WaterFuture

Investor Summary

South West Water

Bournemouth Water

Investor Summary **Highlights**

Key messages

Delivering what we promise – a solid base for performance

A balanced and well evidenced plan – supported by 88% of customers

Ambitious customer service and environmental commitments

Evolutionary sharing mechanism WaterShare+ – from engagement to empowerment

Financial highlights

Targeting sector leading services

£1 billion[1] K7 capital investment programme

RCV growth of 11% to 2025

South West Water bills in 2025 lower than they were 15 years ago

Fair returns for excellent performance – potential for doubling base RoRE

Evolutionary WaterShare+ proposal

- Unique customer share ownership scheme – funded by PR14 outperformance
- Continued sharing of outperformance with customers to 2025

[1] 2017/18 prices

Executive summary

We are committed to delivering for customers and shareholders.

South West Water is providing industry leading services across many areas of the business and is on track to deliver all of the stretching commitments on outcomes, cost and bills which were agreed with our customers for the period to 2020.

Cost savings have ensured the bills to customers are as low as they could be and our performance on service and efficient financing has contributed to delivering a sector leading Return on Regulated Equity (RoRE), doubling allowed base returns.

Our new plan to 2025 is ambitious. It builds on solid foundations, ensuring we remain a valuable and profitable business, whilst delivering improvements in priority areas for our customers and ensuring we meet our required legislative obligations.

We have reached out and consulted with all our customers on our aims to 2025. Customers have told us what matters to them most is:

- a resilient and reliable service
- a fair and affordable bill.

Our strategy to achieve those aims is designed to ensure we are as efficient as possible, making the most of our resources and embracing new technologies and ways of working that deliver cost effective, long term solutions.

This approach has been successfully demonstrated in the current regulatory period with forecast sector leading totex efficiency delivery.

Building on the successful integration of Bournemouth Water delivering a better comparator for the sector, our plan to 2025 proposes further sustainable cost efficiencies.

Our relatively low risk investor profile has allowed access to efficient financing to pay for essential investments in assets at no cost to the taxpayer. As such, maintaining investor confidence remains critical.

Our plan outlines over £1 billion of required investment in services to 2025 across key customer priority areas.

To support that investment we must continue to attract competitive rates of finance and investors need to be confident of earning a return that reflects the risks they are taking and provides rewards for earned outperformance.

Strong cost efficiency outperformance to 2020 c. £300m totex outperformance, 13% lower retail costs

New efficiency initiatives planned to 2025

RSI

Clean, safe and reliable supply of drinking water

Reliable wastewater service

Available and sufficient resources

Resilience

Responsive to customers

Protecting the environment

Benefiting the community

Fair charging and affordable bills for all

We are focused on generating a fair return for investors. Whilst base returns are forecast to reduce to 2025, reflective of current financial markets, the outcomes-based incentive framework and totex rewards will deliver higher returns if we deliver more. For performance above and beyond stretching commitments, there is a potential for doubling base returns when we outperform.

Since 2015, the South West Water Board pledge has been to share the benefits of success fairly between customers and investors.

We are pleased that this groundbreaking approach has now been incorporated into the main regulatory methodology for PR19, and that customers may continue to benefit from future gains in this way.

An integral part of the WaterShare approach is to account for the costs of new obligations and legislative requirements which arise during a delivery period which we are proposing to continue. As an evolutionary development for this business plan, we have again considered whether there are other opportunities to ensure any net benefits arising from macro-economic changes are fairly shared with customers. We are therefore proposing a voluntary mechanism that is consistent with our sharing principles of apportioning to customers net gains from changes in the market assumptions of debt in previous regulatory periods.

We anticipate the evolved mechanism will deliver benefits to customers at a level that is consistent with what is being shared in 2020.

Through our proposals we have sought to align customers and investors objectives. When we outperform we have demonstrated that both customers and investors can benefit, and we see this continuing for this business plan.

Our plan is a balanced and fair plan. We are confident it will retain and attract required investment.

Potential for double base returns for excellent performance

More balanced and diversified ODIs to 2025

Evolution of WaterShare – continued net sharing mechanism

WaterShare+

Embedded debt sharing mechanism

Executive summary continued

Investment programme	2015-20[1]	2020-25[1]
Enhancement	258	422
Maintenance	592	634
Total	**850**	**1,056**

- Growth in capital programme to 2025
- Two new water treatment works in the Bournemouth region
- Expansion to the Isles of Scilly

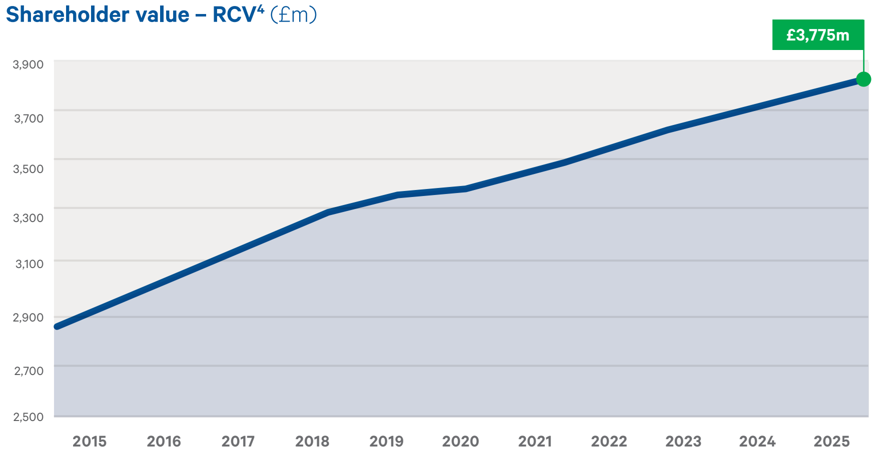
Appointee totex	2015-20[1]	2020-25[1]
Totex allowance	1,924[2]	1,978
Base efficiency (before outperformance)		
Operating costs	2.5%	3.0%
Capital expenditure	5.5%	5.0%

- Continuing focus on delivering cost efficiency:
  - Cost assessment focused on achieving frontier efficiency
  - Investment driven efficiencies
  - Significant reduction in retail costs – building on K6 delivery

Real returns based on:[3]	2015-20 RPI	2020-25 RPI	2020-25 CPIH	Blended average (CPIH/RPI)
Wholesale vanilla cost of capital	3.7%	2.3%	3.3%	2.9%
Residential retail margins	0.1%	0.1%	0.1%	0.1%
Equity return	6.0%	4.0%	5.0%	4.6%
Cost of debt	2.59%	1.33%	2.32%	1.9%
Notional gearing	62.5%	60%	60%	60%
Return on Regulated Equity (RoRE)	2.1 - 10.5%		1.5 - 8.8%	
Financeable	✓		✓	

- Returns reduced – aligned with Ofwat's guidance
- Blended returns calculated from apportioning the RCV between CPIH and RPI multipliers
- Financeable – financial covenants and key ratios met
- Range for RoRE – expectation of doubling base RoRE

Shareholder value – RCV[4] (£m)

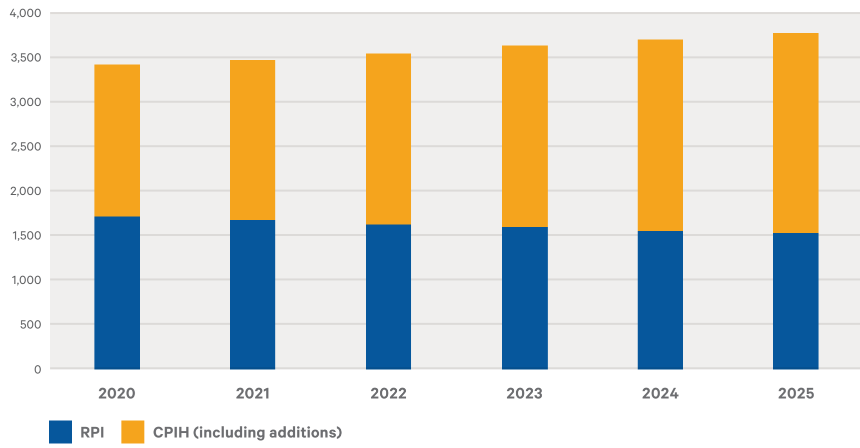


- 11% growth in RCV over K6
- Opening RCV adjustment in 2020 reflects sharing proportion of c. £300m K6 totex outperformance

[1] 2017/18 prices
[2] Before totex outperformance adjustment
[3] Assuming nominal returns of 5.37%
[4] Shadow RCV adjusted for outperformance over the 2015-20 period

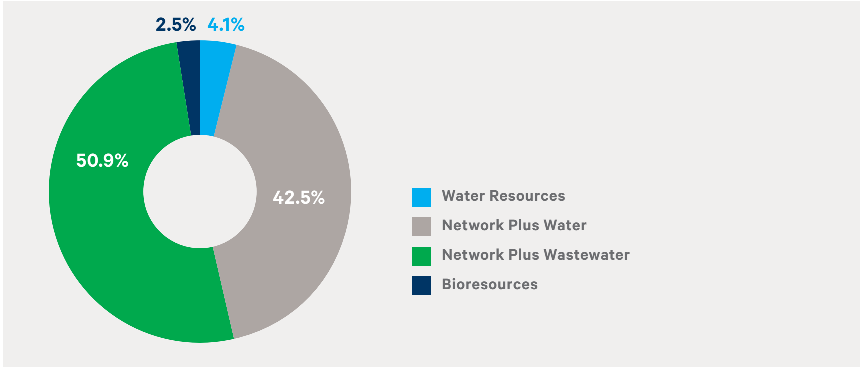
Executive summary continued

Regulatory Capital Value (RCV) allocation



- Evolution of RCV over period to 2025
- By 2025 60% of RCV inflated at CPIH

RCV allocation to revenue controls



- Consistent with previously published expectations
- Bioresources and water resources RCV allocation of c. 2% and c. 4% respectively

Key financials

Allowed revenue summary

This table below identifies the costs included within the building blocks in the proposed allowed revenue for the appointed business.

The average bills reflect the revenue allowance adjusted for customer demand, new connections and the impact of customers switching to a metered supply.

South West Water and Bournemouth Water bills are indicated in the table below. Bournemouth Water Bills reflect the agreed differential on acquisition.

Outturn prices	2020/21 £m	2021/22 £m	2022/23 £m	2023 /24 £m	2024/25 £m
PAYG (operating costs including retail and IRE)	258.0	263.2	262.2	262.7	263.1
Pension deficit repair costs[1]	10.1	10.5	-	-	-
RCV run-off (including post 2020 additions)	176.9	179.7	182.9	186.2	188.9
Financing costs[2]					
Return on RCV	97.6	100.4	103.6	106.7	109.4
Residential retail margin	4.3	4.4	4.3	4.4	4.4
Tax	18.2	19.0	20.5	20.3	19.7
Revenue legacy adjustments	(9.5)	(9.7)	-	-	-
Total building block revenue	555.6	567.5	573.5	580.3	585.5
Grants & contributions recognised in revenue	9.5	9.7	9.7	10.1	10.1
Total appointee revenue	565.1	577.2	583.2	590.4	595.6
Capital expenditure	189.6	204.4	210.1	203.0	186.4
PAYG ratio	58.5%	57.2%	56.1%	57.0%	59.1%
Regulated Capital Value	3,465.2	3,545.7	3,632.8	3,711.8	3,775.4
Notional interest charge[2]	89.9	92.4	93.8	94.9	95.6
EBITDA interest cover	3.67	3.72	3.68	3.66	3.64
Base dividends	55.0	56.7	58.4	60.2	62.1
Average household bill – South West Water[3]	486	490	489	490	489
Average household bill – Bournemouth Water	142	144	145	145	145

Key points to note are:

- PAYG and run-off rates reflective of underlying cost profiles and asset lives
- Pension deficit repair costs aligned with our agreed funding schedule
- Returns consistent with Ofwat's base cost of capital assessment
- Taxation reflective of an effective rate of 15%
- Interest costs reflective of cost of capital and rising in line with debt requirements
- Dividends rebased reflecting lower returns to 2025.

[1] End of Trustee agreed deficit recovery plan in 2022
[2] Based on notional 60% gearing (actual average 63%)
[3] Net of government contribution

Key revenue building block components

Totex

Separate revenue controls are being set for water resources, water network plus, wastewater network plus, bioresources and residential retail. Operating and capital expenditure have been allocated between these separate revenue controls.

Whilst we are already on track to deliver sector leading efficiency of c. £300m in the period to 2020, we are targeting even further efficiencies to 2025.

Our PR19 plan is targeting operating costs efficiency savings of 3.0% per annum and 5.0% on the capital programme, building on the excellent progress made over recent years.

Delivering an efficient service

The key areas of efficiency delivery in our business plan are focused in the following areas:

- **Targeted innovative investment** – new cost effective water treatment works planned for Knapp Mill and Alderney, using cutting edge technology
- **Operational ways of working** through our Resilient Service Improvement (RSI) project
- **Energy procurement and usage** through targeted investment in energy efficiency and renewable energy generation schemes
- **Retail cost efficiency** – continued focus on efficient service delivery through:
  - Smart metering strategy
  - Dual billing all unmeasured customers
  - Enhanced digital capabilities and streamline of service.
- **Cost of bad debt** – we have significantly improved collections through the:
  - Development of our debt recovery system
  - Improved case resolution of high value debtors
  - Increased enforcement activity
  - Increased staff capacity, capability and retention
  - Reduced previous occupier debt using third parties to trace customers
  - Increased affordability measures.

This is forecast to reduce our bad debt costs by 30% to 2020. Continuation of these programmes is forecast to reduce the debt cost on a similar scale by 2025.

On this basis we believe that we are at the efficient level for debt costs and we are not seeking a special cost factor for PR19.

Capital charges, fast and slow money

Key areas of sensitivity are:

- **RCV run-off rate** – the cost of our current assets and future investment which are included annually within customer bills. RCV run-off has increased for this business plan reflecting the nature and proportions of expenditure on shorter life assets. We have assessed our existing asset base and future additions. The run-off rates we are using are consistent with the condition and performance of the asset base and the planned maintenance programme
- **Pay-as-you-go ratios** – 'fast money' which appears in customers' bills in the short term, largely through operating costs and maintenance. This ratio on average over the period is c. 58% consistent with the 2015-20 plan.

We have used run-off rates and pay-as-you-go ratios which align with how costs in our plan would naturally fall and we have not needed to adjust these rates for financeability or affordability purposes.

Investment programme

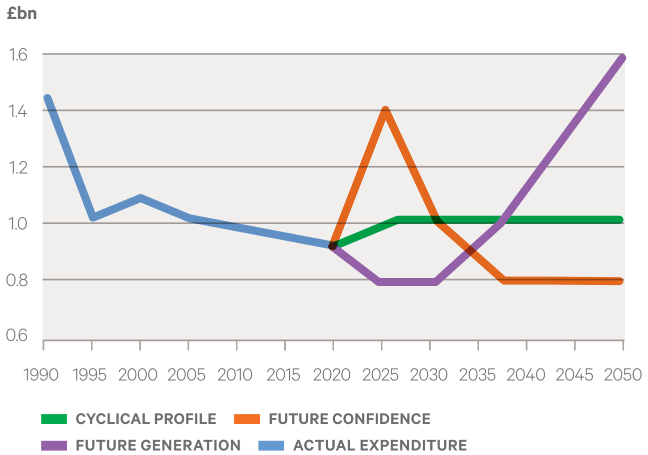
The planned capital investment programme for 2020-25 (K7) is £1,056m compared to £850m forecast in 2015-20 (K6) (2017/18 price base).

Increases are forecast across all elements of the programme with notable uplifts in legislative obligations and expenditure associated with the Isles of Scilly proposed extension to our area of appointment.

Consistent with customer priorities we are targeting investment in resilience alongside meeting our legislative obligations and delivering service standard improvements.

This level of investment continues post 2025 as a result of further envisaged legislation (adoption of customer supply pipes) and other investments we have profiled into later periods for affordability reasons.

From the profiles noted below and shared with customers in our Vision 2050 consultation document, we are following the stable (cyclical) profile trajectory:



Investment highlights – 2017/18 price base	PR19 (2020-25) £m	Forecast (2015-20) £m
Capital maintenance	634	592
Wastewater Quality Programme (WINEP[1])	169	124
Enhancement expenditure on new water treatment works in Bournemouth	89	44
Drinking Water Quality Programme	53	31
Isles of Scilly	36	–
Resilience	75	59
Total	**1,056**	**850**

Capital maintenance – £634m

To maintain asset health and reliability across our water and wastewater services we have maintenance requirements of £634m. The level of legislative driven improvement in the south west has been significant over the last 30 years and capital maintenance is required to keep those assets serviceable. For all our investments we will be mindful of long-term resilience when developing solutions.

Our investment to provide for the population growth forecast in our region is also included within this figure.

Wastewater Quality Programme (WINEP[1]) – £169m

Considerable effort has been applied to translating the WINEP into a programme of improvement works. This statutory programme was agreed with the Environment Agency following modelling and cost benefit considerations, where the statutory drivers provide for that test. The main new requirements relate to protecting and enhancing bathing waters and shellfish waters, protecting and improving rivers for the Water Framework Directive and better flow and storm water management for the Urban Wastewater Treatment Directive.

Strategic new water treatment works in Bournemouth – £89m

Following our success in delivering Mayflower Water Treatment Works for Plymouth, we are planning similar scale investments in the Bournemouth area, at two existing strategic sites:

Knapp Mill Water Treatment Works

This investment will see the replacement of Knapp Mill Water Treatment Works at Bournemouth with a solution based on the new ceramic technology being employed.

The proposed solution will deliver an efficient treatment process with low energy requirements, very low chemical and waste production as well as a much reduced embedded and operational carbon cost. The investment delivers stable serviceability, water quality improvements and the lowest cost to serve in the long term. The project is supported by the DWI.

Alderney Water Treatment Works

Alongside the proposed investment for replacement of the Knapp Mill works in the Bournemouth Water region there is an additional need to replace and upgrade the Alderney works. There is support from the Drinking Water Inspectorate (DWI) for this investment as the current Alderney works is on their 'aged assets' register and has been subject to enforcement action in the past. The new works would be fully commissioned and operational in K8.

[1] Water Industry National Environment Programme

Drinking Water Quality Programme – £53m

Our customers' top priority remains a reliable safe clean water supply. To enable us to achieve safe 100% compliance with water quality standards and to ensure we have the correct systems in place to deliver that performance into the long term, we need to invest in our water treatment works. This investment alongside our upstream thinking programmes will also help us manage the effects of any deterioration in our raw water quality. Investment in 2020-25 totals £53m and has been targeted at pesticide risk, taste and odour, trihalomethanes, manganese control and lead management.

Isles of Scilly – £36m

Subject to final agreements by all parties – investment in the adoption of the Isles of Scilly assets. The current programme is based on a five island solution and will deliver improvements to water, wastewater services and security of supply, with a view to bringing them into line with wider UK regulatory standards. This programme aligns with that submitted to Defra and has been reviewed and supported by the Water Minister.

ISLES OF Scilly

Resilience – £75m

Metering and smart meter installation – £31m

This investment delivers a baseline replacement of old meters alongside an enhanced roll out of Automated Meter Read (AMR) meters in place of standard meters. This would include replacement of all meters in dangerous locations and many internally located meters which are difficult to access.

The third element of the metering investment would be a targeted AMR installation aimed at vulnerable customers' properties that are currently unmetered. These meters would support vulnerable customers and also supports other business needs such as reducing consumption, fair charging and leakage management.

Upstream Thinking – £17m

Building upon the award-winning work that has been delivered in the 2015-20, this investment continues the improvements in those catchments that are designated as Drinking Water Protection Areas. This work will be delivered in partnership with charitable organisations (Rivers and Wildlife Trusts), our nominated partners, land owners and the EA, potentially facilitating their access to other funding sources (through matching). We will also be applying these principles to target nutrient reductions and benefit our wastewater service as well as their associated environmental outcomes.

Resilient Service Improvement (RSI) - £15m

The RSI programme will build on the successes of the PUROS and iOPS workstreams and will deliver enhanced operational capability and deliver new ways of working that take advantage of advances in data analytics, automation and centralised monitoring and control. This will be focused on providing resilient services to both our customers and the environment.

Downstream Thinking – £12m

Downstream Thinking investment continues our approach to flood risk improvements and resilience. It supports our 25 year vision to prevent harmful pollution incidents and flooding from our sewers. We will be working in partnership with other parties (Lead Local Flood Authorities, Environment Agency, developers etc) to identify locations and solutions where multiple benefits can be delivered. Solutions include Sustainable Drainage Solutions (SuDS), sewer separation, major projects such as the Exeter Flood Defence Scheme, and continuing our existing approach to removing properties from the DG5 Flooding Register.

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Key revenue building block components continued

Investor returns

We have reviewed and considered with the help of independent analysis, Ofwat's guidance for the cost of capital.

There are a number of areas we have tested, but we believe Ofwat's position is broadly aligned with our position (although at the lower end of the range we have derived).

As such we have prepared the business plan on the basis of the cost of capital and retail net margins contained in the PR19 Final Methodology document. For the cost of capital we have used the following figures:

- **RPI-linked part of the RCV** – 2.3% for the wholesale, 0.1% for the retail margin
- **CPIH-linked part of the RCV** – 3.3% for the wholesale business, 0.1% for the retail margin.
- **Blended average** – The apportionment of the RCV between RPI and CPIH inflated bases results in a 'blended' real return of 2.9% for the wholesale business and 0.1% for the retail margin.

We have used a 2% CPIH and 3% RPI, assuming a 100bp wedge between the two inflation rates, consistent with the position described in the PR19 methodology. The implied blended inflation equates to 2.4%. We have adopted the same cost of capital across all wholesale price controls.

Returns to investors are derived from both the wholesale and retail revenue controls. Overall returns are set out in the table below.

Real returns based on:[1]	2015-20 RPI	2020-25 RPI	2020-25 CPIH	2020-25 Blended average
Wholesale vanilla cost of capital	3.7%	2.3%	3.3%	2.9%
Household retail margins	0.1%	0.1%	0.1%	0.1%
Equity return	6.0%	4.0%	5.0%	4.6%
Cost of debt	2.6%	1.3%	2.3%	1.9%
Cost of embedded debt	2.7%	1.6%	2.6%	2.2%
Cost of new debt	2.0%	0.4%	1.4%	1.0%
Tax	20%	17%	17%	17%

[1] Assuming nominal returns of 5.37%

[2] Equates to an assumed retail margin of 1.0%

Outcome Delivery Incentives

We are targeting ambitious performance levels across all areas of our business. We aim to be sector leading in the areas where customers value the service most.

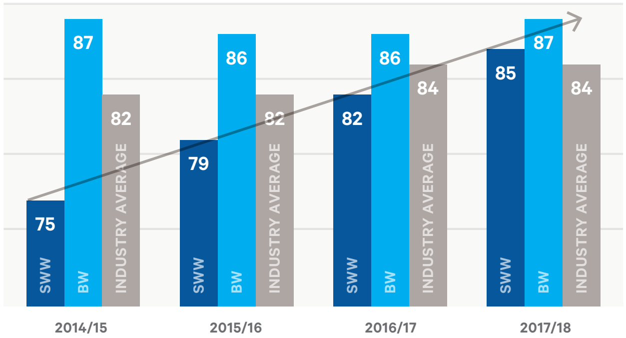
At the heart of our plan is our goal to deliver a high quality, efficient and affordable service to our customers, focused on what matters most to them, meeting all our statutory obligations in the context of the unique natural environment in which we operate. We are proud of our track record of delivery and our plan for PR19 builds on this success.

Our industry leading customer research and engagement programme ensures that our performance commitments are:

- Consistent with the interests of our consumers – today and in the longer term
- Based on results from cost benefit analysis and our assessment of upper quartile sector performance
- Aligned with our legislative obligations and economic to deliver.

During 2015-20 we achieved our highest ever performance on the key industry measure of customer service (SIM).

Service incentive mechanism (SIM)



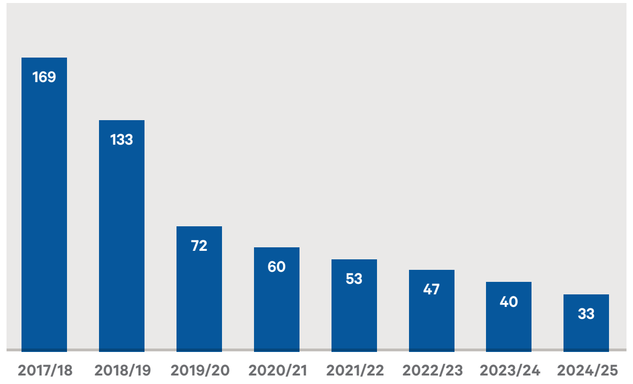
The Institute of Customer Service named us the 'most improved' in the utility sector and amongst the top five most improved organisations across the entire UK Customer Service Index. We were also awarded their 'Service Mark' accreditation.

The Institute of Customer Service

brightnavigator

We are working hard and are on track to meet the stretching service level promises we made to customers in 2014. We have consistently achieved sector leading performance on leakage and water quality standards, whether it's in respect of potable drinking water or river and bathing waters. We have reduced serious pollutions (category 1 and 2) to the environment to record lows and are on track to achieve our 2020 pollutions targets.

Pollution incidents – category 1 - 3 (number)



Our service improvements have, in part, been enabled by sharing best practice following the integration of Bournemouth Water. Service has also improved following improvements made to the way we deliver service through refining processes resulting from post event surveys with customers and co-creation workshops.

For more information, see
Customer leakage and co-creation workshops

Outcome Delivery Incentives continued

Our plan for PR19 builds on these successes. We aim to deliver a service that balances customer needs with those of our stakeholders, regulators and the unique environment in which we operate. Through a process of extensive research and engagement, independent scrutiny, and challenge from our Board, we continue to raise the value for money of our service across eight outcomes:

- **Clean, safe and reliable supply of drinking water**
- **Responsive to customers**
- **Reliable wastewater service**
- **Protecting the environment**
- **Available and sufficient resources**
- **Benefiting the community**
- **Resilience**
- **Fair charging and affordable bills for all**

To maintain this momentum we are targeting ambitious performance levels by 2025, amongst which are:

- Sector leading customer service as assessed by C-MeX
- Tailored services for vulnerable customers, especially during operational incidents
- The fewest instances of internal sewer flooding by the roll-out of a region wide sewer blockages behavioural change initiative
- Significantly reduced risk of supply interruptions through increased interconnectivity and community specific resilience improvement projects
- No water restrictions and a surplus available to trade
- All remaining unmeasured properties to be metered by 2025
- Increased protection from flooding and drought through further deployment of our flagship Upstream and Downstream Thinking programmes
- Protecting our river systems and expanding our industry leading catchment programmes
- Delivery of long term drainage and wastewater management plans
- Zero serious pollutions
- Lowest number of minor pollutions in the industry
- Industry leading wastewater compliance
- Improving and maintaining the number of high quality bathing and shellfish waters
- Region wide water efficiency behavioural change initiative (Greenredeem) supporting industry leading per capita consumption target
- Further 15% reduction in leakage levels.

Our outcomes framework continues to be a central feature of our business plan. Outcomes are the higher-level objectives that result from the activities we undertake in delivering our water and wastewater services. They represent what current and future customers, stakeholders and communities value and care about. We have considered these from a longer term perspective, spanning several investment periods in line with our customer-focused WaterFuture Vision.

Performance commitments are the set of measures by which the delivery of these higher-level outcomes can be assessed. Our business plan contains a set of performance commitments that have been reviewed and refreshed in consultation with our customers and stakeholders to ensure that they accurately reflect the areas of service that matter most to them as well as accommodating our statutory requirements.

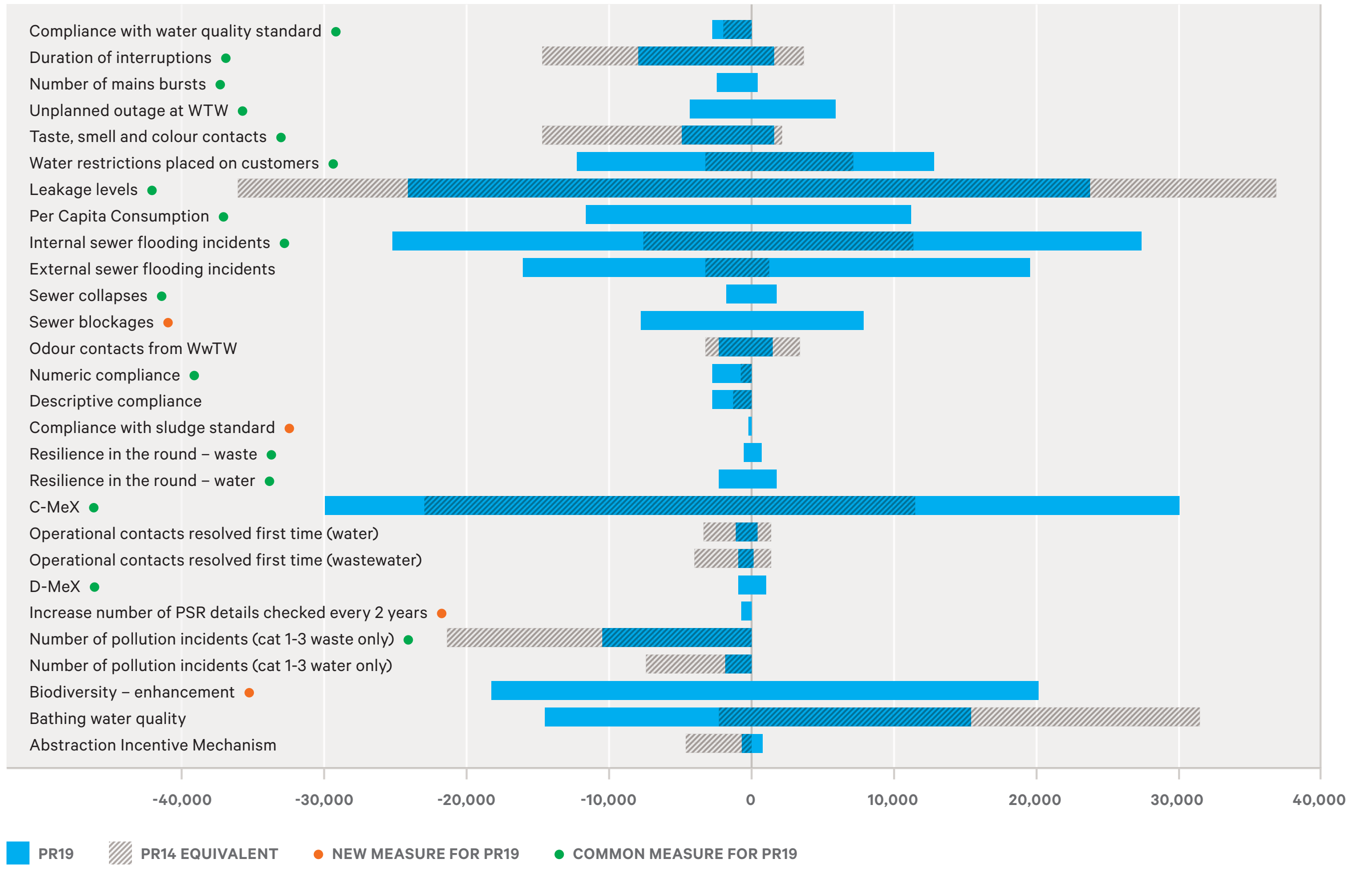
Our plan sets out a suite of performance commitment levels that have been designed to accurately reflect customers' values and views on service/cost trade-offs to ensure that they represent efficient and stretching targets from the customers' perspective. This has been achieved by implementing an extensive and innovative programme of customer valuation research to understand how customers value services, incorporating the latest thinking on triangulation.

For more information, see
2050 Environment Plan

Outcome Delivery Incentives continued

The overall incentive package

The overall range of incentives for the five year period included in our plan to 2025 is from an outperformance payment of £185m (£120m PR14) to underperformance payment of -£212m (£183m PR14), including the potential impact of C-MeX and D-MeX (dependent on final Ofwat methodology for these two performance commitments). In terms of the Return on Regulated Equity, this equates to a maximum range from 2.9% p.a. for outperformance payments to -3.3% p.a. for underperformance payments (including C-MeX and D-MeX).



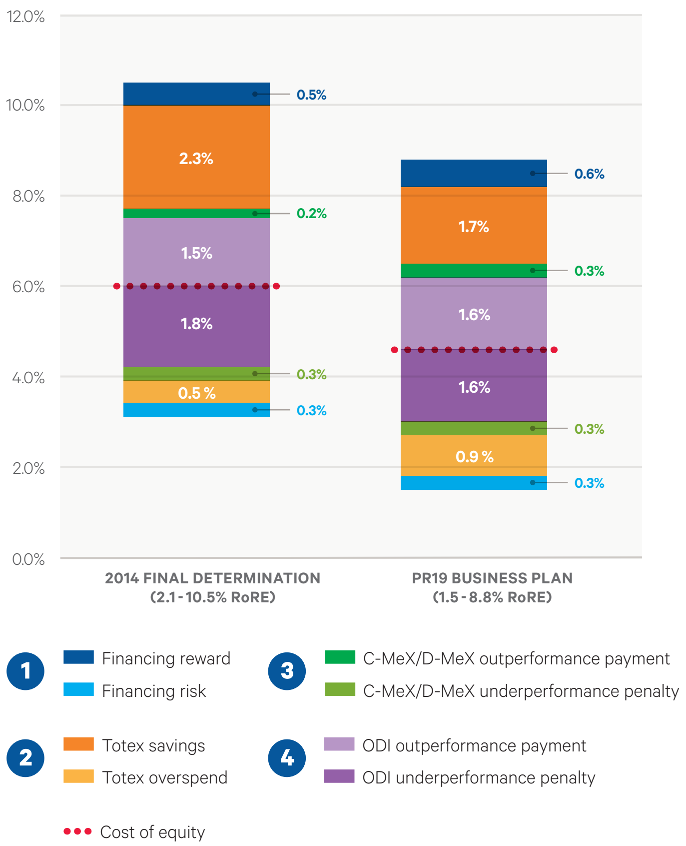
Return on Regulated Equity (RoRE)

The RoRE is based on an assessment of the range of outturn levels of performance we can expect to see. For assessment purposes, the high and low possibility events (P90 and P10) have been excluded. The estimates are in turn based on a forward-looking assessment of the risk to performance from natural variations in external factors (e.g. weather, third party damage, etc.) overlaid with an assessment of where we believe we can target further cost efficiencies and improve performance further, economically and efficiently. Compared to PR14, the proposals are more balanced for this business plan.

We have balanced the needs of our customers and investors so that investors are not rewarded solely on the basis of allowed cost of capital and retail margin, but also have the opportunity to earn additional outperformance payments through us being more efficient or by delivering a higher level of performance where this is valued by customers. Equally, underperformance penalties will affect returns.

Overall the Return on Regulated Equity range in our business plan is 1.5% to 8.8% (PR14 2.1% to 10.5%).

RoRE



The RoRE range for each area represents the South West Water plan assumptions, with the financing RoRE impact reflective of a notional position.

The individual RoRE components are described below.

1. Financing risk for a notionally geared company at the Ofwat cost of debt is estimated at a range of -0.3% risk and +0.6% opportunity within the RoRE range.
2. Totex impacts consider both individual cost risks and opportunities and reflects our experience of delivery in this area.
3. C-MeX / D-MeX underperformance penalties and outperformance payment ranges from a +/- £4m on average per annum. This equates to a RoRE range of -0.3% to +0.3%.
4. ODIs provide for additional returns for improvements in service levels beyond our central plan and industry norms. Based on our P10/P90 scenarios, this amounts to a potential +/- £21m per annum, giving a RoRE range of -1.6% to +1.6%.

WaterShare+

We will transform our relationship with customers by sharing more of our success, offering them a stake and a greater say in the business.

The key features in our plan which will drive this transformation are:

- £20m of accrued benefits from the PR14 WaterShare mechanism will be offered to South West Water customers in the option of 'shares'
- A first of its kind, customer share ownership scheme will be introduced from 2020 allowing customers (including those of Bournemouth Water) to share in the success of the company
- Customers will receive a share of company profits just as shareholders do and receive annual reports and financial statements
- Customers will have additional powers through attending a customer annual general meeting (AGM), voting on the appointment of WaterShare panel members and attending quarterly public meetings
- WaterShare principles will be enhanced with continued sharing of benefits with customers encompassing performance on the cost of embedded debt from 2020, adding to benefits to be shared post 2020.

WaterShare has been central to our engagement with South West Water customers since 2014. Whilst the sharing of benefits has only applied to South West Water customers, the review and scrutiny of performance and engagement with customers has also been undertaken by the independent Customer View Group in Bournemouth.

WaterFuture Customer Panel

Bournemouth Water Customer View
Keeping customers at the heart of the company

South West Water WaterShare

In the context of this business plan, we have reviewed our established WaterShare approach in order to see whether there are any other areas where we could continue to embed our sharing of outperformance benefits.

One key principle we unilaterally adopted is that we would ensure any 'unearned' gains would be given back to customers. Our WaterShare mechanism allows us to do this for changes in market assumptions for both the cost of new debt and taxation. We are pleased to see that Ofwat has adopted this in the base methodology for PR19 for the benefit of all customers.

We believe we can go further with this approach.

Our voluntary proposal for PR19 is that a mechanism consistent with our sharing principles of adjusting for market based assumptions can be used to share net financing outperformance relating to debt raised in previous regulatory periods.

Using the regulatory assumption of 25% of new debt raised over the previous regulatory periods (PR04 and PR09) could result in financing outperformance (on a similar scale to the value returned to our customers in the period to 2020) to 2025 as and when debt is fixed.

We believe this approach is consistent with our principle of sharing 100% of 'market unearned gains' with customers whilst still preserving the incentives for management to efficiently raise finance and investors to appropriately bear risk in this area.

We will also continue to apply our wider approach to truing up risks embedded in our WaterShare mechanism, to ensure that customers do not pay for uncertainty and risk in base prices ahead of a risk materialising, and investors are assured that they are bearing appropriate risks.

Timetable

Following the submission of the business plan on 3 September 2018 the following timetable is anticipated:

3 Sept 2018
WaterFuture Customer Panel report submitted
South West Water business plan submitted

Ofwat initial assessment of plan

31 Jan 2019
Ofwat publish assessment of business plans

1 March - 31 July 2019
Draft determinations published

1 Sept - 31 Dec 2019
Final determinations published

WaterFuture

Investor Summary

South West Water

Bournemouth Water