

Better value Better services And a healthier environment

Severn Trent Water Business Plan 2015-20

Company
wide plan



The structure of this plan

The following table sets out the overall components of our PR14 submission:

Document	Content	Intended audience
	<p>Company wide plan</p> <p>A summary of key facts and bill information.</p> <p>An overview of what we're doing, why we're doing it and how we're keeping prices down. This includes a summary of our 10 customer-driven objectives</p> <p>A summary of the foundations on which we have built our plan.</p>	Anyone wanting to understand what we will deliver for customers from 2015-20
	<p>Individual price control plans</p> <p>This section sets out the details of our Water, Waste Water, Household retail and Business retail plans.</p>	Those needing to know the detail of each price control plan for regulatory purposes.
Water plan	<p>Objectives covered:</p> <ul style="list-style-type: none"> • We will provide water that is good to drink • We will ensure water is always there when you need it 	
Waste Water plan	<p>Objectives covered:</p> <ul style="list-style-type: none"> • We will safely take your waste water away • We will protect our local environment • We will protect the wider environment <p>Note: the Water plan contributes to the last two</p>	
Household retail plan	<p>Objectives covered (for households):</p> <ul style="list-style-type: none"> • We will provide you with excellent customer service • We will help you if you struggle 	
Business retail plan	<p>Objective covered (for business customers):</p> <ul style="list-style-type: none"> • We will provide you with excellent customer service 	
	<p>Appendices</p> <p>Cross cutting objectives</p> <p>Objectives covered:</p> <ul style="list-style-type: none"> • We will provide you with the lowest possible charges • We will make a positive difference to the community • We will finance our business sustainably <p>Strategic resilience business case</p> <p>The strategic resilience business case sets out the detail of our proposals in this area and the steps we have taken to ensure they are the right ones.</p> <p>Technical appendices about incentives and willingness to pay</p> <p>The two technical appendices describe our approach to incentives and how we undertook the willingness to pay and other customer research.</p>	Those needing to know these details for regulatory purposes.
	<p>Governance and assurance report</p> <p>The Board leadership report sets out how our plan has been challenged internally, including by our independent non-executive directors, and externally, including by our customer challenge group (the Water Forum) and external independent experts. It also sets out how our Board has led and provided governance for the process.</p>	Those needing to know these details for regulatory purposes.
	<p>Data tables and commentary</p> <p>The detailed data required by Ofwat</p>	Those needing to know these details for regulatory purposes.

What's in this document?

02 Foreword

PART 1: Summary

06 Our plan in summary

08 Finding the right balance during 2015–20

10 Our plan delivers more for less

11 Our plan will deliver better performance

12 Our plan has been driven by our customer engagement

PART 2: Vision and key objectives

16 Our customer-driven vision and strategy

17 Our 10 objectives

PART 3: The foundations of our plan

44 How are we performing in AMP5 (2010–15)?

46 How have customers and stakeholders shaped our plan?

48 How are we reducing costs to keep bills as low as possible?

50 How are our costs balanced between our objectives and price control plans?

52 How are we managing risks?

54 How are we financing our plan sustainably?

56 How can we be held accountable?

58 How will we be encouraged to deliver more... and be penalised for not delivering?

60 How have we tested the robustness of our plan?

65 How have we assured our plan?



The Water Forum, our independent customer challenge group, is separately submitting its assessment of how effectively we engaged customers and other stakeholders, and how our plan reflects this engagement.

Foreword

We all know these are challenging times: customers' incomes have been squeezed; we have to respond to population growth and dramatic changes in weather patterns; and financial markets have changed significantly. We also still have decades of stewardship ahead of us to safeguard the infrastructure our customers and the natural environment depend upon.

'Our plan is driven by – and for – our customers.'

The challenge for business plans for the next period can be summed up as: 'Can you do more, still deliver what customers want and the environment needs, and still keep prices down?'

We believe that the answer to that question is...Yes.

At Severn Trent, we have an established track record of real price reductions over the last five years and for sharing the benefits of outperformance with our customers. We will maintain this record over the next five years and deliver better value, better services and a healthier environment.

Our plan is driven by – and for – our customers. The 'golden thread' running through our plan delivers four essential elements.

'...limiting price rises to an equivalent of 1.2% below the rate of inflation each year...'

First, it delivers better value for money.

We are proud of having the lowest average combined bills in England and Wales. Our plan for 2015–20 is to deliver even better value for money by limiting price rises to an equivalent of 1.2% below the rate of inflation each year. We will do this by freezing prices in the first year and then keeping price rises for the remaining four years of the five year period to slightly below the rate of inflation (0.2% below). This means that our average price rises from 2010–20 will have been, on average, below the rate of inflation for 10 consecutive years.

We will reduce bills in real terms at the same time as increasing overall investment by £600 million. We will also prioritise improvements in those areas most important to our customers, including better services and healthier rivers.

Second, our plan is fair and balanced.

At Severn Trent we balance the interests of all our stakeholders.

Over the last five years we have shared the benefits of outperformance with our customers by investing £150 million extra to improve the service our customers receive. We will continue this approach in the next five years to ensure customers get a fair deal and that there is no need for regulatory intervention.

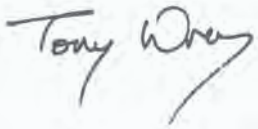
Third, our plan is robust and reliable.

Our plan builds on our track record of producing robust business plans and is based on the largest customer research and engagement exercise Severn Trent has ever undertaken. We also put in place a rigorous assurance process to check and test the robustness of our plan.

Fourth, our plan does the right thing for the long term.

We have long advocated a more socially, environmentally and financially sustainable water industry and published our first Changing Course report in April 2010. Our plan is shaped by the philosophy that underpins Changing Course and provides a solid foundation for the long term.

We look forward to delivering the challenging objectives our plan sets us in the fair, open and transparent way that has become characteristic of the way we serve our customers.



Tony Wray
Chief Executive

‘We have long advocated a more socially, environmentally and financially sustainable water industry’



Part: 1
Summary



This section summarises our plan and highlights how we are keeping future price rises to an equivalent of 1.2% below inflation each year.

It covers the following:

- 06 Our plan in summary
- 08 Finding the right balance during 2015–20
- 10 Our plan delivers more for less
- 11 Our plan will deliver better performance
- 12 Our plan has been driven by our customer engagement

This plan has been driven by – and for – our customers, and there are four central themes that have informed every part of our plan.



Our plan in summary

Our plan for the next five years is driven by – and for – our customers



Value for money

We already have the lowest combined bills in England and Wales and we will be limiting future price rises to an equivalent of 1.2% below inflation each year for the whole of 2015–20. We will do this by freezing prices in the first year and then keeping price rises for the remaining four years to slightly below the rate of inflation (0.2% below).

We will invest £3.2 billion between 2015 and 2020, an increase of around £600 million on the previous five years. This will help us to deliver the service improvements our customers want, including:

- ▶ Reducing leakage by a further 6% and fixing leaks within 24 hours, where it is safe to do so.
- ▶ Reducing the number of homes flooded by our sewers by 14%.
- ▶ Reducing the amount of time we interrupt our customers' water supply by 47%.
- ▶ Reducing our carbon footprint by 3%.

We have also set challenging efficiency targets, reducing total costs in AMP6 by over £370 million.



Fair and balanced

We have struck the right balance between the bills, services and the returns to investors:

- ▶ We have taken a risk based approach to our investment programme, making difficult choices to scale back our programme in some areas, based on customer research.
- ▶ We have chosen to reduce bills to take account of where we have not fully delivered in AMP5. We have also chosen not to claim additional income in areas in which we would have been entitled. This helps us to keep bills low.
- ▶ We have reduced investor returns (the weighted average cost of capital) from 5.1% to 4.2%, taking advantage of the window of opportunity to attract lower cost investment.
- ▶ For those customers who still genuinely struggle with their bill, we are strengthening further our range of social tariffs.

We will continue to share with our customers any significant unanticipated gains we make.

We have developed a set of incentives that encourage us to deliver even better services based on the value to customers of the improvements. If we do not deliver on our commitments, penalties will result in lower prices to customers.



Robust and reliable

Our plan is based on what customers have told us through the largest consultation and engagement exercise we have ever undertaken:

- ▶ Customers were given real choices about where their money should be spent.
- ▶ We have been challenged hard by the Water Forum, our customer challenge group, and have changed our plan as a result.

Our business planning process has ensured our plan is robust and suitable to run our business.

Our plan is based on better data and better models than any previous plan we have produced. It has also benefited from expert risk based review.

Our plan has been assured to a high standard and reviewed and challenged by leading external consultants.

88% of the customers we surveyed support our plan.



Doing the right thing for the long term

We are investing in delivering long term benefits to our customers and the environment:

- ▶ We are planning to invest £329 million in 2015–20 to improve the quality of rivers.

We have profiled the level of our prices through the next five years to allow for a smooth transition beyond 2020:

- ▶ We are planning to invest £600 million on strategic resilience, but we are phasing it over 10 years to keep bills low.

Our plan includes a number of innovations to keep bills, carbon emissions and financing requirements low for the long term:

- ▶ We will double our programme of Sustainable Urban Drainage Systems to help prevent sewer flooding.
- ▶ We will improve our resource efficiency (the amount of water we take out of the environment per customer) by 6%, further strengthening our leading position in this area.

To maintain financial resilience, we are financing the plan with a balance sheet that maintains a healthy level of equity. This is reflected in the weighted average cost of capital.

Our approach to the longer term reflects our *Changing Course* publications that have promoted a sustainable future for the water industry.

Finding the right balance during 2015–20

This page sets out the key facts for our customers.

What our plan means for our customers



Mr. S. Trent
311 Any Avenue
Anytown
ST26 3PU

Dear customer,

You told us you wanted lower bills and better services. We have developed a plan that delivers both. We are able to do this because we are becoming even more efficient and because current market conditions mean that we can attract investment at lower cost.

We have calculated your bill as follows:

Average household combined bill in 2014–15	£316 ¹
Minus efficiency and financing savings	-£40 ²
Plus improvements ³	
• Ensuring water is good to drink	£6
• Ensuring water is there when you need it, including the strategic resilience scheme	£5
• Safely taking waste water away	£7
• Protecting the water environment	£9
• Other improvements	£1
Total spend on improvements	£28
Sub total: 2019–20 prices in real terms	£304 ⁴
Effect of estimated inflation	£78
Average actual combined bill in 2019–20	£382 ⁵

Your bill in 2020 will be higher than today because of inflation. In real terms it will be lower.

Yours sincerely

Severn Trent Water

- 1 Lowest average combined bill in England and Wales (2012–13 prices)
- 2 Reducing our costs
- 3 Investing more in areas that are important to customers
- 4 Bill in real terms
- 5 Including inflation

Highlights

2015–20: Bill increases kept to an equivalent of 1.2% below inflation each year.

Year One (2015–16): Bills frozen in absolute terms (a bill cut once inflation is taken into account).

Years Two, Three, Four and Five: Bill rises kept to 0.2% below the rate of inflation.

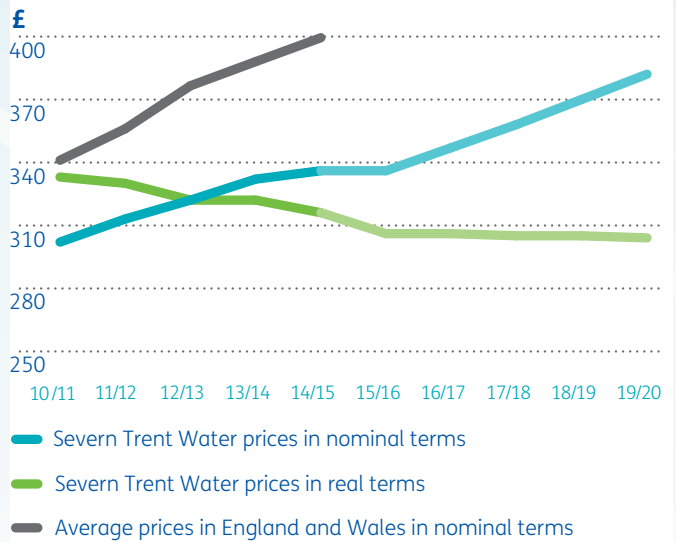
In today's money, customers will be paying the equivalent of £12 less a year by 2020.

We will be investing £3.2 billion in 2015–20, a £600 million increase on 2010–15.

By 2020, customers will have benefited from 10 consecutive years of price rises being kept to, on average, below the rate of inflation.

Bill profile

Maintaining the Severn Trent tradition of keeping prices as low as possible



Our total expenditure

	AMP5 2010–15	AMP6 2015–20	Change	
Capital investment				
Maintaining existing services to customers				
Above ground assets (i.e. water and sewage treatment works)	£1,169m	£1,263m	+£93m	+8%
Assets below ground (i.e. water and sewerage pipes)	£648m	£660m	+£12m	+2%
Sub-total	£1,817m	£1,923m	+£106m	+6%
Improving services to customers				
Environmental improvements	£187m	£329m	+£142m	+76%
Resilience	£140m	£311m	+£170m	+122%
Private sewers and pumping stations	£44m	£107m	+£64m	+146%
Other	£377m	£506m	+£129m	+34%
Sub-total	£748m	£1,253m	+£505m	+68%
Capital expenditure (total)	£2,565m	£3,175m	+£610m	+24%
Operational expenditure	£2,854m	£2,845m	–£9m	0%
Total expenditure	£5,419m	£6,020m	+£601m	+11%

Finding the right balance during 2015–20

Our plan delivers more for less

Financial information

Weighted average cost of capital

4.2%

Assumed level of gearing

60%

Assumed inflation (average)

3.3%

Efficiencies and innovation

Efficiency savings

£370m

Customer acceptability rating

Of those customers surveyed

88%

Size of investment programme



Areas of major investment

Environmental programme Strategic resilience schemes

£329m £311m

compared to £187 million in AMP5 compared to £140 million in AMP5

Sewer flooding

£137m

compared to £110 million in AMP5

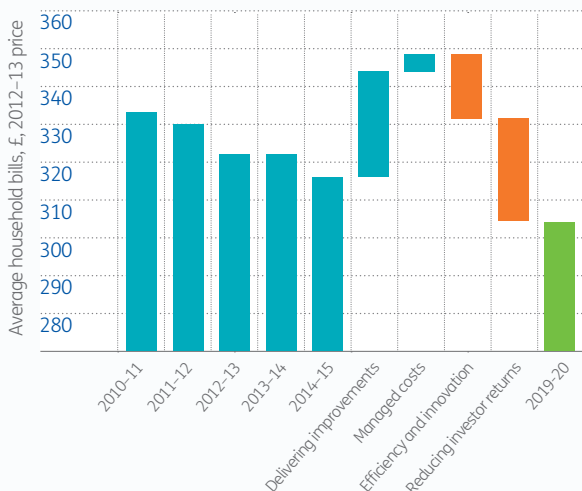
Transferred sewer and pumping stations

£107m

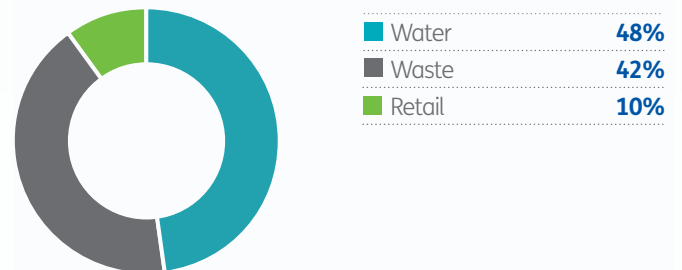
compared to £44 million in AMP5

How our bill is changing

How the components of our bill have changed



2020 Bill – make up

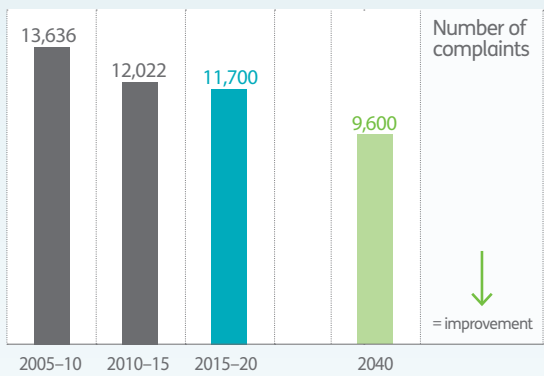


Finding the right balance during 2015–20

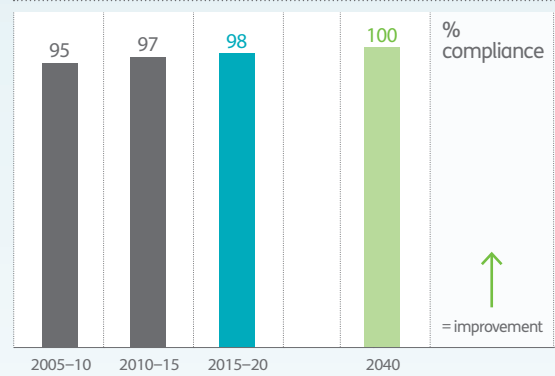
Our plan will deliver better performance

Improving key performance metrics (5-year average)

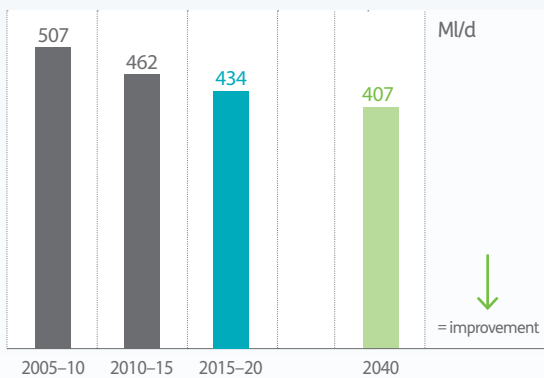
Water quality complaints



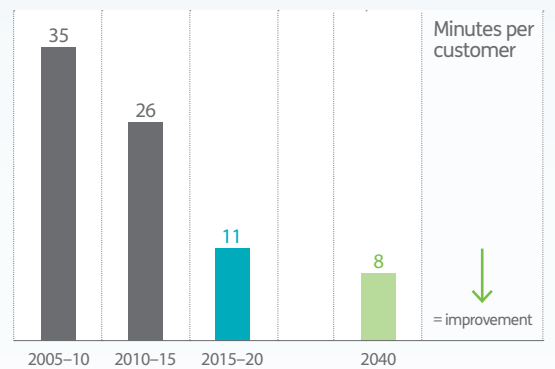
Environmental compliance



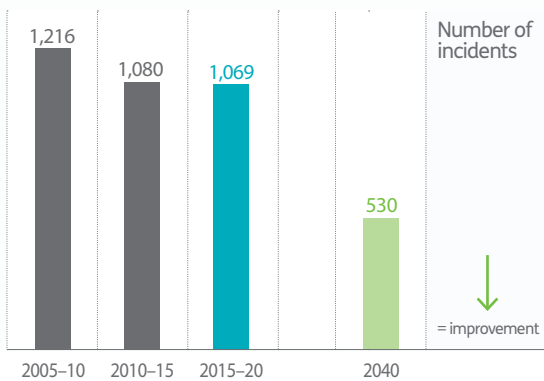
Leakage



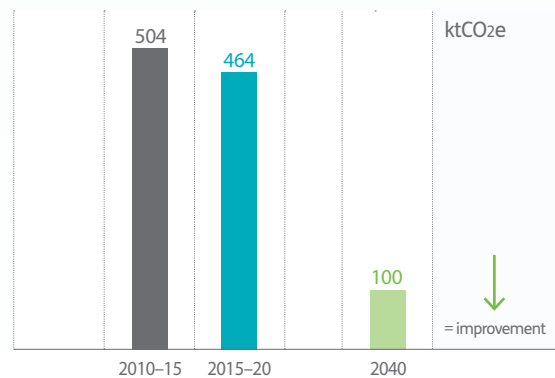
Water supply interruptions



Internal sewer flooding



Carbon footprint



Our plan has been driven by our customer engagement

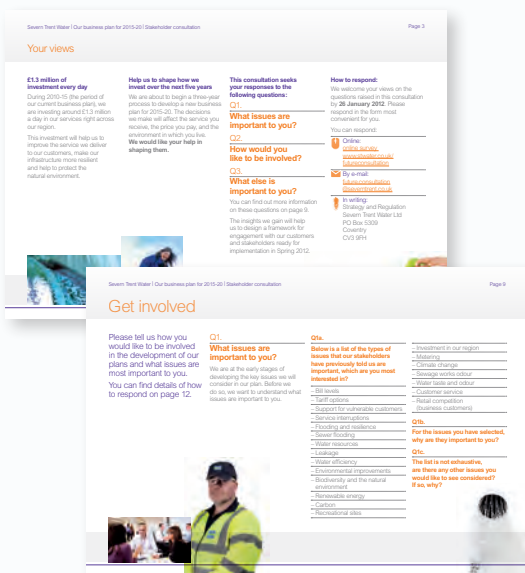
Customers shaped our consultation

We sought to understand how our customers and stakeholders wanted to be engaged. Our aim was to build a consultation exercise that was meaningful and convenient for them.

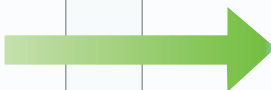
Customers shaped our plan

Our 10 objectives were developed in response to what our customers and other stakeholders told us.

December 2011



April 2012





Our extensive research was peer reviewed by leading academic experts.

Our customer challenge group, the Water Forum, is submitting its own report about the effectiveness of our engagement programme.

The engagement programme fundamentally shaped our plan. Instead of keeping bills flat in real terms, as we had originally set out in *Your Water. Your Choices*, we are now reducing them by the equivalent of 1.2% a year; instead of reducing leakage by 3% over the five years, we will now reduce it by 6%; instead of a £3.7 billion capital programme, we have reduced it to a £3.2 billion programme.

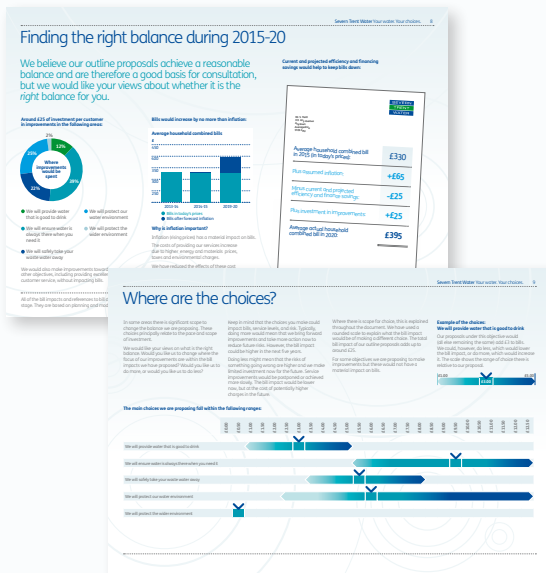
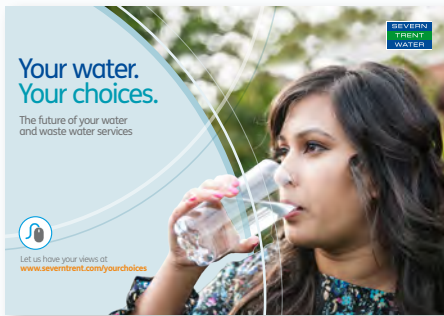
Customers improved our plan

We invited our customers and stakeholders to challenge us about the balance of our plan and how it could be improved. We gave them real, costed choices.

Customers support our final business plan

Our proposals achieved an 88% acceptability rating among the customers we surveyed.

April 2013



December 2013



Part: 2

Vision and key objectives



This section sets out our strategy and summarises the 10 customer-driven objectives that we are working to achieve.

It covers the following:

- 16 Our customer-driven vision and strategy
- 17 Our 10 objectives

This plan has been driven by – and for – our customers, and there are four central themes that have informed every part of our plan.



Our customer-driven vision and strategy

Our goal is to be the UK's best water and waste water company.

We've listened to our customers and believe that 'being the best' means:

- delivering high quality water to people's homes and businesses, reliably;
- taking waste water away safely, cleaning it and then returning it to the environment;
- ensuring customers' bills are affordable, both now and in the long term;
- providing appropriate support for those customers genuinely struggling to pay their bills;
- delivering first class customer service in a way that is convenient to customers;
- acting responsibly at all times, including protecting the environment and conducting our business in a way that builds trust and legitimacy; and
- financing our investment sustainably, so our customers don't face hidden financial risks.

Page 46 and 47 of this plan describes the engagement process we followed to draw these conclusions.

Translating our goal into objectives

We've divided our long term goal into 10 objectives that we're working to achieve by 2040. We've based these objectives on our customers' priorities, our regulatory and legal obligations and our assessment of the long term challenges we face. The scale of investment in each area is also guided by what our customers and stakeholders have told us.

For each objective, we make specific commitments that we'll achieve by March 2020. The table on page 17 summarises these objectives and how we can be held to account for delivering them.

Our strategy for achieving our goal

To fulfil our long term goal, our strategy is to:

- continue to listen to our customers and prioritise the areas most important to them for investment and improvement;
- maximise our efficiency through innovation, partnership working and improving how we work, so we can raise service quality and reduce bills;
- prioritise reductions to our environmental footprint, so we can protect the water and wider environment;
- maintain a significant proportion of equity investment in our business, so we're financially sustainable for the long term;
- support water industry reform, to make the industry more innovative, sustainable and responsive to customers; and
- conduct our business in a way that promotes public confidence in our actions.





Aligning our approach to emerging challenges

As well as delivering what our customers want, our goal, strategy, objectives and commitments are aligned to:

- The water industry's emerging regulatory framework, which we strongly support. By being more efficient, resilient and customer-orientated, we will have an even more compelling offer for customers.
- The challenges facing the industry. Our plan reduces our customers' bills in real terms at the same time as raising our service standards and contributing more to the environment. We will also fund our investment sustainably.
- The challenges specifically facing Severn Trent. Our plan addresses the areas of service improvement that our customers say are most important to them.

Our objectives

This section describes our 10 customer driven objectives.

Our customers' expectations	Our objectives	Our measures of success
Quality water 	1. We will provide water that is good to drink	1 Number of complaints about drinking water quality 2 Compliance with drinking water quality standards 3 Asset stewardship – number of sites with coliform failure
Service you can rely on 	2. We will ensure water is always there when you need it	4 Resource efficiency (amount of water we take out of the environment) 5 Leakage levels 6 Speed of response in repairing leaks (percentage fixed within 24 hours) 7 Number of minutes customers go without supply each year 8 Percentage of customers with resilient supplies (those that benefit from a second source of supply) 9 Asset stewardship – mains bursts 10 Progress on strategic resilience (meeting milestones)
	3. We will safely take your waste water away	11 Number of internal sewer flooding incidents 12 Number of external sewer flooding incidents 13 Partnership working (measure of joint initiatives on flooding) 14 Asset stewardship – sewer blockages
	4. We will provide you with excellent customer service	15 Customers' satisfaction with their service (based on a customer survey) 16 Customers' experience of dealing with us (based on Ofwat's Service Incentive Mechanism)
Affordable bills 	5. We will have the lowest possible charges	17 Delivery against efficiency plans 18 Customers rating our services as good value for money
	6. We will help you if you struggle	19 Number of struggling customers helped with their bills 20 Percentage of customers who do not pay
Responsible service 	7. We will protect our local environment	21 Improvements in river water quality against Water Framework Directive criteria 22 Number of pollution incidents 23 Asset stewardship – environmental compliance 24 Biodiversity improvements
	8. We will protect the wider environment	25 Size of our carbon footprint
	9. We will make a positive difference in the community	26 Improved understanding of our services through education
Sustainable finance 	10. We will finance our business sustainably	27 Investment grade credit rating

Objective 1

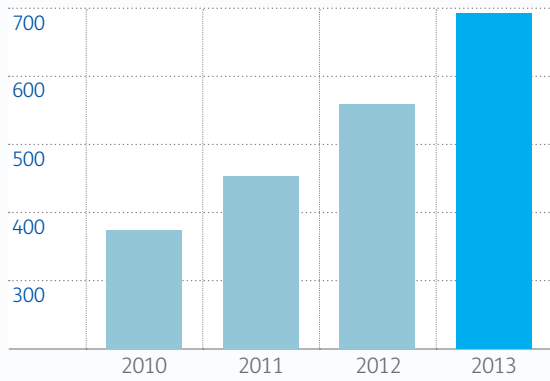


We will provide water that is good to drink

Our plan addresses a number of challenges

We need to deal with increased pollution of raw water sources from activities within our catchment areas.

Nitrate and pesticide contamination in raw water
Number of samples



We need to improve our treatment works performance on coliforms at both groundwater and surface water treatment sites.

We need to manage and maintain the performance of our extensive asset base as it ages.

Our distribution system needs to be maintained and improved to ensure water quality is secured to our customers.

We need to reduce the build up and mobilisation of deposits in our pipes which causes discolouration and around 75% of customer complaints regarding water quality.

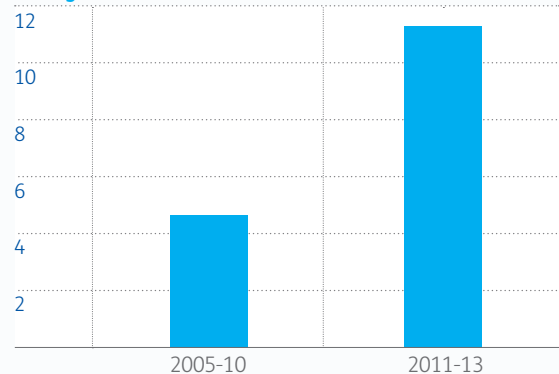
We need to address the additional stress to our systems caused by changing weather patterns.

We need to be able to move water around our region without impacting water quality.

We need to address potential health risk associated with lead customer pipes in around 600,000 homes (18% of properties).

We need to meet our statutory obligation to comply with minimum water quality standards, including latest disinfection by-products and lead standards.

Average number of coliform detections



Our customers and stakeholders have told us

- Water quality is consistently our customers' highest priority.
- Customers want water that is both safe and pleasant to drink.
- Customers expect us to maintain our high quality standards.
- Customers and stakeholders support our partnership approach to managing catchments.



Key financial information

AMP6 Totex

AMP6 Final business plan
(£405m *Your Water. Your Choices*)

£440m + **£25m**
Capex Incremental Opex

Bill impact **+£6**

We have a clear long term strategy

Prevent, rather than treat, pollution through working in partnership in catchments.

We will minimise the need for new treatment processes by blending water from different sources where it is economic to do so.

Maintain robust and reliable treatment works.

Provide resilience to changing raw water quality caused by more variable and extreme weather events.

Educate customers about risks from lead pipes, help them manage those risks and gradually remove lead pipes from the water supply system.

We have a plan that delivers our strategy



We will extend our catchment management approach which is already delivering cost-effective nitrate and pesticide management.

We will invest to maintain and improve the performance of our highest priority water treatment works processes to meet customers' expectations.

We will refurbish or rebuild our highest priority service reservoirs.

We will reduce the level of deposits in our pipes through mains cleaning and improved treatment processes.

The risks we have balanced and the choices we have made

We have stepped up the level of maintenance to address our most serious risks in AMP6. We will tolerate and manage remaining risks.

We do not control the actions of land-users, but we have worked collaboratively with all stakeholders to develop innovative catchment management solutions. The impact is less certain than traditional treatment solutions.

This is what we'll be measured by

Measure of success	Projected 2014–15 performance	2020 performance	Projected improvement	2040 performance	Type of incentive
Number of complaints about drinking water quality	12,000	11,500	4%	9,600	Reward and Penalty
Compliance with drinking water quality standards	99.97%	99.97%	–	100%	Reputational
Asset stewardship – number of sites with coliform failure	Marginal	Stable	Improve to Stable	Stable	Penalty

Objective 2



We will ensure water is always there when you need it: Managing supply and demand

Our plan addresses a number of challenges

Our population is increasing but there is a finite amount of water in the environment.

Greater variability in weather patterns and more frequent weather extremes.

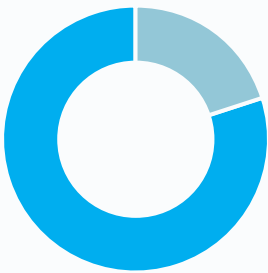
We need to continue to meet Defra water efficiency targets.

We need to ensure we do not exceed our agreed target for hosepipe bans (usage restrictions) despite the challenges of climate and population growth.

If we do nothing, forecast data shows that we will only have sufficient water in 2040 to meet demand fully for 20% of our customers.

In some areas our abstraction is unsustainable. We will give up 85M/d of licensed abstraction as part of the National Environment Programme.

We need to find and fix more leaks, and ensure the water we treat and put into supply goes to meet customer demand.



% population at risk of insufficient supply to meet demand under do nothing scenario (2040)

Not at risk	20%
At risk	80%



Increase in population served by Severn Trent, 2012–40

+21%

Our customers and stakeholders have told us

Leakage is the number one priority for customers – they simply see it as wastage.

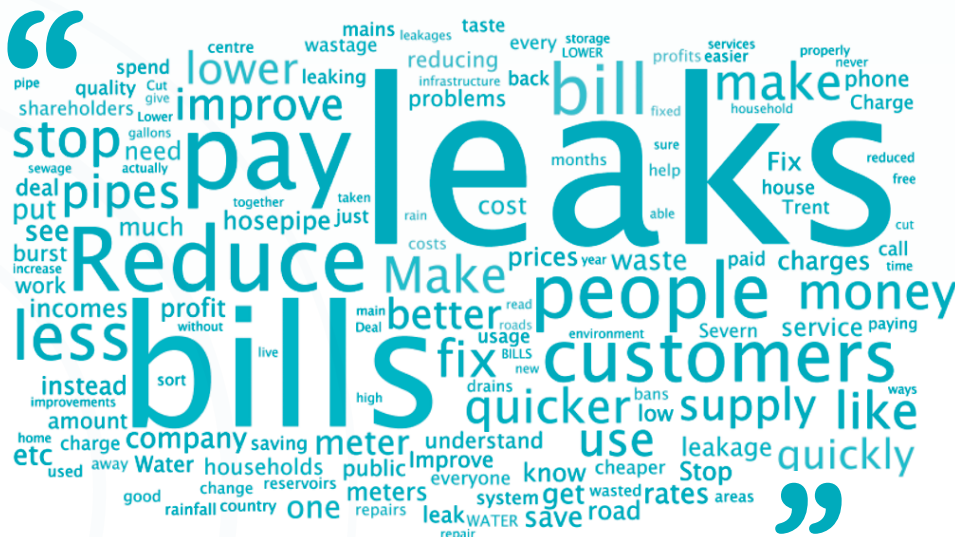
Stakeholders strongly support demand management and our approach to water efficiency.

There is broad support for metering but there is also concern about protecting vulnerable customers.

There is support in reducing abstraction where it is environmentally damaging.

We should maintain the current hosepipe ban frequency target of three in 100 years.

There is general support for increasing customers' understanding of the value of water.



Key financial information

AMP6 Totex

AMP6 Final business plan
(£311m *Your Water. Your Choices*)

£313m

Capex

+£6m

Incremental Opex

Bill impact

+£2

We have a clear long term strategy

Reduce leakage from our own and customers' pipes, and respond quickly to visible leaks.

Reduce the amount of water we take from the environment per customer, in particular from unsustainable sources.

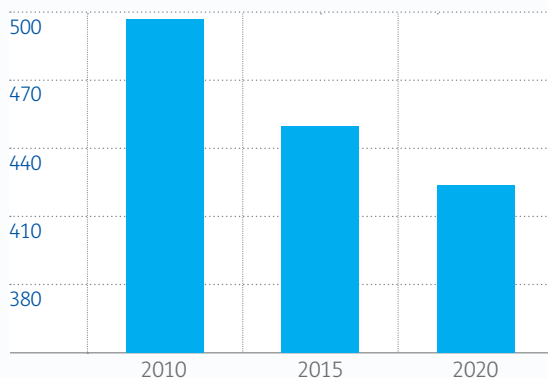
Work in partnership with others to improve how water is valued, including the continuation of our highly successful water efficiency programme.

Ensure our network keeps pace with new development and population growth, and improve our ability to deploy existing resources flexibly and efficiently.

We have a plan that delivers our strategy

Further reductions in leakage, and faster repair of leaks.

Leakage MI/d



A programme to promote metering to help vulnerable customers, and extending to 24 months the option to switch back.

We will provide new sources of sustainable supply for customers in Telford and Bromsgrove so that we can reduce unsustainable abstractions.

Maintaining the hosepipe ban levels of service that our customers have asked for.

Develop new and innovative ways to re-use water through rainwater harvesting and grey water recycling.

Extend our high quality customer education, delivering a 50% increase in water saved through our water efficiency programme.

The risks we have balanced and the choices we have made

Our leakage reduction target is supported by an incentive to ensure that customers will be compensated if we fall short.

We have set an ambitious target to fix leaks within 24 hours (where it is safe to do so) in response to the strength of customer feedback.

We have balanced the need to stop unsustainable abstractions with affordability, spreading the pace of improvements across multiple AMPs.

This is what we'll be measured by

Measure of success	Projected 2014–15 performance	2020 performance	Projected improvement	2040 performance	Type of incentive
Resource efficiency (amount of water we take out of the environment)	229 litres per day per customer	213 litres per day per customer	6%	193 litres per day per customer	Reputational
Leakage levels	450 MI/d	424 MI/d	6%	407 MI/d	Reward and Penalty
Speed of response in repairing leaks (percentage fixed within 24 hours)	50%	100%	100%	100%	Reputational

Objective 2

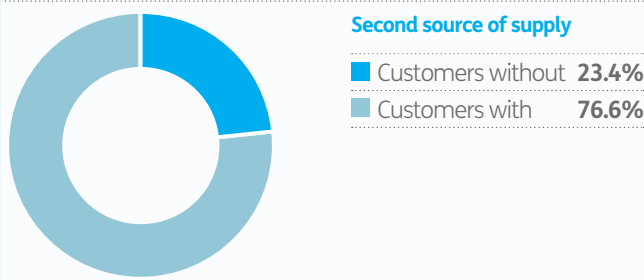


We will ensure water is always there when you need it: Keeping supplies on

Our plan addresses a number of challenges

Customers in rural and urban areas face different risks of interruptions.

We need to increase strategic resilience of our supply system to address key risks of customers losing supply.



We need to maintain network performance as our extensive asset base ages.

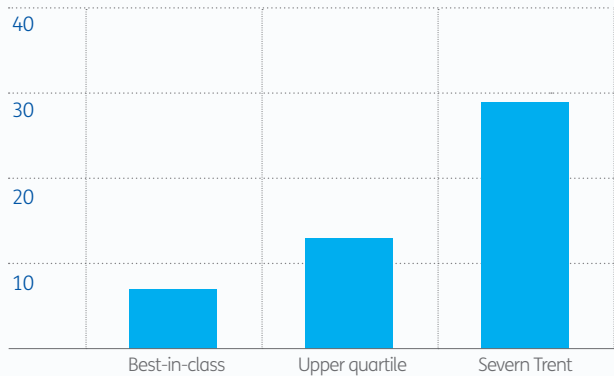
Extreme weather events will require us to have greater flexibility and resilience in our system.

We have critical Victorian aqueduct assets and now is the right time to start improving them.

Our network still has 10 communities of greater than 20,000 population that are reliant on a single source of supply.

We need to reduce the supply interruptions our customers experience to deliver upper quartile performance.

Water supply interruptions Minutes per customer 2012-13



Our customers and stakeholders have told us

That our planning should consider a wide range of extreme events that might impact on our ability to keep supplies on.

Our qualitative research confirmed the majority of our customers are in favour of a greater proportion of people having the back up of a second source of supply.

They support improvements to our interruptions performance, with particular emphasis on preventing longer duration events.



‘This should never happen again – not just in the affected area, but anywhere.’

Customer research in Gloucester after the 2007 Mythe flooding interrupted water supplies.

Key financial information

AMP6 Totex

AMP6 Final business plan
(£1,146m Your Water. Your Choices)

£760m
Capex

+£1m
Incremental Opex

Bill impact +£3

We have a clear long term strategy

- We will maintain our network in a stable condition.
- We will invest to improve our network's resilience to risks of long duration outage.
- We will increase the number of customers with a second source of supply, particularly those in large communities.
- We will increase our flexibility to move water around our region.

We have a plan that delivers our strategy

- We will implement operational improvements, innovate and increase investment in trunk mains to reduce large scale customer interruptions.
- Commence a 10 year programme of strategic resilience.
- Maintain stable performance in our distribution network through distribution mains renewal and operational improvements.

How we supply our region

Our strategic grid will ensure we can move water to where it is most needed



The risks we have balanced and the choices we have made

We have chosen to increase the level of investment in our trunk mains, and have balanced this by reducing investment in our distribution mains, as we believe this will deliver greater customer benefit.

We have increased our focus on operational improvements to improve our interruptions performance and reduced reliance on capital investment solutions.

We have chosen to spread our strategic resilience programme over a 10 year period to ensure it remains affordable to customers and ensure efficient engineering delivery. We will go faster if we can, but we are only including provision in AMP6 bills for the elements of the scheme which we expect to be able to deliver in the period.

This is what we'll be measured by

Measure of success	Projected 2014–15 performance	2020 performance	Projected improvement	2040 performance	Type of incentive
Number of minutes customers go without supply each year	15 minutes	8 minutes	47%	8 minutes	Reward and Penalty
Percentage of customers with resilient supplies (those that benefit from a second source of supply)	76.6%	77.1%	1%	93%	Reputational
Asset stewardship – mains bursts	Stable	Stable	Maintain Stable	Stable	Penalty
Progress on strategic resilience (meeting milestones)	n/a	8 milestones	n/a	n/a	Reward and Penalty

Objective 3



We will safely take your waste water away

Our plan addresses a number of challenges

Our sewers are having to cope with higher demand from increasing population and loss of permeable areas.

Between 2015–2020, there will be 117,000 new houses connecting to our sewers – a 56% increase from 2010–2015

+56%



The network we are responsible for has expanded rapidly and we will have 40% more pumping stations by the end of 2016.

There is a need to replace more of our structurally poor network but we need to pace improvements to ensure affordability.

We don't currently always know enough about the condition of some of our higher risk assets such as trunk-mains.

We have some complex and expensive sewer flooding problems left to resolve because we have addressed the simpler issues.

In 2010–15, the cost of dealing with sewer flooding increases by 54% compared to 2003.

+54%



More frequent extreme storms are putting a strain on our sewers.

We need to work with others such as local authorities and developers to create a more sustainable approach to flood risk management.

We need to improve our current performance on sewer blockages, particularly repeat incidents.

Many of the problems causing sewer blockages can be avoided and we need to change customer behaviour.

A high proportion of sewer blockages result from the disposal of inappropriate items

75%



Our customers and stakeholders have told us

The division of responsibilities between Severn Trent and customers on private drains is not always clear.

They are willing to pay to address sewer flooding problems, but they expect the costs to be proportionate.

We should adopt a risk based approach to sewer flooding and resolve severe cases in the next 5–10 years.

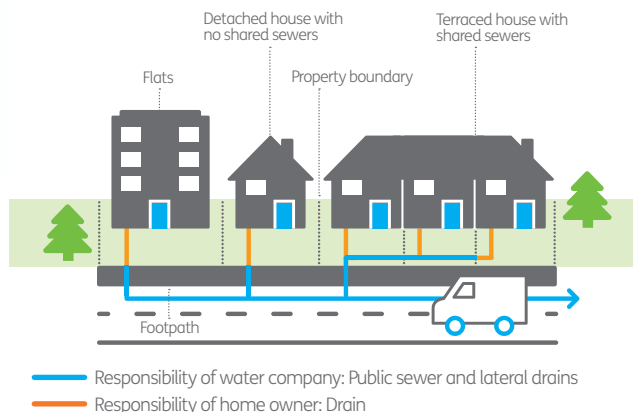
We should actively replace high risk transferred assets.

We need to work in partnership with other stakeholders to reduce flooding.

We should invest in customer education to tackle blockages.

We need to establish reasonable certainty of failure on ageing assets (before we proactively replace them).

Division of responsibility for sewers



Key financial information

AMP6 Totex

AMP6 Final business plan
(£766m Your Water. Your Choices)

£631m Capex

+£61m Incremental Opex

Bill impact **+£7**

We have a clear long term strategy

Educating customers so they only contact us with problems we can help them with.

Adapt to the challenge posed by climate change, population growth and urban creep by separating surface water, working in partnership and increasing the use of Sustainable Drainage Systems (SuDS).

A risk based urban and rural catchment strategy aligned with Ofwat and EA's Drainage Strategy Framework.

Ensure that no customer is affected by severe flooding.

Maintain our sewer network so we can deliver the service our customers expect.

Change customer attitudes to how they use sewers.

We have a plan that delivers our strategy

Continued focus on tackling sewer flooding but moving to a risk based approach.

Doubling the number of SuDS solutions through partnership working.

Managing low severity sewer flooding problems through mitigation.

Improving our performance on blockages – aiming to deliver zero serious pollution by 2020.

Increased use of real time monitoring of our Combined Sewer Overflows (CSOs) and sewer network to identify problems before they cause pollution or flooding.

Adopting and upgrading private pumping stations to a 'safe and serviceable' standard.

Increased emphasis on changing customer behaviours to reduce sewer blockages.

The risks we have balanced and the choices we have made

We have chosen not to ask customers to pay up front for a strategic flooding scheme we are planning for Stroud – there is too much uncertainty in timing and scope.

We have taken a risk based approach on transferred assets as we have not built in an assumption of any increase in customer contacts. We will continue to develop our understanding of these assets in preparation for PR19.

We have chosen to phase improvements to reduce the bill impact on customers. £332 million investment for sewer flooding is cost beneficial based on our willingness to pay survey. We are only investing £137 million and will manage the low severity flooding risks through low cost mitigation

Our internal sewer flooding incentive encourages further improvement if this can be delivered at low cost.

We are bearing the risk of increased incidents arising from wetter weather.

This is what we'll be measured by

Measure of success	Projected 2014–15 performance	2020 performance	Projected improvement	2040 performance	Type of incentive
Number of internal sewer flooding incidents	1,155	997	14%	530	Reward and Penalty
Number of external sewer flooding incidents	7,714	7,220	6%	4,960	Reward and Penalty
Partnership working (measure of joint initiatives on flooding)	7 schemes	21 schemes	200%	n/a	Reputational
Asset stewardship – sewer blockages	Marginal	Stable	Improve to Stable	Stable	Penalty

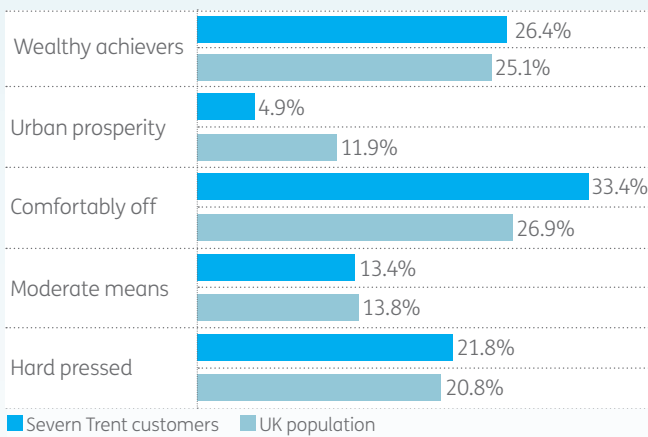
Objective 4



We will provide you with excellent customer service: Household retail

Our plan addresses a number of challenges

We have a diverse customer base with different needs, expectations and preferences.

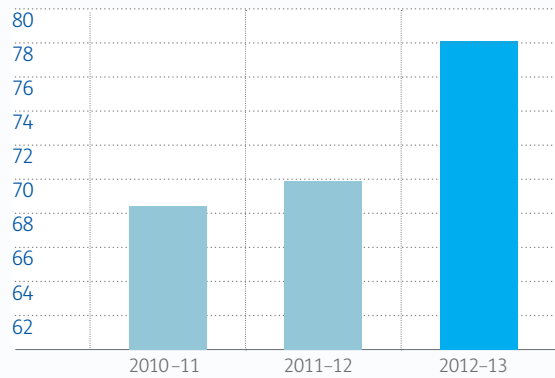


Our customers' expectations, and their preferences for the technology they can use, can rapidly change.



Our customers' experience of us (based on Ofwat's Service Incentive Mechanism) has improved from a low base, but we have more to do.

Combined SIM score



Our customers' satisfaction with us (based on the UK Customer Satisfaction Index) is only just above average for the utilities sector. We can do better.



Our customers and stakeholders have told us

- Provide a trouble free, continuous service so you don't need to contact us.
- Help you make a choice about meters.
- Communicate in a straightforward way.
- Making contact should be easy.

- Resolve your issues quickly and first time round.
- If we can't resolve an issue straight away, keep you informed.
- Show we care and that their custom is valued.

Key financial information

AMP6 Totex

AMP6 Final business plan
(£40m *Your Water. Your Choices*)

£40m
Capex

+£6m
Incremental Opex

Bill impact

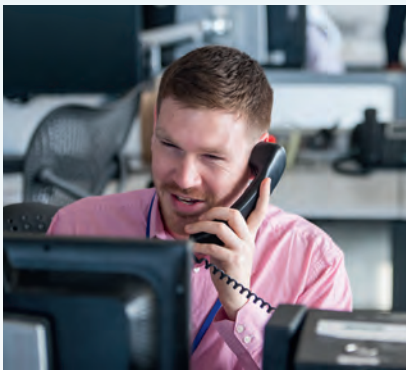
£0 No bill impact
as costs are absorbed

We have a clear long term strategy

We want to be the best customer service provider in the utilities sector by meeting the needs of our customers today and tomorrow.

We'll deliver a trouble free service so our customers don't need to contact us if they don't want to.

And if they do need to contact us, we will make it easy for them, resolve their issues quickly and they will know they are valued because we offer a more personal service.



We are making life easier for customers



We have a plan that delivers our strategy

A more reliable and responsive wholesale service will reduce the need for our customers to contact us if they don't want to.

We'll resolve more issues at the first point of contact.

We'll redesign our customer journeys to make them easier.

We'll integrate our individual operational systems into one so that we have a single view of each of our customers.

We'll strengthen our contact channels to make it easier to talk to us.

We'll use new analytics technology to give us real-time insight into whether our customers are satisfied with the service they are receiving.

We'll use our better understanding of our customers, and develop our service personality, to help them feel valued.

The risks we have balanced

As customer expectations and technology can quickly change – we've found a balance between investing in the technology we need to meet customer expectations now and allowing for how customer preferences might change in the future.

This is what we'll be measured by

Measure of success	Projected 2014–15 performance	2020 performance	Projected improvement	2040 performance	Type of incentive
Customers' satisfaction with their service (based on a customer survey)	Median	Upper quartile	n/a	Upper quartile	Reputational
Customers' experience of dealing with us (based on Ofwat's Service Incentive Mechanism)	Median	Upper quartile	n/a	Upper quartile	Reward and penalty

Objective 4



We will provide you with excellent customer service: Business retail

Our plan addresses a number of challenges

Business customers want a service relevant to their needs; a one-size-fits-all solution will no longer be acceptable particularly given they have choice.

Customers' expectations are driven by what they are offered by other utilities and service providers. They actively seek evidence of value and differentiation.

We need to understand and prepare for the likely needs of the business customer we will be serving in the future – our '2020 business customer'.

Serving an extremely diverse customer base means we have to be good at all services for every customer.

Business retail competition means all business customers will be able to choose their service provider by 2017. Competition brings opportunities and risks.

The separation of business retail services from wholesale activities to ensure an open and transparent market means large organisational transformation.



Our customers and stakeholders have told us

Be easy to deal and interact with.

Resolve problems quickly and keep them updated.

Provide tariffs that are value for money.

Provide a single point of contact and service management.

Provide options to help lower effort and overheads.

Help reduce consumption and therefore costs.

Key financial information

AMP6 Totex

AMP6 Final business plan
(£18m *Your Water. Your Choices*)

£18m
Capex

£0m
Incremental Opex

Bill impact

Varies according
to customer

We have a clear long term strategy

We will win the trust of our business customers and build the reputation of being one of the best business to business service providers in the UK utility sector.

We will deliver a service relevant to business customers' needs – this means the right level of service at the right cost for each customer segment.

We will make it easy for every business customer to be a valued customer irrespective of their size, sector or spend – this means making their relationship with us as effortless as possible.

We will continue to proactively engage with our customers to ensure we are responsive to their changing needs and our solutions are sustainable in the long term.

We have a plan that delivers our strategy

We will invest in a customer relationship management (CRM) system to help deliver a service appropriate to customers' needs.

For larger and more complicated customers we will offer service managers who will provide customers with a single point of contact.

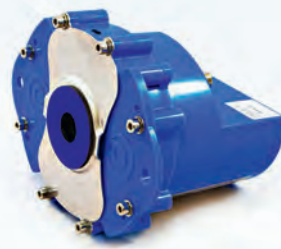
We will provide self-serve facilities to make it easier for business customers to interact with us how they want to and when they want to.

We will improve our billing capability to ensure customers receive simple, correct bills appropriately presented. All multi-site customers will receive consolidated bills if they require.

We will increase our water efficiency promotion and education activities to help customers reduce consumption and control their costs.

We will offer data loggers and data analytics to larger and more complicated customers to help inform management decisions and control their costs.

Data loggers and data analytics—customers will benefit from improved meters readings and usage trends.



Service managers – will meet regularly with customers, provide tailored advice and offer innovative solutions.



The risks we are bearing

We have developed our plan to ensure we deliver the right initiatives to meet business customers' expectations and that our plan balances the level of service we provide with the costs of providing them.

Whilst we have planned as best we can to mitigate risks, our business will continue to bear a number of risks including those associated with technological change and an evolving market structure.

This is what we'll be measured by

We are not proposing any formal regulatory measures of success. Our success will be measured internally; by net promoter score, customer effort and ultimately, the number of customers we retain in a competitive market.

Objective 5



We will have the lowest possible charges

Our plan addresses a number of challenges

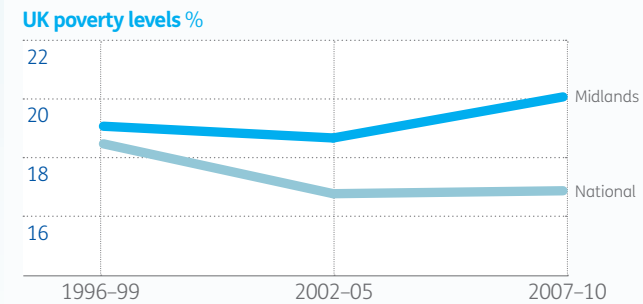
Significant real term increase in energy prices.



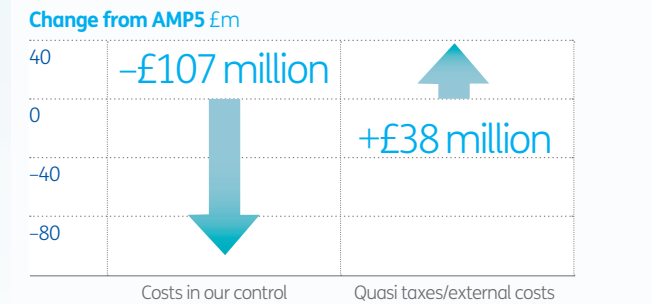
Ongoing desire for improving service and environmental standards.



Pressure to maintain bad debt % in face of relatively worse poverty levels in the Midlands.

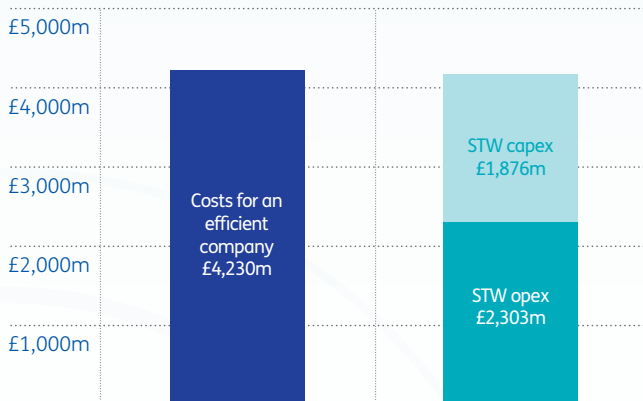


Our operational expenditure is becoming less controllable, meaning that we have less flexibility to manage costs.

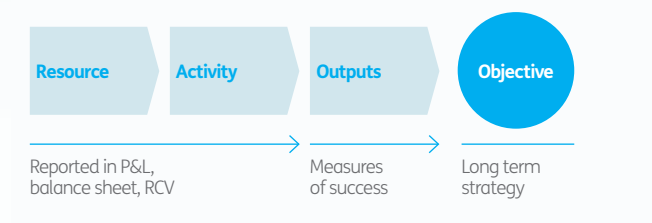


Although wholesale costs overall are within the expected cost corridor, despite tough choices on the balance of the plan, Water costs are above the corridor.

Costs are within the expected range



We need to continue to be more efficient, in part by using resources more wisely to deliver our objectives.



Our customers and stakeholders have told us

Respondents accepted that investors require a fair and reasonable return and that it made sense to finance the business sustainably.

There was no appeal for a decrease in investment and a significantly lower bill if this meant putting off investments and saddling future generations with bigger bills and more problems.

Customers do not object to paying a proportion of their water bill for infrastructure investment as they recognised that continual investment was needed.

Ensure customers who can pay, do so.

Work in partnership with others.

Provide evidence that you are delivering efficiently.

Key financial information

AMP6 Totex

AMP6 Final business plan
(Nil Your Water. Your Choices)

£26m Capex

-£372m Opex and Capex efficiency

Bill impact **-£17**

We have a clear long term strategy

Only include improvements prioritised by customers.
Reasonable returns, including sharing benefits of outperformance.
No increase in bad debt levels.

Reasonable pace of improvements to ensure sustainable bill levels into AMP7.
Encouraging innovation and partnership working.
Stretching but realistic efficiency targets.

We have a plan that delivers our strategy

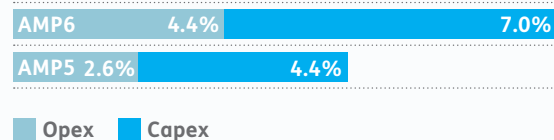
Overall package is both acceptable and affordable for customers on lower incomes.
Our average combined household bill is likely to remain the lowest and further improvement in average cost to serve.
We have reduced our weighted average cost of capital to 4.2%.
Bad debt level maintained throughout AMP6.

Measures of success include those on efficiency and partnership working.
Risk based approach for maintenance with investment focused on addressing risks on water above ground assets. Improvements have been prioritised, are cost beneficial and reflect both opex and capex options.
Higher efficiency levels than those in the 2009 Final Determination.

Bad debt level held at 2.7%
throughout AMP6

2.7% (for households)

Efficiency comparison between AMPs



The risks we have balanced and the choices we have made

Costs outside of our control may increase beyond the levels we have assumed – these include power, rates and bad debt levels.
The outcomes from sustainable solutions are uncertain and may take time to deliver.

Innovative solutions are inherently risky and not all of them may work.
Customers will not pay costs for strategic schemes upfront as there are scope/planning uncertainties – we will bear the financing risk.
We have not fully defined our efficiency plans.

This is what we'll be measured by

Measure of success	Projected 2014–15 performance	2020 performance	Projected improvement	2040 performance	Type of incentive
Delivery against efficiency plans	n/a	£372 million	n/a	n/a	Reputational
Customers rating our services as good value for money	45%	55%	22%	75%	Reputational

Objective 6

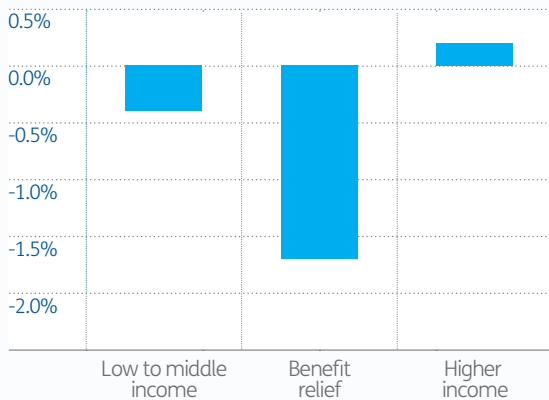


We will help you if you struggle

Our plan addresses a number of challenges

Real incomes for the poorest and most vulnerable customers are unlikely to grow.

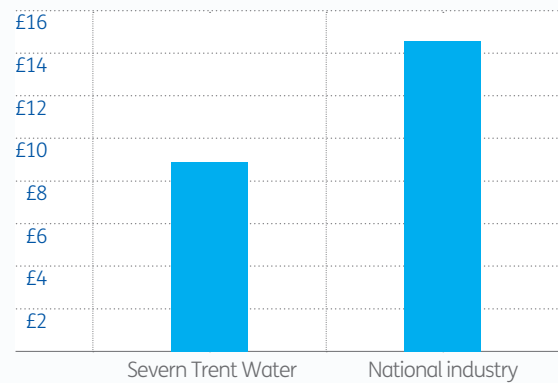
Average annual real growth in net household income
(Source: Resolution Foundation analysis)



Welfare reform further risks reducing the disposable income of our poorest customers, and changing which customers face difficulties.

The impact of bad debt on our customers' bills is one of the lowest in the industry.

Bad debt per household customer



And whilst not a challenge, legislative change has created the opportunity for new social tariffs.

Our customers and stakeholders have told us

Make sure those who can pay, do pay.

Better promote our existing support schemes ourselves and through partner organisations.

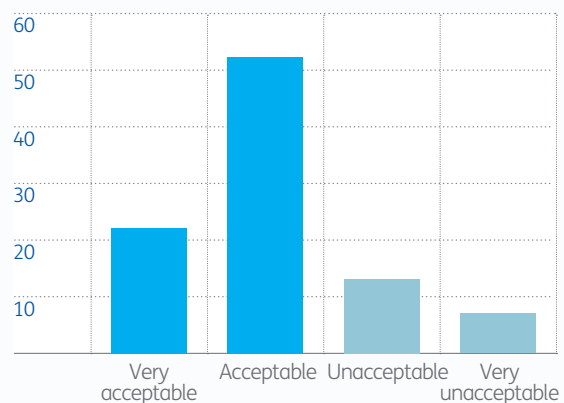
Tailor our approach to our customers' circumstances – there is 'no one size fits all' solution.

74% of customers surveyed would support the introduction of a social tariff, funded by a £3 cross-subsidy, to help those most in need

74%



Acceptability of a social tariff amongst our customers surveyed %



Key financial information

AMP6 Totex

AMP6 Final business plan
(+£5m *Your Water. Your Choices*)

£0m
Capex

+£5m
Incremental Opex

Bill impact

£0

No bill impact
as costs are
absorbed

We have a clear long term strategy

We want to ensure everyone's bills are as low as possible by ensuring that all our customers pay what they can.

We'll take a 'tough but fair' approach to those who can, but don't pay.

We'll increase the range of support we offer those in genuine difficulty.

We have a plan that delivers our strategy



We'll continue to improve our debt management strategies and existing support options.

We'll introduce 'water health checks' to promote the support available and make sure our customers are on the right tariff for them.

We'll promote meters in our most deprived areas, with the option to change back after two years if it's not cheaper.

We'll introduce an enhanced WaterSure -based scheme with expanded eligibility.

We'll introduce a new specific social tariff, administered by an expert third party, to ensure financial help gets to those who need it most.

The risks we have balanced

We're committing to keep bad debt stable – if we don't get our debt management right, we'll bear the cost until the next price review, not our customers.

Getting help to those most in need is difficult and expensive to administer. Using an expert third party with existing support networks and direct access to those who are struggling to administer support will help to mitigate this.

This is what we'll be measured by

Measure of success	Projected 2014–15 performance	2020 performance	Projected improvement	2040 performance*	Type of incentive
Number of struggling customers helped with their bills	18,500	50,000	170%	n/a	Reputational
Percentage of customers who do not pay	2.7%	2.7%	Stable	n/a	Reputational

*We have not forecast our performance on these measures to 2040 because they are highly dependent on external economic factors.

Objective 7



We will protect our local environment

Our plan addresses a number of challenges

Only 30% of the rivers in our region are at good ecological status.

Our rivers falling below good status

70%



We need to make required environmental improvements at an affordable price.

Benefits should exceed costs



A lack of real-time visibility of our network prevents us avoiding some pollutions and operating efficiently.

We need to remove phosphorous at our sewage treatment works to levels that haven't been achieved before in the UK.

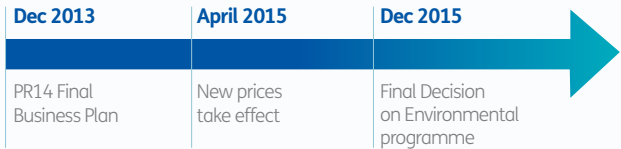
A quarter of rivers in our region don't reach required standards because of our activities.



Contributors to rivers not reaching required standards	
Severn Trent	28%
Agriculture	34%
Other	38%

The regulatory timetable for River Basin Management Plans and price control plans are not the same.

Regulatory timescales are not aligned



Some of our environmentally sensitive sites need significant improvement to meet biodiversity objectives.

Our customers and stakeholders have told us

Plan to deliver environmental improvements only where there is reasonable certainty of success.

Do our fair share of making river water quality improvements.

Be innovative. Work in partnership.

Clean up our local rivers to support wildlife.

Tackle pollution quickly, but balance this against the effect on bills.

Key financial information

AMP6 Totex

AMP6 Final business plan
(£1,017m *Your Water. Your Choices*)

£897m Capex

+£25m Incremental Opex

Bill impact

+£9

We have a clear long term strategy

Implement sustainable and low cost solutions e.g. catchment management and schemes to recover valuable chemicals.

Do our fair share in delivering environmental improvements.

Ensure improvements are justified by the benefits they deliver.

Phase improvements to ensure they are affordable.

Manage urban and rural catchments appropriately.

Influence the industry to be more innovative in terms of environmental permitting and other solutions.

Work in partnership with others to deliver multiple environmental benefits.

We have a plan that delivers our strategy

A programme of 233 environmental improvements, focused on priority sites where the benefits exceed the costs.

Investigations in AMP6 to determine scale of improvements required in 2020 and beyond.

Continuation of our pollution reduction programme and elimination of serious pollution incidents through resolution of our dual manhole investigations; increased customer education and proactive surface water outfall surveys.

Delivery of a more proactive maintenance strategy on our sewage treatment works resulting in a risk-based reduction in capital maintenance investment

An increase in R&D focusing on product recovery and technologies to develop resilient solutions for the future.

Enabling biodiversity to be promoted and partnership working to be trialled using a 'match fund' to deliver projects with other organisations.

The risks we have balanced and the choices we have made

Risk based reduction in capital maintenance to balance investment in other areas of our plan.

Evaluation of operational and capital solutions to deliver best value for money for our customers.

Phasing of our environmental improvement plan over AMP6, AMP7 and AMP8 to reduce impact on customer bills.

Risk based reduction in resilience spend mitigated by an increased focus on people and process improvements.

This is what we'll be measured by

Measure of success	Projected 2014–15 performance	2020 performance	Projected improvement	2040 performance	Type of incentive
Improvements in river water quality against Water Framework Directive criteria	n/a	202 (waste water) +31 (water)	n/a	728	Reward and Penalty
Number of pollution incidents	711	567	20%	213	Reward and Penalty
Asset stewardship – environmental compliance	Stable	Stable	Maintain Stable	Stable	Penalty
Biodiversity improvements – area in hectares improved	334	409	22%	n/a	Reputational

Objective 8



We will protect the wider environment

Our plan addresses a number of challenges

Energy prices are rising. We need to protect customers against these rises and the volatility of the energy markets



Energy prices are predicted to rise 54% between 2013–22

+54%

Government policies aim to achieve an 80% reduction in carbon emissions by 2050 and move us to a zero waste economy. All sectors are expected to contribute.



UK Carbon target 2011–2050 (million t CO₂)

-73%

Population growth and increasing environmental requirements would drive our carbon emissions and our costs up if we did nothing.

STW Carbon emissions if we did nothing to reduce

CO₂ +10%

We need to ensure our sludge is of the right standard for modern agricultural use.



We need to keep our sludge desirable to farmers

Our customers and stakeholders have told us

Our customers told us we should do more to reduce our carbon footprint by:

- seeking lower carbon ways of operating our business;
- generating renewable energy; and
- working with others to reduce emissions.

They also told us that we should do this without significantly increasing their bills.



Returning energy to the national grid

Key financial information

AMP6 Totex

AMP6 Final business plan
(£14m *Your Water. Your Choices*)

£50m
Capex

-£1m
Incremental Opex

Bill impact **+£1**

We have a clear long term strategy

Our long term aim is to be carbon neutral and energy self sufficient, providing this is the best value option for our customers.

Our long term planning shows that reducing energy consumption and increasing renewable energy generation are the areas we should concentrate on.

We want to remain the industry leader in renewable energy generation.

We will use innovative solutions, focusing on the areas where we can make most impact and reduce costs at the same time.

We will take more actions in partnership to help reduce overall environmental impacts with multiple benefits.

We have a plan that delivers our strategy

Reducing leakage by 6% and optimising our network to reduce energy usage.

Working in partnership to deliver multiple benefits, for example on catchment management and sustainable drainage solutions.

Investing £39 million in a Thermal Hydrolysis process to improve 25% of our sludge to an enhanced product.

Investing £30 million to improve the energy efficiency of our assets.

Reducing our overall waste and prioritising recycling or waste reuse wherever possible.

Maintaining our assets in good working order, so that they operate efficiently, including our sludge and renewable energy assets.

Working with our supply chain to reduce their impacts.

Supporting our customers to be water efficient.



Expanding renewable energy generation in our non-regulated business; customers do not bear the risks or pay for this but do benefit from reduced environmental impact and improved resilience.

The risks we have balanced and the choices we have made

We have not included investment which may be necessary to comply with the industrial emissions directive because implementation is uncertain. We think we should bear this risk in AMP6, not our customers.

We have delayed some sludge investment to AMP7 and brought forward feasibility work into AMP5.

We have prioritised actions with multiple benefits.

Our plan includes a balance of investment and continuous improvement actions (e.g. changing operating behaviours, working more flexibly).

We are only pursuing economically cost beneficial investment under this objective.

This is what we'll be measured by

Measure of success	Projected 2014–15 performance	2020 performance	Projected improvement	2040 performance	Type of incentive
Size of our carbon footprint (ktCO ₂ e)	474	458	3%	100	Reputational

Objective 9



We will make a positive difference in the community

Our plan addresses a number of challenges

We need to work with our customers to help them modify their behaviour to use water more efficiently and to flush away only what our sewers are capable of taking away.

We need to minimise localised disruption to our communities as we invest to improve our network.

We need to ensure safe, pleasant access to our 12 visitor sites throughout our region, sites that attract around 4,000,000 visitors a year.

Our customers and stakeholders have told us

They want help to change their behaviour to enable them to use our services more efficiently. Support for working with schoolchildren is particularly strong.

There is support for our community performance to be measured by the number of people we help to educate.

They are generally understanding of the need for us to work in the highways, but they want us to do what we can to minimise the length of any disruption, and keep them fully informed about what we're doing.

They want us to provide good facilities at our visitor sites.

They want us to invest in our region's economy and to provide jobs for local people.

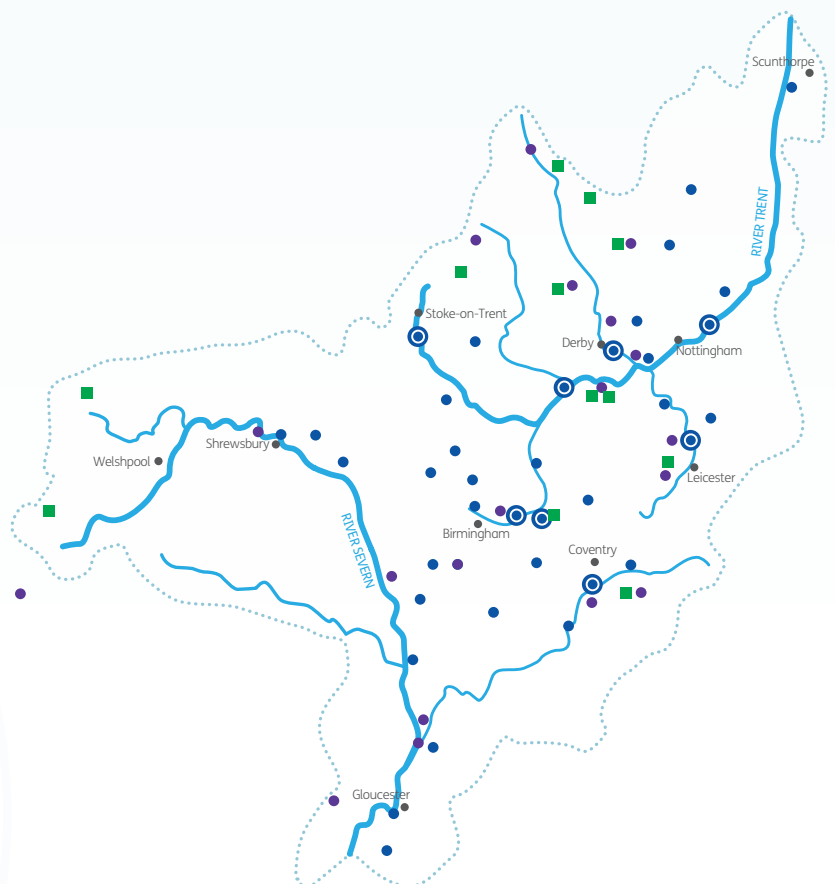
They want us to communicate clearly with them in our bills and through other channels.

Our community – at a glance

Population **8.7m** Amount invested since 1990 **£10bn+**

Water treatment works **126** Sewage treatment works **1,026**

- Major Sewage Treatment Works serving over 200,000 equivalent population
- Major Sewage Treatment Works serving 50,000 to 200,000 equivalent population
- Water Treatment Works
- Visitor Site
- Major City/Town
- Major Rivers
- Severn Trent Area Border



Key financial information

AMP6 Totex

AMP6 Final business plan
(£0m Your Water. Your Choices)

£0m
Capex

£0m
Incremental Opex

Bill impact

£0 No bill impact
as costs are absorbed

We have a clear long term strategy

Help educate our customers and future customers about the responsible use of water and waste water services.

Always provide a great experience at our visitor sites.

Be a considerate contractor, whether we are working on our sites or in the roads.

Encourage and support young people to enter the industry through apprenticeships.

To always communicate simply and straightforwardly.



We have a plan that delivers our strategy

We will deliver a 67% increase in the number of customers – and future customers – who we educate about the responsible use of water, from 75,000 people a year to 125,000 a year.

We will deliver a proactive campaign to offer water efficiency products and water efficiency advice to customers who switch to having meters.

We will deliver a programme to better inform our customers about what they are paying for and how their money is being spent.

We will increase in the community partnerships we form to deliver better results for our customers. This includes partnerships with housing associations and others.

We will expand our Water Champions staff volunteering scheme in local schools, something that helps the schools and helps us to get across our water efficiency messages.

We will invest proportionately in our reservoir visitor sites to provide more opportunities for engaging with customers and to give them a better day out.

The risks we have balanced and the choices we have made

The primary risk associated with this objective is that engaging with customers is not a precise science and we cannot guarantee results that are outside of our control. But we know from experience that quality engagement

does drive behaviour change and so does deliver value for money for our customers. We also know that the cost of the investment is modest compared to the rest of our programme.

This is what we'll be measured by

Measure of success	Projected 2014–15 performance	2020 performance	Projected improvement	2040 performance	Type of incentive
Improved understanding of our services through education	75,000	125,000	67%	n/a	Reputational

Objective 10

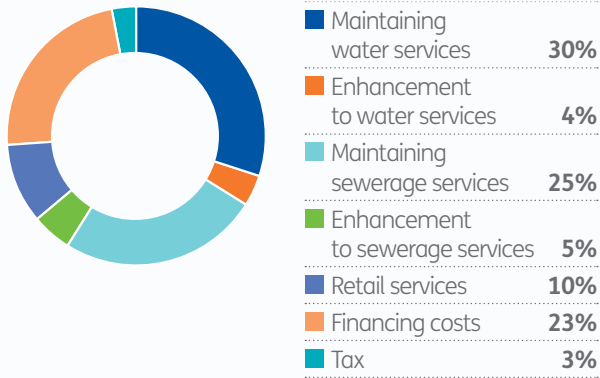


We will finance our business sustainably

Our plan addresses a number of challenges

Over a quarter of a customer's bill is allocated to providing a return to providers of finance – so we need to ensure that this is financed at low cost.

How we plan to spend your bill



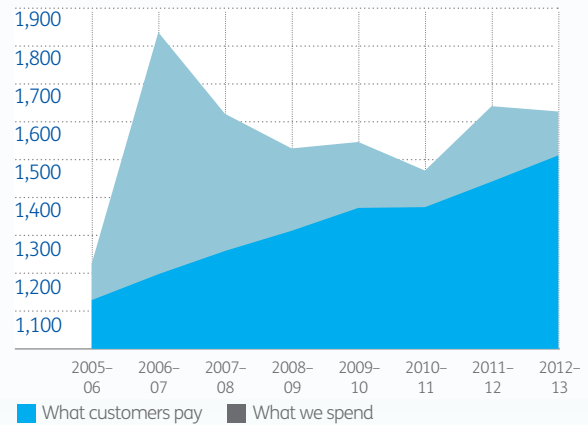
There may be limited scope to take on further debt to finance future investment.

To maintain investor confidence we will need to maintain a strong investment grade credit rating.

Some companies in the current period have attracted criticism for not being perceived to be sharing returns fairly.

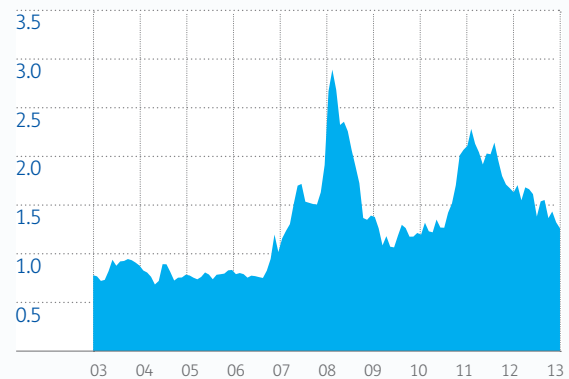
We have had to raise finance for the service improvements we have delivered over the last 25 years, and it is likely that we will continue to invest more than we receive from customers in revenue.

We invest more than what we receive from customers in revenue £m



Interest rates are low, but have been volatile and are likely to rise over the next five years.

Utility Bond prices – premium above gilts %



Our customers and stakeholders have told us

Our customers are concerned about possible excessive returns for shareholders.

Stakeholders want to see current low costs of finance reflected in our plan.

Investors believe shareholders will have a continued important role in the future financing of the industry, and recognise the risks of high gearing.

Key financial information

AMP6 Totex

AMP6 Final business plan
(£0m Your Water. Your Choices)

£0m
Capex

£0m
Incremental Opex

Bill impact
-£27

We have a clear long term strategy

Good governance and fairness for investors and customers.
Transparency about financing and returns.

Maintaining a significant proportion of equity finance.
Maintaining a strong investment grade credit rating.

We have a plan that delivers our strategy

Reasonable returns to investors, with a significantly lower wholesale cost of capital (4.2%).
'Pay As You Go' and RCV run-off rates which balance affordability, financeability and equity between current and future customers.

Retail margins based on experience in other sectors. (3% for non-household and 0.7% for households).
Sharing gains with customers where they are the result of factors beyond our control.

The risks we have balanced and the choices we have made

We are bearing significant risks in areas such as adopted sewers and bad debt costs, in order to keep bills down.
We have provided a limited margin to provide some protection against risks materialising.
On major schemes where timing is uncertain, we have not included all potential costs in price limits – if we make faster progress inclusion in price limits will be delayed until AMP7.

We have made some provision for interest rates rising but there is a risk that they will increase beyond our assumptions.
We have made provision for £82 million to be returned to customers where outputs delivered have been less than assumed at PR09.
We have not made any addition to bills for recovery through the Revenue Correction Mechanism of revenue below expected AMP5 levels.

This is what we'll be measured by

Measure of success	Projected 2014–15 performance	2020 performance	Projected improvement	2040 performance	Type of incentive
Investment grade credit rating	Investment grade credit rating	Investment grade credit rating	n/a	Investment grade credit rating	Reputational

Part: 3

The foundations of our plan



This section sets out the foundations of our plan

It covers the following:

- 44 How are we performing in AMP5 (2010–15)?
- 46 How have customers and stakeholders shaped our plan?
- 48 How are we reducing costs to keep bills as low as possible?
- 50 How are our costs balanced between our objectives and price control plans?
- 52 How are we managing risks?
- 54 How are we financing our plan sustainably?
- 56 How can we be held accountable?
- 58 How will we be encouraged to deliver more... and be penalised for not delivering?
- 60 How have we tested the robustness of our plan?
- 65 How have we assured our plan?

This plan has been driven by – and for – our customers, and there are four central themes that have informed every part of our plan.



How are we performing in AMP5 (2010–15)?

We have a strong track record, but where we haven't delivered, we are returning money to customers.

Our track record of delivery in AMP5

We have a strong track record for delivering the commitments in our current plan.

As a sign of our commitment to delivery, we are forecasting to invest 4% more than had been assumed in the PR09 Final Determination (PR09 FD) to deliver what we said we would. This is before the costs of the adoption of Private Drains and Sewers are taken into account.

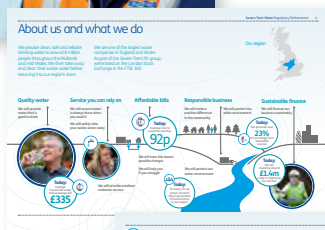
Within the Water and Waste Water plans, we have included a summary of our achievements in AMP5.

There has been ongoing assurance of our delivery as part of the Annual Performance Report process for Ofwat as well as specific assurance for PR14. Additionally, we have maintained a transparent dialogue with Ofwat about any material changes to our programme.

A feature of a great company is one which also recognises where, for whatever reason, the expected service or outputs have not been delivered, compensates customers for this underperformance and builds the experience into its future plan.



STW: open and transparent



Ensuring customers don't pay for services they didn't receive

In our plan we have included over £82 million compensation relating to under delivery of service or outputs during AMP5. This is part of our commitment to a fair and balanced plan. The £82 million relates to:

£3 million:

Outputs removed in response to changes in the **environmental requirements** in consultation with the Environment Agency.

£24 million:

Changes to the **planning assumptions** agreed five years ago. This includes assumptions on the number of new sewer flooding problems (£17 million), growth related requirements (£4 million) and customer demand for new meters (£3 million).

£9 million:

Changes to our plan following further **feasibility and design**. This new information does not support the activity assumed in our plan on some specific resilience improvements (£5 million) and separation of supply pipes (£4 million).

£18 million:

Delays in implementing the **strategic improvement** during 2010–15, with £5 million on Birmingham Resilience and £13 million on the Newark strategic sewer flooding scheme. The delays have arisen due to the need for further feasibility required to optimise the scope and design of the most sustainable long term solution.

£20 million:

On the **serviceability** of our above ground water assets (e.g. water treatment works) where, despite continued investment and operational intervention, our performance fell below that expected by our customers. Specifically, our performance in relation to the number of outbreaks of detected coliforms has exceeded the maximum level expected by Ofwat twice in three years (including 2013–14). In addition, we recognise the comments made in the two most recent Drinking Water Inspectorate (DWI) Chief Inspectors' reports.

£8 million:

Although we continue to improve our **customer experience**, we recognise that our comparative performance in 2011–12 and 2012–13 was not good. So, whilst 2013–14 performance may mean that there is no overall penalty we have provisionally included a 0.1% reduction in AMP6 prices.

Continuous improvement

We have learnt from AMP5 and reflected this in our AMP6 plan. In most cases, this process has resulted in additional risk being carried by Severn Trent rather than customers. The specific changes we have made in our plan are:

- Definition of the **environmental programme**. We have worked collaboratively with the Environment Agency to build an AMP6 programme based on reasonable certainty and robust assumptions. Nevertheless, there may be changes but the design of the measure of success (improvements in river water quality) and incentives framework allow for flexibility without risk to customers.
- We have reviewed our **planning assumptions** based on recent, evidenced activity including those for the additional number of properties subject to sewer flooding, customer activity on transferred assets (private drains and sewers) and customer metering. The change in the level of properties subject to sewer flooding in particular has shown volatility in the past, and we have knowingly based our AMP6 assumption on recent relatively low levels. Any significant variations will be corrected at PR19, thereby protecting customers but at the same time placing additional risk on Severn Trent should additional investment be required to meet target performance.
- We have undertaken more **feasibility and design** work to support our PR14 plan and make a smoother transition into AMP6. Our AMP5 plan includes around £80 million investment in AMP6 schemes which, after allowing for the strategic resilience scheme, has contributed to a reduction in the peak to trough range of 24% (i.e. 24% less difference between the year with the highest and lowest expenditure within the AMP).
- Our approach to **strategic schemes** (on Resilience and the investment programme for alleviating sewer flooding in Stroud) recognises the greater inherent uncertainty in this area. The uncertainty arises from timing of delivery (due to the need for land planning and other permissions) and scope (the scheme at Stroud is at a similar stage to the scheme undertaken in Newark in PR09). The proposed price limits in our plan take into account a reasonable level of progress. We will aim to make faster progress in delivering the schemes, and will aim to reflect additional progress in our PR19 plan. Customers will therefore benefit by not having to pay all costs upfront, and potentially, through earlier delivery of the benefits (with the company bearing the financing risk).
- To help us to better maintain our assets – to improve their serviceability – we have improved the range of measures that we will use to monitor the condition of our assets. Each of these asset stewardship measures is supported by a penalty only incentive, ensuring customers are protected should service levels fall below expected levels.



How have customers and stakeholders shaped our plan?

Our plan has been shaped by the priorities of our customers and other stakeholders. We describe how below.

Giving customers real choice

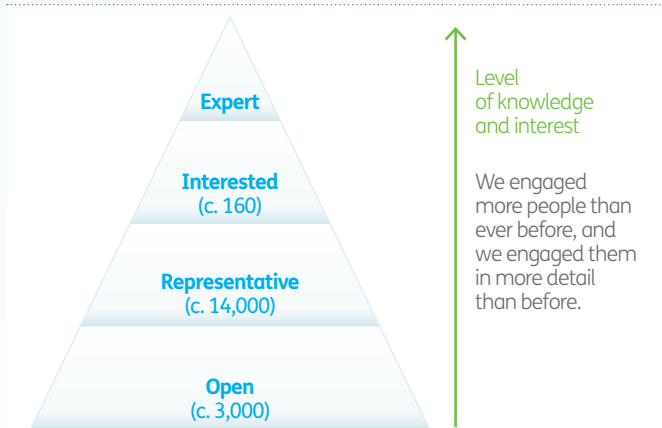
The principal aim of the extensive engagement process we undertook was to understand and reflect in our plan our customers' priorities and in particular in the areas of our plan where there was meaningful choice. This meant:

- Engagement was not an add on. We embedded it into our business planning process and began engaging right from the start (back in December 2011).
- Our engagement was iterative, and carried out over three distinct phases. With each iteration we gained a better understanding of our customers' and stakeholders' expectations and improved our proposals as we went.
- We wanted real, informed choices. We therefore gave our customers and stakeholders the information they needed about service and the impact on bills.

A tailored approach

We carefully tailored our approach to the audience. The diagram below illustrates how.

Our broadest consultation ever



Expert

Our customer challenge group, the Water Forum has extensively challenged the quality of our engagement and the extent to which this plan has responded to the outcome of that engagement.

Interested

For our wider stakeholder base we used a combination of written consultation and in person workshops and roundtables to understand their priorities, their preferences for how we deliver our objectives, and their views on how we should balance our plan.

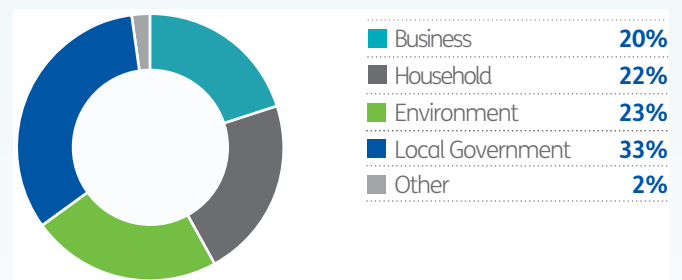
Over our three phases of engagement, and our related water resources management plan consultation, around 160 different stakeholders contributed through written consultations, workshops, roundtable discussions or meetings in person.

A further 42 MPs and council leaders took part in our acceptability research.

The stakeholders who took part represented a range of different interests. For example, we asked local authorities about flooding issues, business customers about retail services and debt advisory organisations about how we can best help our customers who struggle.

And in the final stages of our engagement, we used roundtable discussions with mixed groups of stakeholders, and asked them to make the choices about the trade-offs that we have made in developing our plan.

Which interests were our 160 stakeholders representing?



Representative

Our principal means of understanding our customers' priorities was a programme of research using representative samples of our customer base. This included minority and low income groups.

Over 14,000 customers took part in a research programme comprising:

- a review of our previous research we had undertaken;
- our ongoing quarterly customer satisfaction survey;
- specific willingness to pay research;
- secondary research on significant issues for our plan (resilience, supply/demand balance, river water quality and social tariffs); and
- acceptability research.

Open

We recognised that not everyone could take part in research, but we wanted all our customers to have their chance to have a say with our 'Let's talk water' campaign.

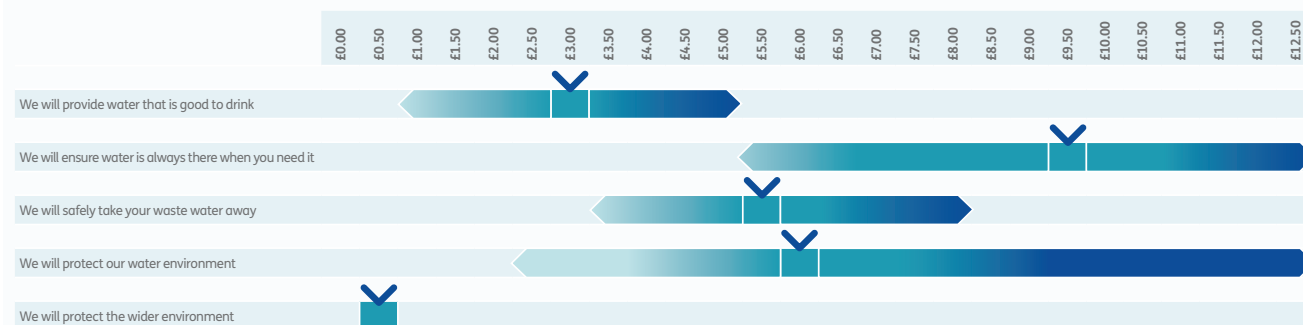
We created an online section on our website, signposted it on bills, and used media coverage to generate interest. We also toured our region and discussed with our customers face-to-face their views on the future of their water supplies. We also held a number of events at regional shopping centres.

Around 900 customers completed our surveys either online or in person. We also captured the sentiment of what they told us on film. This is available at www.stwater.co.uk/letstalkwater

An example from *Your Water, Your Choices* about how we gave relevant costs to enable stakeholders to make informed decisions.



The main choices we are proposing fall within the following ranges:



Peer review

Recognised experts Professor Ian Bateman and Professor Ken Willis reviewed our willingness to pay research before and after we commissioned it. We also had our acceptability research reviewed by Professor John Cadogan, one of the world's leading experts in market and social research.

Market Research Society

All our research has been conducted by researchers fully accredited by the Market Research Society, and complies with its codes of conduct.

Examples of how customers have shaped our plan

The ultimate test of our engagement programme is the effect it has had on our plan. Customers set our 10 objectives and then improved our plan further. Improvements include:

- **Bills.** We had proposed to keep bill rises to the rate of inflation. We're now going to do much better than that by limiting prices rises to an equivalent of 1.2% below inflation a year. We will do this by freezing prices in the first year and then keeping price rises for the remaining four years of the AMP to slightly below the rate of inflation (0.2% below).
- **Leakage.** We had proposed to reduce leakage by 3% over the AMP. Customers told us to go further and so we're (a) doubling the target to 6% and (b) committing to repair all leaks within 24 hours (where it is safe to do so).
- **Meters.** We had planned to let customers return to bills based on rateable values for a year after having a meter fitted; we now plan to let them switch back at any time within two years.
- **Capital programme.** The investment plan we originally consulted on (in *Your Water, Your Choices*) included a capital programme of £3.7 billion; we have now scaled this back to £3.2 billion.

How are we reducing costs to keep bills as low as possible?

We are reducing costs so we can keep bills low and improve services

There are two principal reasons why we can reduce customers' bills while increasing our investment from £2.6 billion in AMP5 to £3.2 billion in AMP6.

First, financial market conditions have enabled us to prudently reduce the average returns we'll pay to shareholders and bond holders (our weighted average cost of capital) from 5.1% in AMP5 to 4.2% in AMP6. The net result is that we have an extra £27 we can use to reduce bills and increase investment in key areas, in line with our customers' choices.

The second reason is that we're becoming more efficient.

Efficiency targets for AMP6

Our plan includes a challenging but realistic efficiency target of £372 million. This is made up as follows:

- Operational efficiency savings (Opex) of £134 million throughout the AMP, 4.4% of the level of opex before efficiency savings are factored in.
- Capital expenditure (Capex) efficiency savings of £238 million throughout the AMP, 7% of Capex before efficiency savings are factored in.

Our plan includes a Measure of Success to enable our progress to be transparently reported to customers.

The main drivers of efficiency in AMP6 will be:

- We're committed to **continuous improvement**, to enhance services and cut costs across all areas of our work. Our Safer, Better, Faster programme helps us to work more efficiently and is based on similar successful programmes in the automotive industry.
- We're adopting **innovative approaches** to delivering objectives at a lower cost to customers. Catchment management is one example. Instead of automatically improving our treatment processes at considerable environmental and financial cost, we're exploring ways to work with landowners to reduce pollution, making it cheaper for us to clean water for drinking and giving us more flexibility to meet discharge consents.
- We're **working in partnership** with others to reduce costs and improve services. Our work with the Citizens Advice Bureau (CAB) to help those who struggle with their bills is an example. The CAB can often provide more effective help at lower cost.
- We're continuing to invest in **new technology**, such as better IT systems, which enable us to be more efficient.

Our total expenditure

	AMP5 2010–15	AMP6 2015–20	Change	
Capital investment				
Maintaining existing services to customers				
Above ground assets (i.e. water and sewage treatment works)	£1,169m	£1,263m	+£93m	+8%
Assets below ground (i.e. water and sewerage pipes)	£648m	£660m	+£12m	+2%
Sub-total	£1,817m	£1,923m	+£106m	+6%
Improving services to customers				
Environmental improvements	£187m	£329m	+£142m	+76%
Resilience	£140m	£311m	+£170m	+122%
Private sewers and pumping stations	£44m	£107m	+£64m	+146%
Other	£377m	£506m	+£129m	+34%
Sub-total	£748m	£1,253m	+£505m	+68%
Capital expenditure (total)	£2,565m	£3,175m	+£610m	+24%
Operational expenditure	£2,854m	£2,845m	-£9m	0%
Total expenditure	£5,419m	£6,020m	+£601m	+11%

- We will continue to improve the way we buy goods and services to reduce costs and help smooth out the investment ‘rollercoaster’. We will do this by standardising what we buy and working closely with our supply chain to plan work and drive innovation.

A full reconciliation of costs and efficiencies is provided in the data tables.

Costs included in our PR14 plan

After taking into account the £372 million efficiency, total expenditure (Totex) in our plan is £6.0 billion, 11% above the forecast for AMP5.

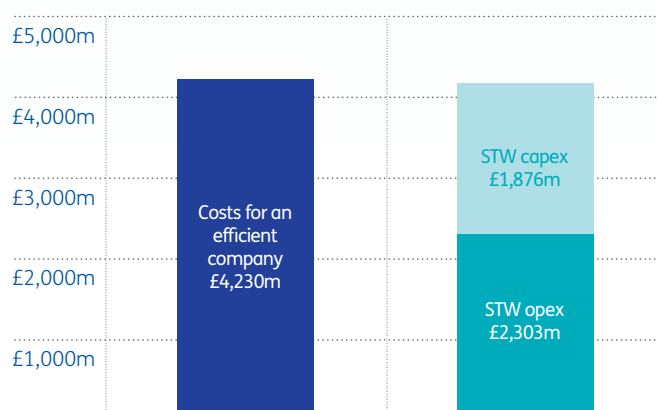
The main drivers for the increased Totex are:

- The need for increased investment on our above ground water assets (e.g. water treatment works) to mitigate risks of service failure. This is explored in further detail within the Water Plan.
- The need to deliver environmental improvements (where the need is reasonably certain and the benefits exceed costs) (£142 million).
- Investing in our strategic resilience programme.
- The full five year impact of the transfer of sewers (no additional activity) and transfer of pumping stations in 2016 under PDaS legislation (£64 million).
- Delivering a balanced programme of other improvements, including on sewer flooding and leakage, as supported by our customer and stakeholder research.
- Additional opex solutions, including significant expenditure on catchment management and customer education to improve customers’ understanding of the services we provide, offset by our planned opex efficiencies.

Our comparative totex position

We believe our overall opex and maintenance costs fall within the expected range of costs for an efficient company. However,

Wholesale ‘cost corridor’



within this overall situation, we understand that our Waste costs will be towards the most efficient level, but that our Water costs will be above the level Ofwat might expect.

This analysis reflects our AMP5 experience and the choices we have made to balance our PR14 plan. Specifically, we have:

- Chosen to invest more in AMP6 on our above ground water assets to ensure that we can maintain stable service. We have balanced the overall plan by limiting expenditure on waste water above ground assets, which we consider can be done with an acceptable level of risk.
- We have increased water Opex to improve performance on interruptions to supply, and to ensure that we meet our leakage targets.

These increases in cost will, in part, be offset by the efficiency savings. Our PR14 plan requires us to deliver more efficiency savings from our Water plan (4.9%) than the Waste plan (4.6%), reflecting their relative starting positions. These targets have been reviewed and challenged by external experts, a process described in our Assurance Report.

Cost performance in AMP5

Our track record of delivering efficiency savings in AMP5 demonstrates we are able to meet the challenging targets we have set ourselves in AMP6.

The PR09 Final Determination (PR09 FD) included efficiency savings for Opex of £77 million (2.6%) and for Capex of £114 million (4.4%).

We are on track to outperform our Opex target by 1.2% a year. We achieved this, despite energy and other managed costs rising, by beating our bad debt target and by reducing the costs we can control directly by more than our target.

On Capex, we are on track to delivering our efficiency targets. However, we have chosen to spend 4% above the level assumed by Ofwat in their Final Determination to deliver a better service to customers, to further reduce our Opex spending and to smooth the investment profile as we head into AMP6.

The four individual business plans explain in more detail how we’re reducing costs and identifying better value ways of working.

Investing to keep bills low in the long term

In addition to the efficiency improvements described above, we’re investing to keep bills down beyond AMP6. In doing so, we’re tackling challenges that will only become more difficult if we don’t address them soon. For example, our Water plan proposes that we invest in a strategic resilience scheme that will extend the life of the Elan Valley Aqueduct, Birmingham’s main source of water, saving customers hundreds of millions of pounds over the coming decades.

In summary, our plan delivers excellent value for money for our customers today and tomorrow.

How are our costs balanced between our objectives and price control plans?

We have balanced costs between our 10 objectives and 4 individual price control plans

Our plan is built to deliver our 10 customer-driven objectives. It is also built to deliver the four separate price controls required by the regulatory process.

The table below sets out:

- Total additional expenditure (Capex and incremental Opex) by objective and price control plan.

- The impact on bills of the investments we are making by both objective (along the rows) and by price control plan (down the columns).

- The split of household bills between water, sewerage and retail (using a notional split of bills into retail activities for 2014-15). Both water and sewerage bills will fall in real terms, and the retail bill will be constant. Non-household bills would follow a similar trend.

Our long term objective	STW	Water	Waste water	Retail: household	Retail: non-household	2020 bill impact	Full details in plan
	Totex	Totex	Totex	Totex	Totex	Real terms	
1 We will provide water that is good to drink	£465m	£465m				£6	Water
2 We will ensure water is always there when you need it	£1,080m	£1,080m				£5	Water
3 We will safely take your waste water away	£692m		£692m			£7	Waste Water
4 We will provide you with excellent customer service	£65m	*	*	£47m	£18m		Retail Plans
5 We will have the lowest possible charges	£26m	£3m	£23m	*	*	–£17	Cross Cutting Objectives
6 We will help you if you struggle	£5m			£5m			Retail Household
7 We will protect our local environment	£923m	£49m	£874m			£9	Waste Water
8 We will protect the wider environment	£49m	*	£49m	*	*	£1	Waste Water
9 We will make a positive difference in the community	£0m	*	*	*	*		Cross Cutting Objectives
10 We will finance our business sustainably	£0m	*	*	*	*	–£27	Cross Cutting Objectives
Sub-total	£3,303m	£1,597m	£1,637m	£52m	£18m	–£16	
Base opex	£2,717m	£1,189m	£996m	£464m	£68m	£4	
Totex	£6,020m	£2,786m	£2,632m	£516m	£86m	–£12	
Note: efficiency included above	£372m	£181m	£168m	£20m	£3m		

* indicates that a plan contributes to delivery of this objective but there is no Capex or incremental Opex included in the plan

Average household bill in 2014–15	STW	Water	Waste water
Wholesale	£285	£152	£134
Retail	£31	£16	£15
Total	£316	£167	£149

Average household bill in 2019–20	STW	Water	Waste water
Wholesale	£273	£145	£128
Retail	£31	£16	£15
Total	£304	£161	£143
Change	-£12	-£6	-£6

For most objectives, more than one of the price control plans contributes to its delivery. Our proposals for each objective are described in detail in the plan which contributes most to the delivery of the objective. For some objectives we have not allocated them to an individual plan, but included them in our cross cutting objectives.



How are we managing risks?

We are mitigating some risks, but are bearing other risks ourselves to keep bills affordable

We have taken a proportionate, balanced and affordable approach to managing risks.

We used enterprise risk management principles to identify key company-wide risks. For some of the risks we have identified we plan to invest in mitigation measures, for example, investing in our strategic resilience scheme, in part, to mitigate the risks of climate change.

There are other risks we plan to bear largely ourselves because to invest in mitigation measures would be disproportionately expensive for our customers. The risk of increased bad debt is an example of this type of risk.

The table below outlines three risks for which we are investing in mitigation measures:

Risk	Mitigation	Balance between customers and shareholders
We don't yet know the scale of the environmental programme we'll have to undertake to meet the Water Framework Directive	<ul style="list-style-type: none"> We've made a 'best estimate', based on the latest information available and the level of improvement which customers would support. We're prioritising activities that are important to our customers, regardless of the directive. We've developed ideas for how to implement the WFD cost-effectively and published them in our <i>Changing Course through the sustainable implementation of the Water Framework Directive</i> publication. 	Our Waste plan explains how we'll deal fairly with modest changes to the assumed scale of investment. We'll deal with more significant changes by either returning money to customers or, if absolutely necessary, by an interim determination of K (IDoK)
Climate change could cause increasing problems, including more floods and water shortages	<ul style="list-style-type: none"> We'll invest to enhance our network's resilience. We'll promote water trading. We'll reduce our carbon footprint and generate more of our own energy using renewable sources. 	We're setting milestones for our major resilience scheme. If we don't meet these milestones, we'll return money to customers.
Leakage levels could undermine public confidence in the sector and discourage people from using water more efficiently	<ul style="list-style-type: none"> We'll reduce leakage by 6% during AMP6. We will also address leaks within 24 hours where it's safe to do so and won't cause undue disruption to customers. 	Our Water plan includes penalties for failing to meet our leakage targets and rewards if we beat it.



The most significant risks that we, not our customers, will bear are:

Retail price inflation

We recognise that our customers carry a risk if inflation is higher than expected as their bills would increase more than expected. We cover this in the next section on pain and gain sharing. However, if inflation is lower than expected, our income will reduce and we will need to more aggressively manage upward cost pressures to ensure our plan is sustainably financed. Our financing structure has a limited ability to hedge against inflation, through the use of index linked debt and inflation swaps. Lower than expected inflation is therefore a major risk factor for our plan.

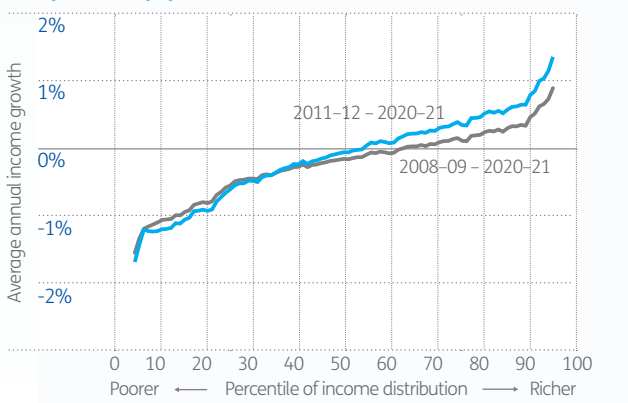
Bad debts

We have a relatively low level of bad debt compared with other companies. We have assumed that we can maintain household bad debt at the current low rate of 2.7% of turnover as a result of action to help customers who are struggling to pay (our overall rate of bad debt is 2.2%). However, forecasts suggest that incomes among the lower income groups will continue to fall in real terms, even though on average there will be some income growth.

An example of projected income changes is shown below, with incomes projected to fall by over 1% p.a. for the poorest 10%. This makes it likely that bad debts will grow.

We believe we can maintain our current bad debt levels but it will not be easy.

Average annual real growth in net household income among non-pensioner population in the UK, 2011-12 to 2020-21



Source: Gaining from growth: The final report of the Commission on Living Standards.

Private drains and sewers

We have made no allowance for growth in problems we might have to address with adopted private drains and sewers. This is a calculated risk because a lack of customer awareness of responsibility for sewers is likely to have contributed to lower than expected costs on the adopted sewers, and this could change over time. Additionally, although we have based our plan on robust assumptions relating to the performance of sewerage pumping stations to be transferred in 2016, the required maintenance could vary from these.

Cost allowances for strategic schemes

For strategic schemes where the timing of delivery is uncertain (Strategic Resilience and Stroud sewer flooding) we are aiming to progress further than allowed for in our proposed price limits, and will bear the financing costs until the next price review.

High Speed 2 rail line

We have made no allowance for costs relating to the High Speed 2 rail line construction (where we will incur some costs which we will not be able to recover) because of the uncertainty over timing of any costs.

Taxes, quasi-taxes and statutory obligations

We have made no allowance for increases in rates beyond RPI, or for any additional taxes such as the Carbon Reduction Commitment. There is also potential for new statutory obligations such as the EU Industrial Emissions Directive, which could require us to line our anaerobic digesters, at a cost of around £17 million.

Energy prices

Energy prices are highly volatile and cannot be fully hedged. A 5% increase in energy prices would add £16 million to costs over the AMP6 period. Our plan is broadly in line with the forecast published by Ofwat, but future prices are very uncertain.

Regulatory changes

We have made no allowance for any costs resulting from changes in the regulatory framework to promote competition, e.g. costs of providing for systems for customer transfers or for additional information provision at a more disaggregated level.

A third strand of our risk management process is the penalties and rewards described in the following section.

How are we financing our plan sustainably?

We are reducing our financing costs and are committing to 'pain & gain' sharing with our customers

How your bill is spent in 2020

We know we need to balance the interests of customers with those of investors in the way we finance our business plan in AMP6 and beyond. We need to deliver more for less.

There is a window of opportunity to finance our plan at lower costs than seen in previous AMP periods. This window is likely to close in the not too distant future.

Our plan seeks to achieve the right balance while having an eye on some important longer term goals including:

- maintaining a sustainable financing profile;
- holding on to flexibility in our financing to meet future shocks and to drive innovation; and
- assuring our investors of a fair return over time.

We, in common with most other companies in our sector, have a negative annual cash flow. The amount of money raised from customers is not enough to cover the investment needed to improve services. We therefore require new financing to ensure our investment programme can be delivered and appropriate returns given to providers of both debt and equity capital whilst keeping customer bills as low as possible.

We have to refinance over a third of our existing debt during AMP6 and we need to avoid short term debt which could create additional refinancing risks. Hence we have based our plans on raising much of our new debt using medium to long term bonds.

We have also considered the mix of debt and equity (gearing) of the business and have to balance between too high a level, which adds risks of sustainability of funding and a high fixed cost of interest; and too low gearing, which is inefficient to shareholders and expensive for customers.

We have chosen a financial structure which gives us the flexibility to deal with these risks. Our gearing is at the bottom of the range that Ofwat will use when setting the cost of capital. Because of our low gearing, we believe it is possible to maintain our existing credit ratings with higher investment during AMP6.

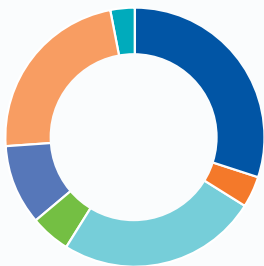
By setting appropriate returns to investors, we can finance our plan without using the new financeability levers that could be used to balance the plan. This ensures that our plan remains sustainable, is fair between generations and avoids a step-up in bills in later years.

Our proposed cost of capital is 4.2%, almost one-fifth lower than we were allowed at PR09. During AMP5, we have been able to finance our new borrowing at record low rates, and we think it is right that this benefit should now be shared with our customers. Our lower cost of capital is a major contributor for us being able to keep our bills below inflation despite significant improvements in service.

In deciding upon our cost of capital, our Board has considered carefully the risks inherent within our financing approach. The cost of capital we have proposed:

- includes the existing cost of our embedded debt which benefits customers, particularly the 3.625% new bond we issued in 2012, the lowest ever financing cost we have achieved;
- takes advantage of opportunities we have to refinance at lower rates during AMP6;
- reflects an increase in future financing costs relative to today's spot rates which is supported by market evidence; and
- includes an appropriate, albeit lower, return on equity, considering the returns available in other regulated industries.

How we spend customers' bills



■ Maintaining water services	30%
■ Enhancement to water services	4%
■ Maintaining sewerage services	25%
■ Enhancement to sewerage services	5%
■ Retail services	10%
■ Financing costs	23%
■ Tax	3%

Customers will benefit from the reductions in our financing costs

We have been able to take advantage of current market opportunities to secure long term investment at lower rates. We are reducing our weighted average cost of capital from 5.1% in 2010–15 to 4.2% in 2015–20, which will save customers £27 a year by 2020.

The key financial figures in our plan are:

Key financial figures	
Return on Wholesale RCV (WACC)	4.2%
Gearing	60%
Margin for household retail	0.7%
Margin for business retail	3.0%
Credit ratings	BBB+ (S&P)/ A3 (Moody's)

This overall return is appropriate to the level of risk that we will bear:

- As a result of the new regulatory framework – including inflation risk for retail and competition for business customers.
- Considering the package of incentives that we have chosen, and the incentives that Ofwat has put in place.
- The external risks that we face in the wider world due to macro-economic factors, and the need for us to continue to finance our functions under the scenarios that we have considered.

Pain and gain sharing

We have a long track record of fairness and sharing the benefits of success with customers:

- In this current price control period we have benefited from higher than expected inflation and so, in 2012 we returned £150 million to customers (in the form of increased investment to improve services) and £150 million to shareholders.
- Whilst we have a strong track record of delivery, we have chosen to voluntarily return £82 million to customers for the parts of our current plan that we have not delivered in full (see page 44).
- We have also chosen not to claim for additional revenue to which we would be entitled under the Revenue Correction Mechanism.

We will maintain this approach in the future. In the event of unexpected outperformance for reasons outside our control, we will consult with stakeholders to decide an appropriate way forward.



How can we be held accountable?

Our measures of success mean we are accountable for the commitments we have made

We have developed 27 measures of success designed to hold us accountable for our performance over the AMP6 period.

These measures of success are designed to be at a higher level than previous regulatory output commitments. This is an approach we have championed since we published our first Changing Course report in 2010.

The purpose for this change of approach is to increase focus on the outcomes customers want and to give flexibility to develop innovative, efficient solutions for long term delivery for customers and the environment. For example, we have shifted focus from delivery of sewer flooding investment schemes to a measure of the number of sewer flooding incidents, which will encourage lower-cost opex solutions.

For each measure of success we have set targets which we believe are stretching and give a fair balance between potential outperformance and underperformance. We have set out long term goals and our progress towards these over the next five years.

In developing the measures we have used guidance provided by Ofwat and UK Water Industry Research Limited. We have evaluated potential measures against six criteria:

- Is the measure as closely related to the outcome as possible and does it cover a large proportion of the outcome?
- Was the measure informed by stakeholder engagement?
- Is the measure, verifiable, and comparable?
- Is the measure easy to understand by stakeholders?
- Is the measure controllable, at least in part?
- Is the measure future proof?

We evaluated the potential measures against the UKWIR framework. We also discussed them with our customer challenge group, the Water Forum, and with individual stakeholders. For example, we worked with the Environment Agency on developing the Water Framework Directive measure and with Natural England on the biodiversity measure.

Many of our draft measures of success were changed following our discussions with stakeholders. For example, the Water Forum felt that we should include a survey-based measure on customer satisfaction with their service, and this was added to the proposed measures.

We consulted on whether we had chosen appropriate measures in April 2013 in *Your Water. Your Choices*, which included proposals for 22 measures of success, with proposed targets and options for the extent of improvement. As a result of this consultation, we made changes to our list to reflect stakeholder views and to increase the proportion of outcomes covered by measures of success. We now have 27 measures, including, for example, a new measure of speed of response to repairing leaks because of the high level of customer concern in this area.

We also added asset stewardship measures to ensure that we could demonstrate that we meet Ofwat's criterion of our plan being consistent with the interests of consumers in the longer term. Asset deterioration may have a longer term impact on service, without this being observable in terms of the impact on service in a five-year period. These measures are intended to demonstrate that we are maintaining our assets appropriately for the long term.

For the future, we are looking to develop our measures further, in particular in the areas of catchment management and partnership working.

We currently follow a process of assuring our performance against key performance indicators before publishing them. This process is transparent and effective. We will apply this process to our measures of success. The assurance process will be extended to include the level of reward or penalty due for each measure, and we will publish the current position each year in terms of rewards and penalties. Since this is a new regulatory area, we have included more details of our approach to measures of success and to incentives in a separate business case.



Our objectives	Our measures of success
1. We will provide water that is good to drink	<ul style="list-style-type: none"> 1 Number of complaints about drinking water quality 2 Compliance with drinking water quality standards 3 Asset stewardship – number of sites with coliform failure
2. We will ensure water is always there when you need it	<ul style="list-style-type: none"> 4 Resource efficiency (amount of water we take out of the environment) 5 Leakage levels 6 Speed of response in repairing leaks (percentage fixed within 24 hours) 7 Number of minutes customers go without supply each year 8 Percentage of customers with resilient supplies (those that benefit from a second source of supply) 9 Asset stewardship – mains bursts 10 Progress on strategic resilience (meeting milestones)
3. We will safely take your waste water away	<ul style="list-style-type: none"> 11 Number of internal sewer flooding incidents 12 Number of external sewer flooding incidents 13 Partnership working (measure of joint initiatives on flooding) 14 Asset stewardship – sewer blockages
4. We will provide you with excellent customer service	<ul style="list-style-type: none"> 15 Customers' satisfaction with their service (based on a customer survey) 16 Customers' experience of dealing with us (based on Ofwat's Service Incentive Mechanism)
5. We will have the lowest possible charges	<ul style="list-style-type: none"> 17 Delivery against efficiency plans 18 Customers rating our services as good value for money
6. We will help you if you struggle	<ul style="list-style-type: none"> 19 Number of struggling customers helped with their bills 20 Percentage of customers who do not pay
7. We will protect our local environment	<ul style="list-style-type: none"> 21 Improvements in river water quality against Water Framework Directive criteria 22 Number of pollution incidents 23 Asset stewardship – environmental compliance 24 Biodiversity improvements
8. We will protect the wider environment	<ul style="list-style-type: none"> 25 Size of our carbon footprint
9. We will make a positive difference in the community	<ul style="list-style-type: none"> 26 Improved understanding of our services through education
10. We will finance our business sustainably	<ul style="list-style-type: none"> 27 Investment grade credit rating

How will we be encouraged to deliver more... and be penalised for not delivering?

In response to the positive changes Ofwat have made to the regulatory framework, we have developed a balanced, transparent and fair package of penalties and rewards, designed to benefit customers.

If we fail to deliver what we promise, we'll face penalties. If we beat our targets in areas that customers value, we will (within reasonable limits) be rewarded. We've developed these penalties and rewards in line with Ofwat's proposed methodology.

The rewards and penalties package works in the following way:

- For each of the 27 commitments in our plan, we've set stretching targets.
- For some of these targets, we believe that only a reputational reward or penalty would be appropriate – for example, our commitment to increase customer perception of value for money.
- For nine other targets, we believe we should face financial penalties if we fail to deliver and receive financial rewards if we beat the target.
- For four targets, we believe we should face financial penalties only if we fail to deliver. These targets relate to coliform failures, mains bursts, sewer blockages and environmental compliance.

We've followed four principles when setting rewards and penalties:

1 Rewards and penalties should directly benefit customers

- Incentive rates should encourage us to deliver our commitments.
- Incentive rates should ensure that customers gain a net benefit from additional improvements and should therefore reflect their willingness to pay and their priorities.
- Incentives should be adjusted for any interaction with other regulatory mechanisms, particularly cost performance incentives.
- The overall impact of any reward from incentives should not go beyond what customers are willing to pay for.

2 There should be a fair balance of risks between us and our customers

- Targets should be stretching, with an equal balance between the risk of underperformance and the potential for outperformance.
- The distorting effect of a single major event should be limited. This applies particularly to water supply interruptions, where we propose a penalty cap to avoid excessive risk. If a service failure was due to our shortcomings (as opposed to a major event) we would still be subject to regulatory sanctions.

3 Penalties and rewards should be simple, clear and transparent

- The potential scale of the rewards and penalties package should be clear. We've kept the incentives simple and minimised the use of multiple incentive rates, rates changing each year, trade-offs between incentives, and upper and lower bounds.

4 Penalties and rewards should encourage efficiency and innovation

- Incentives should not reward companies for delivering improvements at the cost they expected. Incentives should be available where companies improve performance beyond the expectations in the business plan, through efficiency and innovation. This means that, in general, incentive rates should not exceed current estimates of additional incremental costs (i.e. original cost), where available.

We've based our incentive rates principally on the findings of our customer willingness to pay research. Our standard approach is to set incentives at half the willingness to pay values, adjusting where necessary to:

- reflect the results of other customer research; and
- ensure that rewards are only available for delivering efficiency and innovation beyond our business plan projections.

The graph on page 59 shows the range of potential impacts of these incentives. We will limit the overall incentives to +/- 3% on bills, to ensure that bills do not go beyond what customers will accept.

Our performance against our commitments, and the associated rewards and penalties, will be subject to an assurance process and published annually. We propose, however, that the net financial impact in terms of rewards or penalties should be spread across AMP7, rather than through annual changes in price limits during AMP6.

The measures involving financial incentives are highlighted in the table below.

Measure	Type of incentive	
	Reward	Penalty
1. Number of complaints about drinking water quality	Reward	Penalty
2. Compliance with drinking water quality standards		
3. Asset stewardship – number of sites with coliform failure		Penalty
4. Resource efficiency (amount of water we take out of the environment)		
5. Leakage levels	Reward	Penalty
6. Speed of responses in repairing leaks (percentage fixed within 24 hours)		
7. Number of minutes customers go without supply each year	Reward	Penalty
8. Percentage of customers with resilient supplies (those that benefit from a second source of supply)		
9. Asset stewardship – mains bursts		Penalty
10. Progress on strategic resilience (meeting milestones)	Reward	Penalty
11. Number of internal sewer flooding incidents	Reward	Penalty
12. Number of external sewer flooding incidents	Reward	Penalty
13. Partnership working (measure of joint initiatives on flooding)		
14. Asset stewardship – sewer blockages		Penalty
15. Customers' satisfaction with their service (based on a customer survey)		
16. Customers' experience of dealing with us (based on Ofwat's Service Incentive Mechanism)	Reward	Penalty
17. Delivery against efficiency plans		
18. Customers rating our services as good value for money		
19. Number of struggling customers helped with their bills		
20. Percentage of customers who do not pay		
21. Improvements in river water quality against Water Framework Directive criteria	Reward	Penalty
22. Number of pollution incidents	Reward	Penalty
23. Asset stewardship – environmental compliance		Penalty
24. Biodiversity improvements		
25. Size of our carbon footprint		
26. Improved understanding of our services through education		
27. Investment grade credit rating		

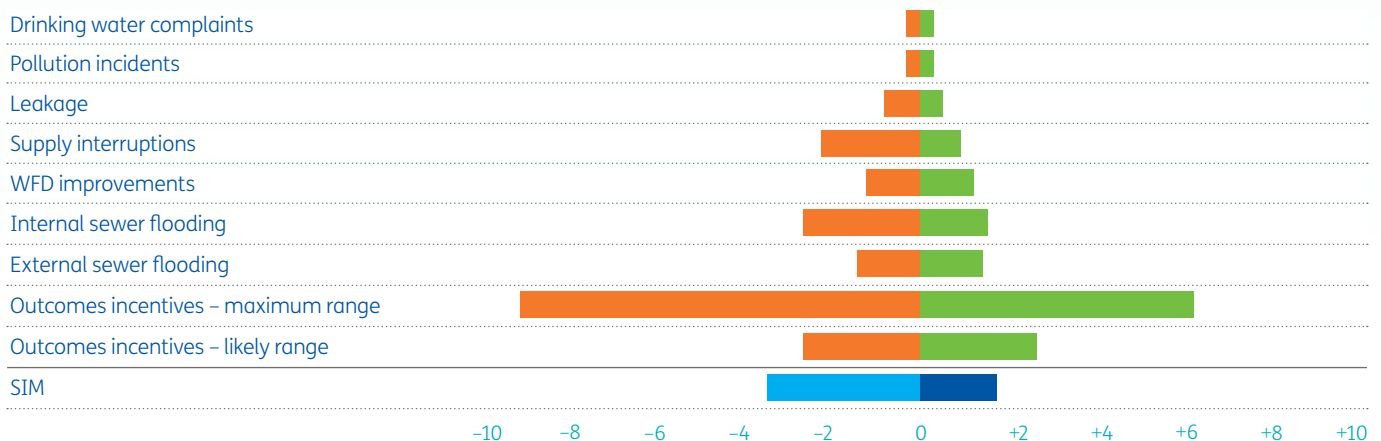
Potential impact on bills of penalties and rewards

This chart shows the maximum financial penalties and rewards for each objective with a financial incentive. The maximum total package of rewards we could achieve has been capped at £6 per bill paying customer; the maximum penalties we could face has also been capped at £9 per bill paying customer.

We believe the most likely range of penalties and reward would amount to a one-off –£3 to +£3 in 2020 – if we do badly,

we're likely to have to return £3 to each bill paying customer; if we do well in the areas of value to customers, we are likely to be rewarded by £3 per customer bill paying customer.

The targets we have set are challenging. If they had applied in AMP5, we would be returning money to customers.



How have we tested the robustness of our plan?

In addition to our assurance processes, after we developed our customer-driven plan we tested it against the Ofwat Risk Based Review assessment. The table below sets out how our plan meets these tests.

Ofwat Test and Key assessment criteria	Severn Trent Water Response
Outcomes	
Consumer engagement and willingness to pay (WTP) information	
To what extent has the company demonstrated an effective customer engagement process?	We have given real choice through costed options and built our plan around customer priorities. Our customer research has been extensive (both in terms of the channels we have used and demographics) and has been developed with full involvement of the Water Forum. See pages 46 and 47 of our Company wide plan and the Water Forum report.
To what extent has the company demonstrated effective engagement with wider consumer interest, including environmental interests, generally and through their CCG.	The Water Forum membership covers a wide range of stakeholder interests. Our engagement process included specific stakeholder activity to ensure wide ranging coverage of interest groups. We also worked with individual groups on areas of specific interest (e.g. with Natural England on our biodiversity measure). See pages 46 and 47 of our Company wide plan and the Water Forum report.
How far has the company demonstrated a robust approach to gathering willingness to pay information and in mapping this to its outcomes, performance commitments, and outcome delivery incentives?	Willingness to pay research has been extensively tested, demonstrably influenced through the Water Forum and commended by independent leading peer reviewers. See Willingness to Pay appendix.



Ofwat Test and Key assessment criteria

Severn Trent Water Response

Outcomes continued

Performance commitments

To what degree has the company given adequate assurance that its performance commitments are consistent with Defra's and (or) Welsh Government's Statement of Obligations, relevant statutory requirements and licence obligations?	We have worked closely with our quality regulators to ensure the commitments in our plan will meet requirements, and that we can continue to maintain stable long term service levels. Our measures of success suite covers all main requirements. See Water and Waste Water Plans (see Part 3: 'Our overall approach to the plan').
How reasonable are the company's assumptions in relation to areas of anticipated statutory requirements and (or) environmental programme that remain uncertain?	Our assumptions are based on a collaborative and consultative approach with the Environment Agency. The improvements included in our plan are both cost-beneficial and reasonably certain. See Part 3: 'Our overall approach' within the Waste Water Plan and the 'we will protect our local environment' section of the detailed Waste Water plan.
How clearly and appropriately has the company allocated its outcome commitments between its separate controls (Household retail, Water and, where relevant, Waste Water)?	The integration within Severn Trent (we have a 'one company' approach) means that many of our objectives (outcomes) cut across more than one price control. The Company-wide plan we have described where each objective impacts, with further detail being provided in the Plan with the main impact where it makes sense to do so.
How well has the company demonstrated that its proposed outcome commitments are consistent with the interests of consumers in the longer term (in particular that its activities and outcomes will be economic and efficient in the longer term)?	For each objective, we have described how we have developed our strategy. This strategy has been tested against four future worlds (see Part 3: 'Our overall approach' of the Water and Waste Water plans) to develop a least regrets programme of improvements for 2015-20.
How consistent are the company's proposed commitments with requirements specified in our methodology, including in relation to SIM, AIM, and leakage?	Our plan is consistent with Ofwat requirements for both leakage and SIM (see Part 3: 'Our overall approach' in the Water and Household retail plan). We will continue to develop AIM targets as information becomes available. Also see objective 2: Managing supply and demand.
How strong is the evidence that the company has provided in relation to its previous track record of delivery in relation to performance commitments and to what degree does this support its commitments for the future? To what extent has the company properly justified any changes in proposed performance levels?	The commentary for Tables W13 and S13 provides a full reconciliation to PR09 performance commitments. Our PR14 plan includes appropriate remedy for any outputs not fully delivered. Our AMP6 performance commitments are consistent with forecast AMP5 performance and are cost beneficial (see Tables W2a/S2a).
How well do the company's proposed commitments reflect value for money, and how reasonable are the costs?	All proposed improvements are either needed to meet statutory requirements or are clearly justified on cost-benefit grounds and other evidence of customer support. We have developed options which are lowest whole-life cost (see Water and Waste Water plans, Part 4 'Our plan in detail').
How clearly has the company demonstrated that the proposed commitments can be measured and recorded consistently and that they will have the appropriate governance and quality assurance processes in place to ensure that the proposed performance commitments will be based on robust data?	We have chosen measures which we can record consistently, and where there is some uncertainty have left measures out for later development. We will maintain the assurance process currently in place for annual reporting.

How have we tested the robustness of our plan?

Ofwat Test and Key assessment criteria	Severn Trent Water Response
Outcomes continued	
Outcome delivery incentives (ODIs)	
To what extent the proposed incentives conform to the framework specified in our methodology?	Our incentives are based on customer willingness to pay, as in Ofwat's methodology and the UKWIR framework.
How well do the proposed incentives represent an appropriate balance of risk between companies and customers?	They have been set so that we will only earn rewards if we can deliver beyond the target at lower cost than current estimates. In many cases, we will have to deliver improvements from current levels to avoid penalties.
How consistent are the company's proposed ODIs with consumers' interests and with customers being appropriately compensated for any under-delivery of performance commitments?	Rewards and penalties are based on willingness to pay so provide appropriate compensation for under-delivery.
To what extent the company's ODIs take properly into account its assumptions on other regulatory incentives, including totex efficiency sharing and any incentives or penalties it proposes associated with the wider statutory frameworks within which it operates?	ODIs have been adjusted for interaction with other regulatory incentives. See Incentives appendix.
Wholesale costs	
How consistent are the company's proposed costs with our view of an efficient company?	We consider that overall our costs are likely to be consistent with Ofwat's view of an efficient company. Water costs may be outside Ofwat's range. Further details are included in our lowest possible charges objective.
To what extent has the company provided sufficiently persuasive evidence in relation to its costs such that we decide that it is appropriate to either modify our approach to the modelling of costs, or, that it is appropriate to make specific changes to the cost corridors/thresholds for the company concerned?	Higher water costs reflect additional investment needed to address risks to drinking water quality and Opex increases to reduce leakage and improve service performance (see Water plan and commentaries to Table W12).



Ofwat Test and Key assessment criteria**Severn Trent Water Response****Household retail costs****Retail cost allocation**

How clearly and appropriately has the company allocated current and historic costs, including between wholesale and retail, and between Household and Business retail?

We have followed the accounting guidelines and improved our approach over time to increase the accuracy of cost allocation (see lowest possible charges objective and Assurance Report.)

This test is a simple check to ensure costs have been allocated in line with the latest regulatory accounting guidelines, incorporating updates specified in this statement.

ACTS adjustments

To what extent has the company provided sufficient evidence to show ACTS has been adjusted on the basis set out in this statement and to support any other company proposals for adjusting the industry ACTS, including that any proposed adjustment relates to a factor that:

The evidence for proposed charges is included within the Household and Business retail plans.

- has a material impact on their costs;
- is beyond efficient management control (having taken all possible steps to control it); and
- impacts the company in a materially different way to other companies?

Non-household retail costs**Retail cost allocation**

How clearly and appropriately has the company allocated current and historic costs, including between wholesale and retail, and between Household and Business retail?

We have followed the accounting guidelines and improved our approach over time to increase the accuracy of cost allocation (see lowest possible charges objective and assurance report.)

This test is a simple check to ensure costs have been allocated in line with the latest regulatory accounting guidelines, incorporating updates specified in this statement.

Default tariffs

How well do the company's proposed default tariffs ensure it recovers no more than an appropriate proportion of its allowed costs and net margin?

Our default tariffs are based on the principles we had already developed for access prices, with appropriate allocation of costs to ensure that each customer group is paying cost-reflective charges (see Business retail plan).

How adequate is the company's assurance that its proposed default tariffs do not unduly discriminate between customers in a given customer class or between customer classes? We will have a particular focus on the evidence that smaller non-household customers are not subject to undue discriminatory tariffs.

How have we tested the robustness of our plan?

Ofwat Test and Key assessment criteria	Severn Trent Water Response
Risk and Reward	
Risk analysis	
How far has the company provided sufficient information – including on company-specific risks – for us to analyse the impact of risks on consumers and companies?	We have analysed the potential impact of the key risks through scenario modelling.
To what degree are the companies' proposed risk impacts within plausible and acceptable ranges?	The scenarios are based on Ofwat assumptions and/or actual observed experience. The risk impacts have been developed in conjunction with KPMG (See Sustainable finance appendix).
Level and allocation of risk	
To what extent do the different commitments and incentives within the price control elements of the business plan involve an efficient level and allocation of risk?	In moving to higher level measures of success we are bearing increased risk, with the objective of achieving better outcomes for customers (See Incentives appendix).
In deriving these proposed allocations, has the company made appropriate assumptions in relation to the efficient mitigation of risk?	In developing our plan we have identified risks and appropriate actions to manage these risks. However, some of these risks are largely outside our control. In order to produce an affordable plan, we have made assumptions which mean that the risks are mainly on the downside, so we are bearing most of the risk, e.g. in relation to potential increases in bad debt.
Rewards and returns	
How well do the returns assumed in the company's business plan provide rewards to the company (and its investors) that are appropriate to the relevant risks the company is bearing for each element of its plan?	We consider that the cost of capital is appropriate for the level of risk borne. Through our approach to incentives and measures and through not making conservative assumptions on factors driving our spending, we are bearing significant risks where it is in customers' interests for us to do so. Our approach to estimating the cost of capital is set out in Sustainable finance appendix.
Retail net margins	
Has the company proposed a reasonable household retail net margin?	Our retail margins are based on information from other sectors on margins necessary in retail services (see Sustainable finance appendix).
Has the company proposed a reasonable non-household retail net margin?	
Financeability	
Taking account of assumptions on costs, revenues, risks and capital structures, how clear is it that the company, if efficient, will be able to finance its functions?	Our plan provides for us to finance our functions with a limited margin for adverse impacts materialising from risks (See Sustainable finance appendix).
How clearly do the company's proposals for each control allow sufficient returns to be self-financing, if it is efficient, over the longer term?	Our projected returns are significantly reduced from PR09, and further reductions would risk the plan not being financeable.
To what degree do the company's proposals represent a fair balance between the company and customers?	<p>We have taken a risk based approach to the capital programme.</p> <p>We have returned money to customers when outputs have been less than expected at PR09.</p> <p>Our plan includes an environmental programme supported by customers and which we can expect to be included in the final programme.</p> <p>We have responded to challenges from the Water Forum and our Board.</p>

How have we assured our plan?

Our plan has been rigorously assured

We can have confidence in committing to deliver the objectives because we submitted our plan to a rigorous, independent and external assurance process throughout its development. This was in addition to our own robust and vigorous internal processes.

This scrutiny and challenge – and the changes we made as a result – mean we can show that our plan:

1. addresses the issues that are important to our customers in a balanced way;
2. is based on complete and reliable data and analysis; and
3. is complete and contains appropriate judgements.

The external assurance process had four strands.

First, the Water Forum oversaw our customer and stakeholder engagement. It challenged us about how we should engage and the conclusions we should draw from it.

The Water Forum's conclusion about how we developed our plan is the subject of its own independent report. From our perspective, we found the Water Forum played a robust and thought-provoking role and our plan is much better and more customer-orientated as a result.

The second strand was to scrutinise and challenge the investments we wish to make to ensure we were basing our decisions on sound data and analysis. Atkins led this scrutiny.

The third strand comprised subjecting key components of our plan for review by recognised industry experts. Specifically, external experts have:

- Reviewed our wholesale and retail outcomes respectively to ensure they fully reflected customer requirements.
- Benchmarked our operating and capital expenditure respectively to ensure costs are competitive.

- Reviewed our Measures of Success and associated incentive and penalty mechanisms to ensure they are appropriate and balanced.
- Reviewed our key financial drivers to ensure they have struck the right balance between our ability to finance our plan sustainably and keeping bills affordable.
- Reviewed our AMP5 performance to ensure that our projected outturn position is accurate.

Finally, we have assured that the data in our plan is reliable and of high quality.

The external assurance process is described in detail in the separate assurance report that accompanies our business plan.

The entire process has been overseen and challenged by our board. It has held 15 regular and special purpose meetings dedicated to PR14 since September 2011, including one attended by the chair of our Water Forum. In addition, non-executive directors have attended meetings of the Water Forum and have met customers throughout our region to discuss our plans.

Specific areas of focus for our board have been:

- ensuring there is appropriate balance between stakeholder interests;
- setting ambitious targets for upper quartile performance whilst keeping bills as low as possible;
- overseeing and challenging the development of our strategic resilience programme;
- agreeing our financial risk appetite and the financing of the plan; and
- ensuring sufficient and appropriate assurance to validate the content of the plan.

Our Board has confirmed that the plan is of high quality.





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Registered in England and Wales

Registration number: 02366686

December 2013