south east water

2014 Price Review
Business Plan Supporting Appendices
2010-15 Performance

Published 2 December 2013

Executive Summary

We are pleased to report that the expected outputs and performance commitments for the 2010-15 period have been delivered or are on target for delivery by 31st March 2015. This business plan supporting appendix provides the detail on the performance and the associated adjustments required to the 2015-20 price limits.

2010-15 Performance

Since the 2009 determination we have been through a challenging period with respect to water supplies. In 2011-12 we were entering new territory with regards to drought conditions following two exceptionally dry winters and our groundwater supplies were at historical low levels. As a result, in April 2012, temporary usage restrictions were imposed across our entire supply area.

Following the driest two year period on record, the heavy rainfall during 2012 filled our reservoirs, and over time our groundwater supplies have been replenished. Whilst challenging, the recent drought conditions have provided us with greater information, improving our understanding of how our resources behave in extreme conditions. It has also underlined the need to take steps to improve the reliability and resilience of our portfolio of sources, which has been taken into account in our draft Water Resources Management Plan, published in May 2013.

We are pleased to report that we have managed our resources effectively and maintained security of supply to customers despite these challenges.

Managing our resources is one half of maintaining security of supply and, in line with our twin track approach, we have taken steps to manage demand for water too. Despite the extreme weather events experienced in the period to date, we have continued to reduce our leakage, meeting our leakage target for eleven years running. We have continued our extensive programme of water efficiency initiatives ensuring we have not only met, but exceeded, our savings target every year. In 2010 our Water Resources Management Plan was approved which included a 10 year programme of universal metering. This programme commenced installations in August 2011 and by March 2013, nearly 70,000 meters had been installed.

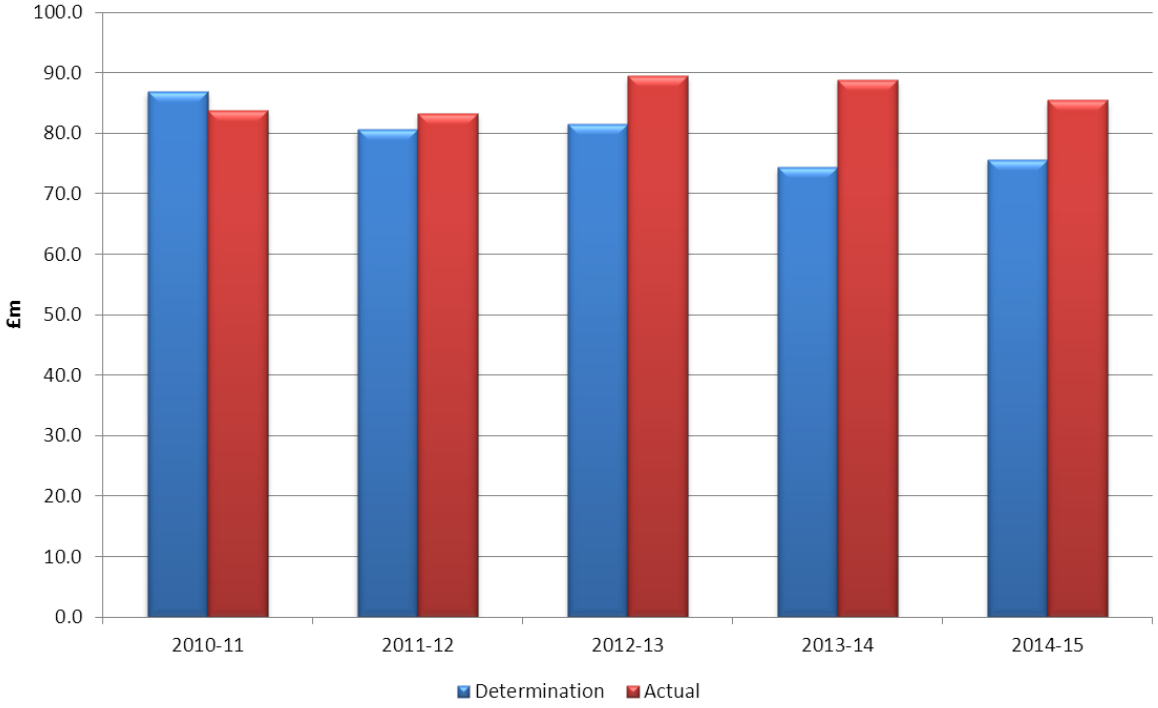
We recognised that at the start of the period our customer service performance was neither where it should be nor where our customers expected it to be. Therefore, during the period, we have been focusing on improving and simplifying the customer experience driven by our Commit and Deliver customer focused change project. All activities undertaken have been driven by the commitment to continually improve service to customers, which is a central priority for the customer service and operational teams. We are pleased to report that these improvement initiatives are now beginning to be reflected in the satisfaction scores from customers and in the hard metrics used to measure performance.

We are committed to meeting the environmental and water-quality related obligations set for the period. To ensure our achievement of water-quality related obligations is maintained, we have delivered, and are on track to deliver, enhancements to the network to ensure new standards are met, and raw water deterioration is managed. As a result of these enhancements, our overall compliance with drinking water quality standards has been maintained. Our obligations under the National Environment Programme have also been completed, ahead of schedule, to ensure they can be adequately incorporated in our draft Water Resources Management Plan for 2015-40.

To ensure services are maintained for future as well as current customers we continue to carefully monitor the performance of our assets. We are pleased that, with the exception of 2011-12, we can report a stable assessment for both above and below ground assets every year. In 2011-12, three of the indicators used were above their reference level for below ground assets, due to the adverse effects of weather and a small number of isolated incidents affecting a large number of properties. Although there were explanatory factors, we recognised that in line with the reference levels the assessment suggested the network was not stable, and we reported a marginal serviceability assessment for below ground assets in that year.

We have made excellent progress with the capital investment programme and have maintained a steady level of investment across the period; this includes a strong start in the first year of the period, traditionally a lag year. This strong start was due to the creation of a fully developed, scheme by scheme, 5 year programme for the business plan. A total of £430.7m (12-13 prices) of investment is projected for 2010-15, as shown in Figure 1.

Figure 1 Capital Investment



Revenue Adjustments

The combined revenue adjustments applied to the 2015-20 price controls in this business plan are shown in Table 1.

Table 1 Overall revenue adjustments to 2015-20 price controls

	£m
Service Incentive Mechanism	(2.750)
Capital Incentive Scheme	(9.420)
Revenue Correction Mechanism	13.370
Operating cost incentive	3.740
Equity injection	(2.290)
Total	**2.650**

All revenue adjustments have been spread over the 5 year period to keep prices stable for customers since our research suggests this is their preferred price profile.

Assessing our performance on the Service Incentive Mechanism along with the industry data published in September 2013 we have modelled an expected revenue adjustment. This adjustment represents a -0.25% penalty on regulated turnover.

Our forecast capital investment represents an overspend of £32m (8%) against that funded, in 2012-13 prices. This overspend has an impact on the Capital Incentive Scheme as the actual outturn position will change the ratio against the baseline. Therefore an ex-post adjustment to revenue will be made. The adjustment has been calculated using the Ofwat model provided and represents a revenue penalty of £1.9m per annum.

An adjustment has been made to the revenue requirement for the period 2015 to 2020 to recover a shortfall of revenue during the period 2010 to 2014. This additional revenue has been evenly spread over 2015 to 2020 in an NPV neutral manner, which results in a revenue adjustment of +£13.4m.

In 2009 we were funded £466.1m for operating costs for the period. By March 2015 we are forecasting total operating expenditure to be £442.3m, representing a £23.8m (5.1%) outperformance. As a result of our outperformance and in line with the operating cost incentive mechanism we have calculated and included a revenue adjustment of +£3.7m.

In the 2009 final determination an equity injection was assumed in 2012-13 and the associated transaction costs were funded. This equity injection was not required and therefore no transaction costs have been incurred. We have assumed an adjustment to revenue, spread over 5 years on an NPV neutral basis, resulting in an annual revenue adjustment of -£0.5m.

Regulatory Capital Value Adjustment

Three 'midnight' adjustments have been made to the opening RCV to adjust for the allowed position at PR09 and the actual outturn position, as shown in Table 2.

1. 2009-10 Adjustment for differences to forecast;
2. Land disposals; and,
3. Capital Incentive Scheme (CIS).

Table 2 Opening RCV adjustments

Adjustment item	£m*
31 March 2015 RCV	1,087.468
2009-10 Adjustment	1.348
Land disposals	(2.384)
CIS adjustment	7.533
1 April 2015 RCV	1,093.965

*2012-13 Prices

An adjustment for the difference between the 2009 forecast and the actual capital expenditure for 2009-10 has been calculated as £1.348m.

The actual land sale up to and including 2013 have been combined with the planned sale of a non-operational area of our Cramptons Road site in 2014-15, and as at previous reviews shared with customers on a 50% basis. This generates an RCV adjustment of -£2.384m.

As described above, outturn capital expenditure is 8% higher than that assumed and as part of the CIS mechanism the opening RCV is adjusted to reflect outturn investment. This adjustment is £7.533m.

Consistency with published risk and compliance statement

The performance reported in this appendix is consistent with that reported in our Annual Performance Reports, our new, more customer-focused, annual report, and the associated Risk and Compliance Statements

Investment in 2014-15 to deliver outcomes in 2015-20

We can confirm that we are not proposing any specific transition expenditure in 2014-15 for the outcomes proposed for 2015-20.

Conclusion

Overall we are pleased to report good performance against our commitments for 2010-15, providing a firm foundation upon which to build for 2015-20.

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Section 1. 2010-15 Performance

We are pleased to report that the planned outputs and performance commitments for 2010-15 have been delivered, or are on target for delivery by 31st March 2015. This section outlines the expectations for the period and how we have performed against them.

1.1. Performance Commitments

In 2009 we committed to deliver a number of outputs to maintain service to customers during the 2010-15 period. These outputs and the associated levels of performance are shown in Table 3.

Table 3 Performance commitments for 2010-15

Service	Unit	2010-11	2011-12	2012-13	2013-14	2014-15	Total
Customer service							
DG6 billing contacts dealt with within 5 days	%	99.9	99.9	99.9	99.9	99.9	-
DG7 written complaints dealt with within 10 days	%	100	100	100	100	100	-
DG8 metered customers receiving bill based on a meter reading	%	99.9	99.9	99.9	99.9	99.9	-
DG9 calls abandoned	%	2.3	2.3	2.3	2.3	2.3	-
DG9 calls receiving the engaged tone	%	0	0	0	0	0	-
DG9 customer call handling satisfaction score	Score	4.5	4.5	4.5	4.5	4.5	-
Water quality							
Cryptosporidium risk reduction (11 treatment sites)	Nr					1	1
Water treatment at (Forstal)	Nr	1					1
Improve acceptability to customers (Shellbrook and Furnace Wood)	Nr	1	1				2
Monitoring investigations (Methaldehyde)	Nr			1			1
Security and Emergency Measures Direction (SEMD)							
SEMD	Nr					1	1
Environmental obligations							
Countryside and Rights of Way Act	Nr					1	1
UK Biodiversity Action Plan	Nr					2	2
Water Framework Directive	Nr					1	1
Local Priority	Nr					2	2
Enhanced levels of service							
Flood protection	Text	Measures at priority assets to prevent flooding events of 1:100 frequency or below. 135,936 customers benefit from reduction in risk.					

Supply demand balance							
Security of supply index	Score	100	100	100	100	100	-
Water efficiency	Ml/d	0.84	0.84	0.84	0.84	0.84	4.20
Leakage	Ml/d	95	95	94	94	93	-
Meter optants	Nr	5,880	4,880	3,880	2,880	1,880	19,400
Customer metering programme	Nr	17,700	36,900	40,400	40,400	40,400	175,800
Asset Serviceability							
Above ground assets assessment	Text	Stable	Stable	Stable	Stable	Stable	-
Domestic meter renewals	Nr	Total 23,700					23,700
Below ground assets assessment	Text	Stable	Stable	Stable	Stable	Stable	-

1.2. Customer Service

Household customers are unable to choose their water supplier, and so we remain committed to putting customers at the heart of everything we do. During 2010-15 we have been focused on improving and simplifying the customer experience; all activities undertaken have been driven by the commitment to continually improve service to customers, which is a central priority for our customer service and operational teams.

Table 4 outlines the customer service performance to date and our forecast for this year and next.

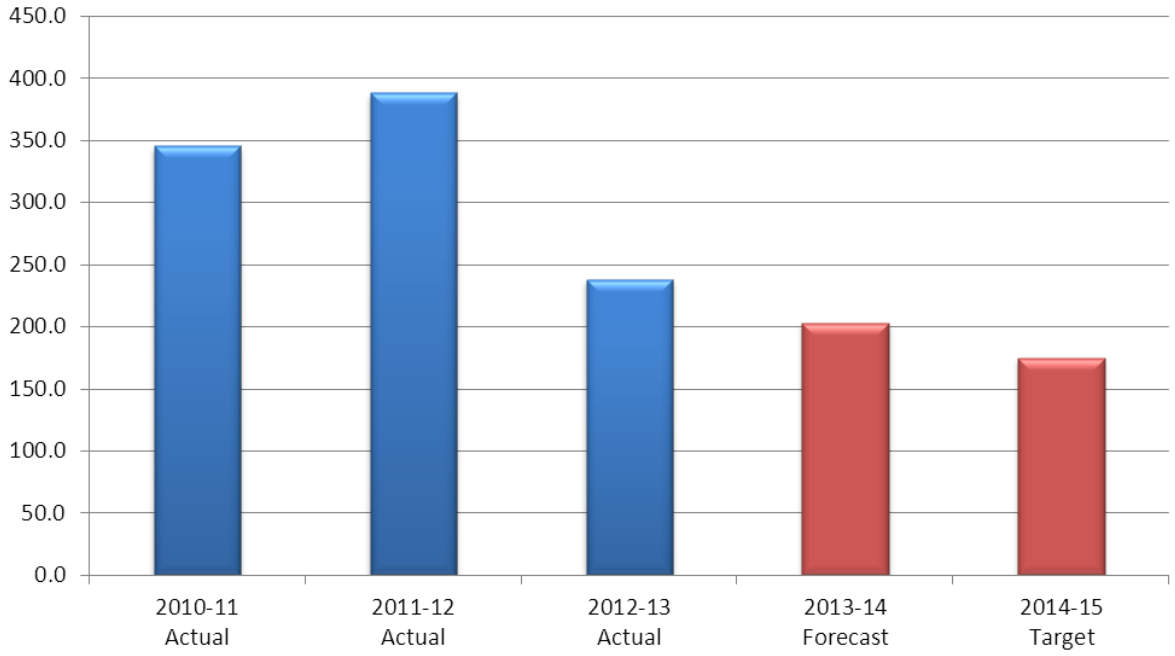
Table 4 Customer service performance

Measure	2010-11 Actual	2011-12 Actual	2012-13 Actual	2013-14 Forecast	2014-15 Target
DG6 % billing contacts dealt with within 5 days	99.1	Superseded by SIM			
DG7 % written complaints dealt with within 10 days	99.9				
DG8 % metered customers receiving bill based on a meter reading	99.9				
DG9 % calls abandoned	5.4				
DG9 calls receiving the engaged tone	0				
DG9 customer call handling satisfaction score	3.8				
SIM – quantitative score	N/A	388	238		
SIM – qualitative score (out of 5)		4.1	4.4		
SIM – overall score		56.2	72.7	73.8	75.0

Since 2011 customer satisfaction has been measured by the Service Incentive Mechanism (SIM), which is designed to encourage companies to provide a better service to their customers. It looks at the reasons why customers have contacted us and measures their experience with a score out of 100. There are two parts to the score, one based on the number of contacts and complaints (quantitative), the other based on a random survey of 100 customers who have had billing enquiries and 100 who have had technical/operational enquiries (qualitative).

Our SIM quantitative performance has improved significantly over the period as shown in Figure 2.

Figure 2 SIM Quantitative Performance



During 2010-11 we undertook a major integration project of our billing system platforms. The migration of the systems went very well, however unfamiliarity with the new system and a difficult main billing period led to problems in our contact centre. As a result, the level of written complaints we received increased and continued to increase into 2011-12, see Table 5. This increase in written complaints had a negative impact on our SIM quantitative score.

Table 5 Number of written complaints

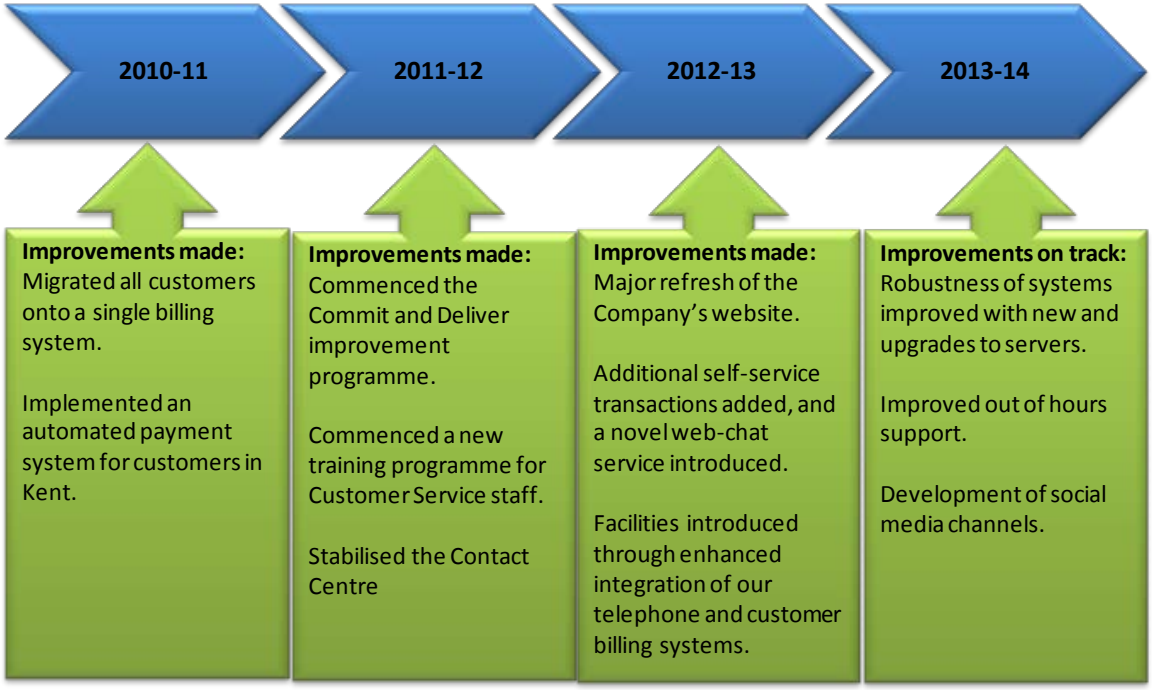
	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Written complaints	11,440	10,006	9,102	8,232	13,095	8,787

It was recognised that significant changes were required to improve this deterioration in service and towards the end of 2011 our 'Commit and Deliver' programme commenced. The programme focused on:

- Team structures and training;
- System automation and control through system development; and,
- Process control and quality reports.

We started to see the impact of the commit and deliver programme in 2012-13. Performance was relatively stable and has been reflected in a year on year reduction of 33% in written complaints. However the number of written complaints is still too high. We are forecasting a continuation of the resulting improvement over 2013 to 2015, and whilst the industry as a whole is also improving, we forecast that we will be close to industry average by the end of the period. Figure 3 provides a summary of the improvement journey since 2010-11.

Figure 3 Customer Service improvement journey



The SIM quantitative score is built up from several different categories, and our performance improvements for each category are summarised below.

All Lines Busy: We have invested in increased capacity for our phone platform and now have up to 180 lines available at any time. Our maximum use is about 100 lines so we should always be in a position that will ensure callers are able to get through to our Customer Service Centre.

Abandoned Calls: We have made significant improvement on our call routing and contact centre management to ensure our target of an abandonment rate of less than 3% is achieved. We have also focused on improving our speed of response to ensure our abandonment rate is maintained, and added improved, automated payment services and web-site services that have enabled customers to self-serve, which has also helped reduce call volumes.

Unlogged Contacts: Improvements have been made to our contact logging system to improve non-customer and 'passer-by' contact logging. This has ensured our unlogged contact volumes have reduced, moving to a position where unlogged contacts are expected to be less than 1% in 2013-14.

Unwanted Contacts: We have broadened our Advisors' skills through our 'commit and deliver' training programme which empowers the Advisors to deliver first time resolution of contacts, and to take issue-ownership and prevent repeat and complaint contacts. Our billing team have been working hard on improving pro-active resolution of high consumption issues for our metered customers, and our new intelligent meters will help significantly improve the number of issues we are able to resolve without the need for customer contact. 2012-13 saw a significant improvement in this category and we have forecast this improvement to continue during 2013-14.

Written Complaints: 2012-13 saw a significant improvement in the volume of complaints received, in a year in which we had our first Temporary Use Ban implemented, and our Customer Metering Programme contacted over 50,000 customers to install a water meter. We have forecast a further

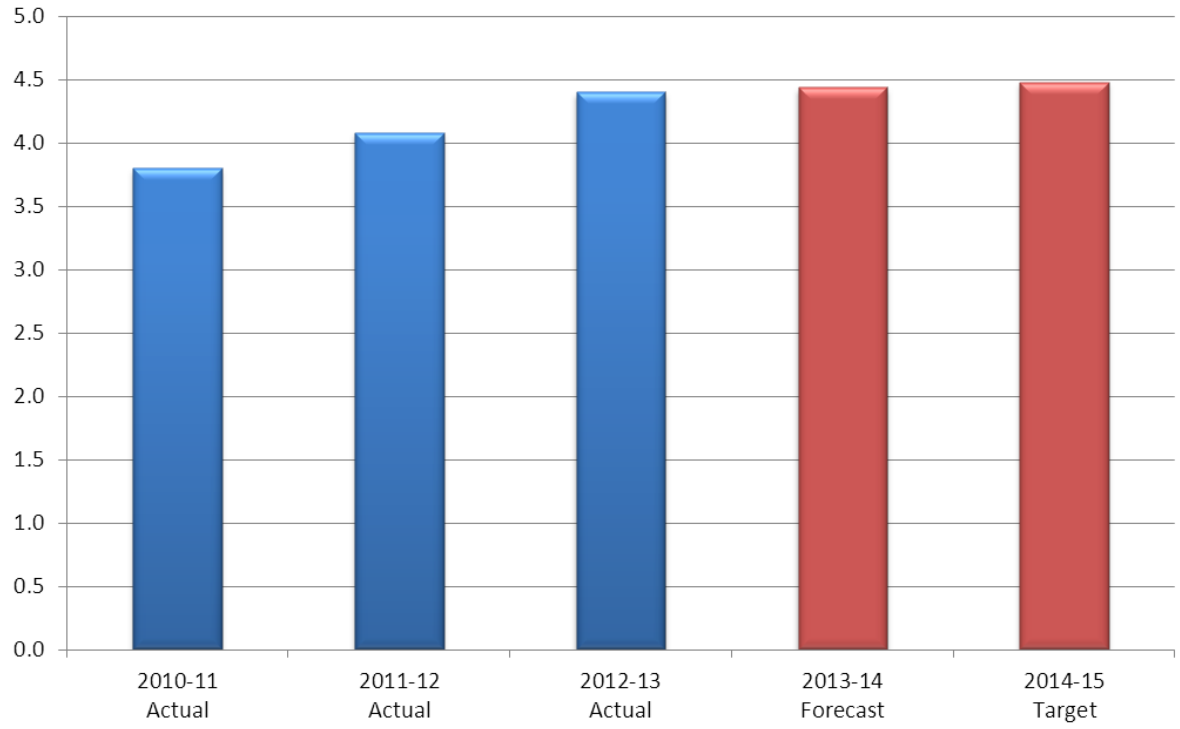
significant improvement in 2013-14 and our performance in the first part of the year is on track to deliver this. This is an area that will remain a focus over the next two years to ensure that we continue to improve. Development of our website and improved first time resolution and speed of response has seen significant improvements. Challenges to our metering programme and issues such as Fracking and Water Scarcity will make it difficult to be an industry leader in this category in the short term.

Escalated Complaints: We have also seen improvements in performance in this area by moving to a two stage complaints process and through first time resolution improvements and our live web chat service we have been able to reduce the volume of escalated complaints. We will continue with our service improvements through 2013-14.

CCW Investigations: We have reduced the volume of cases referred to the Consumer Council for Water and resolved referrals quickly, reducing the cases needing full investigations. We aim to maintain our zero investigation performance.

Our SIM Qualitative performance has also improved significantly over the period. Figure 4 shows the annual trend.

Figure 4 SIM Qualitative Performance



The SIM qualitative score is built up from two different categories; water supply contacts and billing contacts. Our performance improvements for each category are summarised below.

Water Supply Contacts: Our water supply score improved significantly during 2011-12 and 2012-13. Before our billing system integration, we had difficulty in being able to identify resolved contacts. System improvements have ensured that we can now identify these issues. We have also seen an improvement in both our speed of response and first time resolution. Our move to a single billing system improved our ability to report end-to-end contact resolution across our systems, and has also improved customer satisfaction.

Billing Contacts: Full integration of our billing systems, together with enhancements to our automated customer contact channels, has seen a steady improvement in our scores for billing contacts.

Further improvements in our response to both billing and water supply contacts are forecast during 2013-14 and 2014-15, and planned process changes and system enhancements will also be made.

1.3. Water Quality

We are committed to the over-arching requirement placed upon us to comply with the environmental and water-quality related obligations set for the period. There are two parts to this performance; The first is maintaining our current network to ensure we comply with current obligations and this is monitored through our asset serviceability indicators, discussed later in this report; The second is delivering enhancements to the network to ensure new standards are met and raw water deterioration is managed. Table 6 summarises the site-specific outputs expected to meet the required enhancements during the period, and progress against each one.

Table 6 Water quality output performance

Output	Required by	Progress	Regulator Sign off
Cryptosporidium risk reduction			
Protection at 11 sites	31/03/15	4 sites completed by 31/03/13 6 sites on target for completion by 31/03/15 1 site solution substituted as agreed with DWI	Certificate confirming output into supply dated: 23rd September 2011 (Tonbridge) 15th February 2012 (Cow Wish) 2nd March 2012 (Deep Dean) 22nd March 2012 (Bray)
Water treatment			
Biological treatment at Forstal	31/03/11	Scheme complete	Certificate confirming output into supply dated 23rd March 2011.
Improve acceptability to customers			
GAC treatment at Shellbrook	31/03/11	Scheme complete	Certificate confirming output into supply dated 17th March 2011.
Construction of appropriate main at Furnace Wood	31/12/11	Scheme complete	Certificate confirming main into supply dated 8th June 2011.
Monitoring investigations			
Two reports on Metaldehyde	Interim report 31/03/13 Final report 31/03/15	Interim reports submitted 31/03/13 for 8 undertakings (Arlington, Bray (Keleher), Barcombe, Bewl, Crowhurst Bridge, Hazards Green + bulk supplies from Egham (AFF) and Burham (SRN). Final report on target for completion 31/03/15.	Interim report acknowledged by DWI.

We can report all outputs are on track for delivery by the end of the period, with a substantial proportion already completed.

As a result of these enhancements, our overall compliance with drinking water quality standards has been maintained, as shown in Table 7. The overall Mean Zonal Compliance provides a measure of

the Water Quality at customers' taps against both the European Directive and National parameters.

Table 7 Drinking water quality compliance

	2010	2011	2012
Mean Zonal Compliance %	99.96	99.92	99.96

Mean Zonal Compliance indicates an improved performance for 2012 from 2011, due in part to an improvement in the mains network condition as a result of flushing activity and also due to a decrease in the number of nickel and copper exceedances from customer plumbing installations. In 2011 there were 6 nickel exceedances and in 2012 there was a single nickel exceedance.

1.4. Security and Emergency Measures Direction

During the period we are committed to compliance with the Security and Emergency Measures Direction 1998 (SEMD) and the associated Advice Notes. In the last business plan we set out a level of activity and scope of work required to meet the compliance standard of the Advice Notes. Table 8 outlines the performance against the activities expected.

Table 8 SEMD performance

Advice Note		Require by	Progress
AN10	Security of Alarm Monitoring Centre	31/03/11	Activity completed 31/03/11
AN7a	Security of chemical dosing equipment	31/03/15	20 sites have been completed. 15 sites on target for completion in 2013-14
AN12	Borehole protection at 561 boreholes	31/03/15	309 boreholes have been completed. 126 boreholes on target for completion in 2013-14 and a further 126 in 2014-15.
AN3/3a	Security measures for non-designated sites	31/03/15	9 sites have been completed. 4 sites on target for completion in 2013-14 and 5 sites in 2014-15.
AN0	Security measures for designated sites	31/03/15	Activity completed 31/12/12

We expect to complete all of the activities required during the period with many of the outputs already achieved.

Progress against these activities is reported to Defra every six months and is also audited by our security certifier prior to the progress report being submitted. As well as good progress against the performance expected we are also pleased with the standard of output. Our certifier reported that the standard of security protection that had been installed was very good and the security protection at one particular site was described as "a well thought-out design for optimum protection and flexibility; CCTV, Intruder Detection, and access control are all well integrated. All systems are in good condition and well maintained".

1.5. Environmental Performance

We recognise that our day-to-day operations can have a significant impact on the environment, and it is therefore very important that we adopt an environmentally responsible approach to business, and comply with all environmental laws and regulations. We are committed to identifying any significant environmental impacts and to taking action to reduce them. Where possible we aim to operate efficiently and to minimise our impact through the prudent use of natural resources,

reduction in waste production and carbon emissions, and protection of the environment.

Protection of the Environment

Each year we publish an Environmental and Social Achievements Report which demonstrates how environmental risk is being managed and documents our environmental performance and achievements. We monitor our environmental protection performance through a number of key performance indicators. Table 9 summarises the leading indicators and the performance in the period.

Table 9 Environmental protection performance

		2010-11 Actual	2011-12 Actual	2012-13 Actual	2013-14 Forecast	2014-15 Target
Number of prosecutions for breaches of abstraction licences per annum		0	0	0	0	0
Number of breaches of annual abstraction licences		1	1	1	0	0
Pollution incidents (nr) (category 1 being severe)	Category 1	0	0	0	0	0
	Category 2	2	1	0	0	0
	Category 3	4	5	1	0	0

Pollution incidents are events which could potentially affect the natural ecology of the environment. We are pleased with the improvement in our performance, with zero category 1 incidents, and the number of category 2 and 3 incidents reducing. The majority of incidents in 2010-11 and 2011-12 were related to run-off from burst mains. Following each incident an internal review has been conducted to ensure lessons are learnt and this is contributing to our improved performance.

Environmental Obligations

Under the National Environment Programme (NEP) we are required to undertake a number of option appraisals and investigations during the period. Table 10 outlines the outputs required and progress against each.

Table 10 Environmental obligations performance

Output		Required by	Progress	Regulator Sign off
Countryside and Rights of Way Act	Option appraisal (Poynings)	31/03/15	Appraisal complete. Project to be included in the 2015-20 plan as a monitoring and review project.	Final report has been submitted to the Environment Agency. Project has been included in the 2015-20 NEP, with the Environment Agency confirming agreed approach and scope.

UK Biodiversity Action Plan	Options appraisal (Little Stour and Great Stour)	31/03/15	Little Stour and Great Stour substituted for a study at Greywell. Greywell study now complete. Study has shown abstraction has impact on SSSI and work to identify an alternative source is underway.	Letters from Natural England to support that site needs to be closed as soon as feasible. All reflected in recent version of NEP and draft WRMP (each having input from the Environment Agency and Natural England)
Water Framework Directive	West Medway Greensand Block	31/03/15	Work complete and abstractions shown to be sustainable at current levels and current conditions.	Phase 1 – the Bourne signed off by the Environment Agency in 2012.
Local Priority	Investigations (Farnham Bourne and Maidenhead Ditch)	31/03/15	Farnham Bourne complete - shown to be sustainable at current levels and current conditions. Maidenhead Ditch complete – study findings show link between abstraction and reduced water levels in the ditch. Option appraisal required in 2015-20.	Approach for inclusion in 2015-20 within the recent iteration of NEP. Scope from the Environment Agency agrees approach of options appraisal.

We can report all required activity in the period is complete ahead of schedule. The work has identified further option appraisal work required under the NEP during the next period.

Carbon Emissions

We are required to report greenhouse gas emissions using reporting guidance from the Department for Environment, Food and Rural Affairs (Defra). We also participate in the Carbon Reduction Commitment Energy Scheme.

Our most volatile operating cost is power which currently costs over £1m each month – water is heavy and needs a lot of power to treat it and move it around the supply area. Our Power Reduction Strategy includes actively engaging with customers to reduce water usage, through the metering and water efficiency programmes (not least to demonstrate the clear linkages between their own water and power costs in the home) and optimisation of our network to reduce use of higher power demanding sites.

We aim to reduce carbon emissions by 1% each year. This is assessed against the amount of water produced, so the target is a reduction in emissions per million litres of water delivered.

Table 11 Carbon emissions performance

	2010-11 Actual	2011-12 Actual	2012-13 Actual	2013-14 Forecast	2014-15 Target
Net operational greenhouse gas emissions - tonnes of CO_2	84,563	82,985	82,664		
Per Ml/d of water delivered – kg CO_2e	390	393	387	383	379
% year on year movement		+0.8	-1.5	-1.0	-1.0

We did not achieve our target in 2011-12 but are pleased to report that the effects of the Power Reduction Strategy, managing demand and optimisation of our network are now starting to be seen, and enabling a reduction of 1.5% in 2012-13.

1.6. Enhanced Levels of Service

In 2009 we undertook a Flood Risk Assessment for all sources of flooding on all assets across our supply area. The results of the assessment showed we needed to invest in protection works to ensure 135,936 customers benefit from a reduction in the risk of flooding.

By refinement and optimisation of the Flood Risk programme we are able to report that over 322,000 customers are now at reduced-risk of loss of supply from flooding.

1.7. Supply Demand Balance

In December 2010 we published our Water Resources Management Plan (WRMP09) which covered the period 2010 to 2035. This plan set out what was required during 2010-35 in order to maintain security of supply to customers. Table 12 outlines the key output metrics used to measure performance in managing the supply demand balance.

Table 12 Supply demand balance output performance

Output	2010-11 Actual	2011-12 Actual	2012-13 Actual	2013-14 Forecast	2014-15 Target	Total
Security of supply index (SOSI)						
Dry year annual average	100	100	100	100	100	-
Critical/peak conditions	100	100	100	100	100	-
Leakage						
Total leakage (Ml/d)	95	95	93	93	93	-
Water efficiency						
Water efficiency savings (Ml/d)	0.86	1.05	1.46	0.95	0.92	5.24
Metering						
Optional meters	8,205	10,378	13,005	10,000	5,234	46,822
Customer metering programme	0	23,869	45,833	42,000	36,676	148,378

Security of Supply

In 2011-12 we were entering new territory with regards to drought conditions. The dry winter of 2010-11 was followed by unusually-low rainfall and high temperatures during early Spring 2011, resulting in mild drought conditions by April. By October 2011 we had moved into a moderate-severe drought condition and by February 2012, following the driest two-year period on record, the

Government declared that the South East of England was in drought. In April 2012, temporary usage bans were imposed across our entire supply area.

At this time our groundwater supplies were at historical low levels and we were encountering worsening operational conditions. The subsequent heavy rainfall during 2012 rapidly filled our reservoirs, but our groundwater supplies replenished over a much longer period. Whilst challenging, this has provided us with a greater understanding of our resources and how they behave in extreme conditions. It has also underlined the need to take steps to improve the reliability and resilience of our portfolio of sources, which has been taken into account in our draft Water Resources Management Plan, published in May 2013.

We are pleased to report that despite major challenges at the start of the period, we have managed our resources effectively and met the SOSI target of 100 every year. However, in order to achieve this, we have had to accelerate some enhancements schemes. Three schemes that were originally planned for enhancement delivery in 2015-20 in WRMP09 were accelerated to provide additional resources by 2015 of 4.7 Ml/d on average conditions and 7.7 Ml/d on peak conditions. The additional cost of delivering these schemes was approximately £3m. We have modelled this change in the logging up mechanism and the additional investment does not meet the logging up threshold of 2% of turnover. The additional investment has therefore contributed towards overspend against our capital investment funding, outlined further in Section 2.3.

Water Efficiency

We have an extensive programme of initiatives to deliver water efficiency savings. We provide water efficiency packs to all our newly metered customers. They are sent a pack including a leaflet with more information on their new meter including how to read it, checking for leakage and water efficiency tips. The pack also includes a 4 minute shower timer and a Hippo bag for their toilet cisterns to encourage them to reduce water wastage which in turn will save them money.

In the first three years of the period we have achieved savings of 3.37 Ml/d compared to our target of 2.52 Ml/d. This has been achieved through the distribution of;

- 167,931 cistern displacement devices;
- 5,843 water butts; and,
- 2452 outdoor trigger guns and crystal packs.

The increased media attention that accompanied the drought in 2011 and 2012, and the water restrictions applied across our supply area, saw customers' responses to water efficiency promotions improve. We also saw website hits increase dramatically, with more people completing an online water audit than the previous months helped by the incentive of winning a water butt.

All of these initiatives have contributed to delivery and outperformance of the water efficiency savings targets for the period. As a result of our performance to date, we have set ourselves a tougher target for 2013-14 and 2014-15.

Leakage

As part of the WRMP09 we modelled our economic level of leakage for the period, which became the performance commitment as shown in Table 3. Leakage management has, and continues to form an integral and important part of our 25 year water resources strategy.

We are pleased to report that, despite the extreme weather events experienced during the first part

of the period, we have met the leakage target and exceeded it in 2012-13. This is the eleventh year in a row we have met our leakage target.

Metering

A significant part of managing supplies is the delivery of our metering programme. Over the 2010-15 period we will be installing a total of 195,200 meters, taking the percentage of customers on a metered supply to at least 70%.

There are two parts to our metering programme; meter optants, and our customer metering programme. The demand for meter optants has been significantly higher than that expected in the first three years of the period. The result of this higher demand meant that our actual installations for the first three years of the period have already exceeded our optant target for the whole period. Our customer metering programme is behind schedule, as commencement of the programme was planned for 2010-11 but did not commence until August 2011 due to a delay in the approval of the WRMP09. Early preparation work and a focus of resource has ensured good progress since August 2011, with an installation rate of approximately 1,000 meters per week.

Overall, by the end of 2012-13 we had installed 101,290 meters, 52% of the target for the period, but 8,350 meters behind our target of 109,640. However, at the current installation rate, we are confident of achieving the total target of 195,200 meters by 31st March 2015.

1.8. Asset Serviceability

We manage our asset serviceability through a comprehensive risk-based asset management model. An overview of this modelling approach is provided in the 'Asset Performance Assessment' appendix. Over the current period this model has been developed and refined, and is now part of everyday asset management planning. This model targets investment on those assets most exposed to risk i.e. those assets that are most likely to impact on our customers should they fail.

The minimum output for asset serviceability is to maintain stable serviceability to customers for each sub-service i.e. below ground assets and above ground assets. The indicators used for the assessment of serviceability are shown in Table 13 along with the performance in the period.

Table 13 Asset serviceability output performance

Serviceability Indicators	2010-11 Actual	2011-12 Actual	2012-13 Actual	2013-14 Forecast	2014-15 Target
Below ground assets					
Total burst mains (nr)	2,808	2,798	2,404		
Interruptions > 12 hours (nr)	128	7,906	966		
DG2 pressure (nr)	63	69	62		
Iron non-compliance (%)	0.47	0.68	0.19		
Customer contacts – discolouration (nr/1,000 population)	0.78	1.14	1.17		
Distribution index TIM (%)	0.27	0.36	0.10		
Overall assessment	**Stable**	**Marginal**	**Stable**	**Stable**	**Stable**
Above ground assets					
Water treatment works coliforms non-compliance (%)	0.07	0.08	0.08		

Service reservoir coliforms non-compliance (%)	0.45	0.45	0.00		
Turbidity (nr)	5	1	0		
Enforced (incidents nr)	0	0	0		
Unplanned maintenance (nr)	5,558	5,816	7,863		
Overall assessment	**Stable**	**Stable**	**Stable**	**Stable**	**Stable**
Domestic meter renewals					
Meters (nr)	1,566	3,548	5,877	7,000	5,709

Asset Serviceability

We are pleased to report a stable assessment for each sub-service every year with the exception of below ground assessment in 2011-12. Our own assessment of the below-ground infrastructure network in 2011-12, and the indicators used in the assessment, did not indicate deterioration in the state of the assets. However, three of the indicators used were above their reference level either due to the result of adverse effects of weather or a small number of isolated incidents that impacted a large number of customers. Despite explanatory factors, we recognised that, in line with the reference levels, the assessment suggested it was difficult to classify infrastructure assets as stable and therefore we reported a marginal serviceability assessment in that year.

During 2011-12 we reported an unusually high number of properties that experienced an interruption over 12 hours. The vast majority of these properties were affected by just three high impact isolated incidents. The length of these interruptions reflects the operational complexity of accessing and isolating the problem or simply the time taken to get appropriate plant in place due to heavy traffic. It is widely recognised that an interruptions measure based on the number of properties affected is not a strong indicator for asset performance. However, given the magnitude of the departure from typical levels of variation for this indicator and the fact that the number of properties was above the upper control limit for this indicator, it was a contributing factor to our marginal assessment for infrastructure.

In the last two years the number of discolouration contacts has increased. However the current performance is at the reference level for this indicator. We initiated a programme of proactive sequential flushing of our network to address discolouration in the worst performing areas in 2011-12. This programme was halted during the spring / summer of 2012 due to adverse PR implications associated with 'wasting water' during the drought situation. Flushing recommenced in 2013 and the number of discolouration contacts has decreased significantly as a direct result.

These serviceability indicators are supported by a set of more detailed measures used internally to track performance. To date these indicators have started to suggest that more investment is required to maintain serviceability. Consequently, we prioritised and increased investment in our infrastructure.

Domestic Meter Renewals

We are committed to renewing 23,700 domestic meters during 2010-15. These meter renewals can be reactive due to broken meters or a proactive programme of replacements due to the age of the meter. During the first three years of the period, 10,991 meters have been renewed on a reactive basis only. In 2013-14 a new programme of proactive replacements has begun and combined with continuing reactive replacements we are forecasting a further 12,709 meters will be renewed in the final two years of the period. This takes the total renewals to 23,700 and meets our target.

1.9. Financial Performance

Capital Investment

The final determination allowed for total capital investment of £399.0m (2012-13 prices) over 2010-15.

We have made excellent progress with the capital investment programme and have maintained a steady level of investment across the period; this includes a strong start in the first year of the period, traditionally a lag year. This strong start was due to the creation of a fully developed, scheme by scheme, 5 year programme for the business plan.

Table 14 reports actual and forecast performance over the period.

Table 14 Capital investment

Investment £m	2010-11 Actual	2011-12 Actual	2012-13 Actual	2013-14 Forecast	2014-15 Forecast	Total	Final Determination
Compliance	8.1	6.7	6.7	6.2	6.1	33.9	30.7
Supply demand balance	27.6	29.3	30.9	29.8	30.9	148.5	170.6
Above ground maintenance	29.2	27.1	27.1	26.2	21.3	130.9	119.7
Below ground maintenance	23.1	24.0	27.2	29.8	29.5	133.7	113.8
Total gross investment	**87.9**	**87.1**	**91.9**	**92.1**	**87.8**	**447.0**	**434.8**
Contributions	-4.2	-3.8	-2.5	-3.3	-2.4	-16.3	-35.8
Net investment	**83.7**	**83.3**	**89.4**	**88.8**	**85.4**	**430.7**	**399.0**

This level of investment represents overspend of £32m (8%) against that funded, as shown in Table 15. This additional investment has been required due to the challenges highlighted in this report, drought conditions in 2010 to 2012 and marginal serviceability assessment on our infrastructure in 2011-12, in order to maintain service to customers.

Table 15 Capital investment compared to determination

2010-15 Investment £m	Final Determination	Actual and Forecast	Variance	
Compliance	30.7	33.9	+3.2	+10.4%
Supply demand balance	170.6	148.5	-22.1	-13.0%
Above ground maintenance	119.7	130.9	+11.2	+9.4%
Below ground maintenance	113.8	133.7	+19.9	+17.5%
Total gross investment	**434.8**	**447.0**	**+12.2**	**+2.8%**
Contributions	-35.8	-16.3	-19.5	-54.5%
Net investment	**399.0**	**430.7**	**+31.7**	**7.9%**

*including reallocations and two-sided adjustments

Although we have invested an additional £3m on accelerated security of supply schemes, as outlined in section 1.7, our forecast of investment in supply demand balance is £22m below that funded. This is due to lower demand than forecast, enabling us to defer some of our network strategy

programme. This lower demand is also reflected in our contributions being lower than determined, but the contributions forecast is also reflecting the difficulties we now face in recovering contributions towards schemes from developers.

Operating Costs

In 2009 we were funded £466.1m for operating costs for the period. By March 2015 we are forecasting total operating expenditure to be £442.3m, representing a £23.8m (5.1%) outperformance.

The key drivers of outperformance have been efficient procurement of energy and network management. Further details on this can be found in supporting appendix titled 'Totex'.

Financial Strategy

Maintaining a solid financial strategy ensures that South East Water maintains its investment grade rating (a condition of both our licence of appointment and our financial covenants) and allows us to secure efficient financing from both our debt and equity investors in the competitive capital markets.

South East Water adopted a securitised structure in 2004. This is an established structure, which has been adopted by many companies operating in the UK water sector since 2001. This structure provides debt investors with a number of key protections, such as financial covenants that can restrict payments to shareholders. This ensures a level of discipline and acts as a strong incentive to maintain gearing within covenanted levels. Such a structure allows us ready access to the market, which is invaluable to the Company, particularly given its large capital expenditure programme and growing RCV, which typically lead to a new financing requirement in the order of £200m to £250m in each five year regulatory period

- **Capital Structure**

South East Water's policy is to maintain a capital structure commensurate with a solid investment grade rating. In line with this, we have maintained gearing around 80% net debt to RCV over the 2010-15 period. This level of gearing is well below the covenant lock-up level of 85% net debt to RCV and was also lower than our gearing level in prior periods, which was closer to 83%. The reduction in gearing was partially achieved with an equity injection in 2009, when the shareholders chose to de-risk the capital structure in light of a highly volatile inflationary environment.

The majority of South East Water's capital structure is comprised of long term fixed rate bonds and inflation linked debt. The issuance of long term instruments is undertaken to reduce the level of refinancing risk for the Company, which because of its small size is not in a position to cost effectively regularly tap the capital markets. In addition, it is aligned with the long term nature of the assets in which the investment is made.

This approach means that the majority of the debt we have in place was raised prior to the period of low interest rates that has persisted over much of 2010-15. This means we have not materially benefited from the lower interest rate environment over the course of 2010-15. However, the approach to issuing long term debt ensures that the Company's financial structure is more robust and will conversely help to protect the Company from high interest rate environments that are likely to occur at times in the future.

During the course of 2010-15, whenever possible, we have taken advantage of historically low

interest rates to fully fund our capital expenditure programme through a bond issue in 2010 and the issue of private notes in 2012. Given the size of our capital financing needs, we have not issued other bonds since 2012 while interest rates have largely continued to fall. Consistent with our long term investment philosophy, these debt instruments are long-term (with maturities in 2041 and 2037 respective) and are RPI-linked. As such these instruments maintain a natural inflation hedge with customer prices, meaning the Company's finances are more stable and are able to deal with fluctuations in inflation. This stability supports the long-term sustainability of our operations, ensuring we are able to service the customers of the future as well as those of today.

As a result of both our historic and recent issuance we have a high proportion of index-linked debt (circa 81%). Whilst, as noted above, we believe this strategy supports long-term stability it limits the debt cost outperformance we are able to secure in periods of high inflation. In particular, the first three years of 2010-15 have been a period of high inflation which has meant that our real and nominal cost of debt has been higher than for many other companies who have benefited from a higher proportion of fixed rate debt. For the first three years of the regulatory period our average real cost of debt was 3.3%.

We have considered taking further advantage of the historically low gilt rates to pre-fund the capital expenditure programme for 2015-20 now. However, the interest rates on cash deposits has reduced even further than the interest rate on long-term bonds, meaning that the "cost of carry" the Company would incur would make this course of action uneconomic.

- **Credit rating agencies**

We are rated Baa2 by Moody's and BBB by Standard and Poor's, which is one notch above the minimum investment grade. Both rating agencies have been satisfied by South East Water's key financial metrics so far in AMP5, South East Water has a stable outlook for our credit rating with both agencies. In particular, given the minimum efficient size of bond issuances in the UK market, we have raised debt to pre-finance our capital expenditure programme earlier than we have done historically. This has meant that we have not breached the rating agency liquidity guidance and it has added extra cost to the company as the cash on deposit has achieved low interest rates. We are mindful that deterioration in the rating agency ratios could impact on South East Water's credit rating.

Section 2. Revenue Adjustments

2.1. Summary

Table 15 outlines the combined revenue adjustments applied to the 2015-20 price controls in this business plan, quoted in 2012-13 price base.

Table 16 Overall revenue adjustments to 2015-20 price controls

£m	2015-16	2016-17	2017-18	2018-19	2019-20	Total
SIM	(0.550)	(0.550)	(0.550)	(0.550)	(0.550)	(2.750)
CIS	(1.884)	(1.884)	(1.884)	(1.884)	(1.884)	(9.420)
RCM	2.674	2.674	2.674	2.674	2.674	13.370
Operating cost incentive	0.748	0.748	0.748	0.748	0.748	3.740
Equity injection	(0.458)	(0.458)	(0.458)	(0.458)	(0.458)	(2.290)
Total	0.530	0.530	0.530	0.530	0.530	2.650

All revenue adjustments have been spread over the 5 year period to keep prices stable for customers.

2.2. Service Incentive Mechanism (SIM)

Section 1.2 provides an overview of our SIM performance during 2010-11 and 2012-13. Using this data, the 2011-12 and 2012-13 industry data published by Ofwat, and our forecast performance in 2013-14 we have modelled an expected revenue adjustment.

The modelling shows us to be outside 1 standard deviation from the industry average. Therefore a SIM penalty of -0.25% of company regulated turnover has been assumed.

2.3. Capital Incentive Scheme (Table W15)

The reference point for the Capital Incentive Scheme (CIS) is a specific 'baseline' level of expenditure of £364.1m (2007-08 prices). The CIS ratio calculated an expenditure allowance from the incentive matrix for the five years of £390.5m (2007-08 prices).

During the last price review we stated our concerns with the general approach and application of the CIS through responses to consultations. In particular we would draw attention to our responses to the draft baseline and draft determination. As stated at the time, the key issue is the setting of the baseline. The baseline should reflect a central view of required investment and risk. Our experience of CIS was that the final baseline did not reflect a central case but reflected a low scenario of the investment required. The baseline was a result of what appeared to be arbitrary adjustments, unflagged removal of schemes deemed in Ofwat's view as not required and methodological changes at each step in the process. Ofwat compared our 2009 business plan to this baseline and calculated a CIS ratio of 129.

Because of this ratio and the expenditure allowance being above the baseline, Ofwat imposed an 'ex ante' revenue penalty of £11.75m, also derived from the CIS incentive matrix.

For this business plan two 'ex post' adjustments are to be made:

1. the RCV will be adjusted to allow for differences between the expenditure allowance used to set prices and actual expenditure (this also incorporates the old COPI adjustment to the RCV). This is discussed in Section 3; and
2. a balancing revenue reward/penalty is calculated using a CIS ratio based on actual outturn expenditure using the same matrix as above. Revenue will also be adjusted for the truing up of the financing costs on the outturn RCV Capex.

We have worked closely with Ofwat on clarifying the precise mechanism to be used in calculating both the RCV and the revenue true-up adjustments. Ofwat published their latest view of how the CIS mechanism will work in their publication, Information Notice 12/08, and this has been the basis of our calculation, see Section 6.

The Ofwat spreadsheet provided does not show the calculation of the revenue 'true-up' for the financing costs however the flowchart provided does show this adjustment occurring and our discussions with Ofwat confirm that our calculation methodology aligns with their views.

All CIS adjustments have been applied to the wholesale price control in line with the methodology.

2.4. Revenue Correction Mechanism (RCM) (Table W17)

An adjustment has been made to the revenue requirement to recover a shortfall of revenue during the period 2010-11 to 2013-14. This additional income has been evenly spread over the years 2015-16 to 2019-20.

The shortfall in revenue has been calculated using the Ofwat RCM spreadsheet. This compares the determination revenue excluding large user revenue which is outside the tariff basket with actual revenue adjusted for changes in the level of new properties and movements of large user customers in and out of the tariff basket.

The revenue shortfall is shown in Table 17 in 2012-13 prices.

Table 17 Revenue Shortfall

	2010-11	2011-12	2012-13	2013-14	2014-15
Final determination	198.72	204.88	206.14	202.63	203.17
Actual	194.41	196.85	200.40	204.78	204.07
Difference	(4.31)	(8.02)	(5.74)	2.15	0.90
Tax	1.21	2.09	1.38	(0.49)	(0.20)
Billing incentive	0.13	0.33	0.53	(0.50)	(0.46)
Difference after tax	(3.23)	(6.26)	(4.89)	1.16	0.24
NPV at 2014-15 at 2012-13 prices					10.93
Annualised adjustment to 2014 price review requirement at 2012-13 prices					2.67

We produced two new optional tariffs to support our customer metering programme, a phase-in tariff and a social tariff. These tariffs were designed to ease the transition for customers from an rateable value based charge to a measured charge. As part of the creation of these tariffs we needed to forecast the number of customers that would take up these optional support tariffs. For the first year, 2012-13, the uptake was lower than forecast and as a result we collected £2.4m in prices more than we needed to fund the tariff. As a result we reduced bills in 2014-15 to return this to customers. The take up for the years 2013-14 and 2014-15 are as yet unknown, however if they are materially different to our assumptions, we would expect the correction in prices to be rolled

into the revenue correction mechanism adjustment for the 2020 to 2025 period.

2.5. Operating Cost Incentive Scheme (Table W16)

Table W16 provides a summary of total operating expenditure for the four years, 2010-11 through to 2014-15. It is this period of time which is used to calculate the incentive revenue allowance. For the period in question total operating expenditure is forecast at £337.7m, a £35.5m (11%) outperformance.

The Opex roller mechanism allows us to retain incremental operating cost savings for five years. We have completed table W16 to calculate the applicable revenue adjustment.

Operating expenditure reported includes both retail and wholesale business functions. Operating expenditure for 2009-10 to 2012-13 is consistent with actual annual submissions adjusted for exceptional items. For 2013-14 we have provided a forecast consistent with our budget. 2014-15 we have included a forecast of expenditure.

In line with IN13/17 we have also integrated an adjustment to remove actual pension deficit repair costs and replace with the level of pension deficit repair cost Ofwat consider should be reflected in prices. The adjustment equates to a £2.97m deduction each year. Pension adjustments relating to FRS17 accounting are also included.

Table W16 demonstrates that we have outperformed final determinations in each year. In line with the guidelines, our incremental outperformance is constrained by the outperformance in 2013-14.

In line with our approach to all revenue adjustments, we have spread this adjustment evenly over 2015-20 on an NPV neutral basis. The result is a revenue adjustment across the period of £3.4m.

2.6. Equity Injection Costs

In the 2009 final determination, Ofwat assumed £28.4m (2007-08 prices) of equity injection in 2012-13 and allowed for associated transaction costs equivalent to 5% of the new equity raised. This injection of equity was not required and therefore no transaction costs were incurred. In line with the methodology we have assumed an adjustment to revenue of £2.290m (2012-13 prices). This adjustment has been spread over 5 years on an NPV neutral basis.

Although we haven't had the equity injection we issued new index linked bonds during 2010-15.

2.7. Change protocol - Logging up, logging down and shortfall claims (Table W13)

As demonstrated earlier in this paper, the performance expected for 2010-15 has been met. Therefore we are not submitting any logging down or shortfall claims related to output delivery.

Section 3. Regulatory Capital Value (RCV) Adjustments

3.1. Overall Opening RCV adjustments

Three 'midnight' adjustments have been made to the opening RCV to adjust for the allowed position at PR09 and the actual outturn position:

1. 2009-10 Adjustment for differences to forecast;
2. Land disposals; and,
3. Capital Incentive Scheme (CIS).

Table 18 Opening RCV adjustments

Adjustment item	Source/validation	£m*
31 March 2015 RCV	http://www.ofwat.gov.uk/regulating/prs_web_rcvupdates	1,087.468
2009-10 Adjustment	Ofwat email 2 July 2012. Confirmed through PR09 model.	1.348
Land disposals	Ofwat methodology – SEW calculation	(2.384)
CIS adjustment	Ofwat methodology	7.533
1 April 2015 RCV		1,093.965

*2012-13 Prices

3.2. 2009-10 Adjustment

An adjustment for the difference between the PR09 forecast and actual capital expenditure for 2009-10 and the associated differences in RPI/COPI forecast/actual has been calculated.

Ofwat has provided us with their view of this adjustment by email to Jo Stimpson on 2 July 2012. It has been calculated by inputting the actual figures for inflation and capital expenditure into the PR09 financial model. The calculation results in an adjustment of £1.348m.

3.3. Land disposals

As at previous price reviews, land sales are shared with customers on a 50% basis. This is achieved through an adjustment to the RCV based on actual cash proceeds from land sales.

This adjustment follows a standard calculation which has been used for several of the recent periodic reviews. The main assumption is the discount rate used which has been 7.5% (nominal) for the last two reviews. It is possible that a lower discount rate will be used for this review, consistent with a lower cost of capital but this is yet to be confirmed by Ofwat.

2013-14 land sales are zero. The non-operational part of the Cramptons Road site is anticipated to be sold in 2014-15 for an estimated value of £0.97m. This figure has been included in the calculation of the land sales adjustment. No further land sales are forecast for the period.

Table 19 Land sales adjustment

	2010-11	2011-12	2012-13	2013-14	2014-15
Assumed sales as per FD (nominal)	-	-	-	-	-
Actual Sales (nominal)	2.495	0.661	0.697	-	0.970
Impact of 50% of net proceeds from sale of land on the RCV	(1.248)	(0.331)	(0.349)	-	(0.485)
Discount factor at 7.49%	1.155	1.075	1.000	0.930	0.865
NPV effect of Half Difference	(1.441)	(0.355)	(0.349)	-	(0.420)
Total RCV Land Sales Adjustment (2012-13 prices)					(2.384)

3.4. CIS Adjustment

As part of the CIS mechanism, the RCV will be adjusted to allow for differences between the expenditure allowance used to set prices, and actual expenditure (this also incorporates the old COPI adjustment to the RCV).

It is our understanding that the calculation model follows the principles described by Ofwat in IN12/08:

- Ofwat confirmed that the 'ex post' CIS ratio would be calculated as the reported outturn spend divided by the CIS baseline expenditure that has been adjusted on the basis of outturn COPI;
- The resulting 'ex-post' CIS matrix derived percentage reward/penalty would be applied to the COPI adjusted baseline. This reward/penalty would be applied as a revenue penalty in PR14 and would be net of the 'ex ante' penalty already incurred; and,
- The revenue at PR14 will also be adjusted for the 'value of any benefit or cost of spending less or more Capex than allowed in the final determination'. Ofwat's flowchart shows this element just applying to the financing costs and excludes any depreciation impact.

Using the model an RCV adjustment of +£7.533m (2012-13 prices) has been calculated.

Section 4. Consistency with published risk and compliance statement

In 2012 a new form or regulatory compliance reporting was introduced, including the introduction of 12 key performance indicators (KPIs). We embraced this by preparing and publishing a more customer focused Annual Performance Report, which outlines the performance against the KPIs but also outlines other areas of performance.

Table 19 shows the performance reported against the KPIs. As requested in the methodology, we confirm the performance reported in the Annual Performance Report is consistent with the reported performance in this appendix.

Table 20 2011-13 Key performance indicator reporting

Indicator	2011-12		2012-13		Unit
	Performance	Assessment	Performance	Assessment	
Customer Experience					
Service Incentive Mechanism	56.17		72.66		Score
Water supply interruptions	0.36		0.22		Hours per total property served
Reliability and Availability					
Serviceability water non-infrastructure	Stable		Stable		Assessment
Serviceability water infrastructure	Marginal		Stable		Assessment
Leakage	95.21		93.16		Ml/day
Security of Supply Index	100		100		Index score
Environmental Impact					
Greenhouse Gas Emissions	83.04		82.66		ktCO2e
Pollution Incidents (water)	4.18		0.70		Category 1-3 incidents per 10,000 km of main
Financial					
Post tax return on capital	5.3		5.09		%
Credit rating	Standard & Poors – BBB Moodys – Baa2		Standard & Poors – BBB Moodys – Baa2		
Gearing	78.8		78.7		%
Interest Cover	4.31		3.99		

Section 5. Investment in 2014-15 to deliver outcomes in 2015-20 (Table W3a)

We have developed an innovative approach to outcomes within our business plan for 2015-20. These new outcomes are based on customer perception of performance as well as more traditional output metrics. During 2014-15 further research is required to track and monitor the baseline level of customer perception. The cost of this research will be funded through delivery of efficiency.

Therefore we are not proposing any specific transition expenditure in the business plan and table W3a is reported as zero.

Section 6. Capital Incentive Scheme Calculations

1. RCV adjustment

		Calculation	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2010-15	Price base
Ex ante - PR09 assumed												
COPI year on year change		FD COPI		-1.5%	-0.8%	2.5%	4.5%	3.7%	3.0%	3.0%		
Cumulative COPI inflation from 2007-08			100.0%	98.5%	97.6%	100.1%	104.6%	108.4%	111.7%	115.1%		
RPI year on year change		FD RPI		3.0%	-0.8%	2.0%	3.0%	2.7%	2.5%	2.5%		
Cumulative RPI inflation from 2007-08			100.0%	103.0%	102.1%	104.1%	107.3%	110.2%	112.9%	115.7%		
Company FBP capex						99.479	94.405	96.746	87.904	91.136	469.7	2007-08 prices
CIS baseline capex	1	FD figures				77.943	73.821	74.522	68.116	69.653	364.1	2007-08 prices
Allowance capex	2	1 x CIS allowance	107.25			83.596	79.175	79.926	73.057	74.705	390.5	2007-08 prices
Allowance capex adjusted for FD COPI	2a	2 x FD COPI				83.660	82.802	86.680	81.606	85.951	420.7	Outurn prices
Baseline capex adjusted for FD COPI	1a	1 x FD COPI				78.003	77.202	80.818	76.088	80.139	392.3	Outurn prices
Allowance capex adjusted for FD NI	2b	2 x FD COPI / FD RPI				80.332	77.194	78.685	72.273	74.264	382.7	2007-08 RPE*
Baseline capex adjusted for FD NI	1b	1 x FD COPI / FD RPI				74.900	71.974	73.365	67.386	69.242	356.9	2007-08 RPE*
			* RPE based on FD assumptions for COPI and RPI									
Ex post - Actual / forecast												
COPI				2.4%	-3.1%	-2.8%	2.4%	2.6%	2.7%	2.7%		
Cumulative COPI inflation from 2007-08			100.00%	102.40%	99.26%	96.47%	98.79%	101.39%	104.14%	106.96%		
RPI year on year change				3.0%	0.5%	5.0%	4.8%	3.1%	2.7%	2.7%		
Cumulative RPI inflation from 2007-08			100.00%	102.97%	103.44%	108.57%	113.76%	117.31%	120.49%	123.75%		
Restated CIS baseline capex adjusted for actual COPI	3	1 x actual COPI				75.195	72.926	75.559	70.937	74.503	369.1	Outurn prices
Restated CIS baseline capex adjusted for actual NI	3b	1 x actual COPI/ actual RPI				69.3	64.1	64.4	58.9	60.2	316.8	2007-08 RPE
Allowance capex adjusted for actual COPI	2c	2 x actual COPI				80.6	78.2	81.0	76.1	79.9	395.9	Outurn prices
Actual company spend	4	Actual in year prices				77.512	80.767	89.423	91.270	90.300	429.3	Outurn prices
Actual company spend	4b	4 / actual RPI				71.391	70.996	76.228	75.749	72.967	367.3	2007-08 RPE
CIS underperformance	5	4 - 2c				-3.136	2.552	8.384	15.189	10.394	33.38	Outurn prices
CIS underperformance	5b	5 / actual RPI				-2.888	2.243	7.146	12.606	8.399	27.51	2007-08 RPE
Net adjustment to RCV (to reflect actual spend)	6	4 - 2a				-6.148	-2.035	2.743	9.664	4.349	8.6	Outurn prices
Net adjustment to RCV (to reflect actual spend)	6b	6 / actual RPI				-5.663	-1.788	2.338	8.020	3.514	**6.422**	2007-08 RPE
2. CIS reward/penalty												
Outurn CIS Ratio		4b / 3b									115.934	
Outurn CIS Matrix % penalty	7	From CIS matrix									-4.573	%
Ex Post CIS Penalty	8	7 x 3b									-14.489	2007-08 RPE
Ex Ante CIS Penalty (11.75m 2007-08 prices)	9										-11.751	2007-08 RPE
Net 2014-15 CIS penalty	10	8 - 9									**-2.738**	2007-08 RPE
		10 x actual RPI									-3.389	2014-15 prices
3. Financing cost - Revenue True up												
Post tax WACC	11				5.30%							
						Yr1	Yr2	Yr3	Yr4	Yr5		
Actual - Allowance capex	12	4b - 2b				-8.941	-6.198	-2.458	3.476	-1.297	-15.418	
WACC adjustment						-0.474	-0.474	-0.474	-0.474	-0.474	-2.369	
							-0.329	-0.329	-0.329	-0.329	-1.314	
								-0.130	-0.130	-0.130	-0.391	
									0.184	0.184	0.368	
										-0.069	-0.069	
Annual WACC adjustment	13	12 * 11 annually				-0.474	-0.802	-0.933	-0.748	-0.817	-3.774	2007-08 RPE
Years to base						-4	-3	-2	-1	0		
Discount factor based on WACC	14					0.813	0.856	0.902	0.950	1.000		
Financing cost - True up	15	13 / 14				-0.583	-0.937	-1.034	-0.788	-0.817	**-4.159**	2007-08 prices