each day we supply approximately 176 million litres of water.

We provide drinking water only. We do not provide sewerage services; this is normally provided by Southern Water

Overview

Our Retail operation manages customer contact, billing, debt recovery, meter reading and developer services from our Head Office in Havant, central within the area which we supply. We also assist customers with help and support with regard to water efficiency and leakage within their privately owned pipes.

We are committed to improving service, both in our areas of direct responsibility and challenging the wholesale business, who are responsible for making sure that our customers receive a constant supply of high quality water, so that we deliver a service that delights our customers. Together, we already supply water at the lowest cost in the industry, whilst maintaining high levels of service.

Currently, we are a fully integrated business. Retail has, broadly speaking, been identified by accounting separation rules rather than be run as a distinct, separate arm of the business. With retail competition for non-household customers due to commence in 2017, we are considering how our internal structure and strategy can best equip us to succeed in this new market. Preparing this plan has driven us to think like a retailer and accordingly challenge the wholesale part of the business. We consider internal challenge a useful tool in ensuring continuous improvement, both in terms of customer service standards and efficiency.

Costs per customer within the Retail business are already amongst the lowest in the industry, being £20 on average per annum for a metered non-household customer (this is known as the cost to serve). This contributes to the most affordable water supply bill in the industry.

This plan sets out our plans for the Non-Household Retail Business and examines the costs of delivering the retail services.

The Board of Portsmouth Water has listened to customers and challenged the wholesale and retail parts of the business to work together, and deliver a plan that improves levels of service without increasing bills beyond inflation. This we must deliver whilst protecting the interests of future customers and the environment.

This plan is built around a series of commitments that have been established from customer research and stakeholder engagement. Customers expect improvements in the way that we handle contacts and manage their accounts, but do not expect to pay for these types of improvements.

Although non-household customers have a limited willingness to pay for improvements to key elements of the retail service, the Service Incentive Mechanism, which is an industry wide means of assessing customer satisfaction with associated rewards and penalties, is driving improvements in and expectations of service across the industry. This mechanism currently includes non-household customers and acts as an incentive for us to improve services prior to competition for all non-household customers, which is expected to commence in 2017. The Board is determined to exceed the expectations of all customer types.

Delivering the improvements highlighted within our plan, without increasing bills will be challenging. Success will come through innovation, exploitation of more cost effective technology and capitalising on the advantage of being a small water company that is able to offer a local personal service from a workforce that are committed to the company and, through an Employee Benefit Trust, actually own a majority stake in it.

Success, prior to retail competition, for the retail business will have a single measure, the Service Incentive Mechanism. Having invested to ensure that our performance against this mechanism can be properly judged, we are well placed to now be recognised as a company within the industry's top quartile.

Retail competition, which is due to commence in 2017, will be a powerful driver for companies to focus on their non-household customers. We are determined to lose no customers except where they require a service that we have chosen not to offer.

1 INTRODUCTION

As part of our long term planning we at Portsmouth Water are considering the levels of service and costs for the period 2015 – 2020. We have produced an overall plan setting out the key commitments and activities that customers and other stakeholders have told us are most important. We have also considered our obligations.

Our overall plan has been judged as ‘acceptable’ or ‘completely acceptable’ by 94% of surveyed non-household customers.

Whilst we are an integrated business, dealing with all matters from source to tap, we have split our high level plan in to three key areas, with separate plans for those interested in the detail. This plan is our Retail Plan for Non-Household customers, but we also have a retail plan for Household customers and one relating to our wholesale business which deals with the taking water from the environment, ensuring its safety and delivering it to customers. The roles of the wholesale and retail parts of the business are set out within this document.

The retail arm of Portsmouth Water is committed to delivering the overall company mission:-

“To supply drinking water of the highest quality, combining high levels of service with excellent value for money”

We will ensure that we are a pleasure to deal with, flexible and efficient, both working with and challenging the wholesale business to achieve the best possible outcomes for customers.

We supply approximately 18,500 non-household premises, of which 90% are supplied via a meter. We only bill for water supply, with the vast majority of our customers receiving sewerage services and sewerage bills from Southern Water.

2 THE RETAIL BUSINESS

The retail non-household part of our business undertakes the following activities:-

- Customer Billing
- Payment Handling
- Tariff administration
- Customer calls and queries – both about billing and operational calls
- Debt Management and Bad debts
- Making decisions about disconnections and reconnections
- Helping customers with water efficiency
- Developer Services

3 NON-HOUSEHOLD CUSTOMER ENGAGEMENT AND RESEARCH

3.1 Customer Challenge Group

Our customer engagement and research has been shaped, reviewed and challenged by the Customer Challenge Group (CCG). The CCG was established specifically to engage with key stakeholders and includes members from the Consumer Council for Water, Drinking Water Inspectorate, Environment Agency, Natural England, South Downs National Park, local council and key customer representatives. Their role has been to review the quality of our engagement and provide an independent report of their overall view and challenges.

3.2 Our Engagement

In preparing this Business Plan we have engaged with our non-household customers and stakeholders and listened to their views. As a local company with a long history, customers have always been our focus and we have put customers at the heart of our plans; using the feedback gained from our engagement to form our views and base our plan on the priorities of our customers.

Our primary research used in formulating the plan was an independent quantitative survey including questions about “willingness to pay” which was conducted in Spring 2013. The independent researcher that undertook this work targeted 100 non-household customers to conduct a 15 minute telephone survey. The businesses chosen were selected to ensure that the sample covered small water users through to very large consumers. This type of research is designed to cover a sufficient number of representative customer types to determine whether customers overall are willing to see bills rise to allow certain improvements in either our service levels or the environment. Whilst we are using these customer priorities to determine improvements which our customers value, we are not proposing to increase bills in real terms. Instead we will fund improvements in service levels through efficiencies and innovation. This will be a challenge as we are already recognised as being one of the most efficient water companies in the industry, though we are confident that we can deliver.

We have also conducted Acceptability Testing on our Draft Business Plan which was published at the end of September 2013. During this element of testing we also ascertained the value customers place on different aspects of our service.

3.2.1 Other research which has informed the Plan includes:

- Held one to one meetings with our 20 largest non-household customers and the major developers to ascertain their priorities.
- Held one to one meeting with a selection of large developers to understand the improvements to service they most value.
- Focus group (qualitative) research conducted by an independent research company immediately prior to the quantitative research referred to above.
- Responses to the consultation on our “Looking Ahead” (Outline Business Plan) document via our website.

- Direct discussions with other key stakeholders.
- We have also consulted with and gained feedback from our major stakeholders on our “Looking Ahead” (Outline Business Plan) document as well as getting their views via our Customer Challenge Group (CCG).

3.3 **Customer Priorities**

The principal messages coming through from our customers included the following:

- Whilst customers did express a willingness to pay (WTP) for improvements in certain areas of the service they receive, the message was that they did not want to see their bills increasing overall, beyond the level of inflation.
- The main areas where customers were willing to see small increases in their bills for specific improvements in service were as follows:
 - *Protecting wildlife habitat in local rivers and streams*
 - *Leakage*
 - *Long Interruptions to supply*
 - *Water efficiency*
 - *Carbon footprint*
 - *Public amenities/community support*
 - *Short Interruptions to supply*
- Customers appreciated the fact that when they called us they could quickly get through to talk to someone in person. The plan reinforces this way of operating going forward.
- Customers rarely need to contact us and were generally happy with the level of service we provide. They were not willing to pay for additional spend to increase the level of service offered by our call centre, so in our Business Plan increases in the level of service offered by the call centre are being funded entirely by efficiencies and innovation.

3.4 **Acceptance Testing and Customer Valuation of Commitments**

We have conducted testing to establish whether these proposals which were included in our Draft Business Plan were acceptable to customers. 94% of non household customers were happy with our proposals.

Our non-household customers were also asked to consider the extent to which they valued the commitments which we have laid out later within this document. Their levels of satisfaction are shown against each commitment.

4 COSTS AND EXPENSES WITHIN THE RETAIL NON-HOUSEHOLD BUSINESS

4.1 Costs within the Retail Non-Household Business

Based on 2012/13 prices, detailed below is the expected annual cost to run the retail non-household business in 2015/16 along with the key activities undertaken.

OPERATING COSTS	2012/13 000's	2015/16 000's
Customer Services – Dealing with billing customers, debt recovery calls and queries, processing payments	87	87
Inspectors – Reading meters, solving customer queries Relating to their water supply	67	67
Distribution Administration – handling calls about problems with our network e.g. leak reporting	49	49
Bad Debt Provision	16	16
Water Efficiency	4	4
Additional metering costs – The cost of reading and billing new meters	-	5
Overheads – Cost of billing system, Buildings, Rates and general overheads	145	139
Retail Non-Household	368	367

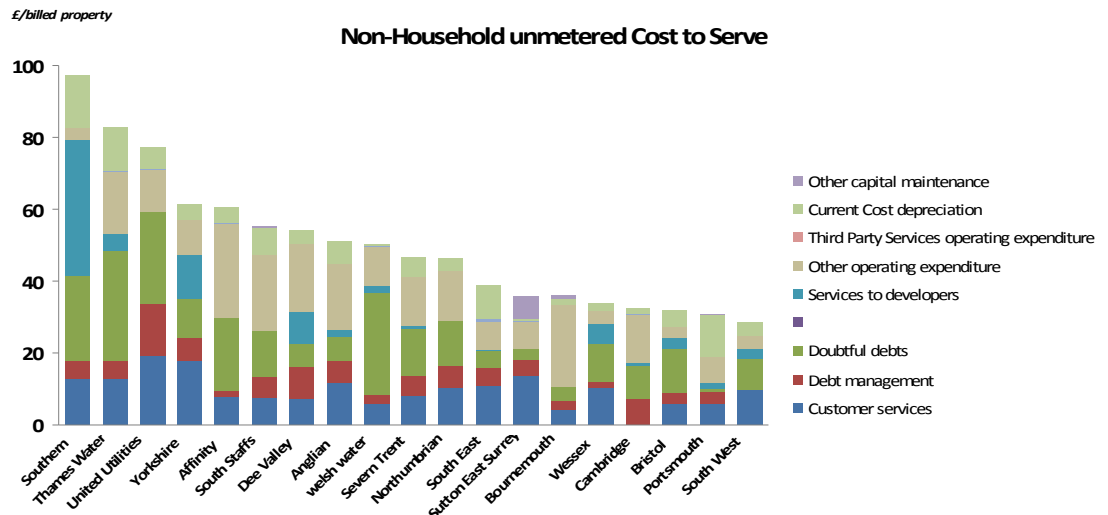
The remainder of the household bill relates to changes for the wholesale business which for 2015/16 will be £8.2m.

Before inflation, costs in 2015/16 are expected to be the same as 2012/13 with two exceptions. Firstly, costs arise out of new properties that are added to our non-household customer base in the intervening period. Secondly, overheads reduce, despite the fact that pension contributions within the overheads do increase in 2015, as the expected growth in household customers in the intervening years reduces the proportion of overheads that are allocated to non-household customers.

4.2 Retail Costs to Serve Customers

We supply water at the lowest price in the industry. This is due to a low wholesale price and a low cost to serve in the retail business. The cost to serve, before metering costs are taken into account is £16 per occupied property.

Based on draft data for 2013 shared across the industry, the ratings agency Moody's has produced the following table showing the unmetered cost to serve. From this analysis, Portsmouth Water is the second lowest cost to serve in the industry.



Source: Moodys – This data is produced by Moody's and is for illustration.

Our historic low cost to serve has been due to an efficient operation aided by an in-house billing system which had been highly developed to deliver very efficient unmeasured billing processes. However, this mainframe billing system was running out of support and whilst unmeasured processes were excellent, the measured capability and future flexibility were very limited. With an ever growing proportion of measured customers and a desire to improve our customer service over time this system would quickly have lost its efficiency advantage. Accordingly, in the autumn of 2012 we went live on a new billing system which offers much more flexibility and functionality. Also, we have added a Customer Relationship Management layer which allows us to be highly SIM compliant and analyse contacts to target service improvements but this does slightly increase average call lengths.

Initial benefits derived from the new billing system have included accurate SIM reporting, offering new Direct Debit dates, allowing Direct Debit sign up by telephone and facilitated the collection of much more customer information and contact points. The Direct Debit issues were a frustration for our customers and resulted in a number of complaints. A year on year reduction in billing complaints seen since we went live on our new billing system illustrates the success of these and other enhancements.

4.3 Additional Costs to Serve Metered Customers

We incur additional expense in relation to metered customers. Nearly all non-household properties are supplied via a meter.

Meter reading costs are also added to the cost to serve our metered customers. Given that we have the lowest proportion of metered customers in the industry, our reading costs are likely to be higher than typical as we are not able to benefit from the economies of scale that arise from a higher meter penetration. Furthermore, in some areas companies have been funded to compulsorily meter with automatic meter reading technology. This technology, once paid for, reduces reading costs dramatically, but is normally only cost beneficial alongside an intensive metering programme.

Our additional cost to serve measured non-household customers is £4 per occupied property.

The total average cost to serve is therefore £20 per property.

4.4 Profit Levels within the Retail Business – The Retail Margin

In any normal market, retailers charge a margin to create an element of profit, remain financeable and as a protection against business risk.

Historically, our prices to customers have included a margin, albeit that it has not ever been set out separately. This historic margin has been covered within the Company's overall cost of capital. Accordingly, in creating this margin for retail we have reduced the company's cost of capital, so that we do not in effect receive the margin twice.

We have taken advice from Oxera in setting the Retail Margin which, prior to an adjustment for a return on historic assets, which is received by the wholesale business, has been set at 2% for the Retail Non-Household Business. This margin reflects the increased risk created for the business by competition in this market, which is due to commence in 2017.

The overall retail margin is made up of the following 3 elements:

Return on Assets

- New assets purchased within the period are assumed to have a return of 4.21%, which is calculated at the same rate as cost of capital within the wholesale business.

Working Capital Cost

- Measured Billing. It is assumed that the wholesaler will invoice the retailer on 30 day terms for measured bills issued. Existing debtor days of 35 have been used to create a cashflow forecast with the borrowing requirement having an assumed financing cost of 2.9%, which is the interest that would be for such a facility, which is based on the cost of bank finance currently available to us.
- Unmeasured Billing. For the unmeasured it is assumed that the retailer will be invoiced half yearly in advance, on a 30 day basis. Half yearly billing for unmeasured has been chosen as the retailer is obliged to offer this option to its customers. Existing debtor days of 45 have been applied to calculate the borrowing requirement with an assumed financing cost of 2.9% which is based on the cost of bank finance currently available to us.

Residual Risk allowance

- This is the chosen margin of 2%, less the following items:-

Return on old retail assets that remain within wholesale

Return on new retail assets

Working Capital Costs

The table below shows the calculation of the margin, which averages 1.98% over the period:-

NON-HOUSEHOLD MARGIN	£'000	2015/16	2016/17	2017/18	2018/19	2019/20
Return on Assets		-	-	-	-	1
Working Capital Cost		5	4	4	4	4
Residual Risk		166	167	165	164	162
TOTAL		171	171	169	168	167
% Margin		1.97%	1.98%	1.98%	1.98%	1.98%
TOTAL REVENUES	£m	8.7	8.6	8.6	8.5	8.4

4.5 **Future Cost Rises within the Retail Business**

The retail business will not be subject to an automatic annual adjustment to allow for increases in costs in line with the Retail Price Index, which is applied to the Wholesale elements of the business.

As a highly efficient retailer, as confirmed by our low cost to serve, we have very little capacity to absorb cost increases, albeit that we will challenge ourselves to constantly improve efficiency.

An independent report, prepared for us by First Economics in August 2013, sought to determine, in part, the expected input price pressure that the Retail Business is expected to be subjected to. Evidence was collated from a number of sources and the table below summarises their findings.

4.5.1 **Input price forecasts (nominal, % per annum)**

	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Labour – general	1.8	2.9	3.8	4.0	4.0	4.25	4.25
Labour – specialist	3.05	4.15	5.05	5.05	5.05	5.5	5.5
Materials – machinery	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Materials – civils	3.5	4.5	4.5	4.5	4.5	4.5	4.5
Power	17.3	13.5	9.4	9.7	3.4	4.9	4.2
Chemicals	3.0	5.0	5.0	5.0	5.0	5.0	5.0
Plant and equipment	3.0	4.0	4.0	4.0	4.10	4.0	4.0
Business rates	2.6	3.3	2.8	3.2	3.6	3.9	3.4
Bad debt	3.1	2.9	3.3	3.7	4.0	3.4	3.4
EA charges	3.1	2.9	3.3	3.7	4.0	3.4	3.4
Business IT	0.75	0.75	0.75	0.75	0.75	0.75	0.75

The overall input price inflation for our Retail Business was calculated by weighting the forecast in the table to our cost structure.

As a heavily labour intensive business, staff cost are a considerable part of our overall costs (60%). As can be seen, labour costs are expected to rise considerably over the period. These wage increase percentages come directly from the Office of Budgetary Responsibility's (OBR) March 2013 forecast. This labour cost rise is expected to be as a result of the economy returning to growth rates in the order of 2.5% - 3% per annum over the planning period.

All the value of bad debt is borne by the Retail Business, which represents a small element of the overall bill. As the wholesale element is indexed to Retail Price Index inflation a major part of the bill issued by the retailer is indexed. It is unrealistic to assume that this can be offset by improvements in debt collection.

First Economics also examined the extent to which productivity growth can be expected to offset the input price pressures, by looking at historic trends in the sector, which are summarised below:

4.5.2 Annual total factor productivity growth (%) by sector

	UK Sector	1970 to 2007	1990 to 2007
A	Manufacturing	1.8	1.9
B	Electricity, gas and water supply	2.2	0.9
C	Sale, maintenance and repair of motor vehicles; retail sale of fuel	2.0	2.6
D	Transport and storage	2.1	1.7
E	Finance, insurance, real estate and business services	(0.9)	0.3
F	Construction	0.7	0.6

Source: EU KLEMS.

The Finance, Insurance, Real Estate and Business Services sector is the most similar to our Retail Business.

On the basis of the above evidence, and other work detailed within their report, they concluded that an annual efficiency of 0.3% is achievable. Combining the input cost pressures and productivity assumptions, results in the following cost escalation which have been averaged to 3.2% from 2015/16.

	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Non-household retail costs							
Input price inflation	1.8	2.6	3.3	3.5	3.5	3.6	3.6
Productivity growth	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)
Cost escalation	1.5	2.3	3.0	3.2	3.2	3.3	3.3

Given that we have the lowest cost to serve in the industry, the Board believes that, given the above information, it is unrealistic to assume that rising input prices can be offset by productivity gains and would lead to severe financeability issues. We have therefore concluded a cost escalation to our retail cost of 3.2 each year.

The Board believes that even with these increases in costs, the business will be competitive from 2017, when the market is due to open.

4.6 Financeability

Detailed below is the anticipated cashflow for the retail Non-Household business before any inflation or input prices pressures. As can be seen, there is sufficient headroom to cover tax, working capital requirements and some margin to deal with an increase in bad debts or other unanticipated cost increases.

RETAIL CASHFLOW AND HEADROOM					
RETAIL NON-HOUSEHOLD					
<u>CASHFLOW</u>	2015/16	2016/17	2017/18	2018/19	2019/20
Opening Cash Balance	-	172	349	526	702
Customer Receipts	8,688	8,650	8,581	8,508	8,436
Wholesale Payments	- 8,151 -	8,109 -	8,041 -	7,972 -	7,903
Capital Expenditure	2	2	2	2	2
Retail Operating Expenditure	- 367 -	366 -	365 -	363 -	362
Closing Cash Balance	172	349	526	702	875
Working Capital Interest	- 5 -	4 -	4 -	4 -	4
Tax Paid	- 35 -	35 -	34 -	34 -	34
Closing Cash Balance	133	310	487	663	837
Retail Service Revenue	537	535	532	528	526
Retail Service Expenditure	- 367 -	366 -	365 -	363 -	362
Retail Net Margin	170	169	167	165	164
<u>Household Headroom</u>					
Retail Net Margin	171	171	169	168	167
Retail Tax	- 35 -	35 -	34 -	34 -	34
Working Capital Interest	- 5 -	4 -	4 -	4 -	4
	131	132	131	130	129
Non-Household Headroom % check	77%	78%	78%	79%	79%

4.6.1 Impact of Input Price Pressures on Headroom

Detailed below is the impact on headroom if the allowance for Input Price Pressures being proposed in this Plan is not allowed.

	2015/16	2016/17	2017/18	2018/19	2019/20
Retail Net Margin (000's)	171	171	169	168	167
Retail Tax (000's)	35	35	34	34	34
Working Capital Interest (000's)	5	4	4	4	4
Total (000's)	131	132	131	130	129
Reduced cashflow from loss of input Price Pressure adjustment (000's)	24	40	54	68	82
Total (000's)	107	92	77	62	47
Headroom % check	63%	54%	45%	37%	28%

As can be seen, the headroom reduces significantly over the period.

Further details of this scenario can be found in Table A20 and associated commentary.

Further details of this scenario can be found in Table A20 and associated commentary.

Further details of our financeability and supporting independent reports can be found in our technical document 'Financeability'.

5 RISKS WITHIN THE RETAIL NON-HOUSEHOLD BUSINESS

5.1 Operational Risks

The Retail business has significant experience of managing operational risks, which are both recorded and reviewed regularly. Once identified, risks are recorded as Green, Amber and Red, with the latter two categories having action plans in place to mitigate the identified risk. Also significant projects have an individual risk register that is monitored by the projects steering committee.

Separately, a Business Continuity Plan is held which has procedures and timescales to deal with significant issues, including loss of premises, critical IT systems, telephony and a key supplier.

5.2 Risks arising from changes within the Regulatory Regime

A number of new risks will exist for the Retail Business over the period 2015-2020, the key ones of which are listed below:-

- Loss of Retail Price Index annual inflation adjustment. Unlike the Wholesale business, the Retail operation has no automatic assumed annual inflation increase to its revenue requirement. Whilst we have taken advice on likely input cost pressures, that are included within this Plan, they may not be accepted. Furthermore, whilst these estimates are the best available to us, some experts believe that the current Bank of England objective of reducing unemployment will create significant inflation which, over time, will be addressed by interest rate rises. Inflation exceeding any allowed input cost adjustment represents a risk to us, albeit that it may be particularly offset by the retail margin.
- Bad Debts. Over 80% of the bill received by our customers represents the Wholesale element and accordingly is inflated annual by Retail Price Index inflation. The entire bill is, however, recovered by the Retail business which is responsible for bad debts. Accordingly, the Retail business is subject to an inflation risk within bad debts that it has no automatic means to finance via an increase in revenue.
- Competition. We welcome competition in the non-household market, but it does represent a risk to us. Whilst we intend to provide an offering to customers that should ensure a high customer retention rate, we accept that customers may move if they require a service that we have chosen not to offer. The loss of customers results in lower revenue which will not automatically result in an equivalent reduction in costs.

6 TARIFFS

The vast majority of our non-household customers are charged via a water meter. Our current tariffs are as follows.

6.1 Standard Tariff

Our standard tariff consists of a standing charge, determined by the size of meter serving a property and a consumption charge.

6.2 Large User Tariff

Our large user tariff is automatically applied to customers that consume more than 50,000 cubic metres of water per annum at a single site. The tariff consists of a standing charge, determined by meter size, a site fee and a consumption charge. The site fee is calculated to ensure that customers only benefit from the lower consumption charge for consumptions in excess of the qualifying level.

6.3 Future Tariffs and Levels of Service

We have no current plans to offer new tariffs and different service levels once competition commences in the non-household market, which is due to commence in 2017. However, the Board is considering our strategy at present and clearly tariffs are high on the agenda, but if developed will be cost reflective and not unduly discriminate between customers in a given customer class or between customer classes.

7 OUR PEOPLE

The retail business manages most customer contacts for both the retail and wholesale elements of the business and strives to provide a high quality service delivered by a knowledgeable and professional team.

In order to deliver the best service possible, we understand the importance of training and development. Within the Customer Services department all clerks under 25 undertake a level 2 NVQ in Customer Services with many going on to level 3.

Also, newly appointed supervisors are always given study leave to undertake an appropriate qualification, successful completion of which is a condition of the appointment.

Training and development is also supported by events and weekend schools run by professional bodies, most notably the Institute of Water.

8 BOARD ASSURANCE

The Board have been actively involved in the preparation of this Business Plan. The Executive and Non-Executive Directors have actively participated and challenged in building a plan based on the views of current customers, whilst considering the impact on future customers, responsibilities to the environment and our duties.

The Non-Executive Directors have each taken responsibility for reviewing specific elements of the plan to provide an additional level informed challenge.

Key elements of Board consideration for non-household retail were:-

- That the Plan reflects customer views.
- Whether input price inflation should be included. The Board were mindful of Ofwat's guidance and challenged the First Economics paper, but concluded that as a frontier company it would be a considerable risk to believe it could generate sufficient productivity gains to offset expected likely cost pressures.
- Methodology for calculating the residual risk element of the retail margin.
- Our strategy for competition.

Throughout the development of the retail plan the Board challenged the approach. This challenge was principally against information provided at Board meetings, but latterly each Director (both Executive and Non Executive) reviewed the drafted Plan and provided input.

A more detailed explanation of the Board's assurance of this plan can be found in our technical report "Board Assurance".

9 COMPETITION IN THE RETAIL WATER MARKET

Competition within the retail non-household market is due to commence in 2017. We welcome competition and are preparing ourselves for the change and developing our strategy. The recent appointment of a Commercial Manager to work closely with, and develop services for, our non-household customers is part of strategy. Also our new billing system was chosen very much with future competition in mind, it having easily configurable tariffs and potentially the ability to bill for sewerage as well as water supply. We intend to innovate to ensure high levels of customer retention, with any losses being due to them requiring a competitor service that we have chosen not to deliver. Understanding customer requirements and building processes that are based around the customer journey are important for the continued success of the retail business.

10 WHAT'S NEW FOR 2015-2020?

- Longer Call Centre opening hours.
- Redesigned bills.
- Greater ongoing customer engagement.
- Improved first time resolution.
- Free Water Audits.
- Annual Survey of Developers satisfaction with our service.
- Review Tariffs.
- Developing Relationships with Non Household customers to develop value added services.

11 HOW WE WILL MEASURE SUCCESS

- Customer Retention Rates- we will lose no customers, unless they require a service that we have chosen not to deliver.
- Satisfaction in customer surveys – we will conduct separate surveys for non-household customers and developers. We will target high levels of satisfaction.
- First time resolution rates. We will work with the wholesale business to achieve a 90% first time resolution rate.
- Prior to Competition being introduced the Service Incentive Mechanism (SIM), an industry wide set of performance measures, will be used to judge our success. Details of the SIM can be found in Section 12.

12 REWARDING AND PENALISING PERFORMANCE IN THE RETAIL BUSINESS – SERVICE INCENTIVE MECHANISM (SIM)

Whilst individual elements within the plan will have measures of success, it is the SIM that, for this plan, will measure our performance prior to competition being introduced in the non-household market, which is due in 2017.

We will be within the top 5 in the Industry as measured by the SIM. We see this as a realistic target given our historic survey scores and that our historic quantitative score has not been truly reflective of our performance. Accordingly we believe that this is not a step change in performance, merely a reflection of our new ability to report unwanted calls robustly.

The SIM is made up of quantitative and qualitative measures which are described below.

12.1 Quantitative Elements of the Measure**12.1.1 All Lines Busy**

This is the number of calls that receive the engaged tone when telephoning the company.

12.1.2 Calls Abandoned

This is the number of calls where the customer abandons a call whilst waiting to speak to an agent.

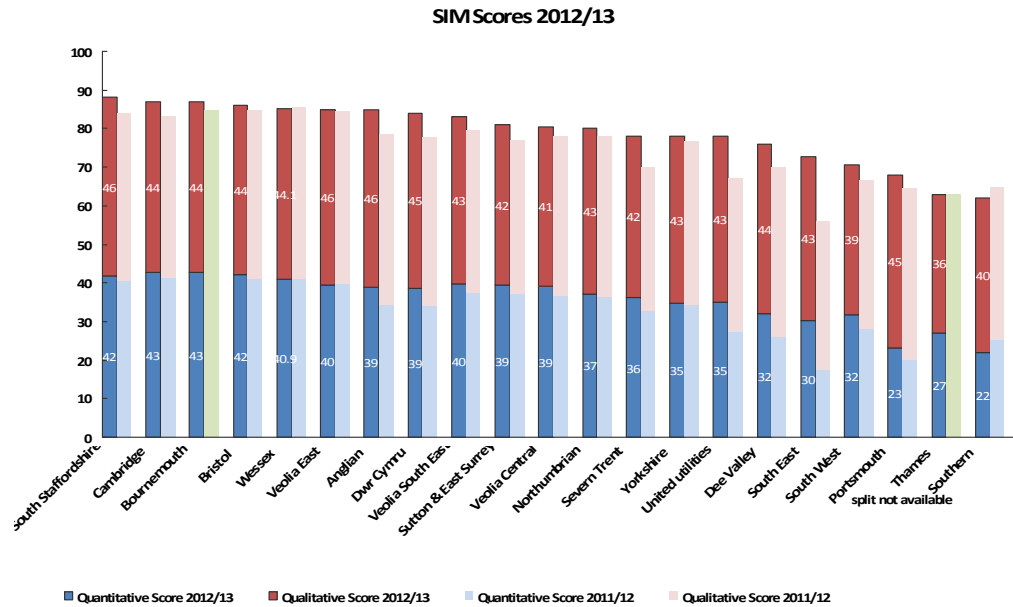
12.1.3 Written Complaints

This counts both initial and second stage complaints handled within companies and the number of complaints escalated to the Consumer Council for Water, having exhausted the Company's complaints procedure.

12.1.4 Unwanted Telephone Contacts

This is intended to capture the proportion of calls received that were unwanted from the customer's perspective.

For us this element has been exceptionally challenging to report accurately as we have not historically had a Customer Relationship Management (CRM) system that records all customer contacts. Accordingly, in line with Ofwat's instructions, we have assumed calls to be unwanted if we can not evidence that they are wanted. This assumption led to us reporting a very high unwanted figure that is clearly out of line with the other elements of the measure and not truly representative in our view.



As can be seen from the graph for 2012/13 above we were joint 5th out of 21 for the qualitative score but 20th for the quantitative score. Clearly a very high rating at survey would be inconsistent with a very low quantitative score. If we recalculate the quantitative score based on the first half year of 2013/14 unwanted total our quantitative score moves to 38. This performance would have made us 10th overall. Since we have not significantly altered our processes, but experienced transition issues with our new billing system which went live in October 2012, we believe that this score is a much more reliable, but still conservative, indication of the service that our customers actually received.

Having now introduced a CRM system we can robustly show that unwanted calls are much lower than the level reported from our manual system.

12.2 Qualitative Element

This element captures and scores feedback from customers who take part in a quarterly independently canvassed telephone survey. Each survey consists of 100 resolved billing issues and 100 resolved operational issues, covering a mix of Household and Non-Household customers..

Whilst we are very supportive of this survey and the improvement in results seen is clearly a sign that the industry is embracing a service culture.

13 COMMITMENTS

We have conducted customer research and undertaken stakeholder engagement has allowed us to develop the following commitments which represent the outcomes that customers have told us they expect:-

Commitment	5 Year Cost For the Non- Household Business (in millions)
Safe, Secure, Sustainable and Reliable Supply of Drinking Water	£ Nil
Less Water Lost Through Leakage	£ Nil
A High Quality Service and Value for Money	£1.641
An improved Environment, supporting Biodiversity, Public Amenities and Recreation	£0.028
Supporting the Community we serve by Taking Opportunities to Support the Local Economy	£0.034
Proving Attractive to Investors long term sustainable Business	£ Nil
Recognised by stakeholders as having a Culture of Health and Safety through all our activities	£0.011

The above costs relate to delivering with the non-household retail business. The overall bill to customers includes the cost of supply from the wholesale business which in total for 2015-2020 is £40.2m.

Elements of all these commitments are delivered by the Retail and Wholesale business. Responsibility for the various parts of delivery is covered within this document. Some activities contribute to more than one commitment, in such cases full details of the activity are given against the commitment which they principally support. The most significant commitment for the retail business is 'A High Quality Service and Value for Money'. Accordingly this section has greater detail within this plan.

14 SAFE, SECURE, SUSTAINABLE AND RELIABLE SUPPLY OF DRINKING WATER

14.1 The Key Elements that make up this Commitment

- Meeting Water Quality Standards.
- Maintenance of our assets to ensure a reliable supply.
- Water Resources Planning to ensure long term security of supply.

14.2 Non-Household Customer Support for this Commitment

92% of customers were either satisfied or very satisfied with this commitment.

14.3 The Retail Business Contribution

- Provide education with regard to lead in water supplies.
- To promote Water Efficiency.
- Ensure staff are trained and equipped to handle queries.

14.4 The Wholesale Business Contribution

- Ensure that water quality meets the standards set by European and UK Legislation as overseen by the Drinking Water Inspectorate.
- Maintain assets to ensure service levels are maintained for current and future customers and protect the environment.
- Ensure sufficient supplies are available to ensure that restrictions should only occur, on average, once in every 20 years.

14.5 Our Obligations

The Retail Business is obliged to promote water efficiency to non-household customers.

14.6 Water Efficiency

Details of our Water Efficiency performance and strategy are covered within our commitment 'An improved environment supporting biodiversity, public amenities and recreation' given the environmental benefit that comes from metered customers using less water. However, our Draft Water Resources Management Plan has an assumed level of water efficiency activity which partly contributes our calculated surplus throughout the next 25 years.

14.7 Retail Costs to Deliver this Outcome

The costs allocated against this commitment in respect of Lead will be paid by the wholesale business as responsibility for water quality and adequacy of supply rests with this part of the business.

Costs related to our water efficiency are included within our commitment 'An improved environment supporting biodiversity, public amenities and recreation' given the environmental benefit that comes from metered customers using less water.

15 LESS WATER LOST THROUGH LEAKAGE

15.1 The Key Elements that make up this Commitment

- Leak Detection, repair and management.

15.2 Non-Household customer support for this commitment

68% of customers were either satisfied or very satisfied with this commitment.

15.3 The Retail Business Contribution

Specialist commercial services are offered to non-household customers which assist in reducing overall leakage levels, as detailed below:-

- Confirmation of leakage by assessment of minimum night flow and data logging.
- Step-testing distribution and internal pipe work to establish areas for leakage investigation.
- Leak noise surveys deploying leak noise loggers.
- One stop, same day, find and fix service.
- Post repair leakage assessment.
- Reporting of asset condition.
- Preparation of documentation to support return to sewer refund.
- Continuous water consumption and monitoring and reporting of exceptional usage.
- Long-term customer support.
- Ensure staff are trained and equipped to handle queries.

15.4 The Wholesale Business Contribution

- Monitor Leakage levels.
- Actively locate and repair leaks in pipes owned by Portsmouth Water.
- Optimise pressure to minimise leakage from pipes.
- Detect leaks in customer's pipes.

15.5 Our Obligations

There are no specific obligations for the Retail Business.

15.6 Leakage on Private Pipe work

15.6.1 Current Record

Customers generally are aware of leakage as an issue, given media coverage. However, responsibility for repairing leaks on supply pipes is not always well

understood. Business customers are responsible for maintaining their private supply pipes and for paying for any losses, albeit that where a leak has not returned to a sewer they are entitled to a refund from their sewerage provider.

Overall, we estimate that 1% of overall leakage is within commercial customer's pipes, this is approximately 390,000 litres of water lost per day.

15.6.2 What Customers have told us:

Reduced leakage was the second highest priority for improvement amongst our business customers. The Wholesale operation has been tasked with reducing overall leakage. The Retail part of Portsmouth Water has a number of commercial services to deal with leaks on customer's private pipes and the wholesale business is committed to reducing leakage levels overall.

15.6.3 Our Proposals

Free Water Audits, which includes:-

- Electronic logging of the water meter for a short period to understand consumption.
- A site survey to identify areas where water efficiency measures can be introduced.

More comprehensive services, on a commercial basis, are offered as detailed below:-

Confirmation of leakage by assessment of minimum night flow and data logging

Logging of night flows is an effective means of locating both supply pipe and internal leakage as legitimate usage is much easier to quantify. Logging is undertaken by fitting a logging device to a meter and closely monitoring consumption over one, or a number of nights.

Step-testing distribution and internal pipe work to establish areas for leakage investigation

Whilst leakage can often be easy to detect from a meter showing an unexpected constant flow of water, pin pointing the leak, especially within large commercial establishments, can be difficult. In such circumstances step testing can be useful as it is a means of locating more precisely the area where the leak is occurring, therefore potentially avoiding costly trial excavations.

Leak noise surveys deploying leak noise loggers

We have specialist equipment and skills in listening for, and locating, leaks within pipe work.

One stop, same day, find and fix service

We can provide a same day find and fix service. This is especially useful where a significant leak has been discovered, or one that is preventing a customer's business from being able to work normally.

Post repair leakage assessment

We will be able to monitor the change in consumption following a leak repair, so that the cost effectiveness of the work can be assessed.

Reporting of asset condition

We are able to assess the condition of underground pipe work, and in doing so make a recommendation about renewal. Sometimes renewal can, in the longer term, be a much more effective means of dealing with leakage in respect of a pipe where further leaks are likely to occur if not replaced.

Preparation of documentation to support return to sewer refund

Almost all of our business customers receive sewerage services from Southern Water. Southern Water's bill is based on 95% of the consumption recorded by us. Where leakage has occurred on an underground pipe, and accordingly has not entered Southern Water's sewerage system, then an adjustment to their bill is due. We will provide evidence that can be forwarded to them that will support a refund claim.

Continuous water consumption and monitoring and reporting of exceptional usage

Some of our larger customers have asked that we permanently log their water meters so that they can regularly monitor usage and identify issues at the earliest opportunity. We are able to supply equipment for this purpose that can be automatically monitored on line, giving key usage and trend information.

Long-term customer support

With over 150 years experience we are a long term business that will reliably support customers into the future. This knowledge and experience also has the added benefit of often having detailed knowledge of our customer's private pipe work.

15.7 Our Measures of Success

No specific measure is proposed in respect of this commitment.

15.8 Retail costs to deliver this Outcome

Since these are largely commercial services there is no impact of bills as the services are individually billed if utilised.

16 A HIGH QUALITY SERVICE AND VALUE FOR MONEY**16.1 The Key Elements that make up this Commitment**

- Managing Supply Interruptions.
- Ensuring customers receive adequate pressure.
- Managing Customer Contacts.
- Customer Billing.
- Debt Management.

16.2 Non-Household Customer Support for this Commitment

93% of customers were either satisfied or very satisfied with this commitment.

16.3 The Retail Business Contribution

- Managing Customer Contacts.
- Debt Management.
- Customer Billing and Tariffs.

16.4 The Wholesale Business Contribution

- Manage Supply Interruptions, repairing burst mains and maintaining our pipe network. They will issue notices to customers for planned supply interruption, providing advance notice.
- Ensuring customers receive adequate pressure.
- Deliver the lowest cost wholesale bills in England and Wales.
- Offer and keep appointments where access to a customer's property is needed.
- Targeted meter renewals for meters that are over 12 years old and have a recorded annual consumption in excess of 500 cubic meters of water.

16.5 Our Obligations

The following Guaranteed Service Standards (GSS) are set by Government, who require us to pay £50 to you in compensation should we fail.

- If we need to meet an appointment to visit you about your water supply. We will offer am or pm appointments, or upon request a 2 hour time slot.
- If you have a billing query we will respond within 10 working days, or 5 days where the query relates to a change in payment arrangement that can not be met.
- We will reply to all written complaints within 10 working days.
- Whilst not a duty, we will also pay £50 if we do not read a meter used for billing at least once in a financial year, provided that the property has been occupied the property for the whole year and access has not been denied.

16.6 Managing Customer Contacts**16.6.1 Current Record**

We are proud to serve our customers and have always done so from a local base with limited outsourcing. Our results from quarterly, industry wide surveys conducted on behalf of Ofwat, have shown a high level of satisfaction with our service as can be seen below.

Year	Survey Score	Position in industry
2010/11	4.50	2nd
2011/12	4.56	2nd
2012/13	4.58	5th

As can be seen, throughout this period we have been within the industry top quartile (21 companies) and our score has improved on a year on year basis. However, the move from 2nd to 5th in the industry, despite an improved score, does illustrate the improvement within the industry as a whole and we can certainly not afford to rest on our laurels.

For many years we have had the lowest number of written complaints within the industry, when measured against the number of connections. In 2012/13 we had 10.4 complaints per 10,000 customers compared to an industry average of 49.

Whilst the above figures cover both household and non-household customers we believe that they are representative of the service our non-household customers receive.

16.6.2 What Customers have told us:

Quantitative research undertaken in late January 2013, sort the views of 100 non-household customers revealed 85% are satisfied with the service that they receive from Portsmouth water. 5% of those surveyed considered our service to be poor value for money, 26% neither good or poor value for money and 68% good value for money.

Improvements to office opening hours and faster resolution of billing enquiries were a low priority for our business customers. However, we still intend improving services in this area, without increasing bills, as we wish to remain the supplier of customer choice and retain customer's when competition is introduced.

16.6.3 Our Proposals

- Longer office opening hours – currently our customer service office is open 8.30 – 16.30 Monday to Friday. We will review these hours and extend our availability.
- Improved web and electronic interaction – our web-site offers currently a number of options, including change of address advice, change of name, requesting a water meter and bill payment. We know that increasingly customers are transacting business on line and will extend options further and develop the web-site so that it adapts and remains easy to use if people access our site via a tablet or mobile phone. Currently consumption information is limited, except amongst our largest users, but we will monitor demand and develop services accordingly. Whilst these developments can be costly to introduce, once utilised they represent a low cost to serve and, therefore, will be developed as they become cost beneficial. We will

develop a social media strategy and consider innovative use of the available options in order that customer satisfaction can be economically enhanced and result in improved customer interaction to include such activities as reporting suspect leaks, faulty apparatus and traffic disruptions as a result of our road works.

- Locally handled telephone calls – we are committed to retaining a local presence and exploiting the local knowledge and easy internal communication. Whilst size can bring economies of scale, we believe that, as a small water company, we have the advantage of a personalised service.
- Improved first time resolution. We monitor first time resolution from the quarterly survey that is undertaken on behalf of Ofwat. We intend improving from our current first time resolution rate of 32% to 90% (as measured by the Ofwat quarterly survey). We believe that this can be achieved through innovation and redesigning key processes around the customer journey rather than operational convenience. After 2017, when competition begins, we do not expect the quarterly survey to contain any non-household customers and accordingly will develop an internal measure of first time resolution.
- Greater customer engagement to help shape plans and priorities – As a retailer we need to engage with customers more than ever before. This will help us to understand their journey in dealing with us, rather than us basing change on assumptions that may not be correct.
- Free Dedicated Account Management. A Commercial Manager is available to support and assist business customers with all types of queries. The Manager will also play a key role in ensuring customer satisfaction and developing innovative services to ensue high levels of retention when competition begins.

16.6.4 Our Measure of Success

- Being in the Industry top quartile for Service Incentive Mechanism (SIM) performance, prior to the introduction of competition.
- Customer Retention Rates- once market opens up, we are determined to lose no customers except where they require a service that we have chosen not to offer.
- Satisfaction in customer surveys – we will conduct separate surveys for non-household customers and developers. We will target 90% satisfaction.

16.7 Debt Management

16.7.1 Current Record

Generally bad debt is less of an issue within the non-household market than the household market as we can disconnect supplies for businesses that do not pay our bill.

It is important that we recover the bills that we issue as bad debts drive up costs and ultimately increase bills for paying customers.

However we do accept that cashflow issues for our customer's can on occasions make timely payment difficult.

Where we consider ourselves to be at risk of losses we may take a deposit from non-household customers or alternately insist that they pay via the means of a budget plan, whereby they build up a credit balance towards their bill.

In terms of debt management, often losses are with mixed-use properties, these are properties that are both a business and a home. We can not cut off household properties for non-payment and accordingly have no ultimate sanction for these types of premises unless we insist on separate supplies being laid to the household and non-household elements within premises, something which in practice can be difficult to achieve.

16.7.2 Our Proposals

- Low Bills. Having the lowest, and therefore most affordable, bills in the country is a key driver for our wholesale business and, along with a low cost to serve in the Retail business, should allow us to have relatively low levels of debt.
- Greater customer engagement to help shape plans and priorities. We accept that successful change needs stakeholder engagement and are keen to build on the heightened level of customer involvement that has occurred in shaping this plan. Along with a continuation of a Customer Challenge Group we will more regularly use customer research to drive priorities for improvement and understand the customer journey in all dealings with us. This work should allow us to provide the right balance between flexible payment arrangements to meet customer's needs but low levels of bad debt written off.
- Sound debt recovery procedures that ensure that bills are not inflated by bad debts, whilst working with customers to secure bill payments in a timely fashion.

16.7.3 Our Measures of Success

- Debt levels should not increase by more than inflation.

16.8 Customer Billing and Tariffs

16.8.1 Current Record

Accurate customer billing is an essential part of the retail business. We have, for many years, printed and dispatched bills from our Havant Head Office, having chosen not to outsource this function.

Metered charges determine bill levels for 90% of our non-household customers. These charges consist of a standing charge, based on meter size, and a consumption charge. Currently we have two consumption tariffs, a Standard tariff and a Large User Tariff. The Large User Tariff is for customers using more than 50,000 cubic meters of water per annum at one site. We currently have 30 customer sites charged on this tariff.

16.8.2 Our Proposals

- Redesigned Bills – In moving to our new billing system in October 2012, we tried as much as possible to replicate the style of our previous bills in a effort to avoid too many additional contacts immediately post live. However we believe that the current bill could be improved, with greater information and clarity.

- Greater customer engagement to help shape plans and priorities. We intend to work with customers and other stakeholders to deliver innovative improvements.
- Consolidated Billing. Some larger commercial customers have been pressing us for a single consolidated bill each month, summarising all bills received at their premises during the month. This will be developed and delivered in ways that are convenient for customers to manage.
- Meter Downsizing. The size of meter that serves premises was not originally decided by us, but would have been requested by the person applying for the supply. Given that the size of meter determines the standing charge, where the meter is now larger than required for the supply to a site or premises it may be downsized. Whilst a fee is payable for the work involved in downsizing a meter, this can often be quickly recovered through the standing charge savings that follow. We will target customers where downsizing is potentially beneficial.
- Tariffs. We will review our current tariffs on offer and consider whether new tariffs are appropriate. We will need to ensure that any new tariffs are cost reflective and do not unduly discriminate between customers in a given customer class or between customer classes.

16.8.3 Our Measures of Success

- Being in the Industry top quartile for Service Incentive Mechanism (SIM) performance, prior to the introduction of competition.
- Customer Retention Rates- once market opens up, we will lose no customers, except where they require a service that we have chosen not to offer.
- Satisfaction in customer surveys – we will conduct separate surveys for non-household customers and developers. We will target high levels of satisfaction.

16.8.4 Retail Costs to Deliver this Commitment

The non-household retail cost of delivering this commitment is £1,640,00 over the 5 year period.

17 AN IMPROVED ENVIRONMENT, SUPPORTING BIODIVERSITY, PUBLIC AMENITIES AND RECREATION

17.1.1 The Key Elements that make up this Commitment

- Work with the Environment Agency to ensure that our water abstraction does not adversely impact the environment and wildlife.
- Increase the percentage of energy from renewable resources.
- Enhanced Biodiversity at our sites.
- Work with Farmers to reduce the impact of chemicals used in farming in untreated water supplies.
- Water Efficiency.

17.2 Non-Household Customer Support for this Commitment

91% of customers were either satisfied or very satisfied with this commitment.

17.3 The Retail Business Contribution

- Water Efficiency advice.

17.4 The Wholesale Business Contribution

- Work with the Environment Agency to ensure that our water abstraction does not adversely impact the environment and wildlife.
- Increase the percentage of energy from renewable resources.
- Increase Biodiversity activities.
- Work with Farmers to reduce the impact of chemicals used in farming in untreated water supplies.

17.5 Our Obligations

- Promotion of Water Efficiency.

17.6 Water Efficiency

17.6.1 Current Record

Water efficiency is the key means by which the retail business can assist both the environment, as less water is abstracted from the environment, and reduce customer's bills. Historically, only the largest businesses and those experiencing high bills through leaks and plumbing faults tended to focus on water efficiency, given the relatively small proportion over overheads for most types of business. However, difficult economic conditions in recent years and better understanding of environmental issues has led to greater interest in minimising consumption.

17.6.2 What Customers have told us:

Environmental improvements are the highest priority for our business customers, as revealed within our quantitative customer research conducted in late January 2013. Water Efficiency was also separately a priority ranking fourth out of

eleven areas that customers were asked to assess for potential service improvements.

17.6.3 Our Proposals

- Free Water Audits, which includes;-
 - Electronic logging of the water meter for a short period to understand consumption.
 - A site survey to identify areas where water efficiency measures can be introduced.
- Commercial Manager. Our commercial manager will continue to target businesses to discuss water consumption and highlight where wastage may be occurring.
- Talks to Business Groups.

17.6.4 Our Measure of Success

We will monitor and report on the number of free audits undertaken.

17.7 Retail Costs to Deliver this Commitment

The non-household retail cost of delivering their commitment is £28,000 over the 5 year period.

18 SUPPORTING THE COMMUNITY WE SERVE BY TAKING OPPORTUNITIES TO SUPPORT THE LOCAL ECONOMY

18.1.1 The Key Elements that make up this Commitment

- Playing an active role in the community that we serve.
- Source labour, materials and other resources locally, where feasible.
- Making it easy for Developers to arrange new water supplies.

18.1.2 Non-Household Customer Support for this Commitment

89% of customers were either satisfied or very satisfied with this commitment.

18.2 The Retail Business Contribution

- Playing an active role in the community that we serve.
- Making it easy for Developers to arrange new water supplies.

18.3 The Wholesale Business Contribution

- Playing an active role in the community that we serve.
- Source labour, materials and other resources locally, where feasible.

18.4 Playing an Active Role in the Community that we Serve

18.4.1 Current Record

We are proud of our ties with the community that we serve, having supplied water for over 150 years. We believe that employing local people, with local knowledge allows us to effectively communicate with our customers.

We have developed a partnership with a local country park, contributing to their education centre which introduces children to the water cycle and water efficiency. We also re-enforce the health benefits associated with being properly hydrated, which is also supported by our annual subsidised sale of water bottles to schools.

Community talks have, over many years offered us opportunity to increase awareness about company activities as well as providing useful opportunities to increase awareness about free option metering and water efficiency.

18.4.2 What Customers have told us:

This commitment was developed from a challenge put to us by the CCG. The CCG felt that a commitment to community and the local economy reflected feedback from our business customers which had not, at that point, in their view been recognised within our commitments.

18.4.3 Our Proposals

- We are committed to continuing this work.

18.4.4 Our Measure of Success

- No specific measures are proposed for this element of the commitment

18.5 Making it Easy for Developers to Arrange New Water Supplies

18.5.1 Current Record

Developers are critical of water companies in general, often expressing the view that processes and procedures hinder progress of proposed developments.

18.5.2 What Customers have told us:

In an effort to understand the concerns and service requirements of developers our Commercial Manager met directly with a selection of large developers, consultants and Housebuilders Federation representatives. Their requirements were as follows:

- Formal administrative processes to be speedy and clear.
- Unnecessary bureaucratic processes to be removed. These processes prevent tight building schedules being met.
- Clear justification of technical designs, including details of any hydraulic modelling.

18.5.3 Our Proposals

- We will have clear levels of service for application turnaround times.
- We will survey developers annually to ensure satisfaction with our service.
- We will review our Terms and Conditions offer document, removing certain clauses to speed up the process, whilst maintaining our duties in respect of water quality and public health.

18.5.4 Our Measure of Success

More than 70% satisfaction with our service from our new annual survey.

18.6 Retail Costs to Deliver this Commitment

The non-household retail cost of delivering this commitment is £34,000 over the 5 year period.

19 PROVING ATTRACTIVE TO INVESTORS LONG TERM SUSTAINABLE BUSINESS**19.1 The Key Elements that make up this Commitment**

- Maintaining an Investment grade Credit Rating within the appointed business.
- Meeting financial ratios required by existing creditors and that will secure low rate finance, when required.
- Producing an acceptable return to equity investors.

19.2 The Retail Business Contribution

- Debt Performance – We will manage debt effectively to maximise recovery of the income due to us. Details of our Debt Management strategy are covered within our commitment – Customers recognise that we provide a High Quality Service and Value for Money.
- Efficiency – maintain an efficient operation with a low cost to serve, whilst maintaining and improving on levels of service delivered to customers.
- Commercial value added services.

19.3 The Wholesale Business Contribution

- Maintain high levels of efficiency.
- Earn a sufficient return on assets to meet its obligations.

19.3.1 Our Obligations

- Take reasonable steps to maintain an Investment credit grade.
- Maintain sufficient interest cover.
- Keep Gearing below a pre-determined level.

19.3.2 Current Record

Debt has been well run, with a high level of compliance with industry best practice guidelines.

Our unmeasured non-household cost to serve is the second lowest in the industry.

19.3.3 What Customers have told us:

This commitment has been set by the company and does not come out of direct customer research. However, in order to successfully deliver customer's priorities we need to be a well financed business.

19.3.4 Our Proposals

- Debt will increase at no more than the rate of inflation.
- We will maintain a low cost to serve.

19.3.5 Our Measure of Success

- We will monitor debt levels to ensure target is met.
- We will monitor our average cost to serve.

20 RECOGNISED BY STAKEHOLDERS AS HAVING A CULTURE OF HEALTH AND SAFETY THROUGH ALL OUR ACTIVITIES

This commitment did not come out of customer engagement but was instead insisted upon by our Board of Directors who see health and Safety as a key priority of the business and must be a key item within any business plan that we prepare.

20.1 The Key Elements that make up this Commitment

- Proactive Management of Health and Safety.

20.2 The Retail Business will

- Actively manage health and safety to ensure members of the public, visitors and employees are kept as safe as possible.
- Evidence its efforts and achievements, thereby achieving a Royal Society for Prevention of Accidents (RoSPA) gold medal in Occupational Health and Safety every year.

20.3 The Wholesale Business Contribution

- Actively manage health and safety to ensure members of the public, visitors and employees are kept as safe as possible.
- Evidence its efforts and achievements, thereby achieving a Royal Society for Prevention of Accidents (RoSPA) gold medal in Occupational Health and Safety every year.

20.4 Our Obligations

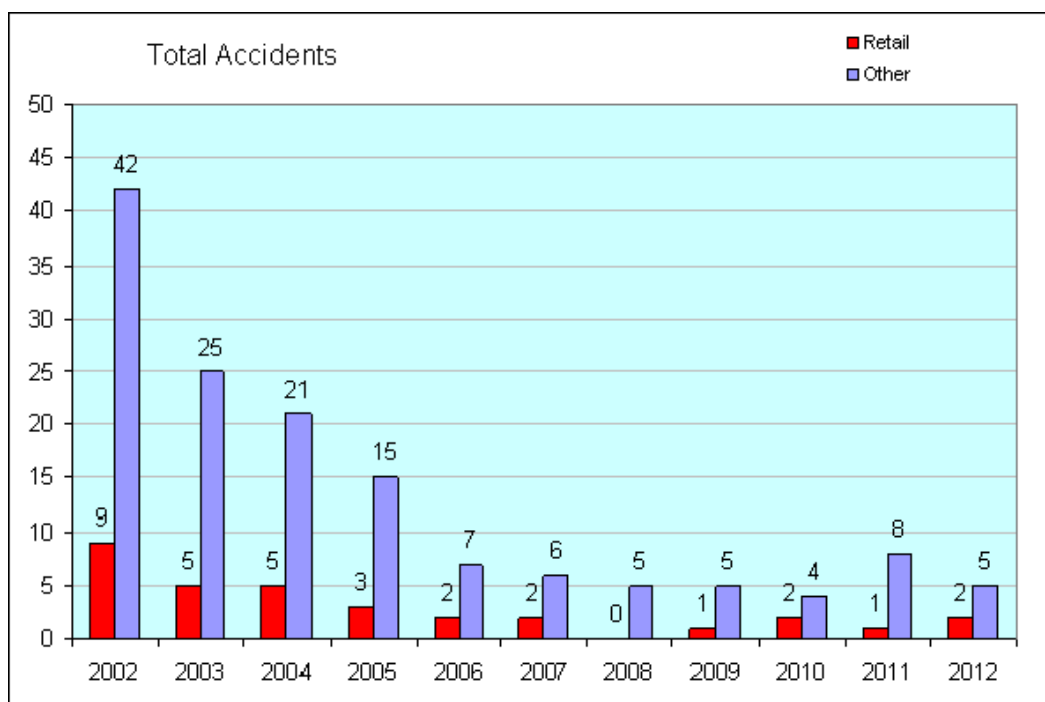
- Compliance with Health and Safety legislation.

20.5 Current Record

The wholesale and retail elements of the business have a common goal when it comes to health and safety, in that we must provide a safe environment for members of the public, visitors and employees.

In 2002 and 2003 the company recorded 51 and 30 accidents respectively with a reportable accident rate of 11 in each year. It was decided that these statistics and the overall Health and Safety performance were not acceptable. Led by the Board, we focused heavily on improving our performance.

In the last 5 years we have averaged 7 accidents and 1 reportable accident per annum.



20.6 Our Proposals

- Regularly assess hazards, maintaining up to date risk assessments were appropriate.
- Keep Health and Safety in the conscious memory of employees with regular quizzes, team briefings and other proactive activities.
- Seek to learn from and share lessons learnt from accidents and near misses.
- Collect evidence of initiatives to support the Company's annual submission to RoSPA.

20.7 Our Measures of Success

- No reportable Accidents.
- Annual receipt of RoSPA award.
- Ensure every employee returns home safely to their family every day.

20.8 Retail Costs to Deliver this Outcome

The non-household retail cost of delivering this commitment is £11,000 over the 5 year period.