South Staffs Water

incorporating

Cambridge Water Company

2014 Periodic Review (AMP6 period)

Summary of Final Business Plan 2015-2020

Contents

Context

This document is the summary of the Company's Business Plan for the period 2015-20. Further background/detail to our business strategies and proposed expenditure requirements to deliver the service expectations and outcomes of customers is provided in the full business plan.

The Company published its Long Term Strategy document that describes its business strategies to continue excellent service to its customers into the longer term.

At the same time that this business plan is submitted to Ofwat for its decisions, the Customer Challenge Group (CCG) is also submitting an Independent Assurance Report to Ofwat. Their separate report assesses this plan in relation to the customer engagement that has been undertaken. It documents their view on the Company's proposals. The CCG includes actual customers; local authority representatives; CAB representatives; the Consumer Council for Water; the Environment Agency (EA) and the Drinking Water Inspectorate (DWI). There is one CCG report covering both regions of the Company's operation and this report will elaborate on the extensive challenges forthcoming that have influenced the plans by making sure they reflect customers priorities and also the way in which the Company has presented the strategy.

In April 2013 South Staffs Water and Cambridge Water merged as one business. This plan covers proposals for both regions. Customers in both regions wanted similar outcomes and the two businesses that merged have similar attributes – low bills and high service. The merged business is stronger together and this plan shows how customers in both regions will benefit from the more resilient and efficient business that has been created.

Summary and key headlines

The key proposals in this plan is a package to support current and future customers. The package includes:

- **Stable water bills, rising with inflation only.**
- **Outcomes and investment proposals that reflect extensive customer engagement**
- **A social package to support affordability, local communities and the environment**
- **Additional investment to strengthen the resilience of assets**

The above is made possible with flat bills through past / future efficiency savings and lower profits. The Company's current water bills are 25% lower than the national average. The Company has had to stretch itself to achieve this position of flat bills when more resilience spend is needed and energy prices are rising which impacts significantly due to the topography in this area. Comparisons of bill changes should consider the current position and also note that for the Company SIM rewards for high performance are expected, and the scope for efficiency is less than at other water companies.

The Board of the Company has considered carefully the key decisions of its business strategy so that customers are the beneficiaries. These proposals balance the views of different stakeholders. The Board believes it has taken a balanced view of managing the risks it faces and a robust view of the future costs we will incur in addressing these risks. The plan is built on the five outcomes to be delivered which have been identified as customers' priorities based on extensive customer research and in conjunction with the CCG. Proposals for dealing with affordability are also developed.

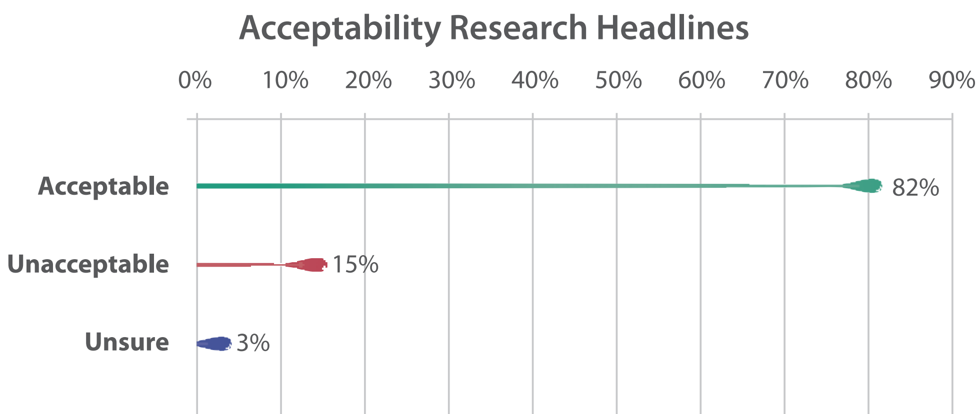
South Staffs Water has an excellent track record which has benefited both its current and future customer base. The Company has for over a decade been at the forefront of efficiency assessments (Band A since 2002); further it has been in the top three of service measurements (both the OPA and now SIM where South Staffs/Cambridge were 1st/2nd in 2012/13); and customers receive low water bills (25% lower than the industry average) due to the focus of the Company on efficiency and innovation. South Staffs Water operates with a strong ethos on the customer – high SIM scores, efficiency advances and low bill levels are evidence of this.

The Company fully recognises that this is the historic position and this plan is about future proposals to address the many challenges and opportunities facing the water sector. The Company is determined not to be complacent and to use its strong foundations to remain at the forefront and to continue to offer customers low water bills and high service. The customer engagement undertaken shows that the Company's customers value the service they receive highly, and it is their views that underpin this business plan.

At PR14, customer research is based on responses from 4,500 customers, including 800 business customers. This is a large sample for a small water company and dwarfs figures from previous price reviews. The significantly increased level of customer engagement has had a genuine influence in developing the Company's future strategy which has been tested and confirmed as acceptable to customers.

The Company published its Draft Proposals in August 2013 and it proposed a 2% price increase for customers, excluding future inflation. The feedback on the business strategy, both in the Draft Plan and the Long Term Strategy, was positive. The Company received 983 responses to the Draft Plan.

Further focused Acceptability Research of over 1,000 household and business customers confirmed that 82% of customers found the 2% bill increase in real terms proposed in the draft plan to be acceptable (the regional split was 87% Cambridge; 81% South Staffs). Acceptability is likely to be greater than this for the final plan, given the bill change is now flat in real terms.



Future inflation is also relevant to customers and the research also asked clear questions about acceptability of nominal future bills. Here the overall acceptability was also high at 59%. Professional advice together with the historic presentation in the sector and elsewhere is that the change in real prices should be the key consideration in evaluating such research. This is the approach that Utility Regulators take, in line also with public sector impact assessments, cost benefit analysis studies etc.

The Company acknowledges that many incomes and benefit payments are likely to rise at levels closer to CPI rather than RPI. Therefore the conclusion is that acceptability levels for the draft plan were in the range 59% to 82%. Now that this final plan is based on stable bills rather than a 2% increase, it is considered acceptability is higher.

The change from 2% at the draft stage to flat bills in this final plan has largely been secured through a lower cost of capital. It has not been progressed by lowering expenditure proposals or compromising service commitments. In addition to the cost of capital reduction, the Company has further responded to those not finding our initial proposals acceptable by creating a fund to support affordability and local community projects that enhance the local environment. This new fund of £1.5m represents a social package of measures formed to meet the key issues that stakeholders wanted the Company to take action on.

Key headlines in this final business plan are:

- Customers will continue to receive:
  - Low and stable bills for a further five years – with a long term aim of keeping bills low beyond 2020
  - High service that meets customer expectations and high customer satisfaction with contact and operational activities
  - Excellent water quality (this was customers' priority)
  - A reliable supply of water in light of the impact of climate change
  - Resilient water supplies based on assets that are serviceable and that are maintained, taking a risk based approach
  - Operations that recognise our impact on the environment and our relationship with the local community

The five outcomes reflect these customer benefits. These five outcomes are:

OUTCOME 1 — Excellent water quality (now and in the future)

OUTCOME 2 — Secure and reliable supplies (now and in the future)

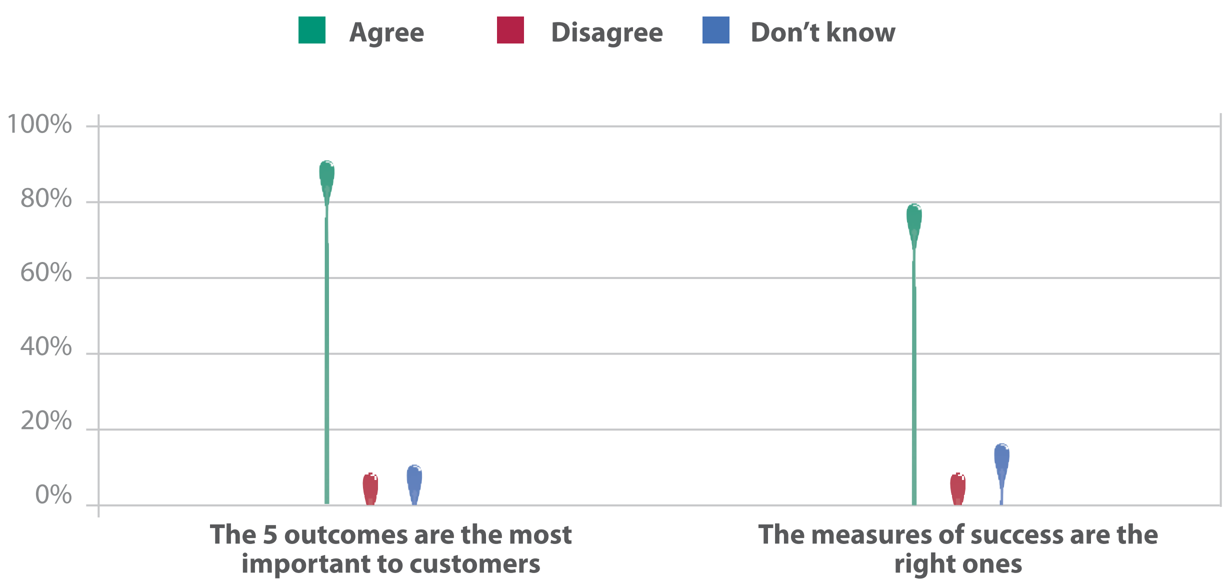
OUTCOME 3 — An excellent customer experience to customers and the community

OUTCOME 4 — Operations which are environmentally sustainable

OUTCOME 5 — Fair customer bills and fair investor returns

The Company's extensive customer engagement will ensure that customers receive the service they want, benefit from value for money and finance an expenditure programme that balances the risk to service and affordability.

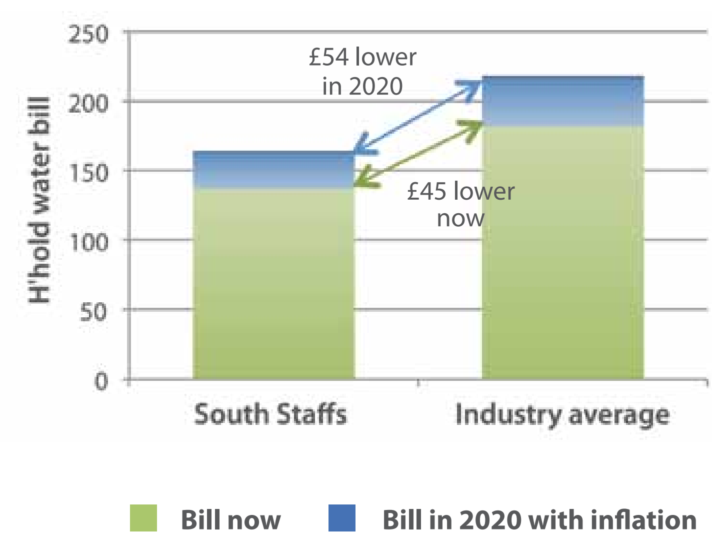
The Business Plan has been developed with significant direction and guidance from the Board. It has been tested by customer research (circa 2,000 responses to the DBP consultation and Acceptability Research testing) that revealed high levels of endorsement of the outcomes, investment decisions and overall business strategies. The consultation covered specific areas such as metering strategies, protecting water quality, the environmental focus and the approach to maintaining assets.



Through a process that was based on drawing up plans that reflected customer research, then producing cost beneficial proposals, then subsequently testing the proposals again with customers through further research, the Company can demonstrate customers' overwhelming support for the plan.

- Customer bills in 2014/15 are due to decrease in real terms by 0.6%. In the AMP6 period customer bills will then be flat for the next five years, excluding inflation. Hence bills will remain much lower than the national picture. Customers in the South Staffs region will have a combined water and sewerage bill that is most likely to be the lowest nationally. In Cambridge, customers will receive the 2nd lowest water only bill. The following chart is a reminder that inflation only increases will be higher in absolute terms at all the other water companies (except Portsmouth) whose existing bills are higher:

Wider bill gap with inflation only rises



- The vanilla cost of capital for the Company is 4.5%, which is 1.0% lower than the PR09 Determination. This projected WACC recognises the Company's current debt arrangements and ability to access capital markets in the period. Independent analysis by Oxera supports this estimate of the future costs of funding the business and this work recognises the need for an allowance for extra financing costs for a small company compared to the WASCs. The Company's WACC reflects the actual costs of the Company's long term debt and its actual gearing level at 65%. It is not in customers' interests for the current long term debt arrangements to be exited nor for a policy of short term borrowing to be adopted.

- Total expenditure (totex) levels that are slightly higher (6%) than current levels.

    - This reflects a 13% increase in capital maintenance and resilience levels of spend due to some large expenditure items (not currently needed in the AMP5 period) for reservoir replacements and refurbishment of nitrate treatment sources, which are large assets in a small company. Customers are keen for service to be maintained and to have resilient supplies. These schemes are important requirements to maintain the resilience of supplies to customers both now and in the longer term. They are also very keen for water quality to be protected, as is the DWI. In proposing these schemes now it is possible to address major risks to service and to control affordability in the long term. Since these are large projects, the Company specifically asked customers if they support these schemes and the feedback was a resounding yes.

- On the opex side, the main cost pressure is rising power prices (mainly third party charges), which significantly impacts the Company more than any other company due to the topography and depth of resources. Rising power prices are a major risk to future cost of operations – hence the Company has been holding negotiations with energy providers to secure the best deal so that customers are not exposed to this issue which accounts for around 20% of the Company's overall operating costs and is the most variable cost factor unless action is taken. The Company will continue to optimise which sources are used and maintain its pumping assets to minimise power costs.

- The specific totex increases that are required have been offset by further efficiencies through innovation, competitive commercial arrangements and cost control all of which we have demonstrated in the past. The Company has assessed the asset maintenance investment needs from the bottom up, with a resulting clear view of risk. This leads to a more balanced approach to asset maintenance taking account of customer priorities, expected outcomes and risk to service. This approach has enabled some significant capex reductions and deferment to partially offset the required increased spend for some larger assets. The Company envisages that despite this totex increase, it will fall at the lower end of Ofwat's cost corridors due to its efficiencies and low relative spend levels.

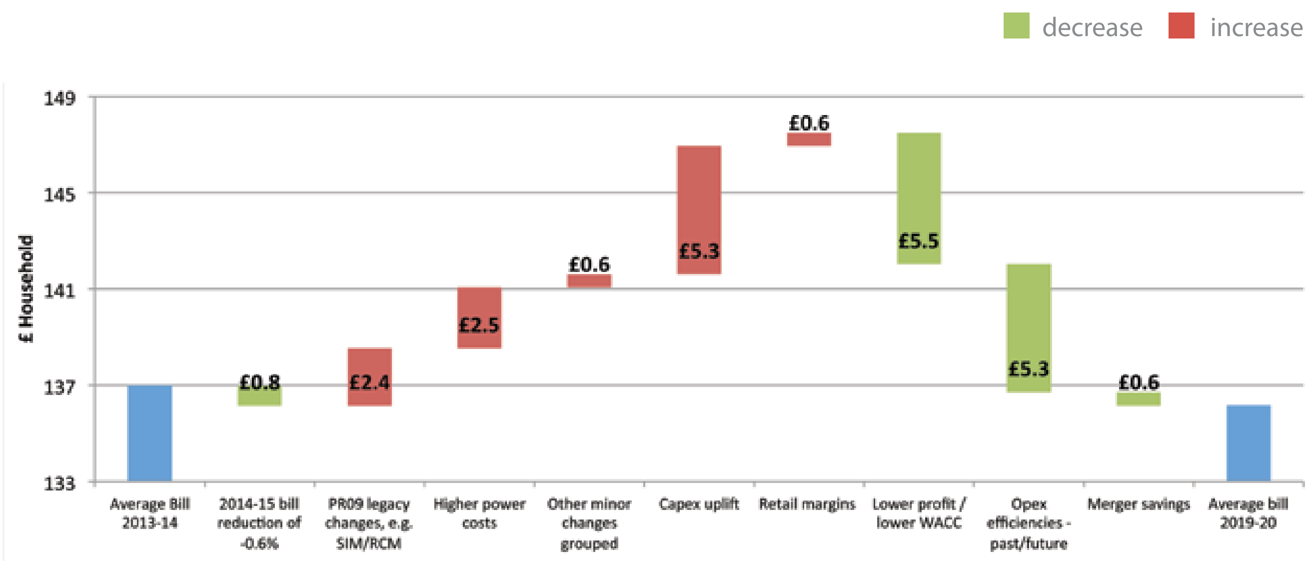
- In presenting these totex projections, the Company is confident all statutory obligations will be met – a position which is expected to be echoed by the environmental regulators in the CCG Assurance report. The DWI has agreed to the water quality schemes proposed. The plans to address future growth and the environment remain consistent with the draft Water Resouces Management Plan (dWRMP). Ofwat's review of the Company's dWMRPs identified no concerns whatsoever to bring to the attention of the Secretary of State.

- The plan includes significant customer benefits from the Company's high efficiency position that allows us to return past efficiencies that exceed PR09 expectations to customers – AMP5 opex outperformance is forecast to be 5%. Future bills would have been much higher had the Company not made further progress on efficiencies, which is a real success given the Company's starting position was already 7% ahead of the frontier company at PR09. The plan also reflects future efficiencies and shows the links to the capital investment schemes and benefit of innovation in the full version of the business plan.

- The proposed bill changes also reflect a number of legacy items from the last price review. At PR09 Ofwat introduced the revenue correction mechanism to mitigate the impact from exposure to revenue changes. At PR14 the impact of this adjustment is to increase bills due to revenue being lower than expected in this period (2010-15). The framework is symmetric and as such if revenue is above projections then customers will benefit at the next review, as they do with the efficiencies made by the Company.

- The plan incorporates the current SIM reward for high customer service and high customer satisfaction. This will not be relevant for many other plans and should be acknowledged when comparing the bill impacts from other water companies plans.

The following chart summarises the principle positive and negative influences on future bills that overall cancel each other out given that stable bills are proposed in this plan.



All figures in 2012-13 price base.

This shows that customers will benefit from significant extra investment in asset resilience without paying higher bills.

The Company and its Board has worked hard to minimise the bill impact. The Board has challenged the proposals thoroughly by reviewing the risks and cost assessments in detail. The Board was also mindful of the ability of customers to pay these bills and to respond to the strong challenges forthcoming from the CCG.

Several of the Executive Directors attended all CCG meetings and at the request of the CCG, who wanted a very strong link to the Board, an independent non-executive Director has also attended the CCG meetings. Hence the Board is very mindful, for example, of the CCWater position that levels of bills should be stable or reduce. In response, the Board has challenged the Executive Management team to identify greater efficiencies than this team recommended were achievable. It also capped the capital programme level, despite a strong case from the management team that more was needed. This adds more risk onto the Company, but the Board is confident that this risk can be managed. The cost of capital has also been substantially reduced to secure a flat bill profile.

There are many risks that the Company will need to manage rather than assume customers should finance. One example is debt costs in the South Staffs region - these could easily rise given the local challenging environment in which the Company operates with high levels of deprivation and the impact of universal credit. The Company has taken strong action to ensure its debt management practices are efficient and offers support to customers, where justified. In the assessment of how much it costs to serve a customer (ACTS calculations) the Company's debt costs are low relative to others, despite the high deprivation amongst the customer base. The control of debt costs during the five years of austerity benefits current and future customers alike.

The plan does not propose introducing a social tariff at this stage since the initial customer research has not been favourable to this concept (only 25% of customers supported a 2% subsidy). The Company will undertake a more comprehensive assessment of the case for addressing this issue and further subsequent customer research is planned. The Company will work closely with neighbouring WASCs on the social tariff issue given the joint billing arrangements in place. Other initiatives on affordability will include a doubling of the Charitable Trust fund (also extended to the Cambridge region), a new fund to support debt advice to customers (working with specialist agencies) and other self-financing affordability initiatives. Stakeholders have also encouraged the Company to do more with local communities and for the local environment, and a new fund has been allocated to this. These three strands form part of the social package devised to support customers.

The Board consider that this plan is good for customers both now and in the longer term. It allows for low bills, high service and efficiency through innovation, delivering outcomes that the Company's customers and stakeholders really value. The plan has strong customer endorsement – 82% acceptability at the draft stage (which proposed a bill increase that is now not proposed)- and is a plan built upon the platform of current high performance.

Delivering a Future Plan based on strong foundations

- The business is focused on the customer – 1st place on SIM with the customer at the heart of its operations
- There is full compliance with regulatory expectation
- The efficiency drive continues and this keeps customer bills much lower than others

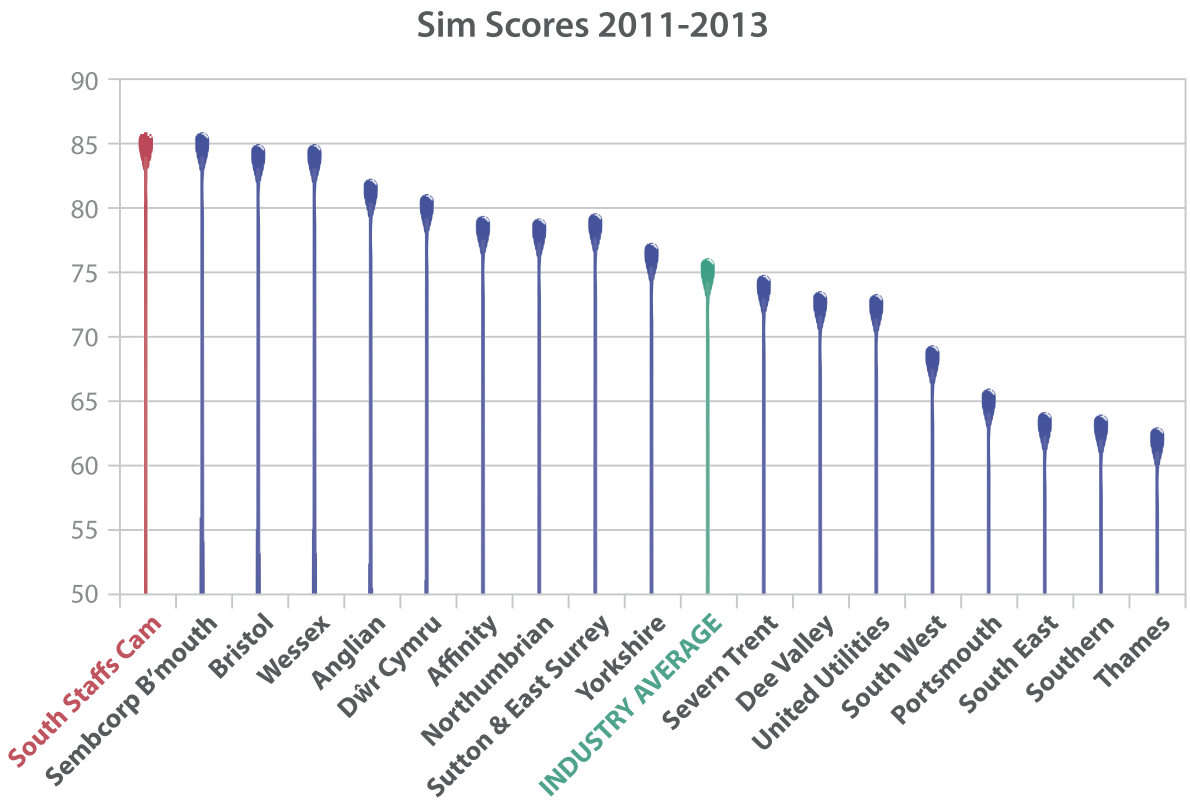
The Board is confident that it can continue to deliver excellent service to customers at a price that is much lower than other water companies due to the efficiency of its operations. The Company has an excellent track record that provides a strong foundation for customers to benefit from future successful performance.

Many companies will aspire to perform well but South Staffs Water can demonstrate this is already being delivered to our customers' benefit.

Service performance

Prior to the introduction of SIM, both South Staffs and Cambridge excelled with the overall performance assessment (OPA). Both regions were rewarded at the last price review, PR09. This performance has continued with the introduction of the Service Incentive Mechanism, where the Company's performance to date is 1st in the sector. Hence the Company has a long standing track record of excellent delivery that is recognised as expectations and measurement of performance develop. This excellent service to customers is driven by an approach which:

- Listens to what customers want from the Company and learns from their feedback so we are responsive to their needs.
- Keeps the customers informed during operational activity – customers welcome this approach keeping them up to date with progress on work and explaining why it is necessary.
- Champions service excellence right across the business, from the top to all business areas, not just the core customer service function.



The Company knows that customer demands are changing and that the service interface will change as technology advances. The Board is confident that the planned business plan proposals, with modest investment levels, are well targeted to maintain the excellent service that customers appreciate. In the Acceptability Testing the level of current customer satisfaction was 96%. This is in line with customers' expectations as demonstrated through results of the customer engagement programme.

Regulatory and Statutory Compliance

The Board takes this extremely seriously and monitors performance carefully each month to ensure the Company is on track to meet key performance indicators (KPIs) and quality / environmental obligations.

The Company is on course to meet all of its AMP5 statutory obligations as agreed at PR09 with Ofwat, the DWI and the Environment Agency. Capital spend will be in line with the PR09 Determination and there are no logging up or down proposals.

In terms of compliance, in both regions the Company has shown complete compliance in the form of green KPIs (source: Ofwat website) for the three years to date and expect this to continue for the final two years of this regulatory period.

South Staffs	
South Staffs (Cambridge)	

means the company reported one of its indicators is in line with or better than expected

means the company reported one of its indicators is not in line with expectations but performance has slipped only slightly

means the company reported one of its indicators is significantly below target or expectation

Source: Ofwat website showing full regulatory compliance across all 8 measures

Efficiency

The Company has for a long time had a considerable focus on delivering efficient operations. This benefits customers in the form of low bills and it benefits investors from the ability to outperform the regulatory targets that have been set for the leading companies. The Company has been in Band A for efficiency since 2002/03 and the impact of the merger with Cambridge Water was assessed at the Competition Commission. The analysis by Oxera confirmed the Company would remain Band A and that this position was demonstrated for two further years after Ofwat's comparative efficiency modelling ended in 2008/09. The following table shows the Company's historic performance on comparative opex efficiency (including Cambridge in final two years):

2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
Band A	Band A	Band A	Band A	Band A	A lower	A upper	A lower	A upper
Rank 2nd	Rank 2nd	Rank 2nd	Rank 5th	Rank 4th	Rank 5th	Rank 3rd	Rank 5th	Rank 3rd

The data for the last two years in this table is based on Oxera modelling with the merged company - whilst Cambridge Water was assessed as being less efficient at PR09 since this point they have made significant efficiencies, which are being returned to customers at this review. Previous data is as published by Ofwat for South Staffs Water.

At PR09 Ofwat set the Company an efficiency target to reduce its operating costs by 0.25% per annum, which was a lower target than others due to the high efficiency already achieved by the Company at 2008/09. The

Company has outperformed this – a position that benefits both investors in the short term and customers for the next five years with lower charges than they would otherwise have been. This business plan projects further efficiencies at a forecast level of 0.75% per annum – three times that of the last regulatory target. AMP5 opex outperformance is expected to be 5%, which reduces customer bills from 2015/16 relative to what they would have been.

The CIS score for both South Staffs and Cambridge at PR09 was only just above 100 reflecting the strength of asset maintenance and planning in both businesses. The PR09 capital allowance will be spent.

In terms of capital efficiency, the Company was also "Band A" when this was last assessed by Ofwat. At PR09 the Company's position on the Cost Base was strong and the level of spend in AMP5 is 40% lower than the industry average (based on capex per property). This suggests the Company's relative position on any new capex efficiency assessment or totex models is likely to be extremely favourable. The Company has made significant capital efficiencies in AMP5 through its procurement and contracting strategy, ensuring that competitive forces are strong for the capital projects delivered each year. These capital efficiencies are then re-invested for the benefit of customers rather than used to target a capital under-spend, a position which the Board believes is appropriate where the longer term capex trends are rising.

If this policy had not been followed the AMP6 needs would have been higher. The Company also continues to work with its contractors to ensure service is high to customers, as they contribute to both efficiency and SIM performance (customer satisfaction).

AMP5 Financial Performance

The financial performance in terms of post-tax return on capital has been and is projected for the remainder of AMP5 as follows:

	2010-11	2011-12	2012-13	2013-14	2014-15
SST region – Ofwat FD	6.0%	5.6%	5.7%	5.7%	5.7%
SST region – actual/forecast	5.8%	6.1%	6.0%	5.5%	5.5%
CAM region – Ofwat FD	6.2%	5.4%	5.5%	5.5%	5.5%
CAM region – actual/forecast	7.2%	6.7%	6.2%	6.5%	6.7%

The outperformance largely arises from opex efficiency outperformance, particularly in the Cambridge region, which will be passed back to customers at this price review. The deterioration in financial performance in the South Staffs region in the next 2 years reflects:

- lower income from new connections
- higher depreciation from short life assets
- reduced efficiency scope

The Final Determination figures from PR09 are higher than the headline of 5.5% due to the incentive rewards earned by the Company for OPA standards and efficiency.

AMP5 Challenges Experienced and Lessons for AMP6

Whilst the overall performance of the Company has been strong, there have been some significant operational events that have disrupted customers and the public. Further, whilst there is high customer satisfaction, some of the customer research findings need to be addressed. The Company's future plans take account of these experiences and customer concerns, including initiatives within retail to improve communications to customers around future major events.

In terms of operational events, the most notable have been:

- Streetly flooding: an emergency event following a mains burst close to a service reservoir was experienced in 2011 when around 100 properties were flooded, with some properties experiencing severe damage.

- Large diameter mains bursts on strategic highways: on several occasions main bursts have led to severe traffic disruption on strategic highways, closing the carriageway or reducing the capacity on the A38 (Midlands) and A14 (East Anglia) trunk roads.

- Water quality problems: in 2012 there was a series of water quality problems at the second largest works, Seedy Mill, together with a general poor level of water quality performance (the MZC fell to 99.92%). This is not acceptable and actions have been taken to restore water quality performance, which is a priority for customers. The various problems at Seedy Mill Treatment Work, and similar problems at Cambridge's Croydon works, are however a reminder of the importance of targeted maintenance to ensure that the risk of service failings is managed.

The AMP6 plans reflect the need for targeted maintenance of critical assets and the risk of trunk main failures.

In terms of the customer research findings, there has been strong feedback that the communications with customers could be more effective. Customers have expressed a desire for advice and education on saving water, on water hardness and on how to reduce their bill, as examples. They also have a desire for more information on our performance and how their bills finance our investment activities so they can see where their money goes.

So whilst SIM performance is strong and satisfaction levels are high, there is clearly more that can be done for customers and the Company will work hard to improve its customer communications following this feedback.

Customer Bills

The customers of South Staffs Water receive low bill levels and high service standards. In many industries a cheap product may be associated with poor or lower quality service but this trend is defied as the Company offers a combination of low bills and high service. The Company is determined that this will continue for the benefit of current and future customers.

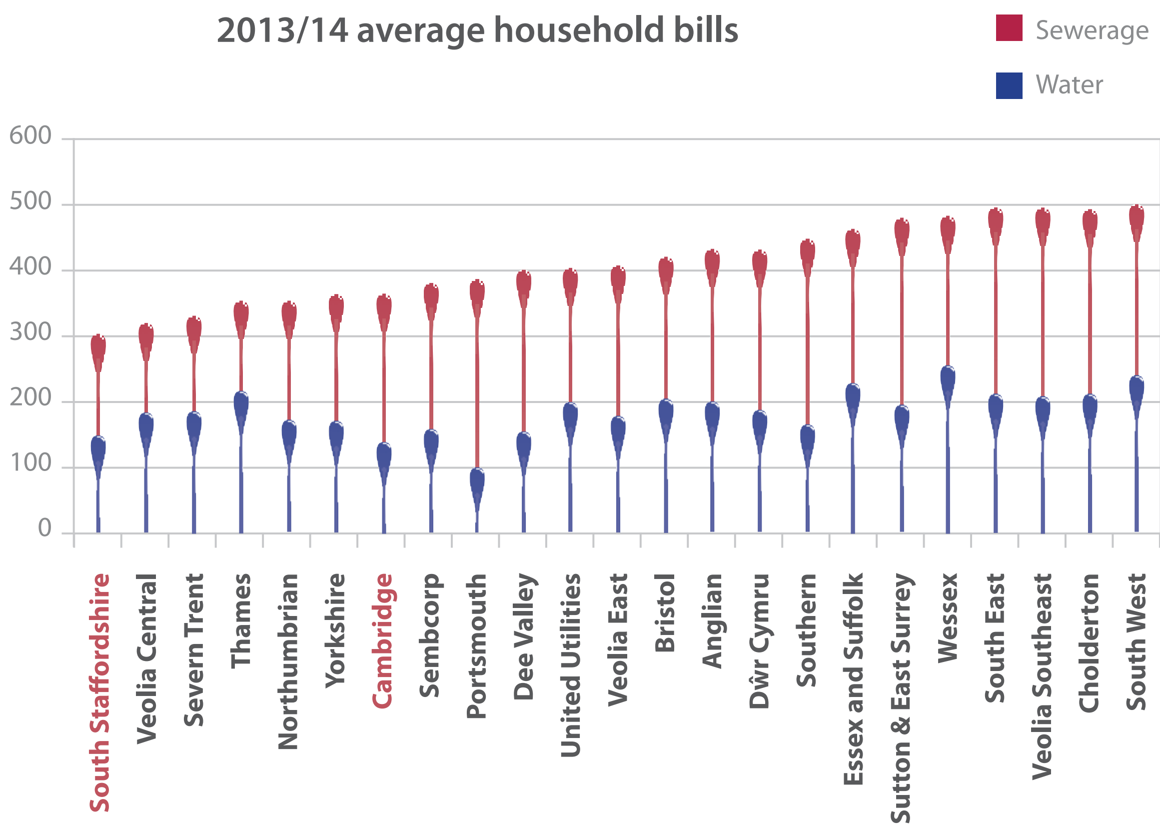
The Company operates with the same regional challenges as the two neighbouring WASCs. In the South Staffs region the water bill is £23 lower and in the Cambridge region it is £64 lower than our neighbours.

Nationally the Company's household water bill is 25% lower than the national average, which in absolute terms is £46. This is based on an average water bill of £140 for the overall merged business.

This low bill level is very important, particularly in the South Staffs region where there are high levels of social deprivation. In the current economic climate the Company has been able to control debt levels and costs. At the same time the Company is conscious of affordability and the need to minimise water bills.

The Company bills on behalf of both Severn Trent and Anglian for sewerage services. Many customers focus on the total bill as opposed to just the water bill. In preparing this plan we have worked with both sewerage providers to understand the impact their plans are likely to have on the total bill. Similar price profiles are expected for both Severn Trent and Anglian in the next period.

The following chart shows the current levels of overall water and sewerage household bills in each company area.



Source: Ofwat Press Notice PN 03/13, 5 February 2013

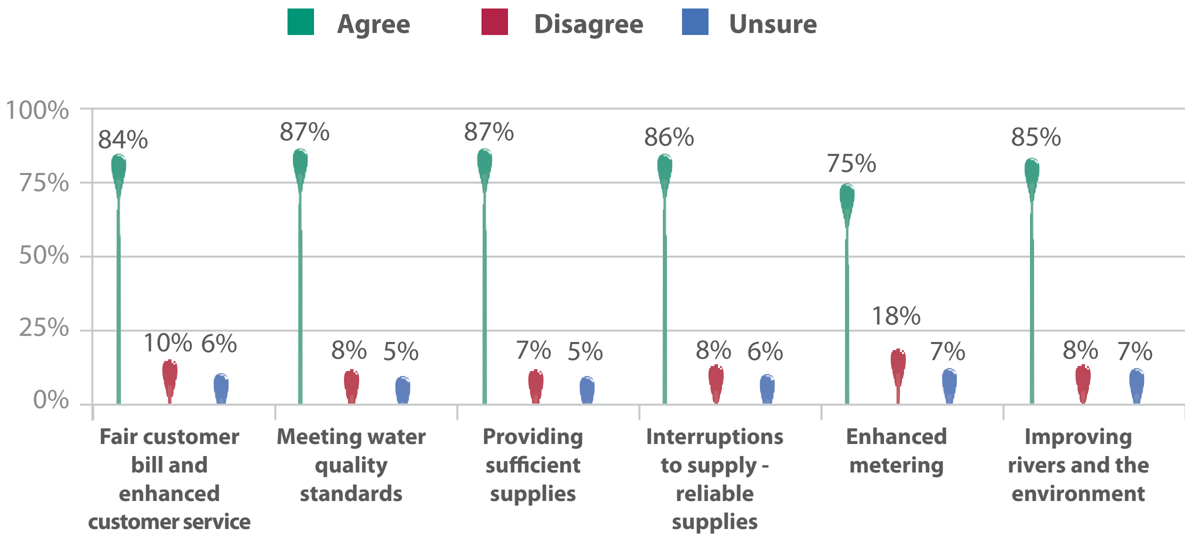
Outcomes

- Five outcomes are set based on extensive customer engagement
- The Company proposes six measures that will be subject to penalties if performance commitments are not met. The penalties are set at a realistic level of being triggered, otherwise they would be hollow. The cumulative value of the penalties is £2.50 per customer (excluding SIM).
- Three measures have rewards to encourage service and environment improvements (one being SIM), reflecting the priorities of customers and stakeholders. The cumulative value of the rewards is £1 per customer.

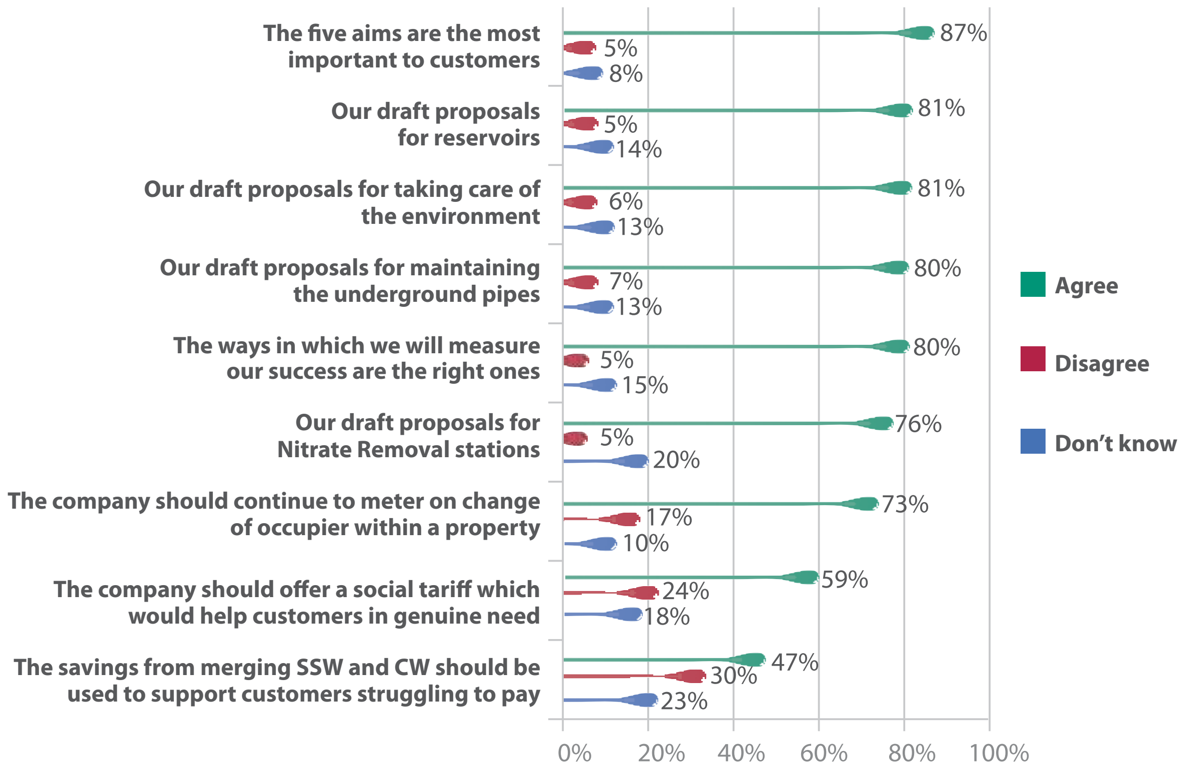
The Company welcomes the change in emphasis to outcomes since they allow focus on local customer priorities and provide more flexibility to progress the long term improvements that our customers and stakeholders really value.

Customer engagement

The outcomes the Company has identified are those that were found, through extensive research, to be of the most importance to the Company's customers. Once research was complete and the five draft outcomes were identified, consultation was carried out with the CCGs who endorsed their selection but encouraged us to be bolder with the environmental commitments and to reflect the role of the Company in the local community. Hence the challenges received have led to revisions to the Outcomes. The emphasis made on the long term is deliberate since this is important to customers. The five outcomes featured in the Draft Business Plan and in the Long Term Strategy consultations to provide further re-assurance from customers that the right ones were selected.



Source: ICS/Eftec Acceptability research, survey of 1,044 customers



Source: Community Research report on DBP consultation, 983 responses.

After these consultations, the Company adapted the five outcomes accordingly and these are the five that the Board has carefully worded:

- Excellent water quality (now and in the future)
- Secure and reliable supplies (now and in the future)
- An excellent customer experience to customers and the community
- Operations which are environmentally sustainable
- Fair customer bills and fair investor returns

Success Criteria

What our customers want – our Outcomes	What does this mean for customers?	What will be measured?
Excellent water quality (now and in the future)	• Is the water safe to drink? • Are customers happy with the water?	• How well the Company's water meets standards set by the Drinking Water Inspectorate • The number of complaints about the water - the DWI refer to this as "acceptability of water to consumers "(per 1,000 population) • Working with farmers and other landowners to improve the water draining into watercourses
Secure and reliable supplies (now and in the future)	• How often are customers without water? • What about hosepipe bans? • Will there always be enough water?	• How often and for how long customers are without water • How serviceable and resilient our assets are (e.g. reservoirs, treatment works and water pipes) • The frequency of hosepipe bans (known as 'Temporary Use Bans') • How we work with house builders to promote the installation of water efficient devices (e.g. for collecting rainwater and recycling household water)
Delivering an excellent customer experience to customers and the community	• Are customers satisfied with our service? • Are we getting involved in the community? • How do our activities affect the community?	• How satisfied customers are, using independent surveys • The number of written customer complaints about our service • The Company's involvement with the local community (e.g. as an employer, supporting local activities, engaging with customers, local stakeholders and businesses)

What our customers want – our Outcomes	What does this mean for customers?	What will be measured?
Operations that are environmentally sustainable	• Do we help customers save water, and do we save it ourselves by reducing leaks? • How 'green' are we? • Are we making a positive contribution to the environment?	• How the Company helps customers to use water wisely, particularly in drought situations (e.g. our continued commitment to metering, trials of water-efficient devices, customer research into how much water people use, more education and information about wise water use) • How much the Company reduces its carbon footprint (e.g. using alternative energy sources for treating and pumping water, measuring units of carbon produced in relation to volume of water delivered, reducing emissions from our vehicles) • How well the Company works to reduce leaks • The Company's biodiversity activity (e.g. providing wildlife habitats on our land, reducing the effects our activities have on the environment)
Fair customer bills and a fair return for our investors	• Are we keeping bills low enough? • Are we supporting people in genuine hardship? • Do our investors receive a fair return?	• How affordable bills are, and how effectively the Company supports customers in debt (e.g. how many such customers we are working with or the amount of money we recover from them) • The extent to which customers are able to benefit from any significant Company windfall profits (e.g. by a future reduction in bills, or spending the money on our structures and equipment without increasing bills). Financial windfalls will be shared with customers.

Performance Measures

The performance measures were initially developed after the first piece of major PR14 customer research where customer priorities and service valuations were attained (MVA research). This research allowed the Company to develop measures that were important to customers.

In terms of the key principles adopted by the Board in defining these measures:

- The measures selected are stretching and reflect the standards customers and stakeholders expect from a high performing company
- They have been discussed and challenged by the CCG and developed accordingly. The likelihood of rewards and penalties being triggered is realistic against real measures of service failure or improvement
- The Board was keen to reassure customers that the high standards achieved will be maintained for the long term
- The majority of measures are set as a Company-wide target. The exception is the leakage measure that has a regional split due to different resource zones, historic position and resource challenges.

Rewards & Penalties

The Board selected six of the 18 measures for a potential penalty and three for a reward (including Ofwat's SIM). The remaining measures were either long term or reputational in nature. The Board considered this is an appropriate balance – reflecting customer priorities and showing commitments to customers and stakeholders on important service metrics whilst offering an incentive for improvements to be encouraged in the future.

The joint CCG considered the rewards and penalties. They were less keen on the principle of rewards. In terms of the penalties, they encouraged the Company to base these on targets that offered a realistic chance of being breached, even if they meant that the financial valuation of the penalty was less significant. They preferred this to a scenario whereby the financial penalty was high but the probability of it being paid was very low. This engagement was considered and the Board re-assessed the performance commitments and the triggers of the rewards and penalties proposed. The CCG also wished to see any penalties and rewards applied at the next price review when all were known, rather than the possibility for bills to vary each year.

In response to representations from our CCG, the Company made two penalties more likely to be triggered, one reward harder to achieve and another initial proposal for a reward was dropped.

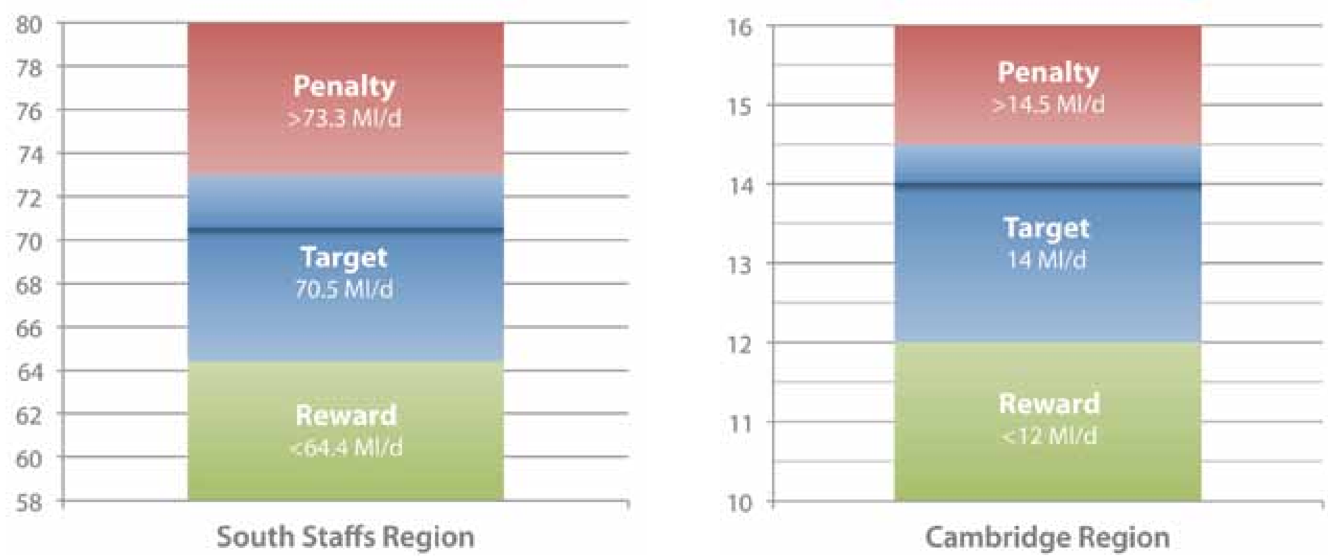
Example Measure: The "leakage" Incentive

In terms of an example of the rewards and incentives, the leakage target position illustrates this:

Separate targets for each region are specified as there are different starting positions reflecting the local operating conditions (Cambridge is water stressed; South Staffs is more urban etc.). The incentive is designed to encourage the Company to control leakage levels, which are an important metric for customers and stakeholders.

In the South Staffs region, a performance target based on the sustainable economic level of leakage (SELL) of 70.5 Ml/d is proposed in a normal year; this is 3.9 Ml/d lower than the AMP5 target. If leakage rises above 73.3 Ml/d, a penalty is paid to customers by the Company at PR19. If leakage falls below 64.4 Ml/d, the Company receives a reward at PR19. The values of the reward and penalty are the same at 50 pence/customer and reflect willingness to pay studies. A three year rolling average target is to be used to ensure the incentives payment reflect significant and proven leakage changes (e.g. not resulting from weather influences).

In the Cambridge region although the assessed SELL is 15.5 Ml/d, the Company intends to continue operating at much lower leakage levels, reflecting customer and stakeholder concerns in this drier area. As a result of this, challenging incentive targets have been defined to reflect this, as shown in the diagrams below.



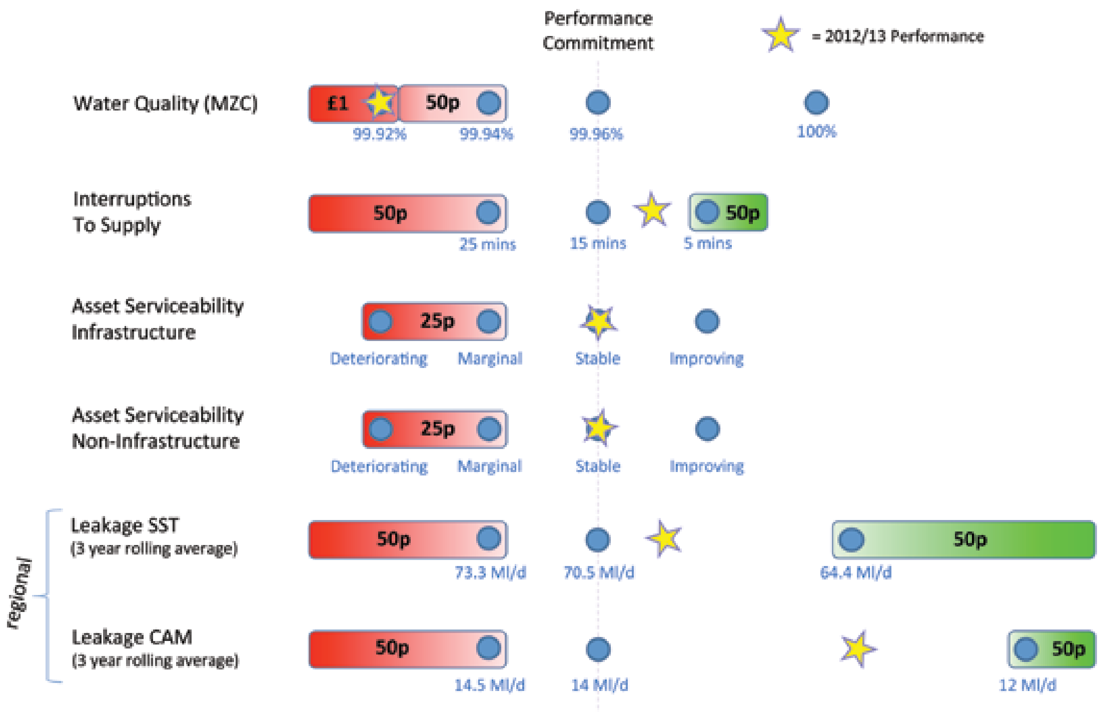
Calibration of Outcomes to Financeability

The penalty package, excluding SIM, is worth a total of £1.64 million per annum (£2.50 per household customer per annum) if all were triggered. This equates to 0.5% of the Company's RCV and incentivises the Company to deliver the performance commitments set out whilst ensuring that the penalties are not set so unreasonably high as to encourage focus on these measures above all else. The Board believes this is the right balance so that the business can be operated efficiently and effectively, which is in the long term interests of customers.

The reward package, excluding SIM, is worth a total of £0.66 million per annum (£1.00 per household customer per annum). This is substantially lower overall than the proposed penalty package. Again this is considered appropriate as the plan is predominantly a maintenance plan. Customer research has shown that customers value the current service level and that they wish this to be maintained. It is therefore right that unwanted service improvements are not imposed on customers resulting in additional rewards to the Company and bills to customers. The measures set out in the rewards package are those which customers have said that they value and for which there is some room to make improvements in the future through innovation and improved operational productivity.

The Company also has a range of reputational incentives which reflect the customer and stakeholder priorities and these will continue into the long term beyond AMP6.

The following diagram summarises the incentives that will be subject to financial rewards and penalties (rather than non-financial, that are to be reputational):



The only financial incentive to be regional is the leakage measure. The two regions have different resource positions and a different economic level. The incentives are mutually exclusive, i.e. a reward/penalty would only apply to customers in the region where this was triggered, if such a scenario arises.

Reputational Incentives

In addition to the above measures that will have financial incentives, a number of the outcomes have measures of success that will be reported against in a transparent manner to allow reputational factors to drive future performance. These are summarised as follows:

Outcome	Measure of success	Performance commitment
Excellent water quality (now and in the future)	Acceptability of water to customers	1.9 contacts per thousand population when averaged over both SST and CAM regions.
	Catchment management	Completion of a £1 million agreed programme within AMP6 otherwise the funding received from customers to implement these catchment management projects will be logged down at the next price review.
Secure and reliable supplies (now and in the future)	Water re use in the Cambridge Region	Completion of the agreed programme in the CAM region.
Delivering an excellent customer experience to customers and the community	Customer satisfaction from independent surveys (not SIM)	A score of 4.5 out of 5 when averaged over both SST and CAM regions.
	Customer complaint levels per 1000 customers	2.8 written complaints per thousand customers when averaged over both SST and CAM regions.
	Community activity and engagement with customers	Completion of the agreed programme of community activity and customer engagement.
Operations that are environmentally sustainable	Water efficiency programme – household per capita consumption	A downward trend (weather adjusted) when averaged over both SST and CAM regions.
	Biodiversity activity	Completion of the agreed programme of biodiversity activity.
	Power and carbon use (t CO2 e/Ml)	A downward trend (weather adjusted) when averaged over both SST and CAM regions.
Fair customer bills and a fair return for our investors	Independent customer surveys of value for money, affordability and fairness	A rising trend in customers' views of value for money, affordability and fairness achieved largely through improved communications and transparency.
	Support for customers in debt	Completion of the agreed programme of assistance for customers in debt.

External Financial Windfalls

The Company has confirmed with its CCG that in the AMP6 period there will be an annual review of whether any external financial windfalls received should be shared with customers in advance of the next price review. Such windfalls may arise from changes in interest rates, inflation levels or taxation rates, for example. The proposal is based on a principle of 50:50 benefit sharing, with the format of this sharing most likely to be either reduced bills or specific re-investment to benefit customers.

Timing

It is proposed that, with the exception of the financial windfalls measure, other rewards and penalties are stored up / netted off at the following price review in 2019 (PR19). This was also the preference of the CCG. This avoids uncertainty in bill profiles and addresses the issue of timing insofar as year-end performance is not known when charges for the subsequent year are determined. The Board recognises it has the discretion to pass back to customers sooner for significant deterioration in service or from financial windfalls, depending on the prevailing specific circumstances.

Our plan - how we will deliver the outcomes

Excellent water quality (now and in the future) 26% of totex

The plan does not require a major water quality improvement programme. The Company has decided not to invest heavily to deal with water hardness, despite this featuring heavily in customer research. Such investment is not good value for money, leads to high carbon use, and may put public health at risk. The full plan explains the customer information needed to explain this to customers. Major water quality expenditure is also avoided by careful management of risks, for example by the mains flushing programme, by blending sources to avoid new treatment and also by phosphate dosing to avoid major lead pipe replacement.

The planned water quality programme accounts for future risks to the levels of permitted abstraction arising from the Water Framework Directive (WFD). For example a nitrate source refurbishment will not proceed in AMP6 due to investigations needed on sustainable abstraction levels in that catchment.

This outcome does, however, require the maintenance of existing assets to deal with rising nitrate levels at sources, to meet the lead standards, to manage coliform levels that have proven problematic in recent years, and to manage disinfection by-products. This is consistent with what the DWI expects from water companies.

Secure and reliable supplies (now and in the future) 32% of totex

Here there are regional differences. The Cambridge region has relatively lower leakage levels and higher metering levels already since they are in a drier area of the country and such activities are economic. The pressures from the Water Framework Directive are also greater in Cambridge. There are plans to secure a new bulk supply arrangement for water trading with Anglian Water that could eventually supply them around 2 Ml/d.

In the South Staffs region there are plans to continue the discretionary policy of change of occupier metering. All stakeholders, including customers and the EA / CCWater support this. In the South Staffs region, 12% of the water is already exported to Severn Trent through a long standing water trading arrangement. This works well and it is hoped that further water trades can be agreed for the future in addition to this successful on-going trade. Only one other water company exports relatively more water than the South Staffs region.

This outcome is the primary driver of the essential capex uplift required. This spend relates to service reservoir replacement, a new nitrate plant and existing nitrate treatment refurbishment work. For the Company such spend is infrequent insofar as these are large assets, which have long asset lives and thus need to be replaced infrequently but require significant investment. It is needed to ensure water sources are ready and capable to meet demand in light of changes to weather patterns. The Company has looked hard at whether all this spend is needed in AMP6, this resulted in some spend being delayed into AMP7 but this needs to be carried out with caution as there are other large schemes needed in the AMP7 period and the consequence of catastrophic failure

of the assets is high, a view that has been confirmed by external scrutiny (WS Atkins). Hence we need to manage these risks in a balanced way providing both storage and source resilience. The Board is confident that these risks can be managed.

Delivering an excellent customer experience to customers and the community
16% of totex

In line with customer feedback there are plans to develop a wider range of customer contact channels, developing a digital strategy so using electronic interfaces (text messaging, website, social media channels) the Company is more accessible to customers.

Further, a number of innovation projects have been identified to assess the potential to reduce customer disruption by live monitoring of leaks and water quality parameters in the network to minimise and resolve such issues promptly.

Finally, there are plans to increase involvement in the local community so that closer relationships with customers can be established and to also protect the local environment.

Operations that are environmentally sustainable 16% of totex

Customers are keen for more advice and education on how they could use water more carefully and the Company will therefore increase its water efficiency activity. This is in line with the Company's duty to promote the efficient use of water.

The Company will continue to meter on change of occupier in the South Staffs region, a discretionary policy that has widespread stakeholder support given the current low household metering levels in the South Staffs region.

The Company is also fully committed to the Natural Environment Programme and compliance with the Water Framework Directive.

The Company has committed to developing and delivering a strategy for biodiversity which will protect and enhance the natural environment on land owned by the Company.

The Company plans to further investigate the potential for catchment management that offers long-term sustainable alternatives to nitrate treatment and to implement catchment management in its two surface water catchments.

The delivery of water efficiency activity, biodiversity and catchment management will require partnership working with key stakeholders and multiple benefits will be targeted.

Fair customer bills and fair investor returns
10% of totex

The Company will continue to drive forward efficiency projects that improve operations and reduce the cost to serve in order to achieve the challenging efficiency target we have set, with additional benefits accruing to customers in the future. Initiatives to limit power use are important and these are to be pursued including the pump efficiency and optimisation initiatives, together with customer initiatives to reduce their demand for water such as metering and water efficiency programmes.

External financial windfalls will be shared with customers.

A package of affordability measures to support vulnerable customers is proposed.

A lower cost of capital, that represents a lower profit level, is forecast for the five years.

The above table is a short summary of how the business will meet the outcomes. In this business plan there are specific papers covering the strategy of the Company on important topics to support customers and meet stakeholder aspirations. These strategy documents are deliberately concise and cover:

- Water trading
- Protection of the environment (catchment management and biodiversity)
- Customer engagement
- Market reform
- Affordability
- Water quality
- Leakage
- Outcomes – rewards and penalties
- Resilience and SEMD
- Asset management and investment optimisation
- Efficient delivery
- Innovation
- Water efficiency
- Metering
- The retail strategy
- Engaging with the local community
- Network optimisation and energy management

Costs, efficiency and innovation

- The business has identified an optimum level of totex that reflects customer valuations of service, risk of service failure and represents the right balance of opex/capex solutions.
- The totex is 6% higher than current AMP5 levels reflecting power costs (opex) and some major capital schemes needed – despite this increase there is a strong likelihood of being at the lower end of the cost corridors
- Some exciting innovation projects are planned to further investigate the scope to improve service and efficiency in the longer term

Programme level investment scenarios

The Company has carefully analysed future spend requirements, reviewing the cost benefit analysis (CBA) of different investment options. In order to minimise the impact on customer bills, only activities that are essential to the running of the business or specifically valued by the customer will proceed.

The Board believes the mix of capex and opex solutions chosen reflect an optimum level of totex to meet customers' expectations. There is not a significant statutory or growth programme in this period, the programme is dominated by maintenance spend. If lower capex than planned was included in this business plan, the likelihood of increased opex arising from asset failure, service disruption and poor efficiency would lead to higher customer bills. Likewise, if higher capex was chosen, customer bills would be higher as the offsetting opex reduction would not be sufficient.

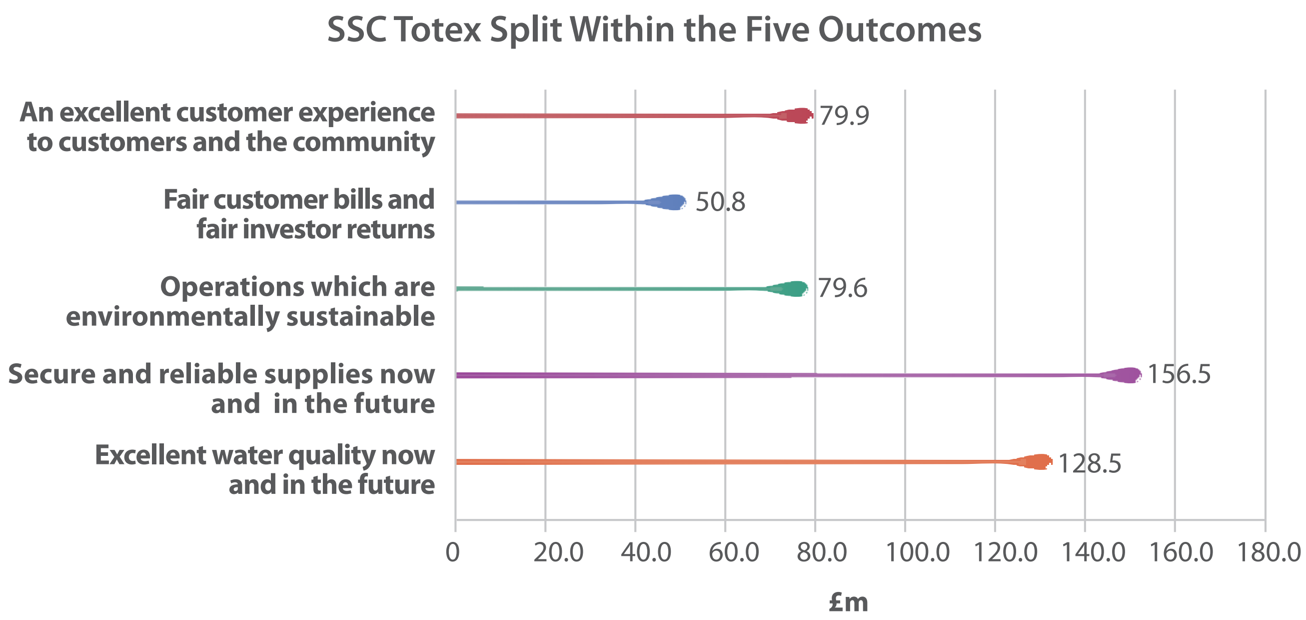
The chosen totex level is shown to be cost beneficial, linking the expenditure planned with the customer research undertaken (specifically customers' willingness to pay). Once draft proposals were developed, the Company also embarked on acceptability testing of the proposals to check again that the customers found these to be value for money, in line with their priorities and that the proposals were supported. The customer feedback was very positive.

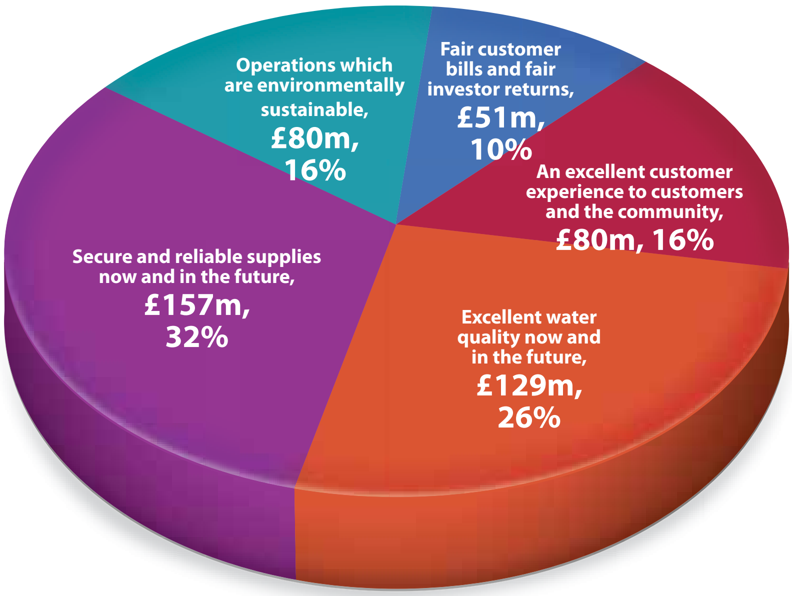
A number of major maintenance schemes are needed in the short to medium term to meet customers' expectations of a continuous and reliable supply. These include complete nitrate source refurbishments and reservoir replacements. The Company has carefully considered the timing of these. Some schemes can be delayed, but this is not always possible as sources are needed to meet demands and to allow efficient operations. After the AMP6 period there is likely to be a larger environmental programme associated with the Water Framework Directive (WFD) and there are other reservoirs showing signs of failure. Hence a long term view of investment needs has been taken and the Company is keen to maintain low bills not only for a further five years, but also in the long term.

	AMP5	AMP6	% Change	Principal Reasons
Opex	£299.4m	£306.7m	+2.4%	Power costs are rising – whilst a national trend this impacts the Company more than any other water company due to the topography.
Capex	£168m	£190m	+13%	Major spend in the form of reservoir replacement, a new nitrate plant and nitrate station refurbishment.
Totex	£467m	£497m	+6.4%	As above – but relative to others the absolute totex remains low.

The additional totex spend is not to improve service – customers told us that current levels of service are good and that these should be maintained. The expenditure is to maintain current operations and customer satisfaction. The Company has developed service level deterioration models and analysed actual failure experience and this shows that the level of totex spend chosen results in stable serviceability and service levels. This work has been externally verified using companies such as Mott MacDonald and Seams.

In terms of the allocation of spend across the five outcomes, this is shown below:





Totex in the Longer Term

The Company has produced a long term strategy document to support this business plan and this is included in our library of supporting material.

Whilst it is difficult to be precise, the AMP7 (2020-25) period includes a number of areas that form an upward pressure for future totex:

- Major storage reservoir replacements and source refurbishments
- A larger environmental programme associated with the Water Framework Directive and fish/eel statutory schemes
- An uplift in mains renewals expenditure given that a decision has been taken to reduce spend in AMP6 for a five year period, balancing risk of service failure and customer affordability concerns (the lower level is not sustainable long term given customers' desire for leakage and bursts to be controlled)
- Potential spend on lead pipes and supply pipes
- Potential spend on UV treatment at major treatment works to address water quality issues (THMs)

The above pressures are upward, but future efficiencies and innovation advances may lead to a downward pressure to counter these areas. These will continue to be explored vigorously but on balance the Company believes the totex trend to be more likely to be upward in the long term, due largely to new obligations arising. This position limits the scope for AMP6 spend to be deferred beyond that which has been possible from a risk-based review.

The Company remains committed to the Water Resources East Anglian (WREA) project group to ensure there is a joined up long-term approach to managing resources in this dry region.

Innovation and efficiency

An opex efficiency projection of 0.75% per year is included in this plan, which is three times the level set by Ofwat at PR09. The Board consider this to be very challenging and note that the scope for future efficiency is limited by the progress already achieved and the need to manage risks. At PR09 the Regulator set Upper Band A companies a target of 0.25% per annum. The Company expects to outperform this, with actual AMP5 opex being 5% lower than the PR09 Determination level. The culture of continuous improvement is embedded in the Company and will drive continued cost reduction, with a number of initiatives already identified for the period.

To build on the Company's track record of strong efficiency, it is essential to embrace new technologies and new ways of operating that arise from innovation, best practice and a culture of challenging the way the Company operates. The partners, Group companies and contractors used all operate in strong commercial markets and they need to stay ahead of their competitors to be successful. Equally, there are suppliers and partners such as Cambridge University that the Company works with to generate ideas and new approaches to working in this long term business.

Some of the current exciting innovation projects the Company has commenced, and therefore which helped constitute this plan, are discussed in the detailed section of this business plan and they include:

Project	Scope/Objective
Risk assessment models of trunk main failures – flood simulation models	This allows a risk register to be further developed so that critical assets are known, based on the consequences of failure. In the future not limited to trunk mains, for example reservoir breaches.
Live distribution network technologies	To provide real-time data on the performance of the network so that the Company knows what is happening before customers are disrupted – reducing the need for customers to contact the Company and enabling faster response times.
Live water quality monitoring	Use of new technology to monitor water quality in the network (e.g. to manage transient turbidity issues) to minimise and resolve customer service issues
Pump optimisation automation	Models are already available to identify the cheapest mix of sources to use as demand levels vary – this project develops this to enable the automation of individual pumps to develop this concept further.
Identifying practical uses of specific algae to contribute to the low carbon agenda	Innovative work taking place in Cambridge has seen the Company join forces with Cambridge University and the University of East Anglia to research ways of reusing waste created by nitrate removal plants. Practical and commercial uses of algae are being explored.

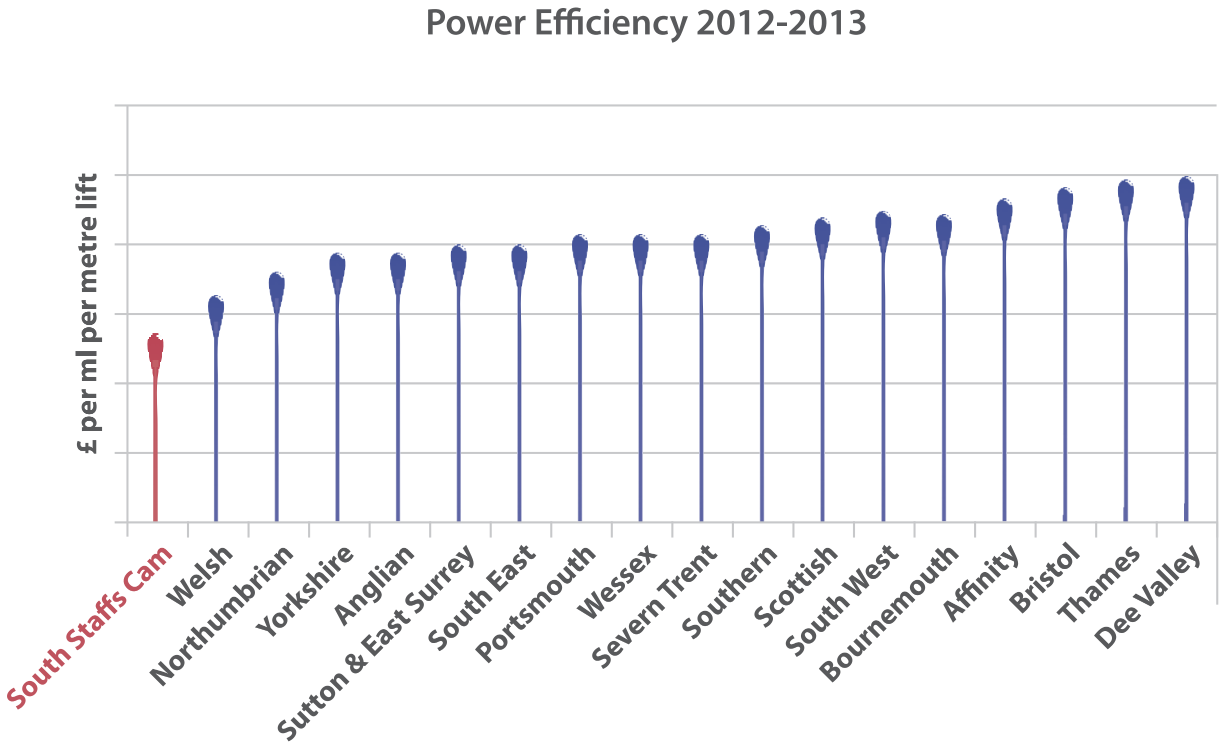
Photograph credit: D Maric, CambPlants, University of Cambridge.

Project	Scope/Objective
Pump motor drive development	The Company has recently installed very advanced pumps using technology not previously adopted in the industry (a "synchronous reluctance motor and drive package") that yielded a 5-6% energy saving – this is to be explored further.
Water re-cycling in new houses	In Cambridge the Company is working with a major new housing scheme where grey water recycling is planned.
Development of infrastructure asset models using asset strings	Allows improved targeting of mains rehabilitation expenditure, which is vital since it is high value (>£15m/year)

As the Company's experience of these initiatives evolves, it is clear that the volume of data is high. An improved works management system has been developed based on Qlikview technologies to make data analysis more accessible to field staff and relatively straightforward to undertake. This push makes the innovation projects far more valuable to the Company's daily operations and is the type of approach that keeps us ahead of other water companies in terms of efficiency.

The Company continues to focus its efficiency drive based on where there are high risks of cost escalation in the supply areas. For example, the operating conditions and demographics are based on high pumping requirements and a deprived customer base in the South Staffs region. Hence the focus on efficient use of power through, for example, a pump efficiency programme and on debt costs through targeted collection activity is very strong. In the Cambridge region there is substantial housing growth envisaged in an already dry area and here the focus is on sustainable abstraction and control of growth costs.

The following chart confirms that the Company's power efficiency is the best in the sector:



Impact on bill

The impact on customer bills of the totex proposals in this plan is as follows:

	Bill Impact
Higher capital programme	+£5.30
Higher opex – e.g. power costs	+£3.10
Past and future opex efficiencies / innovation	-£5.30
Further opex efficiencies arising from the merger	-£0.60
Overall totex impact	**+£2.50**

This bill impact has been limited by:

- Early negotiations with energy providers to address the risk of major power price increases;
- Optimising the capital programme in AMP6 to accommodate atypical spend on large assets and balance the overall risks of customer service failure and the need to address affordability;
- Deferral of spend where possible whilst being aware of future cost pressures;
- Adoption of efficiency targets that far exceed the PR09 Determination;
- Careful optimisation of the programme to identify the capex/opex split that has the lowest bill impact yet manages risk of service failure;
- Balancing increased totex with the impact of risk on customers;
- Pragmatic assessment of future cost pressures – uncertain items like changes to business rates have not been included.

Without these seven actions the above bill impact would have been much greater.

Financing and Affordability

Financeability

AMP5 Performance

In the current period the Company is outperforming regulatory expectations, which were higher than other companies since an OPA reward was applied, a good CIS ratio was secured and the returns expected also reflected the opex efficiency incentive.

The Company's financial success has run parallel to a period where SIM performance has excelled, all regulatory targets have been met or exceeded (e.g. leakage), the full capital programme has delivered the outputs in accordance with our plans, and by outperforming on efficiency there are major benefits to customer bills from 2015 as these savings are then returned to customers. Where the outperformance was due to favourable conditions, rather than the success we had on efficiency, the Board instructed these gains to be re-invested in service and in asset renewal. This supports improved customer satisfaction and has helped reduce the long term expenditure needs. Specific examples of additional spend have included:

- extra spend on debt collection in terms of systems and staff resources in order to avert rising debt levels;
- extra spend to protect Blithfield Reservoir during pro-longed dry conditions which involved the use of more expensive sources to avoid a need to impose drought restrictions on customers;
- extra spend on reducing leakage for the same reasons as above;
- additional spend at Blithfield Reservoir to improve the environment and open this source up to the public for recreational activities;
- additional expenditure at our 2nd largest source, Seedy Mill, due to unpredicted asset failures;
- expenditure on customer engagement at this price review to ensure future proposals were based on their views.

- The gearing level of the Company of 65% and debt costs yields a vanilla cost of capital of 4.5%, which is based on our actual debt costs that reflect our small size.
- Acceptability testing of the Company's draft proposals (+2% bills over 5 years in real terms) revealed 82% acceptance.
- Customer bills will remain much lower than others, both regionally and nationally. Support to customers will be extended through a significant expansion of the Charitable Trust and further customer engagement on a social tariff. A new social package is proposed.

Regulatory Capital Value

One issue to note is that the Regulatory Capital Value of the Company is very low compared to other water companies (for example on a per property basis it is the lowest in the sector). Many financeability conditions are based on this RCV metric so this point is important. After the merger the RCV of the combined entity is still smaller than that of Bristol Water, which at the Competition Commission for PR09, was assessed as being a small company.

Pay as you go (PAYG) rates

The Company has not adjusted the PAYG rates from the forecast opex:capex split. This stance was taken because:

- Current operating practices are not biased in favour of capex
- Short term gains on customer bills simply mask a problem for their future levels. The long term projections do not show falling totex so it would be inappropriate to store up further future pressures on customer bills or future risks to financeability (e.g. risks to financial ratios or covenants).

Run Off Rates

The Company does have a high run-off rate relative to other water companies, though this will largely be resultant from the low relative RCV, as noted above, and from the focus on maintenance schemes. The run off rate has been set for each year in order to match current cost depreciation rather than be used to reduce bills at the expense of RCV growth and future increases.

Gearing

The merged entity has a combined level of gearing of 65%. It is an objective to keep it broadly at this level throughout the AMP6 period, though if circumstances change this will be reviewed.

Cost of Capital

The vanilla WACC projected for South Staffs Water is 4.5%. This compares to 5.5% set by Ofwat at PR09. The basis of this calculation reflects the Company's financial structure and debt financing position as follows:

Gearing	65%
Cost of debt based on actual position	3.3%
Cost of equity assumed	6.6%
Vanilla WACC (post tax equity, pre-tax debt)	4.5%

New debt: The cost of debt uses the current market rates that can be secured for the period 2015 to 2020 in respect of the £30m of debt being refinanced in the period. This plan assumes new debt costs of 0.6% in real terms.

Embedded debt: It is not in customers interests for the Company to break away from the current long term debt arrangements (embedded debt of £185m exists until 2051 at 3.75% real) that are in place due to the estimated early redemption cost of at least £75m that would be payable in order to secure current rates, nor would it be in customers' interests for a new approach of using wholly short term borrowing to be adopted to fund a long term business. The Company's long term debt was issued at competitive rates (3.75%), with the overall average debt rate of 3.3% being at the mid-point of Oxera's range.

Equity: The cost of equity assumption of 6.6% compares to a range in the Oxera report of 6.5% to 8.6% for a water only company at 65% gearing and they believe that a cost above the mid-point or close to the top of the range is justified. The level of gearing is important, since comparisons with the cost of equity of 7.1% allowed at PR09 must account for the fact the gearing assumption here was 52.5% for the small companies, with the cost being 7.6% when using the WASC gearing of 57.5%.

The Board believe that the Company will be financeable at this cost of capital and no equity injection is considered necessary with the AMP6 proposals in this Business Plan

A report from Oxera is included in this Business Plan to evidence the cost of capital position and supports a small company premium of 0.4% to 0.7%. In summary this notes that:

- Smaller companies are more exposed to general business risk (closure of major customers, large operational events etc.).
- The cost of raising finance is proven to be higher for the small companies, partly as some markets are not open to smaller sized issuance and also the transaction costs are higher.
- Smaller companies face greater exposure to financial risk, a factor that Moody's note in the credit rating of Baa2 that they assign to the Company.

The Board believes that a WACC of 4.5%, 1% lower than at PR09, is the maximum reduction that the Company can absorb and continue to deliver high levels of service, water quality, and ensure resilience of assets, all of which the customers want. The Board therefore believes that an adjustment for embedded debt or a small company premium would be appropriate in order to ensure that a cost of capital of 4.5% is allowed for South Staffs Water.

Return measures:

As per Ofwat's requirements, the following metrics are each reported before any PR09 legacy adjustments and they are expressed in nominal prices except for ROCE and RORE which are in real terms. Where numbers differ in each year of the period 2015-20 the range is quoted.

	Value
Return on capital employed (ROCE) (EBIT – tax)/RCV)	5.4%-5.6%
Return on regulatory equity (RORE) (return due to shareholders / equity component of RCV)	5.5%-6.1%
Retail net margin	0.5% household; 2% non-household

Financial ratio measures:

	Value
Cash interest cover (funds from operations / net interest)	6.0-6.3
Adjusted cash interest cover ratio (funds from operations less capital charges / net interest)	2.1-2.3
Funds from operations / debt	0.188-0.192
Retained cash flow / debt	0.158-0.191
Gearing – Net debt / RCV	65.0%

Equity ratios:

	Value
Dividend cover	0.9
Regulatory equity / regulatory earnings for the regulated company	15.4-16.7
RCV/EBITDA	8.4-8.6

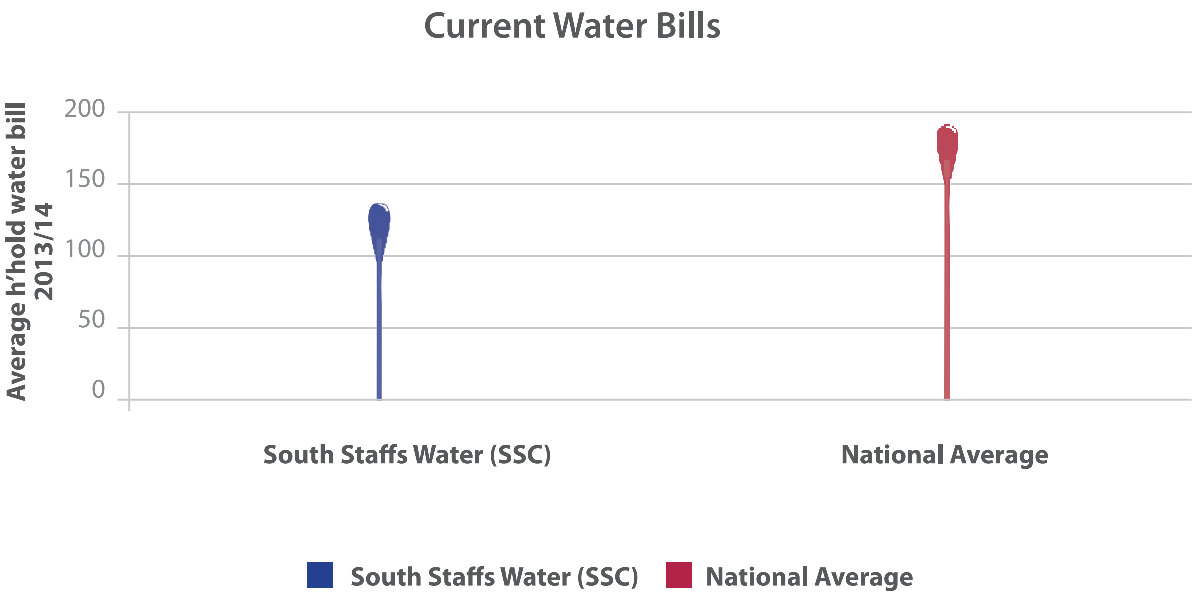
The Company's dividend policy will continue to ensure that the Company retains sufficient headroom to avoid any breach to the financial covenants and to comply with our licence.

The target credit ratings are in line with the current position:

- Standard & Poor's rating of BBB+
- Moody's rating of Baa2

Affordability

The current average household water bill of £137 (in 12-13 prices) is 25% lower than the national average. Research shows that customers value the service received.



Many customers in the Company's area do struggle to pay their bills; this has been a long standing problem in this area. The Company's long term strategy has been to help customers in need and this is evidenced by debt levels being under control. The last five years has been a difficult economic period that has compounded such difficulties. The Company has worked hard to assist customers so that fewer build up debts they will not be able to re-pay. This support has been through offering many payment options, flexible payment plans, debt advice and support, together with sophisticated debt recovery processes. The Company has also increased support through the Charitable Trust, having been the first water company to launch such an initiative.

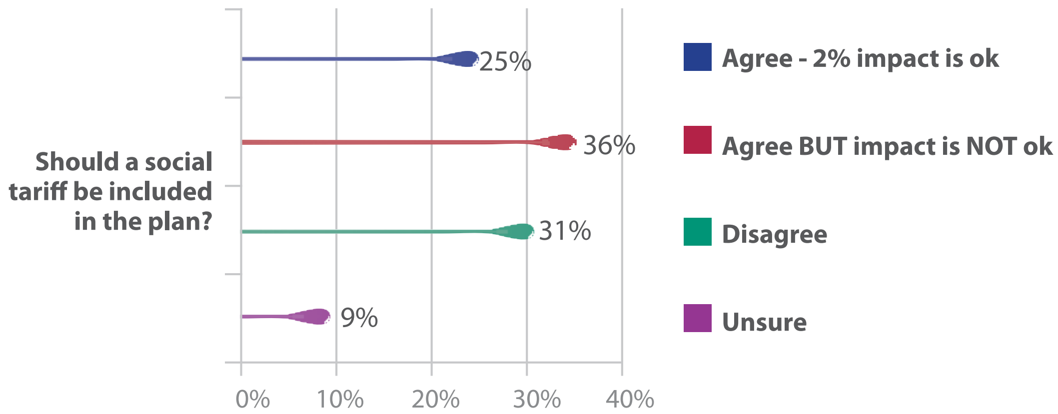
Early action was taken to avoid debt and collection spiralling, and performance metrics show this has proved successful despite the deprivation in the area. This focus on affordability has been for the benefit of all customers since in the retail cost metrics, the position here is relatively low debt costs.

The Company's overall business plan balances affordability with risk to service. In drawing up these business plan proposals, the Company has been very conscious of affordability and hence a number of actions have been taken to minimise the bill impact, not least the strong efficiency challenge.

The Company has not yet launched a social tariff, but there is a commitment to review this further in 2014 with customers and our neighbouring sewerage undertakers (for whom joint billing is carried out). Some initial research as part of this Price Review has raised doubts over whether customers support the principle of a subsidy, though this was from supplementary questions rather than an informed research piece on social tariffs.

South Staffordshire Water
Charitable Trust

The relevant findings on the social tariff question in the Acceptability Research undertaken were:



The research asked customers if a 2% bill impact, which is £2.80, is acceptable. This would have, for example, provided a £40 (30%) discount to around 7% of our customers. Future research could test acceptability of a social tariff with a lower subsidy proposed.

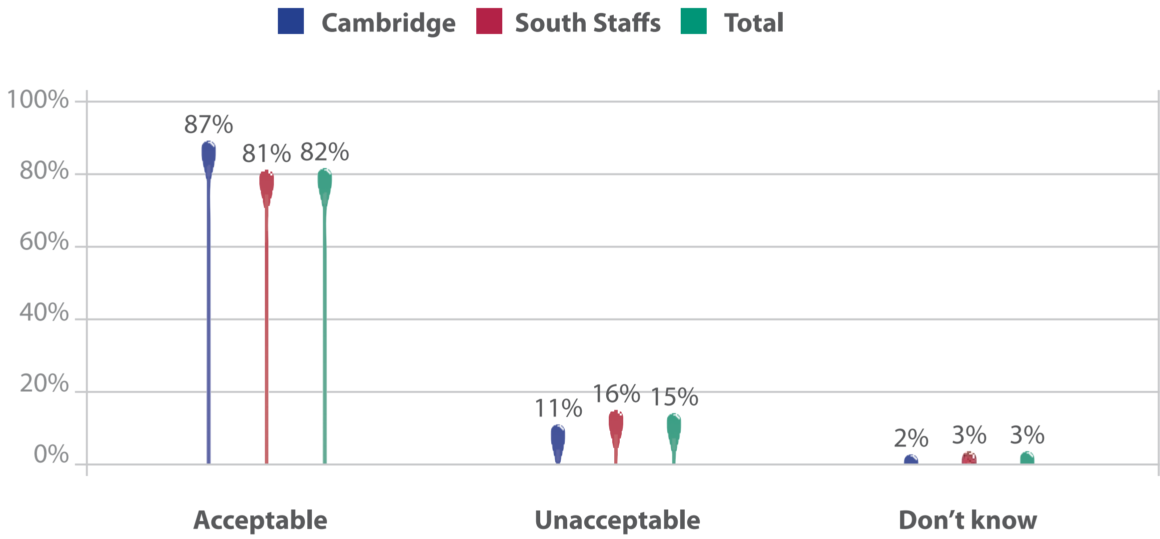
The Company and members of the CCG are keen on a social tariff to support affordability. The intention is to work in partnership with Anglian Water and Severn Trent on a social tariff given the joint billing arrangements in the two regions. If customers continue to not support a social tariff, i.e. a subsidy, the Company will review further self-financing affordability initiatives.

The Company will be extending the Charitable Trust that operates in the South Staffs region, funded by contributions from the Company's owner, into the Cambridge region. Hence deprived customers in the Cambridge region will have a new opportunity for assistance in paying their water bills. In addition a new discretionary fund of £1m will be made available to:

- Further boost the Charitable Trust through allowing more grant support to customers in need of support (this initiative is over and above the extension to the Cambridge region);
- Commence activities to offer debt advice to customers, working with specialist independent agencies such as CABx and other support agencies. Rather than just provide financial support, there is a growing consensus that many customers in debt need encouragement to seek advice and support.

An indication of whether the proposals in this business plan for a small price rise over the next five years is affordable for customers can be drawn from the recent acceptability testing. Following the publication of draft proposals for a 2% price increase (excluding inflation), acceptability testing of over 1,000 customers (including 200 business customers) was carried out. This research showed that 82% of customers found the small increase to be acceptable or very acceptable when expressed in real terms (with 59% acceptance in nominal terms when the customer was explicitly told that inflation is likely to add a further £22 to bills by 2020). This will reflect the current low water bill that applies. Customers appear pleased that the low level relative to other water companies and relative to other utility bills will be retained.

Analysis of the results of the acceptability research by customer segmentation revealed that the level of acceptability amongst low income households surveyed was still relatively high at around 80% (from socio economic groups C2 and DE). For business customers the level of acceptability was 80% when asked about a 2% price rise in real terms over 5 years.



Source: Acceptability Research findings: 1,044 customers asked if 2% real price change over 5 years was acceptable

The reasons for some customers not finding the plan acceptable varied, but common issues were:

- Water companies make too much profit
- The bill is already expensive enough
- Object to paying higher bills
- Improvement should be made without increasing bills

Since the draft plan was produced, in response to this feedback the Company has reduced the bill impact by lowering the cost of capital further and adopting a household retail margin of only 0.5% (well below Oxera's advice).

Merger Savings

The Company has secured further efficiency savings of £0.5m following the merger with Cambridge Water. As proposed in the application to Ofwat to merge the licences, discussions were held with the CCG regarding whether this should be re-invested to support affordability; and/or to do more for the environment; and/or to assist customers that had supply pipe problems. However, the customer engagement undertaken revealed that the preference was for the savings to be passed back to all customers in the form of lower bills (60% of customers favoured this), rather than re-invested. Hence in this plan the savings flow through to bills being lower than they would otherwise have been.

Whilst the merger savings are being passed back to all customers, the Company has also reflected on the challenges forthcoming from the CCG and from wider calls for water companies to do more on affordability and on support of the local environment and local communities. It was also noted that a large minority of customers (40%) did want to see the savings re-invested. A new discretionary fund of £1.5m will be created to support these themes, split equally amongst:

1. Greater grant support to customers through the Charitable Trust
2. Debt advice to customers working with specialist agencies
3. Local environmental projects (beyond the NEP) and local community schemes. This will allow some schemes to proceed that did not pass the EA's requirements for inclusion in the National Environment Programme (NEP), but are nevertheless important projects in the local community.

The Board is keen to acknowledge and support the Company's corporate and social responsibilities. It is intended to continue discussions with the CCG and other interested parties to determine the most productive programmes to meet these objectives.

Future Bill Profiles

In 2014/15 customers in South Staffs and Cambridge regions will experience a reduction in their water bills of 0.6% in real terms, hence a below inflation increase. Bills in the AMP6 period (2015 – 2020) will then be flat in real terms.

The Company intends to retain the current regional differences in household charges (the Cambridge region bills are lower) and apply future annual changes equally.

Risk and Reward

Managing risks

The Company seeks to carry out its operations based on the priorities of customers and the local operating conditions prevailing. Hence issues like excellent water quality and resilient supplies will continue to receive significant focus, since these are the priorities of customers. The challenges from the Company's high pumping requirements, urban area, dry conditions in the Cambridge region, deprived customer base etc. are also influential on how the business operates and how risk management is prioritised.

The following table summarises how the Company manages risks:

Risk that would raise customer bills	Principal Management Approach
Large expenditure replacing lead communication pipes	Effective Orthophosphoric dosing
Water hardness reduced	Customer information and advice
Drought restrictions needed (most likely in Cambridge region)	Low leakage levels, high metering levels and careful management of resources
Major trunk mains burst	Monitoring of critical assets, network resilience and fast response times (low interruption durations)
Assets failure leading to water quality problems and high source running costs	Long term asset stewardship
Pension costs	The Company to manage the pension deficit risk.
Power costs rise	Effective contract negotiations, efficient use of pumps and optimisation of the lowest cost sources based on prevailing demand.

- The main risks on operating costs (that impact bills the most) are power costs (wholesale) and debt costs (retail)
- There is an emerging risk of local authorities recovering new costs associated with permits to work on the highway – there are strong signs many will adopt this in 2014.
- Current capital expenditure costs are 40% lower than the industry average – maintaining such a low level is unsustainable, with a small increase required.
- External windfall benefit sharing with customers is proposed.

Risk that would raise customer bills	Principal Management Approach
Debt costs rise	Customer segmentation and effective collection activities
Efficiencies are not realised	The Company has a good track record and is focussed on this. It does depend on assets being replaced to lower their running costs and maintain quality.
Unsustainable abstraction	Co-operation with Environmental Regulators and optimisation of resources.

It is also recognised that some risks may turn out to be favourable to the Company. There may be changes in inflation, interest rates or tax charges, for example, that in reality become more favourable than expected in this Business Plan or the Ofwat Determination. Whereas issues like efficiency savings are returned to customers at the next price review, the Company will each year review if and when it is appropriate to share with customers the benefit from such windfalls if they arise. It is envisaged that the benefit sharing will be on a 50:50 basis, i.e. shared equally by the Company and its customers.

Hence, in the outcomes section the Company has confirmed a pledge to share financial windfalls with customers at a level dependent on the prevailing windfall and wider financial performance considerations. Further, the Board retains the discretion to compensate customers for any major service deterioration, beyond the defined outcome delivery incentives (ODIs), subject to the prevailing circumstances.

Notifiable Items

The Company does not consider it is appropriate to propose a long list of cost uncertainties that we can mitigate within the period by changing customer bills. Instead, the Company recognises the expectation that it will bear significant risks of costs rising, operational and external uncertainties. However there are two areas outside of our control where it is considered appropriate to share with customers the risks of uncertain external changes materialising.

The proposed items are:

1. **Local authority traffic management costs** – many councils are preparing to commence charging for "permits to work" in order to work on the highway. This would impact on planned work, for example main-laying and daily operations (e.g. leak repairs). It appears the costs would be unavoidable; they are not fines for over-runs that can be managed through efficiency. Due to constraints on local authority income, there is a real potential of cost escalation in this area.

2. **Debt costs** – whilst now under control, external changes from further loss of manufacturing jobs or reductions in welfare benefits (for example Universal Credit introduction) could impact on debt levels and the costs of collection.

From a starting position of 1st place in SIM performance there is no complacency on the service offering proposed. The Company is determined to progress initiatives to enhance the customer experience and reduce the cost to serve through less customer inconvenience, fewer complaints, less contact and lower cost interface channels that technology allows.

Strong customer engagement will continue beyond PR14 to ensure the service interaction which customers' desire is provided and is value for money. This will be shared across the retail and wholesale part of the business to ensure the service is delivered, meeting customer expectations and providing value for money.

Links to Outcome Incentives

The Company has limited the potential rewards to ensure that the overall package does not go beyond the limits of customer acceptability. Excluding SIM, which Ofwat defines, the package of rewards for leakage and supply interruptions total together £1/customer (which is £0.7m). This compares to penalties of up to £2.50/customer (£1.7m).

Financial Scenarios

The Company has reviewed the defined scenario modelling in Ofwat's methodology and overall the sensitivity is not considered material to the Company's future financial standing.

Windfall Gains / Outperformance

In previous sections of this plan the Company has committed a process to review any financial windfalls or significant outperformance that occurs with customers. The precise level of these cannot be pre-determined - it will depend on the prevailing financial circumstances and wider operating environment.

The Board will, at the time, review if it is in customers' overall interests for a bill change to occur immediately, or if any gains should instead be re-invested for the benefits of customers, provided this has their support.

Retail proposals

Customer expectations drive the business objectives – The Company is responsive, straightforward and committed in all dealings with its customers. It goes above and beyond what is required to ensure satisfaction for all its customers. It delivers what it promises, building on the successes to improve its services further.

Customers are at the heart of the Company. The Retail Strategy covers activities which involve the interactions between the Company and its household and non-household customers. It is the customer service, debt management, meter reading, water efficiency and developer services functions.

The Company's overall strategy is based on knowing and understanding customers, what they want and how they would like it to be provided. The distinction between household and non-household customer service expectations is also addressed through a differentiated service for Non-Household customers.

The Retail Plan aligns the 2015-2020 objectives and investment plans with the Company's overall strategy that is focused on delivering high service levels while retaining low customer bills and the Company's commitment to delivering the outcomes as determined by its customers and stakeholders.

Putting the Customer First

From a starting position of 1st place in SIM performance there is no complacency on the service offering proposed. The Company is determined to progress initiatives to enhance the customer experience and reduce the cost to serve through less customer inconvenience, fewer complaints, less unwanted contact and lower cost interface channels that technology allows.

- There are plans to enhance customer satisfaction, building on the current successful customer service approach taken
- The business is likely to be below the ACTS industry average – despite the extra costs associated with debt collection
- There is full compliance with accounting cost allocations for wholesale / retail.

Strong customer engagement will continue beyond PR14 to ensure the service interaction which customers desire is provided and is value for money. This will be shared across the retail and wholesale part of the business to ensure the service is delivered, meeting customer expectations and providing value for money.

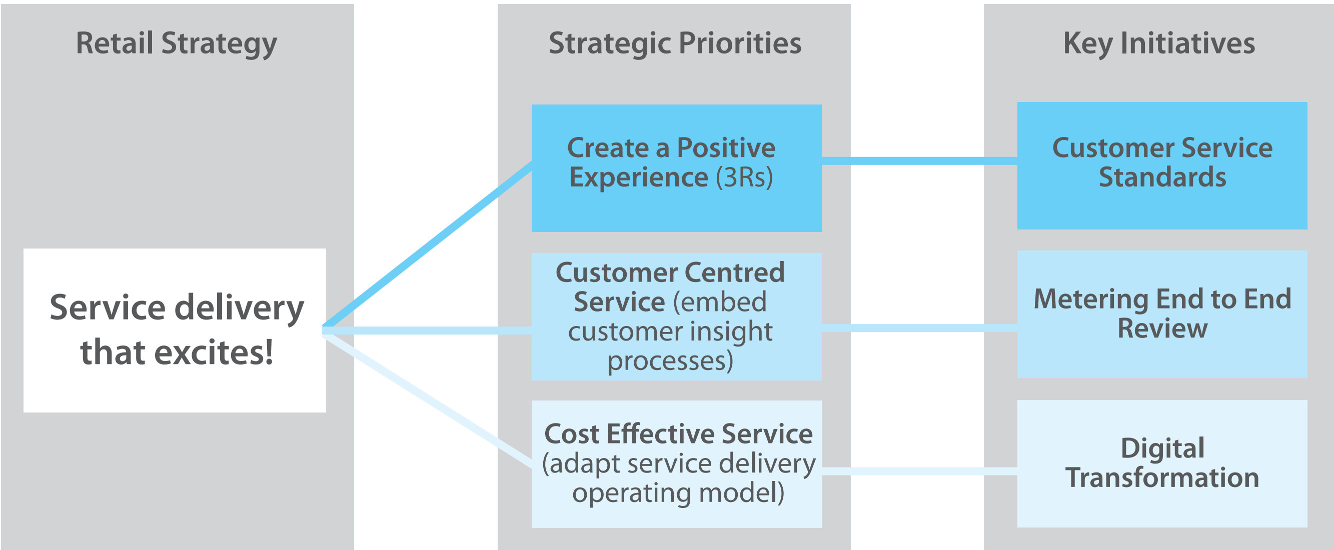
Overall Retail Strategy

The Company's stakeholders continue to provide clear feedback on the level of customer service given to customers. The Company's average SIM score for 2011-13 of 86 and ranking of first among all water companies shows that customers believe they receive excellent customer service. This is also confirmed in the acceptability testing which confirmed 96% customer satisfaction with levels of service.

As the Company enters the AMP6 period it continues to focus on its strategy to improve the way services are delivered. The key priorities are to:

- **Create a positive experience** – acting in a way which is Responsive, Reliable and Respectful. This is high profile and is achieved through our employees and partners.
- **Provide a customer centred service** – customer insight is embedded in processes and procedures to ensure that change across the wholesale and retail business is driven by the needs and desires of customers and not based on the Company's assumptions and perceptions.
- **Be cost effective/reduce the cost to serve** – adaptation of the Company's operating model to improve cost efficiency, targeting inefficient processes.

The diagram below summarises the Company's approach by listing examples of some of the key initiatives:



Customer views have been fundamental in confirming this approach and meeting their needs which are for:

- contact with the Company to be easy
- services for the vulnerable and hard to reach customers
- increased communication about environmental issues to help customers understand what the company does around environmental activities, water hardness awareness, lead and water efficiency
- communication channels to be developed to keep customers informed of disruption, leakage or planned outages
- choice so enquiries can be managed across a range of channels, convenient to customers
- support for customers in debt, through early identification and development of initiatives (for example social tariffs) for customers who have difficulty paying

Customer Communication

Communicating effectively with customers is vital to the customer service provided and the Company takes the view that effective communication is not just a one-way process but also a vital conduit for constructive customer engagement. It is also central to shaping customer expectation, reducing complaints and improving satisfaction.

The high-level approach adopted by the Company is to fulfil the following objectives for both household and non-household customers:

- Take advantage of developing communications channels, such as social media, in order to reach customers more efficiently;
- Be proactive in informing customers about relevant services and giving timely advice, reducing the need for customers to contact the Company and simplifying the customer journey where possible;
- Deliver useful information to the right customers more effectively by using demographic information, feedback and customer research as part of communication planning;
- Provide best value for money to both the Company and, ultimately, customers by measuring, where possible, the effectiveness of the communication approach and adjusting it as necessary.

The Changing Face of Service Delivery

The Company expects to see a shift from agent to self-service over the next five years providing the following customer benefits:

- Enhancing the ways by which customers can contact and interact with the company: phone, text, email, website, social media or post.
- Simplifying customer journeys to encourage self-service for those who choose to do so, whilst not excluding those who are unable to self-serve.
- Providing quick, accurate and convenient (24/7) responses to customers' queries.
- Convenient and proactive alerts about bill due dates/payment reminders/meter reading.
- Easier, faster and more comprehensive information and regular updates available to customers across a variety of channels.
- Keeping customers updated on supply issues and the resolution status.

With the continued growth in metering the Company will be developing its metering policy to include more automation in reading so that this is efficient and it will provide customers with more frequent meter readings, debt activity, affordability, water efficiency activities which are key strategies that underpin the Company's service offering.

Differentiated Service for Non-Household Customers – responding to research on their specific needs

The Company's non-household customer base encompasses a wide range of organisations, many of whom have the same criticism and compliments as household customers. The PR14 customer engagement carried out has not been just focussed on household customers – views from over 800 business customers have been collated by the Company in the past 18 months. Feedback from non-household shows that:

- These customers tend to focus on the retention of competitive pricing structures, comprehensive water resilience plans and water conservation measures.
- Customers placed high priority on leakage as a waste of resources.
- Customers revealed in the Customer Service and Willingness to Pay report that satisfaction levels were primarily dictated by their past experiences, particularly whether they had experienced any problems with interruptions, pressure or burst pipes

Compared to household customers, non-household customers are less satisfied with the current level of service provided by the Company. Research has highlighted that there are additional services that would be valued by many customers:

- 41% want a dedicated point of contact
- 41% want water efficiency audits
- 37% want leak detection on site
- 18% want billing/consolidated accounts

In response to this the Company is developing a delivery strategy that will provide non-household customers with such features as:

- A dedicated account manager for medium and large customers;
- Specifically trained contact points in the call centre to deal promptly with operational and billing queries from non-household customers;
- A range of service offerings from companies that specialise in on-premises services including leak detection, water audit, water efficiency, legionella support, pump optimisation, specialist utility maintenance to enhance their operational resilience and efficiency etc.
- Consolidated billing availability through advances in our billing system, a product that many other water companies have purchased due to its high level of functionality.
- The digital strategy that is commencing will enable all customers to access the Company through electronic devices (website, mobile, social media, self-serve etc.) at anytime of the day and this will also benefit non-household customers.

With the ongoing opening of the retail market to competition, particularly from 2017, it is the intention of the Company to retain all of its non-household customers and pursue opportunities with our customers with sites outside of our area, if the commercial environment is attractive. This will be achieved through the continued provision of high levels of service coupled with low charges. The Company is also reviewing its organisational structure to support this.

Retail – household price control

- The Ernst Young review of the Company's cost allocation stated full compliance.
- An adjustment for additional debt costs arising from the deprived customer base is considered warranted. Ofwat at the last two Price Reviews approved our special factor claims for this external challenge to the Company. The level of deprivation among customers in the South Staffs Water area is estimated to be 17.5% compared to a national average of 14.7% (based on IMD data). Hence these deprivation levels are 18.6% higher. This adjustment should not be dismissed because the Company's debt costs are relatively low – this is efficiency and is reflected in the low value of the adjustment.
- The Company is efficient in its customer service costs and debt position and it should therefore be below the industry average cost to serve.
- Current regional differences in tariffs (Cambridge and South Staffs region), that are cost reflective, will be retained.
- A retail margin of 0.5% for the household control has been assumed, a figure needed to make this arm of the business financially viable. This is set at a low level on the assumption that the indexation of costs and the above debt adjustment are considered acceptable.

Retail – non household price control

- The Ernst Young review of the Company's cost allocation stated full compliance.
- The Company is confident that the various non-household tariff structures offered are cost reflective. The level of discount currently

offered to the largest users is generally lower than that at other companies (but still competitive as all bills in South Staffs are relatively low). Hence the risk of small businesses subsidising the bills of large users that are more likely to switch supplier is not relevant. Regional differences will be retained to support this objective. However, some tariff adjustments between household and non-household customers will now need to be introduced given the different retail margins applicable to these two customer groups.

- A retail margin of 2.0% for the non-household control has been assumed. This is at the lower end of the range suggested by Oxera who reviewed the evidence from other utilities where competition has been encouraged. The Company took the decision to pitch at the lower end of the range due to the desire for future bills to remain affordable and competitive– these are important for business customers, not just households.

- The Company is well placed for market reform given the low bills, high service, strong reputation and Group company support that can be offered to the non-household customer base.

Retail Price Escalation

In the past decade retail costs have risen above the level of inflation, principally due to the inclusion in retail of debt costs. Most functions in the retail operation are labour intensive and as such these costs would rise broadly in line with inflation. It is also recognised that customers expect to see companies become more efficient and that affordability is a major concern. Hence retail price indexation equal to inflation (of circa 3%) less an efficiency target of 1% per year in retail, yielding overall indexation of 2% per year is considered appropriate.

Board Assurance

- The Company has an exemplary track record of compliance
- The Board has been heavily involved in the compilation and assurance of this plan.
- Appropriate external support was utilised with a significant focus on high quality customer engagement

South Staffs Water, including Cambridge Water, has an exemplary record of Board Assurance. The Company has sound internal procedures and systems to produce reliable data and has experienced staff and Board members that review the regulatory information that is produced. The small size of the Company requires Executive Board Directors to be heavily involved; it does not benefit from large regulatory teams to prepare the business plan.

The Board has been heavily involved in the Price Review for over two years. This includes engagement with Ofwat on the emerging methodology, with our investors and our INEDs writing separately to Ofwat on these consultations.

The Board is confident that this Business Plan is no exception. It is based on sound historic data, including that reviewed by the previous Ofwat Reporter, Mike Reid of Monson Engineering, who is well respected. The CCG asked him to assist them in gathering evidence and making challenges on the engineering related investment proposed by the Company. We recognised the need for him to carry out this work totally independently and he has therefore not been asked to directly advise the Company on any Business Plan related issues. The CCG were also very keen on developing a strong link with the Board of the Company so that their challenges were directly heard – hence both Executive Directors and one of our INEDs attended the CCG meetings.

Data assurance was carried out by a combination of the Internal Audit function within the Group (not part of the regulated water company) and by Executive Directors of the regulated business, led by the Compliance Director. External review of the data tables was not commissioned since this was not considered a productive route.

The key pieces of customer engagement were undertaken by reputable agencies in this field and the studies were peer reviewed.

For this price review the Company procured a financial model from KPMG, sharing the costs with Bristol, Affinity and South East water. The model was populated independently from these companies; it was only the model development that was progressed jointly. The Company has not used Ofwat's financial model.

The recent Ernst Young review of our accounting separation approaches and data is further reassurance that this important allocation between wholesale and retail data is carried out robustly.

The business plan is based not only on historic reported data, but a projection of the future. At this Price Review the Company has employed some of the best external advisors available to support our preparations and ensure we follow best practice in the sector, as evidenced in the key UKWIR reports available. Third party advisors such as Mott MacDonald and ICS Consulting have been heavily involved in challenging Company proposals and ensuring they reflect the findings of the customer engagement activities. At this price review the Company's use of willingness to pay research has been far more advanced to ensure the cost benefit analysis we have undertaken is well-founded to take full account of what customers desire, and for the first time the Company has undertaken Acceptability Testing research.

As noted earlier, some of the influences of the Board on this plan, which are ultimately driven by a desire to address affordability, include:

- Strong commitment to treat customer engagement seriously and to reflect the customer views attained from this in our business strategies;
- Review of the business case and risk assessment associated with the management's totex proposals – the Board imposed a financial cap on this totex which was below that recommended by the management team, taking full account of the need to balance risk to service and affordability;
- Setting of challenging efficiency targets, despite the evidence that current efficiency is already very high;
- A recognition that standing still on customer service, due to high SIM performance, is not acceptable, particularly as preparations for market reform are needed and the household customers' expectations continue to evolve as society develops;
- A thorough review of the Company's financing needs and the balance of this with future customer bills – hence a cost of capital that is 100 basis points lower was selected.

The Board has accepted Ofwat's principles of Board Governance. The Company is progressing with the production of a governance code and is making some changes to ensure full compliance with these principles. Due partly to the recent merger there are currently, for example, a large number of Executive Directors on the current Board. This position will change from 31st December 2013 so that the largest representation is from the three independent non-executive Directors on the Board, in line with the principles that Ofwat has championed.

The Board is able to provide assurance that:

- The performance in AMP5 is consistent with the PR09 expectations and the Board endorses the statements in this plan regarding company performance in 2010-2015
- There has been strong Board leadership and involvement in this price review process
- The outcomes for the AMP6 period reflect customers' priorities
- The business proposes a reasonable balance of risk and reward between customers, investors and stakeholders with specific proposals to share external financial windfalls with customers
- This business plan contains forecasts that has been compiled appropriately and independently of other water companies
- The Company will continue to comply with its statutory obligations
- The Company will continue to comply with its licence conditions
- The Company will operate transparently
- Governance processes will continue to be robust
- The Company is compliant with the UK Corporate Governance Code

All of the Directors of the regulated water company endorse the basis of this plan and are confident that it is based on a robust projection of the future period. Their individual endorsement is provided below:

Adrian Page
Executive Chairman

Keith Marshall
Managing Director

Sir James Perowne
Independent Non-Executive Director

Stephen Kay
Independent Non-Executive Director

Michael Hughes
Independent Non-Executive Director

Matthew Lewis
Regulation Director

Colin Wayper
Network Director

Steve Morley
Compliance Director

Tim Orange
Finance Director

Rachel Barber
Customer Services Director

Jesús Olmos
Non-Executive Director

Dominic Murphy
Non-Executive Director

Ram Kumar
Non-Executive Director

Summary

The Board considers that this plan is good for customers – the Company has listened extensively to the views and priorities held by the different stakeholders. Some difficult decisions have been needed to keep customers' bills to the lowest sustainable level and overall the Board consider that this plan will:

- maintain service excellence
- ensure customers receive a value for money service in line with their expectations
- retain efficient operations exploring innovation opportunities and
- address the future challenges to be faced.

The Company will aim to:

- Continue to lead the sector on service through staying in tune with the interfaces the customer wants from their utility provider
- Continue to lead the sector in efficiency through new innovation and a continued drive to secure strong competitive forces in all of our spend areas
- Maintain efficient stewardship of assets, encompassing a forward-looking risk-based approach to asset management and service delivery
- Retain low customer bills for a further five years and beyond given that a long term perspective has been taken to consider bill impacts after 2020.

South Staffs Water

incorporating

CAMBRIDGE
WATER
COMPANY