Annual performance report 2016

www.wessexwater.co.uk

a YTL company

Welcome to our annual review for 2015-16. To make it easier to find the information you are looking for we have produced four linked documents. *Delivering for our customers* and *Annual report and accounts*, when combined, represent the full non-statutory accounts of the company.

The summary document, *Delivering for our customers*, is available as a hard copy and all four are on our website: **www.wessexwater.co.uk**

Delivering for our customers
This summary document provides an overview of our progress against performance commitments, as well as other company targets. The document also provides an overview of the financial and green accounts and the strategic report for the year. If you are interested in more detail, this is provided in the following supporting documents.

Annual report and accounts
The governance report explaining how the board undertakes its duties and non-statutory financial accounts.

Annual performance report
The regulatory accounts and more detailed information regarding the company's progress against our performance commitments.

Sustainability indicators and accounting
A more detailed explanation of our sustainability performance including a broader range of performance measures and a more detailed explanation of the green accounts.

Contents

Performance Report Introduction

The Board is accountable for the quality and transparency of the information provided on our performance. As a minimum Ofwat expect companies to provide an Annual Performance Report which provides specific information on progress on delivery of customer outcomes, service levels, transparent cost information and financial performance. This report fulfils that function.

Information assurance

Providing transparent, easy to understand, complete and accurate information to all customers and stakeholders and listening to what they tell us are two of our core values and essential to building trust and confidence in the services we provide.

As part of Ofwat's Company Monitoring Framework methodology we have published details of our Information Assurance processes, including in November 2015 an Information Assurance Statement, and in April 2016 an Information Assurance Plan, these can be found on our website.

The Statement detailed the process that we had undertaken to engage with customers and stakeholders to identify the strengths and weaknesses of the information and data that we provide to them. It described where we and our customers and stakeholders felt that we could improve the content and assurance of this information. The Plan provided details of what we are doing in 2016 to make these improvements.

In summary the Statement concluded that the formal data that we provide in this Annual Performance Report has a high level of assurance because it is subject to well established and independent external financial audit by KPMG and technical audit by Mott McDonald. The Audit Committee receives assurance reports, including where appropriate specific recommendations for improvement, from these external auditors.

Our Customer Challenge Group, The Wessex Water Partnership, reviewed and challenged the performance commitment information provided in this Annual Performance Report and reported their conclusions to the Board having separately had access to the work undertaken by the technical auditor.

Pages 10 to 12 provide the Independent Auditor's Report and a summary of the technical auditor's assurance report is provided below. The Wessex Water Partnership Report is separately published on the company website.

The Committee considers these external assurance reports and the results of our own internal assurance process in making a recommendation to the full Board on the Company's endorsement of the Annual Performance Report.

Our internal assurance processes include the identification of a data originator, information compiler and a senior manager owner for all information tables provided as part of this Annual Performance Report. Each of the above is required to certify that the information has been produced with the intention of presenting a true and fair view of the business transactions and performance and that reasonable steps have been taken to ensure that the content is not false in a material particular. All of these certifications were received without qualification.

Ofwat has noted that the standard materiality threshold used by statutory financial auditors would be unlikely to give it sufficient confidence in the accuracy of the costs shown for the retail price control units. We have amended our existing certification process so that compilers and owners of the relevant information have certified that they have taken all reasonable steps to ensure the accuracy within a materiality threshold of £30,000.

The Information Assurance Statement and the resulting Plan did identify a number of detailed areas where improvements were proposed including improvements to the information that we provide directly to customers through our website and elsewhere. It also proposed improvements in the way that information provided outside of this Annual Performance Report in the form of other regulatory or ad hoc information is collected, collated, internally assured and reported on. We will be reporting progress on the Information Assurance Plan when we publish our second Information Assurance Statement in the autumn of 2016.

Summary of the Independent Technical Auditor's Assurance Report

Assurance statement

To: Wessex Water audit committee

I refer to my review of technical aspects of Wessex Water's annual performance report, which have been audited under my direction. We were given free access to people and information as necessary to complete our work.

In my professional opinion, based on and to the extent disclosed by sampling carried out and as described in my report to Wessex Water dated 17 June 2016:

1. The performance commitment data have been compiled appropriately, subject to my comments below.

2. Minor errors and omissions were corrected as a result of our audits.

3. We made recommendations for areas of continuing improvement on aspects of data collection, analysis, and governance.

Andrew Heather Mott MacDonald Ltd
17 June 2016

In response to the technical audit report to the Audit Committee, and as part of our continuous improvement approach to assurance, the following management actions were agreed to be included in the Information Assurance Statement for 2016/17:

1. Having developed and tested certain manual processes during the first year of the AMP, we will now review these to identify where it is cost-beneficial to automate these processes.

2. Once there is clarity of the August data submissions from Ofwat we will develop a full set of method statements to form part of the audit process, these will include the existing flow diagrams.

The Wessex Water Partnership scrutinised both the independent technical auditor and the company on the reported performance for 2015-16. The company presented the key aspects of its performance to the Wessex Water Partnership meeting of the 29 June 2016 after which the Wessex Water Partnership finalised its annual report for the WWSL Board. This report is available from the corporate website.

Regulatory Accounts Introduction

The Company was appointed by the Secretary of State for the Environment as a water and sewerage undertaker under the Water Act 1989 and is required to comply with the Conditions set out in the Instrument of Appointment (the Licence) issued thereunder.

Regulation

Under the conditions of its Licence, granted to the Company by the Secretary of State for the Environment the Company is obliged to provide the Water Services Regulation Authority (WSRA) with additional information to that contained in the non-statutory accounts, in order to comply with Licence Condition F. This information is presented on pages 5 to 59.

Ring fencing

Under the conditions of its Licence, the Company is at all times required to ensure, so far as reasonably practicable, that if a special administration order were made the Company would have available to it sufficient rights and assets (other than financial resources) to enable the special administrator to manage the affairs, business and property of the Company.

The Company was in compliance with that requirement as at 31 March 2016. In the opinion of the Directors:

a. The Company will have available to it sufficient financial resources and facilities to enable it to carry out, for at least the next 12 months, the Regulated Activities (including the investment programme necessary to fulfil the Company's obligations under the Appointment);

b. the Company will for at least the next 12 months have available management resources which are sufficient to enable it to carry out those functions; and

c. all contracts entered into with any associated company include all necessary provisions and requirements concerning the standard of service to be supplied to the appointee, to ensure that it is able to meet all its obligations as a water and sewerage undertaker.

In making this statement the Directors made reference to the detailed budget produced for the year to March 2017 and the business plan model through to March 2020. The Directors also made reference to the legal ownership of assets, employment contracts, borrowing facilities, the joint venture billing arrangement and the in-house engineering and construction department set up to deliver the capital programme.

Transactions with associates

In the opinion of the Directors the Company has complied with the objectives and principles of RAG 5.06, in that transactions with associated companies are at arms-length and that cross subsidy is not occurring.

Methodology Statement

For the year to March 2016, the methodology statement is available as a separate link on our corporate website.

Directors

The Directors are listed in the Annual Review Summary.

Statement of Directors' responsibilities for regulatory information

Further to the requirements of Company law, the Directors are required to prepare accounting statements which comply with the requirements of Condition F of the Instrument of Appointment of the Company as a water and sewerage undertaker under the Water Industry Act 1991 and Regulatory Accounting Guidelines issued by Ofwat.

This requires the Directors to:

- confirm that, in their opinion, the Company has sufficient financial resources and facilities, management resources and methods of planning and internal control for the next 12 months;
- confirm that, in their opinion, the Company has sufficient rights and assets to enable a special administrator to manage the affairs, business and property of the Company;
- confirm that, in their opinion, the Company has contracts with any associate company with the necessary provisions and requirements concerning the standard of service to be supplied to ensure compliance with the Company's obligations as a water and sewerage undertaker;
- report to Ofwat changes in the Company's activities, which may be material in relation to the Company's ability to finance its regulated activities;
- undertake transactions entered into by the appointed business, with or for the benefit of associated companies or other businesses or activities of the appointed business, at arm's length; and
- keep proper accounting records, which comply with Condition F and RAG 5.06.

These responsibilities are additional to those already set out in the non-statutory accounts.

Directorships

Colin Skellett and Mark Watts are also Directors of Wessex Water Ltd, Wessex Water Enterprises Ltd, Wessex Water Services Finance Plc, YTL Utilities (UK) Ltd, Wessex Engineering & Construction Services Ltd, YTL Utilities Holdings Ltd, GENeco Ltd, GENeco (South West) Ltd and YTL Land & Property (UK) Ltd. Colin Skellett is also a Director of Bristol Wessex Billing Services Ltd and Enterprise Laundry Services Ltd. Mark Watts is also a Director of SC Technology AG.

Francis Yeoh, Hong Yeoh and Mark Yeoh are Directors of Wessex Water Ltd, YTL Utilities (UK) Ltd, YTL Power International Berhad and YTL Corporation Berhad. Hong Yeoh, Mark Yeoh and Kathleen Chew are Directors of YTL Land & Property (UK) Ltd. Hong Yeoh and Hann Yeoh are Directors of YTL Utilities Holdings Ltd.

Long-term viability statement

The Directors' have made a long-term viability statement in the non-statutory Annual Report & Accounts covering the period to 31 March 2019.

The Directors also have a reasonable expectation that the viability of the Company continues to 31 March 2021 by virtue of the appointed Company's 25-year rolling operating licence and the stable regulatory and statutory environment in which it operates.

The Directors consider that in the context of the regulatory accounts a statement that covers five years is appropriate. This is in line with Ofwat's choice of five years for the wholesale regulated price control, the primary mechanism by which it seeks to discharge its legal duty to enable companies to finance their functions.

The company commissioned a report from an independent economic consultancy which provided analysis to 31 March 2021 by reference to a number of scenarios developed from the company corporate risk register, company financial projections and its own understanding of the regulatory regime under which the company operates. Having considered this report, and subject to the continuation of the statutory financing duties imposed on the industry regulator, the Directors confirm their reasonable expectation that the viability of the Company continues to 31 March 2021.

Directors' remuneration

Details of the Directors remuneration are included in the Remuneration Committee Report in the Annual Report and Accounts. This includes disclosure of the link between pay and performance.

Disclosure of information to auditor

The Directors who held office at the date of approval of the Annual Performance Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each Director has taken all the steps that ought to have been taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Regulatory Disclosures

1) Accounting policies

These regulatory accounts on pages 5 to 59 do not constitute the Company's statutory accounts for the years ended 31 March 2016 or 2015. 31 March 2016 is not the accounting reference date for the Company. The latest statutory accounts of the Company were for the years ended 30 June 2015 and 2014. Both these statutory accounts have been delivered to the registrar of companies. The external auditor has reported on both these statutory accounts; the reports were unqualified and did not contain a statement under section 498 (2) or (3) of the Companies Act 2006. The next statutory accounts of the Company will be prepared for the year ending 30 June 2016.

In accordance with Condition F of the Instrument of Appointment financial statements have been prepared for the appointed and non-appointed business to show the profit and loss account, balance sheet and cash flow statements. The financial statements have been prepared in accordance with applicable accounting standards in the United Kingdom.

The differences between the treatment of items in the statutory accounts and these regulatory accounts are shown in paragraph 7 below.

2) Dividend policy

The dividend policy is to declare dividends consistent with the Company’s performance and prudent management of the economic risk of the business. The Company declared and paid dividends of £84.0m (2015 - £113.6m) to its immediate parent company during the year. In April 2016 a final dividend of £10.0m was declared in respect of the financial year just ended.

3) Price control segments

The company has published on our website a statement of the basis of allocation of operating costs and assets to the price control segments (known as the accounting separation methodology).

4) Revenue recognition

Turnover represents income receivable in the ordinary course of business, excluding VAT, for services provided. Turnover is recognised to the extent that the economic benefits will flow to the Company.

There are no differences in turnover recognition between the statutory and regulatory accounts. There are no adjustments between amounts billed (as adjusted by opening and closing accruals) and amounts recorded as turnover.

Income related to water and sewerage services is receivable from occupiers of the premises to which services are supplied except where a third party has agreed liability for the charges. Where premises are unoccupied or where no services are supplied charges are not raised, income is not receivable and no turnover is recognised. Premises that are furnished are considered to be occupied except in exceptional circumstances such as death or long-term hospitalisation of the customer. We consider premises undergoing refurbishment or being used for storage to be occupied by the owners of the premises.

If details of the occupier of the premises are unknown, the premises are considered to be unoccupied, no charges are raised and no turnover is recognised except where a third party has agreed liability for the charges. We do not bill properties speculatively in the name of the occupier. We have processes that seek to determine whether properties are occupied that include, but are not limited to, written correspondence, data matching and visits.

Charges that do not represent income receivable in the ordinary course of business are not recognised as turnover. This includes charges for the recovery of costs related to court action to recover charges overdue.

The principles laid out above apply to both new and existing premises.

A retrospective review of billing suggests that the measured income accrued at March 2015 was marginally lower than that which was actually due. The difference represents less than 0.1% of accounting revenue in the year and is not considered material. No change has been made in the methodology for calculating the measured income accrual.

5) Bad debt policy

Bad debt write-off policy

There have been no changes in bad debt write-off policy compared with the previous year. The value of debt written off in the year was £7.0m compared with £10.4m in the previous year.

Debt is written off for one of four reasons;

- It is considered or known to be uncollectible
- It is considered uneconomic to collect
- Older debt is written off by agreement with the customer in return for the receipt of monthly payments to pay-off current year debt as part of our “Restart” and “Restart Plus” policies
- Write off is ordered by the County Court. In these cases the Court may set payment at a proportion of the outstanding debt. When this level of payment is reached the Court will instruct that the rest is to be written off.

Bad and doubtful debt provision policy

There has been no change to the bad and doubtful debt provision policy compared with the previous year. The bad debt provision for tariff basket income at 31 March 2016 was £45.9m compared with £41.3m the previous year end, the increase being due to the low value of debt written off in the year. The provision is expected to decrease next year. During the year £7.0m of debt was written off and the provision was increased by £11.6m.

The policy for calculating the bad debt provision is to analyse the outstanding debt between payment categories and to make provision according to the historic non collection rate for that payment category. The categories selected are direct debit, instalments, standing orders, DSS, bankruptcy and all other. The profile of provision differs between categories, but for all categories debt that is four years old is fully provided.

Trade debtor balance

There has not been a significant increase in the trade debtor balance from the prior year. The trade debtor at 31 March 2016 was £101.7m compared with £99.8m the previous year. There was an increase of £3.7m in debtor balances over four years old due to the lower level of debt written off which will be corrected next year.

6) Capitalisation policy

Our capitalisation policy is unchanged from previous years. The capitalisation policy document is owned and published internally by the Financial Controller and forms part of our governance process and procedures. It includes a significant level of detail and includes the following principles:
Assets are taken to be fixed assets if they are intended for use on a continuing basis over at least 3 years (or 2 years in the case of internal software developments). Any assets not intended for such use are to be charged to revenue budgets.

Capital expenditure shall be determined as follows:

- The price paid for the asset together with any costs incidental to the acquisition e.g. identification of options and appraisal costs. This may include site preparation, which could encompass demolition work
- The cost of raw materials, consumables, salaries and wages (together with other costs) directly attributable to the creation of that asset
- In addition, the cost of an asset may include a reasonable proportion of costs indirectly attributable to the creation of the asset
- Interest paid, for example on contractors' claims or delayed payment of certificates, may be capitalised. Notional interest on capital expenditure during the course of construction is not charged to capital.

7) Differences between non-statutory and RAG definitions

The differences between the non-statutory accounts and the regulatory accounts are detailed below;

Table 1A – Income Statement

Positive numbers represent increased profit in the Regulatory Accounts	£m
Operating costs	
Customer leakage repairs (net of depreciation) are expenses in the Regulatory Accounts and are capitalised in the Non-Statutory Accounts	(2.2)
Capitalised interest on completed assets is depreciated in the Non-Statutory Accounts. In the Regulatory Accounts capitalisation of interest is not allowed	0.1
Other operating income shown separately in the Regulatory Accounts	1.8
Rental income shown on a separate line in the Regulatory Accounts	(0.4)
Depreciation arising on conversion to IFRS on the revaluation of infrastructure assets has been dis-applied in the Regulatory Accounts	6.4
	5.7
Other operating income	
Other operating income shown separately in the Regulatory Accounts	**(1.8)**
Other income	
Rental income shown on a separate line in the Regulatory Accounts	**0.4**
Interest expense	
IAS19 pension interest cost shown separately in the Regulatory Accounts	4.7
Capitalisation of interest not allowed in the Regulatory Accounts	(1.5)
	3.2
Other Interest expense	
IAS19 pension interest cost shown separately in the Regulatory Accounts	**(4.7)**
Deferred tax	
Rate change from 20% to 18% on the conversion to IFRS on the revaluation of infrastructure assets on the brought-forward balance has been dis-applied in the Regulatory Accounts	(13.8)
Deferred tax at 18% on the current year depreciation for the conversion to IFRS on the revaluation of infrastructure assets has been dis-applied in the Regulatory Accounts	(1.2)
	(15.0)
Total differences	**(12.2)**

7) Differences between non-statutory and RAG definitions (continued)

Table 1C – Statement of Financial Position

Positive numbers represent increased assets in the Regulatory Accounts	£m
Fixed assets	
Assets, net of depreciation, arising on conversion to IFRS on the revaluation of infrastructure assets have been dis-applied in the Regulatory Accounts	(685.8)
Customer leakage repairs (net of depreciation) are expenses in the Regulatory Accounts and are capitalised in the Non-Statutory Accounts	(32.8)
Capitalised interest on completed assets is depreciated in the Non-Statutory Accounts. Under Regulatory accounting capitalisation of interest is dis-applied.	(4.6)
	(723.2)
Trade & other payables Shown as capex creditor in the Regulatory Accounts	**39.1**
Capex creditor Shown as trade & other payables creditor in the Non-Statutory Accounts	**(39.1)**
Current tax liabilities Tax adjustment on prior year customer pipe leak repairs	**0.5**
Deferred tax Deferred tax at 18% for the conversion to IFRS on the revaluation of infrastructure assets has been dis-applied in the Regulatory Accounts	**123.4**
Total differences	**(599.3)**

8) Disclosure of transactions with associates

Services provided by appointee to associated companies

Associate Company	Service Provided	Turnover of Associate £m	Terms of Supply	2015-16 Value £m
Wessex Water Enterprises Ltd and subsidiaries	Waste treatment, transport, accommodation, insurance, laboratory, central services	29.7	No market	7.3
Wessex Water Enterprises Ltd and subsidiaries	Sale of sewage gas	29.7	No market	1.5
Bristol Wessex Billing Services Ltd	Information systems, transport, insurance, staff costs, personnel	15.2	No market	1.2
Wessex Water Ltd	Corporate charges	nil	No market	0.5
Bath Hotel and Spa Ltd	Project management	nil	No market	0.2
Gainsborough Hotel (Bath) Ltd	Information systems, equipment maintenance, bottled water	3.9	No market	0.1
Monkey Island Properties Ltd	Project management	nil	No market	0.1
Thermae Development Company Ltd	Information systems	9.3	No market	0.1
Wessex Engineering & Construction Services Ltd	Accommodation, information systems	0.3	No market	0.1
YTL Property Holdings (UK) Ltd	Environmental investigations	nil	No market	0.1

8) Disclosure of transactions with associates (continued)

Services provided to appointee by associated companies

Associate Company	Service Provided	Turnover of Associate £m	Terms of Supply	2015-16 Value £m
Bristol Wessex Billing Services Ltd	Billing services	15.2	Competitive letting	12.2
Wessex Water Enterprises Ltd	Supply of electricity	24.4	Other market testing	2.2
YTL Communications Sdn Bhd and Xchanging Malaysia	IT services including the set-up of an Offshore Development Centre	115.0	Competitive letting and market testing	0.6

Financial transactions

Dividends declared by the appointee to Wessex Water Ltd are disclosed in note 8 to the Annual Report and Accounts.

The appointee paid £65.4m (2015 - £69.9m) of interest to its subsidiary company Wessex Water Services Finance Plc in relation to the proceeds of the Bonds issued by that company, that were lent to the appointee under the same terms as the Bonds. The Bonds are shown in note 14 to the Annual Report and Accounts.

The appointee acquired assets of £2.4m (2015 - £7.8m) on behalf of Wessex Water Enterprises Ltd and transferred those assets to that company.

Independent Auditor's Report to the Water Services Regulation Authority (WSRA) and the Directors of Wessex Water Services Ltd

Opinion on Annual Performance Report

In our opinion, the Annual Performance Report:

- fairly presents in accordance with Condition F, the Regulatory Accounting Guidelines issued by the WSRA and the accounting policies set out on pages 5 and 6 and including the accounting separation methodology, the state of the Company's affairs at 31 March 2016 and its profit and its cash flow for the year then ended; and
- have been properly prepared in accordance with Condition F, the Regulatory Accounting Guidelines and the accounting policies (including the accounting separation methodology).

Basis of preparation

Financial information other than that prepared on the basis of IFRSs does not necessarily represent a true and fair view of the financial performance or financial position of a company as shown in statutory financial statements prepared in accordance with the Companies Act 2006. The Annual Performance Report is separate from the statutory financial statements of the Company and has not been prepared under the basis of International Financial Reporting Standards as adopted by the European Union ("IFRSs").

In forming our opinion on the Regulatory Accounting Statements within the Annual Performance Report, which is not modified, we draw attention to the fact that the Annual Performance Report has been prepared in accordance with Condition F, the Regulatory Accounting Guidelines, the accounting policies (including the accounting separation methodology) set out in the statement of accounting policies and under the historical cost convention.

The Regulatory Accounting Statements on pages 13 to 27 have been drawn up in accordance with Regulatory Accounting Guidelines with a number of departures from IFRSs. A summary of the effect of these departures from Generally Accepted Accounting Practice in the Company's statutory financial statements is included in the Regulatory Disclosures.

What we have audited

The sections of Wessex Water Services Limited's Annual Performance Report that we have audited ("the Regulatory Accounting Statements") comprise:

- the regulatory financial reporting tables comprising the income statement (table 1A), the statement of comprehensive income (table 1B), the statement of financial position (table 1C), the statement of cash flows (table 1D) and the net debt analysis (table 1E) and the related notes; and
- the regulatory price review and other segmental reporting tables comprising the segmental income statement (table 2A), the totex analysis for wholesale water and wastewater (table 2B), the operating cost analysis for retail (table 2C), the historical cost analysis of fixed assets for wholesale and retail (table 2D), the analysis of capital contributions and land sales for wholesale (table 2E), the household water revenues by customer type (table 2F), the non-household water revenues by customer type (table 2G), the non-household wastewater revenues by customer type (table 2H) and the revenue analysis by customer type (table 2I) and the related notes.

The financial reporting framework that has been applied in their preparation comprises the basis of preparation and accounting policies set out in the notes to the Annual Performance Report.

In applying the financial reporting framework, the Directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

We have not audited the Outcome performance table (table 3A) and the additional regulatory information in tables 4A to 4I.

This report is made, on terms that have been agreed, solely to the Company and the WSRA in order to meet the requirements of Condition F of the Instrument of Appointment granted by the Secretary of State for the Environment to the Company as a water and sewage undertaker under the Water Industry Act 1991 (“Condition F”). Our audit work has been undertaken so that we might state to the Company and the WSRA those matters that we have agreed to state to them in our report, in order (a) to assist the Company to meet its obligation under Condition F to procure such a report and (b) to facilitate the carrying out by the WSRA of its regulatory functions, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the WRSA, for our audit work, for this report or for the opinions we have formed.

Respective responsibilities of the WSRA, the Directors and Auditor

As explained more fully in the Statement of Directors’ Responsibilities set out on page 4, the Directors are responsible for the preparation of the Annual Performance Report and for their fair presentation in accordance with the basis of preparation and accounting policies. Our responsibility is to audit and express an opinion on the Regulatory Accounting Statements within the Annual Performance Report in accordance with International Standards on Auditing (UK and Ireland) (“ISAs (UK & Ireland)”), except as stated in the section on ‘What an audit of the Annual Performance report involves’ below, and having regard to the guidance contained in Audit 05/03 ‘Reporting to Regulators of Regulated Entities’ issued by the Institute of Chartered Accountants in England and Wales. Those standards require us to comply with the Auditing Practices Board’s Ethical Standards for Auditors.

What an audit of the Annual Performance Report involves

An audit involves obtaining evidence about the amounts and disclosures in the Regulatory Accounting Statements sufficient to give reasonable assurance that the Regulatory Accounting Statements within the Annual Performance Report are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company’s circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the Annual Performance Report. In addition, we read all the financial and non-financial information in the Annual Performance Report to identify material inconsistencies with the audited sections of the Annual Performance Report and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

We have not assessed whether the accounting policies are appropriate to the circumstances of the Company where these are laid down by Condition F. Where Condition F does not give specific guidance on the accounting policies to be followed, our audit includes an assessment of whether the accounting policies adopted in respect of the transactions and balances required to be included in the Annual Performance Report are consistent with those used in the preparation of the statutory financial statements of the Company. Furthermore, as the nature, form and content of Annual Performance Report is determined by the WSRA, we did not evaluate the overall adequacy of the presentation of the information, which would have been required if we were to express an audit opinion under ISAs (UK & Ireland).

The Company has presented the allocation of operating costs and assets in accordance with the accounting separation policy set out in its Accounting Separation Methodology Statement published on the Company’s website in July 2016. We are not required to assess whether the methods of cost allocation set out in the Methodology Statement are appropriate to the circumstances of the Company or whether they meet the requirements of the WSRA, which would have been required if we were to express an audit opinion under International Standards on Auditing (UK & Ireland).

Opinion on other matters prescribed by Condition F

Under the terms of our contract, we have assumed responsibility to provide those additional opinions required by Condition F in relation to the accounting records. In our opinion:

- proper accounting records have been kept by the appointee as required by paragraph 3 of Condition F; and
- the Regulatory Accounting Statements are in agreement with the accounting records and returns retained for the purpose of preparing the Annual Performance Report.

Other matters

The nature, form and content of the Annual Performance Report is determined by the WSRA. It is not appropriate for us to assess whether the nature of the information being reported upon is suitable or appropriate for the WSRA's purposes. Accordingly, we make no such assessment. Our opinion on the Annual Performance Report is separate from our opinion on the non-statutory financial statements of the Company for the year ended 31 March 2016 on which we report, which are prepared for a different purpose. Our audit report in relation to the non-statutory financial statements of the Company (our 'statutory audit') was made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our statutory audit work was undertaken so that we might state to the Company's members those matters we are required to state to them in a statutory audit report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume responsibility for any other purpose or to any other person to whom our statutory audit report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

AC Campbell-Orde (Senior Statutory Auditor)
for and on behalf of KPMG LLP
Chartered Accountants
100 Temple Street
Bristol BS1 6AG

8 July 2016

Section 1: Regulatory Financial Reporting

Financial performance for the 12 months ended 31 March 2016

	Current year				
		Adjustments			
Table 1A **Income statement**	Statutory	Differences between statutory and RAG definitions	Non-appointed	Total adjustments	Total appointed activities
	£m	£m	£m	£m	£m
Revenue	520.8	-	(7.8)	(7.8)	513.0
Operating costs	(286.6)	5.7	7.8	13.5	(273.1)
Other operating income	-	(1.8)	-	(1.8)	(1.8)
Operating profit	234.2	3.9	-	3.9	238.1
Other income	-	0.4	-	0.4	0.4
Interest income	0.8	-	-	-	0.8
Interest expense	(75.4)	3.2	-	3.2	(72.2)
Other interest expense	-	(4.7)	-	(4.7)	(4.7)
Profit before tax and fair value movements	159.6	2.8	-	2.8	162.4
Fair value gains/(losses) on financial instruments	-	-	-	-	-
Profit before tax	159.6	2.8	-	2.8	162.4
UK Corporation tax	(27.3)	-	-	-	(27.3)
Deferred tax	31.9	(15.0)	-	(15.0)	16.9
Profit for the year	164.2	(12.2)	-	(12.2)	152.0

An explanation of the differences column can be found in paragraph 7 of the Regulatory Disclosures.

Financial performance for the 12 months ended 31 March 2016

Current year

Table 1B Statement of comprehensive income	Statutory	Adjustments: Differences between statutory and RAG definitions	Adjustments: Non-appointed	Adjustments: Total adjustments	Total appointed activities
	£m	£m	£m	£m	£m
Profit for the year	164.2	(12.2)	-	(12.2)	152.0
Actuarial gains on post-employment plans	0.3	-	-	-	0.3
Other comprehensive income	-	-	-	-	-
Total Comprehensive income for the year	164.5	(12.2)	-	(12.2)	152.3

Financial performance for the 12 months ended 31 March 2016

Table 1C Statement of Financial Position	Current year				
		Adjustments			
	Statutory	Differences between statutory and RAG definitions	Non-appointed	Total adjustments	Total appointed activities
	£m	£m	£m	£m	£m
Non-current assets					
Fixed assets	3,344.1	(723.2)	-	(723.2)	2,620.9
Investments - other	-	-	-	-	-
Total	3,344.1	(723.2)	-	(723.2)	2,620.9
Current assets					
Inventories	7.1	-	-	-	7.1
Trade & other receivables	170.5	-	-	-	170.5
Cash & cash equivalents	95.3	-	-	-	95.3
Total	272.9	-	-	-	272.9
Current liabilities					
Trade & other payables	(172.1)	39.1	-	39.1	(133.0)
Capex creditor	-	(39.1)	-	(39.1)	(39.1)
Borrowings	(4.5)	-	-	-	(4.5)
Current tax liabilities	(16.3)	0.5	-	0.5	(15.8)
Total	(192.9)	0.5	-	0.5	(192.4)
Net Current assets	80.0	0.5	-	0.5	80.5
Non-current liabilities					
Trade & other payables	(0.3)	-	-	-	(0.3)
Borrowings	(1,947.1)	-	-	-	(1,947.1)
Retirement benefit obligations	(141.0)	-	-	-	(141.0)
Provisions	(0.2)	-	-	-	(0.2)
Deferred income - G&C's	(243.8)	-	-	-	(243.8)
Deferred tax	(343.7)	123.4	-	123.4	(220.3)
Total	(2,676.1)	123.4	-	123.4	(2,552.7)
Net assets	748.0	(599.3)	-	(599.3)	148.7
Equity					
Called up share capital	-	-	-	-	-
Retained earnings & other reserves	748.0	(599.3)	-	(599.3)	148.7
Total Equity	748.0	(599.3)	-	(599.3)	148.7

An explanation of the differences column can be found in paragraph 7 of the Regulatory Disclosures.

Financial performance for the 12 months ended 31 March 2016

Current year

Table 1D Statement of Cash Flows	Statutory	Adjustments: Differences between statutory and RAG definitions	Adjustments: Non-appointed	Adjustments: Total adjustments	Total appointed activities
	£m	£m	£m	£m	£m
Operating profit	234.2	3.9	-	3.9	238.1
Other income	-	0.4	-	0.4	0.4
Depreciation	101.0	(6.4)	-	(6.4)	94.6
Amortisation - G&C's	-	(2.4)	-	(2.4)	(2.4)
Changes in working capital	(5.3)	7.2	-	7.2	1.9
Pension contributions	-	(7.6)	-	(7.6)	(7.6)
Movement in provisions	-	0.4	-	0.4	0.4
Loss on sale of fixed assets	-	1.8	-	1.8	1.8
Cash generated from operations	329.9	(2.7)	-	(2.7)	327.2
Net interest paid	(61.0)	-	-	-	(61.0)
Tax paid	(13.8)	-	-	-	(13.8)
Net cash generated from operating activities	255.1	(2.7)	-	(2.7)	252.4
Investing activities					
Capital expenditure	(177.4)	2.7	-	2.7	(174.7)
Grants & Contributions	10.9	-	-	-	10.9
Disposal of fixed assets	1.2	-	-	-	1.2
Other	0.8	-	-	-	0.8
Net cash used in investing activities	(164.5)	2.7	-	2.7	(161.8)
Net cash generated before financing activities	90.6	-	-	-	90.6
Cashflows from financing activities					
Equity dividends paid	(88.2)	-	-	-	(88.2)
Net loans received	45.9	-	-	-	45.9
Cash inflow from equity financing	-	-	-	-	-
Net cash generated from financing activities	(42.3)	-	-	-	(42.3)
Increase in net cash	48.3	-	-	-	48.3

Net Debt Analysis at 31 March 2016

Table 1E	**Interest rate risk profile**			
	Fixed rate	Floating rate	Index linked	Total
	£m	£m	£m	£m
Borrowings (excluding preference shares)	947.8	281.4	722.4	1,951.6
Preference share capital				-
Total borrowings				1,951.6
Cash				(43.3)
Short term deposits				(52.0)
Net Debt				1,856.3
Gearing				66.2%
Adjusted Gearing (see note below)				70.1%
Full year equivalent nominal interest cost	44.6	2.5	24.3	71.4
Full year equivalent cash interest payment	44.4	2.8	13.0	60.2
Indicative interest rates				
Indicative weighted average nominal interest rate	4.7%	1.0%	3.4%	3.7%
Indicative weighted average cash interest rate	4.7%	1.0%	2.4%	3.3%

The adjusted gearing is an estimate of the pension adjusted gearing based on Moody’s methodology.

Narrative

<u>Current tax reconciliation</u>

a) UK corporation tax on Table 1A is £27.3m comprising current year tax of £28.0m less £0.7m of adjustments relating to prior years.

Profit before tax was £159.6m which at the standard tax rate of 20% is £31.9m.

The tax charge of £28.0m is £3.9m lower than £31.9m.

-£1.2m group relief for no consideration
-£1.3m payment of lease capital creditor
-£0.2m capital allowances in excess of depreciation
-£0.7m pension payments
-£0.5m other timing differences

-£3.9m

b) The current year tax charge of £28.0m is £10.5m higher than the £17.5m tax charge allowed in price limits.

+£9.4m additional profit before tax of £47.2m at 20%
+£1.0m lower tax deduction for movement in provisions
+£0.8m higher add back for depreciation
+£0.6m no debt gearing adjustment
-£0.1m higher capital allowances deduction
-£1.2m deduction for group relief

+£10.5m

Section 2: Price Review and Other Segmental Reporting

Segmental Income Statement for the 12 months ended 31 March 2016

Table 2A	Retail		Wholesale		Total
	Household	Non-household	Water	Waste water	
	£m	£m	£m	£m	£m
Revenue - price control	34.6	6.0	170.5	297.9	509.0
Revenue - non-price control	-	-	2.2	1.8	4.0
Operating costs	(26.7)	(3.5)	(99.3)	(143.6)	(273.1)
Other operating income	-	-	(1.5)	(0.3)	(1.8)
Operating profit before recharges	7.9	2.5	71.9	155.8	238.1
Recharges from other segments	0.4	0.1	-	-	0.5
Recharges to other segments	-	-	(0.2)	(0.3)	(0.5)
Operating profit	8.3	2.6	71.7	155.5	238.1
Surface water drainage rebates					0.2

Totex analysis for the 12 months ended 31 March 2016 – Wholesale Business

Table 2B	Water	Wastewater	Total
	£m	£m	£m
Operating expenditure			
Power	8.1	16.0	24.1
Income treated as negative expenditure	-	-	-
Service charges / discharge consents	1.4	3.0	4.4
Bulk supply / bulk discharge	1.5	-	1.5
Other operating expenditure	26.9	42.4	69.3
Local authority rates	17.9	10.2	28.1
Total operating expenditure excluding third party services	55.8	71.6	127.4
Third party services	3.4	0.3	3.7
Total operating expenditure	59.2	71.9	131.1
Capital expenditure			
Maintaining long term capability of the assets – infra	19.8	19.4	39.2
Maintaining long term capability of the assets – non-infra	23.0	50.5	73.5
Other capital expenditure – infra	24.9	13.0	37.9
Other capital expenditure – non-infra	33.7	14.9	48.6
Total gross capital expenditure (excluding third party)	101.4	97.8	199.2
Third party services	-	-	-
Total gross capital expenditure	101.4	97.8	199.2
Grants and contributions (price control)	(7.7)	(4.7)	(12.4)
Totex	152.9	165.0	317.9
Cash expenditure			
Pension deficit recovery payments	2.8	4.8	7.6
Other cash items	-	-	-
Totex including cash items	155.7	169.8	325.5

Operating cost analysis for the 12 months ended 31 March 2016 – Retail

Table 2C	Household	Non-household	Total
	£m	£m	£m
Operating expenditure			
Customer services	4.6	0.8	5.4
Debt management	2.5	0.3	2.8
Doubtful debts	10.8	0.8	11.6
Meter reading	1.5	0.3	1.8
Services to developers	-	0.4	0.4
Other operating expenditure	6.5	0.8	7.3
Total operating expenditure excluding third party services	25.9	3.4	29.3
Third party services	-	-	-
Total operating expenditure	25.9	3.4	29.3
Depreciation	0.9	0.1	1.0
Total operating costs	26.8	3.5	30.3
Debt written off	6.5	0.4	6.9

Historic Cost Analysis of Fixed Assets at 31 March 2016 – Wholesale & Retail

	Wholesale		Retail		
Table 2D	Water	Wastewater	Household	Non-household	Total
	£m	£m	£m	£m	£m
Cost					
At 1 April 2015	1,147.9	2,359.3	15.7	0.5	3,523.4
Disposals	(5.8)	(9.2)	-	-	(15.0)
Additions	91.5	113.6	0.6	1.1	206.8
At 31 March 2016	1,233.6	2,463.7	16.3	1.6	3,715.2
Depreciation					
At 1 April 2015	(280.9)	(720.0)	(10.5)	(0.1)	(1,011.5)
Disposals	4.0	8.0	-	-	12.0
Charge for year	(30.5)	(63.3)	(0.9)	(0.1)	(94.8)
At 31 March 2016	(307.4)	(775.3)	(11.4)	(0.2)	(1,094.3)
Net book amount at 31 March 2016	926.2	1,688.4	4.9	1.4	2,620.9
Net book amount at 1 April 2015	867.0	1,639.3	5.2	0.4	2,511.9

The net book value includes £177.0m in respect of assets in the course of construction.

Analysis of Capital Contributions and Land Sales for the 12 Months ended 31 March 2016 – Wholesale

Table 2E	Current year			
	Fully recognised in income statement	Capitalised and amortised against depreciation	Fully netted off capex	Total
Grants and contributions - water	£m	£m	£m	£m
Connection charges (s45)	1.9	-	-	1.9
Infrastructure charge receipts (s146)	-	1.9	-	1.9
Requisitioned mains (s43, s55 & s56)	-	3.9	-	3.9
Diversions (s185)	0.4	-	-	0.4
Other Contributions	-	0.4	-	0.4
Total	2.3	6.2	-	8.5
Grants and contributions - wastewater				
Infrastructure charge receipts (s146)	-	3.6	-	3.6
Requisitioned sewers (s100)	-	1.1	-	1.1
Diversions (s185)	0.2	-	-	0.2
Other Contributions	-	26.2	-	26.2
Total	0.2	30.9	-	31.1

	Current year		
	Water	Wastewater	Total
Balance sheet			
Brought forward	52.5	156.6	209.1
Capitalised in year	6.2	30.9	37.1
Amortisation (in income statement)	(0.5)	(1.9)	(2.4)
Carried forward	58.2	185.6	243.8
Land Sales – Proceeds from disposals of protected land	0.1	0.1	0.2

Household – Revenues by Customer Type for the 12 months ended 31 March 2016

Table 2F	Wholesale charges revenue	Retail revenue	Total revenue	Number of customers	Average household retail revenue per customer
	£m	£m	£m	000's	£
Customer Type					
Unmeasured water only customer	5.841	0.389	6.230	21.618	18.015
Unmeasured wastewater customer only	74.658	4.932	79.590	303.806	16.234
Unmeasured water & wastewater customer	99.648	6.616	106.264	196.861	33.605
Measured water only customer	3.223	0.410	3.633	18.062	22.715
Measured wastewater only customer	58.557	7.781	66.338	326.247	23.849
Measured water & wastewater customer	111.055	14.452	125.507	306.723	47.116
Total	352.982	34.580	387.562	1,173.317	29.472

Numbers in the table above may be subject to rounding differences.

Non-household Water – Revenues by Customer Type for the 12 months ended 31 March 2016

Table 2G	Wholesale charges revenue	Retail revenue	Total revenue	Number of customers	Average revenue per customer
	£m	£m	£m	number	£
Default tariffs					
UM-W	1.877	0.113	1.990	4,010	28.19
UM-W-MX	0.130	0.008	0.138	281	27.83
M-W-0	10.872	1.156	12.028	32,118	35.98
M-W-0-MX	2.666	0.283	2.949	7,757	36.53
M-W-I	10.912	0.388	11.300	2,831	137.31
M-W-I-MX	2.592	0.092	2.684	661	139.69
M-W-5	7.563	0.191	7.754	373	511.11
M-W-5-MX	3.230	0.081	3.311	141	577.41
M-W-25	2.625	0.043	2.668	40	1,077.85
M-W-50	2.880	0.055	2.935	23	2,417.05
M-W-100	4.412	0.059	4.471	16	3,650.00
M-W-250	0.880	0.009	0.889	2	4.222.26
M-W-500	1.124	0.009	1.133	1	8,910.73
Total default tariffs	51.763	2.487	54.250	48,254	51.55
Non-Default tariffs					
Total non-default tariffs	0.017	-	0.017	1	-
Total	51.780	2.487	54.267	48,255	51.55

Numbers in the table above may be subject to rounding differences.

Non-household Wastewater – Revenues by Customer Type for the 12 months ended 31 March 2016

Table 2H	Wholesale charges revenue	Retail revenue	Total revenue	Number of customers	Average revenue per customer
	£m	£m	£m	number	£
Default tariffs					
UM-S	2.105	0.116	2.221	5,000	23.32
UM-S-MX	0.156	0.008	0.164	381	22.64
M-S-0	11.037	1.440	12.477	33,531	42.90
M-S-0-MX	5.589	0.728	6.317	16,532	44.06
M-S-1	9.539	0.293	9.832	2,781	105.30
M-S-1-MX	5.062	0.155	5.217	1,468	105.85
M-S-5	6.620	0.174	6.794	365	476.00
M-S-5-MX	3.708	0.097	3.805	201	484.18
M-S-25	2.823	0.051	2.874	44	1,168.77
M-S-50	2.757	0.052	2.809	23	2,250.48
M-S-100	1.289	0.020	1.309	9	2,222.33
M-S-250	0.474	0.006	0.480	2	2,777.50
M-TE-0	0.174	0.019	0.193	344	55.00
M-TE-1	0.769	0.030	0.799	241	122.67
M-TE-5	1.877	0.041	1.918	89	456.16
M-TE-25	1.586	0.024	1.610	22	1123.23
M-TE-50	2.033	0.036	2.069	16	2238.31
M-TE-100	2.286	0.037	2.323	10	3633.80
M-TE-250	1.726	0.020	1.746	3	6,742.00
M-TE-500	0.202	0.007	0.209	1	6,490.00
Total default tariffs	61.812	3.354	65.166	61,063	54.92
Non-Default tariffs					
Total non-default tariffs	-	-	-	-	-
Total	61.812	3.354	65.166	61,063	54.92

Numbers in the table above may be subject to rounding differences.

Revenue Analysis and Wholesale Control Reconciliation for the 12 Months ended 31 March 2016

Table 2I	Household	Non-household	Total
Wholesale charge – water	£m	£m	£m
Unmeasured	59.0	2.0	61.0
Measured	57.9	49.8	107.7
Third Party Revenue	-	1.8	1.8
Total	116.9	53.6	170.5
Wholesale charge – wastewater			
Unmeasured	121.1	2.3	123.4
Measured	114.9	59.5	174.4
Third Party Revenue	-	0.1	0.1
Total	236.0	61.9	297.9
Wholesale Total	352.9	115.5	468.4
Retail revenue			
Unmeasured	11.9	0.2	12.1
Measured	22.7	5.6	28.3
Other third party revenue	-	0.2	0.2
Retail Total	34.6	6.0	40.6
Third party revenue – non-price control			
Bulk supplies			0.5
Other third party revenue			3.3
Other appointed revenue			0.2
Total appointed revenue			513.0

Wholesale Control Reconciliation	Water	Wastewater	Total
Wholesale revenue governed by price control	170.5	297.9	468.4
Grants & contributions	5.8	4.7	10.5
Total revenue governed by wholesale price control	176.3	302.6	478.9
Amount assumed in wholesale determination	170.1	297.4	467.5
Difference	6.2	5.2	11.4

Water Grants and Contributions of £5.8m above exclude £1.9m of section 45 connection charges on Table 2E, as these are included in £170.5m on the line above.

Narrative

Wholesale Revenues reconciliation against Final Determination

The differences in line 2I.22 between actual and allowed revenue are +£6.2m (water) and +£5.2m (sewerage).

An explanation of the variances is as follows:

	Water	Sewerage	Note
Variance in Table 2i.22	+£6.2m	+£5.2m	
Contribution received related to new nuclear reactor	+£3.6m	-	[1]
Remaining Variance to Explain	**+£2.6m**	**+£5.2m**	
Domestic demand	+£1.2m	+£3.8m	[2]
Commercial demand	+£1.7m	+£1.2m	[3]
Other differences (not material)	-£0.3m	+£0.2m	

1 – Contributions related to infrastructure to service a new nuclear reactor

The contribution received for the water infrastructure investment required to service a new nuclear reactor in our region was an item noted by Ofwat as an allowable additional income stream in its determination of allowed revenues given its uncertainty at the time. No allowances for the contribution received or the associated cost of the investment were included in the final determination. These items are expected to be cash neutral for the company.

Other developer related contributions from new connections to our mains and sewers have been in line with expectations. The numbers of new connections to our network have also been in line with the assumptions in the final price determination.

2 - Domestic Demand

Relatively good weather in the previous two summers meant that we considered domestic consumption per customer to be at an elevated level and we therefore expected to see a decline in 2015-16. In practice we have seen a further increase in domestic demand this year.

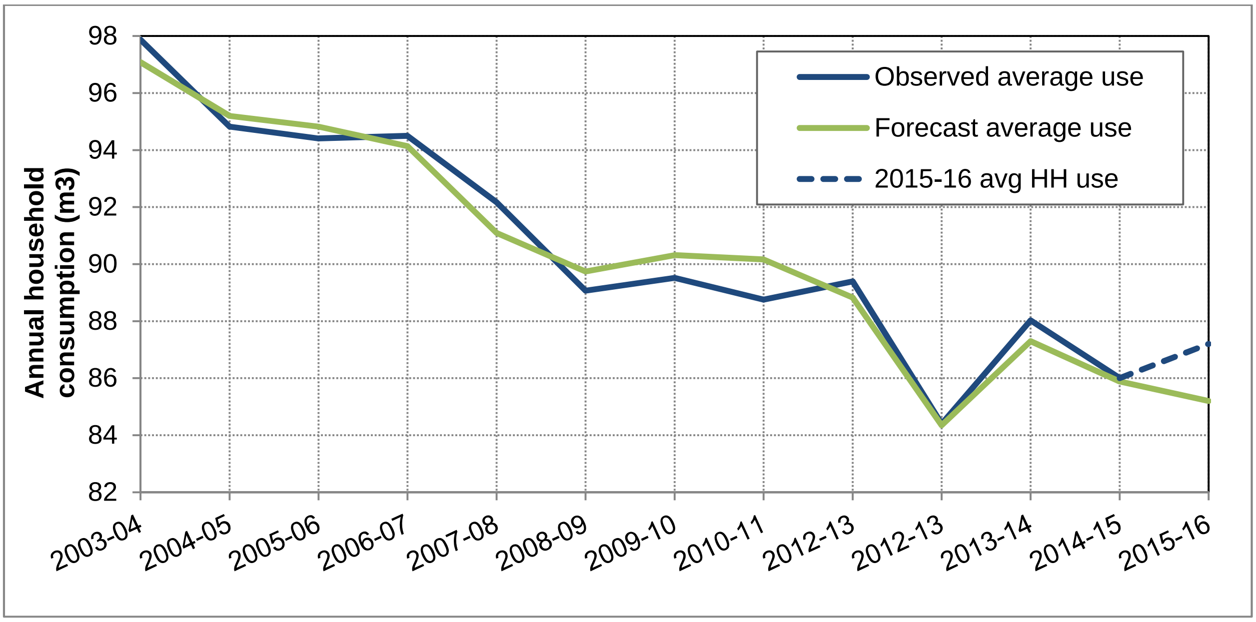
Another better than average summer period has led to water usage above the norm through additional garden watering.

We have also seen a more sustained increase in demand from household metered customers in both our supply and sewerage areas which is out of line with our long term trend. Our view is that this is likely to have been caused by a combination of factors:

- A reduction in water prices
- A drop in energy prices – energy and water are often used in a complementary way
- A rise in real terms incomes

Taken together these factors may have made customers less cautious about their use of utilities. The chart below shows how our modelled use differed from the actual consumption observed in the year.

Chart: Water Supply billed consumption per household



Volumetric prices in 2016-17 have been set at a lower level so that we remain in line with our determined revenue allowance after allowing for the fact that we expect some of the unexpected increase in demand to be maintained in future years.

The proportion of void properties has remained broadly stable during the year and this has not materially contributed to a variance against the determination.

Commercial Demand

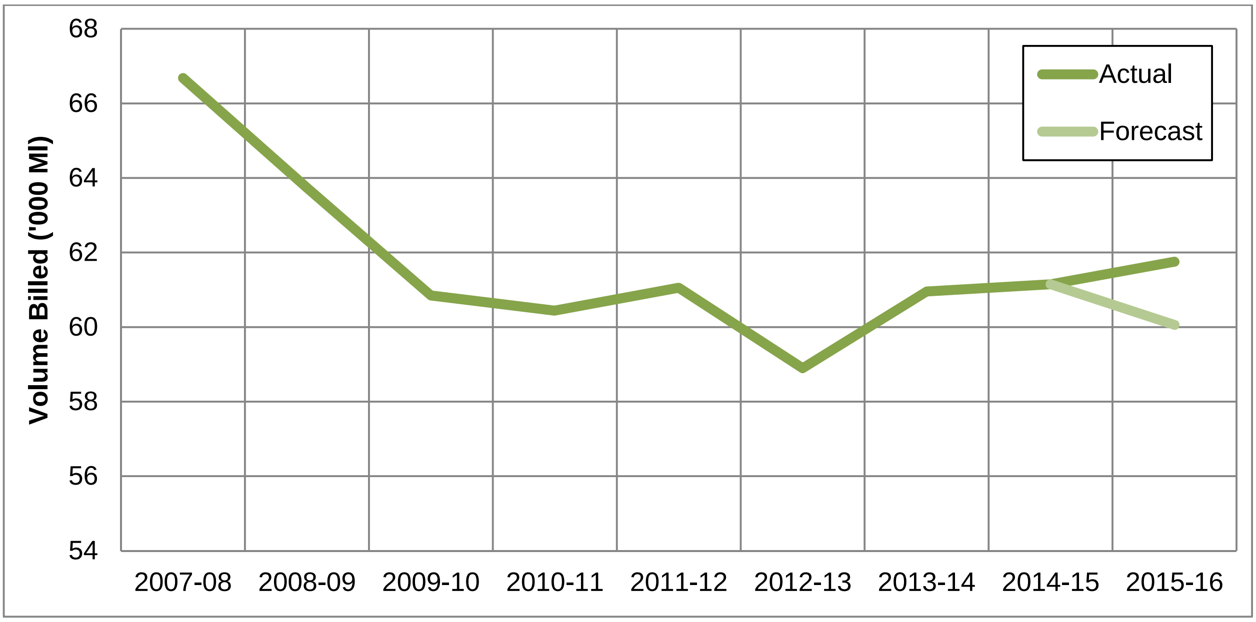
Demand from commercial customers in 2015-16 was also above our expectation when charges were set in January 2015.

We predicted demand to fall by around 2% in 2015-16 because:

- In the long run commercial demand has been on a downward trend
- Commercial demand in our region is relatively elastic to variations in weather (because of the relative importance of agriculture) and we assumed that we would return to normal weather conditions compared to the better than average summers in the previous 2 years.

In the event weather in the region was again better than average meaning that demand from agriculture was stable. Additionally we have seen strong growth from other sectors of the economy – in particular the service sector has seen demand growth of over 5% in the year, meaning that overall demand increased by 1%.

Changes in Commercial Demand



Volumetric prices in 2016-17 have been set at a lower level so that we remain within our wholesale revenue allowance after allowing for the fact that we expect some of this unexpected increase in demand to be maintained.

Section 3: Performance Commitments

For the 12 months ended 31 March 2016

				Actual				Accrued at 31 March 2016		31 March 2020 forecast	
Row	Unique ID	Performance commitment	Units	2014-15 performance level	Target	2015-16 performance level	2015-16 Target met?	Notional reward or penalty	£m absolute value	Total AMP6 reward or penalty	£m absolute value
1	B4	Compliance with abstraction licences	%	100	100	100	Yes				
2	B5	Abstractions at Mere exported (follows principles of the AIM methodology)	Ml/a	88	100	172	No	Penalty	0.0018	Penalty	0.0043
3	B6	BAP landholding assessed and managed for biodiversity	%	47	60	60	Yes				
4	B7	Length of rivers with improved flows	Km	0	0	0	Yes				
5	D2	Restrictions on water use (hosepipe bans)	Nr	0	0	0	Yes				
6	D3	Water supply interruptions (> 3 hours including planned, unplanned and third party interruptions)	Min / prop	20:07	21:30	14:30	Yes	Reward deadband	0.0000	Reward deadband	0.0000
7	D4	Properties supplied by a single source (including the integrated supply grid)	Nr	91000	78000	78000	Yes				
8	D5	Water main bursts	Nr	1892	<1993	1663	Yes				
9	F1	Volume of water leaked	Ml/d	68.6	69.3	68.3	Yes	Reward deadband	0.0000	Reward deadband	0.0000
10	F2	Customer reported leaks fixed within a day	%	-	66	68	Yes				
11	G1	Customer contacts about drinking water quality	Nr	3006	2536	2431	Yes	Reward deadband	0.0000	Penalty	1.1760
12	G2	Compliance with drinking water standards (MZC)	%	99.97	99.98	99.96	No	Penalty deadband	0.0000	Penalty deadband	0.0000
13	A1	Agreed schemes delivered (named outputs with bathing water drivers in the NEP)	%	-	100	100	Yes				
14	A2	Beaches passing EU standards	%	98	100	98	No				
15	B1	The EA's Environmental Performance Assessment (reward mechanism based on pollution incidents)	Standing	Above average	Industry leading	Industry leading	Yes			Penalty deadband	0.0000
16	B2	Monitoring CSOs	%	39	40	46	Yes				

Row	Unique ID	Performance commitment	Units	Actual: 2014-15 performance level	Actual: Target	Actual: 2015-16 performance level	2015-16 Target met?	Accrued at 31 March 2016: Notional reward or penalty	Accrued at 31 March 2016: £m absolute value	31 March 2020 forecast: Total AMP6 reward or penalty	31 March 2020 forecast: £m absolute value
17	B3	River water quality improved	Nr	0	0	0	Yes			Reward deadband	0.0000
18	C1	Internal flooding incidents	Incidents per 10k properties connected	1.15	1.75	1.36	Yes	Reward	5.1000	Reward	5.5692
19	C2	Risk of flooding from public sewers due to hydraulic inadequacy	Risk	50651	50651	51509	No	Penalty deadband	0.0000	Penalty deadband	0.0000
20	C3	North Bristol Sewer Scheme - Frome catchment	Scheme	-	-	-	Yes				
21	C3	North Bristol Sewer Scheme - Trym catchment	Scheme	-	-	-	Yes				
22	D1	Collapses and bursts on sewer network	Nr	270	<300	282	Yes				
23	E1	Greenhouse gas emissions (annual greenhouse gas emissions from operational services)	ktCO2e	148	133	138	No				
24	E2	Proportion of energy self-generated	%	18	21	25	Yes				
25	RA1	SIM service score	SIM score	n/a	>86	87	Yes				
26	RA2	Percentage rating service good/very good	%	96.40	>95	96.30	Yes				
27	RA3	Percentage rating good value for money	%	65	71	78	Yes				
28	RA4	Percentage rating ease of resolution	%	79	Improving trend	81	Yes				
29	RA5	Accessible communications	N/a	BS18477 & Customer Service Excellence Award	n/a	BS18477 & Customer Service Excellence Award	Yes				
30	RB1	Volume of water used per person	litres / person / day	138	135	138	No				
31	RB1	Volume of water saved by water efficiency promotion	litres / person / day	0.48	0.57	0.68	Yes				
32	RB2	Bill as a proportion of disposable income	%	1.60	Reducing trend	1.50	Yes				

Narrative

Outcomes, Performance Commitments & Delivery Incentives

As part of our strategic direction statement, Water – the way ahead 2015-2040, we defined nine outcomes derived through our customer engagement:

We then consulted with our customers and worked with customer stakeholder bodies and our Customer Scrutiny Group to develop specific performance commitments (PCs) focused on areas of activity that are important to our customers. This resulted in 32 performance commitments, including sub-measures being agreed with Ofwat in the final determination.

Each of these performance commitments has a target confirmed in Ofwat's final determination. For those performance commitments that were of most important to our customers or that could have the biggest impact on the environment a financial incentive was applied. We also included a range of performance commitments that were new and are being trialled this AMP and also several that are not totally under our control to deliver; in these cases a reputational incentive was applied.

We are committed to making significant improvements to our services and this section of the document provides the detail describing our progress over the first year of the current five year period.

Where appropriate Ofwat incentivised the companies by applying outcome delivery incentives (ODIs) designed using customer valuations to create financial incentives so that more of the company's returns were based on the service they provided to customers. For those performance commitments with a financial incentive, if the company fails to achieve these targets we refund customers; if we beat these targets where customers' value the services provided, the company will receive an incentive payment. All refunds and incentive payments will be factored into the AMP7 final determination in 2020.

Where there is uncertainty around performance due possibly to third party factors or variations in the weather then a deadband was applied around the target, within which performance does not incur an incentive payment or customer refund.

Performance Commitment narrative (Table 3a)

The following sections support the performance data included in Table 3a and provide an explanation of each performance commitment, an explanation of any over or under performance for the 2015-16 reported year and where appropriate a forecast to the end of the 5 year period. This section also explains any financial incentive that applies to each performance commitment.

Whilst these performance commitments focus on Wessex Water’s performance, it is important to understand them in a wider context. In our separately published Sustainability Indicators and Accounting report we show how we have performed in our key performance measures over a number of years. We are currently working on further ways of illustrating this wider context which we will test with the Wessex Water Partnership and Catchment Panel and include in next year’s Annual Performance Report.

Note, all financial values in the following section are at 2012-13 prices and will be indexed to outturn prices by Ofwat when they are applied to our bills in 2020-21. The calculations themselves can be reasonably complex. For clarity in this document we have stated the most likely impact of differing performance levels. However, nothing in this document supersedes the more detailed calculation that was part of our 2014 price determination.

The final section provides a description of the governance and assurance that the company has in place to provide trust and confidence that the performance that is reported is accurate and consistently reported year by year.

Water Performance Commitments

Rivers, Lakes and Estuaries

Compliance with abstraction licences – All our abstractions of water from the environment are covered by EA permits which specify the maximum volume we are allowed to take in a given day and in the year – some licences can be very complex. This measure records the percentage of total days which are in breach of a licence at any source.

We are targeting 100% compliance every year in AMP6.

There is no financial incentive associated with this measure.

In 2015/16 we achieved the 100% target and we forecast that we will continue to do so in the future.

Abstractions at Mere – There are concerns (both local and environmental) about the impact of our abstractions at Mere during periods of low ground water. This measures the total amount of water we abstract from the source in a year.

We have set ourselves a challenging target to significantly reduce our abstraction to a minimal level of 100 Ml or less from Mere in any given year in AMP6, during low groundwater conditions.

There is a financial incentive attached to this measure, although rather than a penalty it represents the extra cost of using water abstracted from elsewhere. We will refund customers £25 for each Ml we abstract over the target during periods of low groundwater.

In 2015-16 while we significantly reduced the volume of water abstracted from Mere from our long-term average, we exceeded the target by 72 Ml resulting in a refund to customers of £1,800. The target was exceeded as a result of unplanned outages at other sources due to plant failure and pre-emptive water quality shutdowns.

Looking ahead, we anticipate the need to use Mere as part of the provision of water in 2016-17 while we commission our water supply grid. We have included an estimated refund value for this year in the table; the actual performance will be reported next year. The implementation of the grid will improve the resilience of our integrated network and should mitigate the risk of needing to use Mere after 2016-17.

Landholding assessed and managed for biodiversity – The % of landholding we own that we have assessed and are undertaking the appropriate management actions. This links into Defra’s England biodiversity strategy.

The target for AMP6 is to increase this from 60% in 2015-16 to 100% for sites larger than 5000m^2, adding an additional 10% assessed each year.

If we miss the target we will refund customers £4k per %.

In 2015-16 we achieved the target of 60% and we are forecasting that with our processes in place we will achieve the target for each year of the AMP.

Improving flows in rivers – This measures the length of river with improved flows as a result of changes in abstraction licences.

The target is 99km in 2018-19 with no improvements due in other years. This is because these improvements relate to specific changes in licence conditions which are due that year.

If we do not deliver these planned changes we will refund customers £19k for each km we miss the target by. If we manage to deliver more changes to abstraction licences that improve additional km of river we can receive an incentive payment of £19k per additional km.

We are on programme to deliver the improvements through our water supply grid in 2018/19.

Resilient Services

Water restrictions – The number of temporary use bans (TUB) imposed (ie. hosepipe bans).

We have not had to impose a TUB for 40 years, and target none in AMP6.If we have to impose a TUB we will refund customers £10.1mfor each TUB imposed.

We did not have to impose a TUB in 2015-16 and do not expect to have to do so in the current AMP.

Interruptions to supply – The average minutes of supply lost per property from interruptions that are longer than three hours.

Ofwat has set an industry wide target representing upper quartile performance. In 2015-16 the target is 21.3, it then tightens to the upper quartile of 12 minutes by 2017-18.

A deadband applies to this performance commitment such that in any year we exceed the deadband we will refund customers £41.9k per additional minute per property; and if in any year we beat the upper quartile performance of 12 minutes we receive an incentive payment of £6.4k for every additional minute per property.

In 2015-16 we achieved 14.3 minutes, a significant improvement on our past performance. This has largely been achieved by process improvements in the delivery of our planned work to minimise the actual shut period. However, 2015-16 was a relatively benign year without any severe weather or atypical incidents. We anticipate achieving the target for 2016-17 but the tighter target for 2018-19 is much more challenging. We believe we can make further process improvements but are not certain whether the target will be achieved. We will discuss this with the Wessex Water Partnership and provide an update on this in the 2016-17 Annual Performance Report.

Properties supplied by a single source – This is a continuation of a measure included in the AMP5 final determination relating to delivery of the water supply grid; it measures the number of properties that are solely supplied by one source of drinking water and cannot be fed from an alternative one.

We are targeted with reducing the number of these properties to 78,000 in 2015-16 with a further reduction to 42,000 in 2018-19.

If we fail to meet the target in any given year due to delays in delivery of the grid we will refund customer £76.60 per property above target per year. If we de-scope the integrated supply grid and fail to deliver these improvements we will refund customers £2,445 per property – there is no risk of this as all associated schemes are currently under construction.

The implementation of the water supply grid is on course and the activities necessary to achieve the target in 2015-16 have all been completed. These are works at our Black Lane, Chirton and Easterton and Shrewton sites, all of which were completed and the supplies proved by March 2016.

Water main bursts – The number of water main bursts in the year.
The target is set at less than 1,993 during AMP6. This represents the level at which, had we exceeded it, we could have incurred a penalty during AMP5, from Ofwat.

For every burst above 1,993 in a given year we will refund customers £4.9k.

In 2015-16 our performance was 1,663 bursts. However, the weather which normally has a significant impact on burst numbers was relatively mild this year. It is difficult to forecast the future position but overall, assuming a range of weather conditions, we still anticipate achieving this target each year of this AMP.

Reduced Leakage

Volume of leakage – The total daily volume of water we lose from our distribution system.

In our Strategic Direction Statement we committed to reduce leakage by 25% over the following 25 years. For this AMP to 2019-20 this translates into a 5% reduction from our 2014-15 performance of 70 Ml/day, applied as a tightening of the target by 0.7 Ml/day each year.

As a high customer priority this performance commitment has the potential for both customer refunds and incentive payments. If we miss the target we are penalised by £305k for every Ml/day we are over, but if we beat the target by over 1 Ml/day we can receive an incentive payment of £110k for every additional Ml/day.

In 2015-16 we achieved 68.3 Ml/d which is under the target, although the weather conditions were mild. This figure is within the deadband so no financial penalty applies. This year we have initiated our enhanced metering strategy and pressure management optimisation project, both of which should result in further leakage reduction in following years and help in delivering the tightening target to the end of the AMP.

Significant leaks fixed with a day – The number of significant leaks reported by customers that we fix within a day.

This is a new measure and by the end of the AMP we have targeted to fix 90% of the significant leaks reported by customers by the end of the next working day following report to us. The target gradually increases through the AMP from 66% in 2015-16.

Due to limited historic data to support setting an incentive, this PC has no financial impact associated with it.

In 2015-16 we achieved 68% performance, above the target resulting from good collaboration between teams in the business creating improvements in processes. We are currently assessing the financial impact on customers of delivering the challenging 2018-19 and 2019-20 targets, we will discuss this with the Wessex Water Partnership and we will report further on this in the next Annual Performance Report.

Highest Quality Drinking Water

Customer contacts about drinking water – The DWI annually report the number of contacts a company receives about discolouration and taste and odour of drinking water.

In our business plan we proposed a reduction of 10% over AMP6 from our 2014-15 performance; this was one of the measures where Ofwat set an industry wide target representing its view of the current upper quartile performance. In 2015-16 the target is 2,536 contacts, reducing to 2,072 in 2016-17 then from 2017-18 it reduces to a challenging 1,608 contacts.

In 2015-16 if we had exceeded 3,000 contacts we would have refunded customers £1,000 per contact and if we had less than 1,608 contacts we could receive an incentive payment of £175 per contact; from 2017-18 if we exceed the target we will refund customers and if we beat the target we can claim the incentive payment.

In 2015-16 we achieved the target with 2,431 contacts; which is within the deadband; this improvement primarily resulted from the completion of the Taunton mains rehabilitation programme. The mild weather and low burst rate also will have contributed.

We are implementing a series of customer relationship management initiatives which will help improve the performance in future. Continued investment in further mains rehabilitation programmes is also important. However, there are no major hot spots remaining so further work is rarely justified on cost benefit grounds.

At this stage there are no clear means by which we can achieve the target for 2017-18 without investing well above what customers have indicated they are prepared to pay. Therefore, we are reporting that we will miss this target and have included our best estimate of the refund customers will receive. We remain committed to improving our performance for our customers but we always expected that it would take longer than three years to achieve the improvement and this still looks to be the case.

Compliance with drinking water standards – The Drinking Water Inspectorate (DWI) annually calculate and report mean zonal compliance (MZC) – it measures performance against 39 parameters representing the quality of potable water supplied to customers. This is measured in part at customer taps; so failures can be caused by customers plumbing issues.

In our business plan we proposed a target of 99.98% throughout AMP6 representing our highest ever historic performance. The DWI consider anything other than targeting 100% is inappropriate, so Ofwat have set this as the target from 2017-18 onward.

This measure has the potential for a customer refund of £770k if in any year performance falls below 99.95%.

In 2015-16 we had 15 sample failures out of the 37,000 tests carried out giving a mean zonal compliance of 99.96%. All except two of the failures were a consequence of domestic plumbing and service pipe issues. The remaining two failures were related to our assets, which represents an improvement on our historical performance.

We are working with Water Regulations Advisory Scheme (WRAS), the water fittings agency, to influence domestic plumbing to reduce domestic failures. This is a long term issue that is not expected to change headline compliance in the short term. Therefore, we will not achieve 100% compliance in this AMP but we can expect to always be above the Ofwat deadband target of 99.95%.

Sewerage Performance Commitments

Improved Bathing Waters

Bathing water schemes delivered – The national environment programme (NEP) includes 20 named outputs we have to deliver with regulatory dates to improve the bathing water quality at Burnham Jetty. This measure is the percentage of these outputs we have achieved.

There were three outputs to deliver in year 1, seven in both years 2 and 3, two in year 4 and one in year 5. The target is to deliver 100% of projects each year, on a cumulative basis.

For each % we are short of 100 we will refund customers £9k.

In 2015-16 we delivered all three revised bathing waters schemes in the year, each having been signed off by the Environment Agency (EA). These schemes were at the following sewerage pumping stations (SPS), East Quay SPS, Highbridge SPS and Chilton Street SPS.

We are progressing well with the delivery of some complex schemes in tight locations. Due to the importance of delivering the bathing water programmes all these projects have early and tight deadlines for delivery. Nevertheless, our direct management of delivery has meant we are on track to implement all projects in the AMP.

Beaches achieving EU standards – Under the revised bathing water directive (rBWD) beaches are classified as poor, sufficient, good or excellent; classifications are based on the quality of the water over the previous four bathing seasons. If a beach fails to achieve sufficient it is deemed to have not met EU standards.

We are targeting all bathing waters in the region to meet EU standards.

As there are many factors that affect the bathing water outside of the company’s control, such as the impact of agriculture, there is no financial ODI associated to this measure.

We currently have 47 designated bathing waters within our operational region. Compliance is monitored by the Environment Agency, in accordance with the Directive, and audited annually by Defra.

In 2015-16, 98% of bathing waters within our region passed the EU ‘sufficient’ standard or higher under the revised Bathing Water Directive. Burnham Jetty North is the only bathing water within the Wessex Water area to fail the required standards in the year. Despite the on-going delivery of our investment programme, other drivers of poor bathing water remain and it is anticipated that this performance commitment will not be achieved in the AMP.

Rivers, Lakes and Estuaries

The Environment Agency’s (EA’s) Environmental Performance Assessment (EPA) – Since 2012 the EA have published a composite measure of environmental performance, including pollution incidents (classified in categories 1 (being the most severe) through to 3), discharge permit compliance, sludge disposal compliance, pollutions self-reported and NEP outputs delivered. They classify each water company as industry leading, above average, below average or poor.

We have targeted maintaining our industry leading position throughout AMP6, which would require having fewer than 50 cat 3 and 1.5 cat 1 or 2 pollution incidents per 10,000km of sewers, achieving more than 99% STW discharge compliance, achieving 100% sludge disposal compliance, self-reporting more than 70% of pollution incidents and achieving 100% of NEP outputs.

This measure has the potential for a customer refund; if our performance drops to below average we would refund customers £5.9m. There is also the potential for incentive payments if we perform well on the pollutions indicator; if in any year we achieve zero category 1 and 2 pollutions we can receive an incentive payment of £190k for each cat 3 pollution incident less than 67.

In 2015-16 we achieved our target of ‘industry leading’ rating in the Environment Agency’s Environmental Performance Assessment.

Our target is to continue to achieve this rating throughout the AMP. However, some of the performance criteria, particularly relating to pollutions, are outside our direct control (e.g. sewer blockages due to wet-wipes, unauthorised discharge to sewer affecting STW compliance), and so, despite our best endeavours, this ‘industry leading’ rating cannot be guaranteed.

Monitoring combined sewer overflows (CSOs) – The NEP includes 714 named outputs we have to deliver with regulatory dates, so we will have installed monitors at all environmentally sensitive CSOs by the end of the AMP. This measure is the percentage of these outputs we have achieved.

1,073 CSOs are considered to be environmentally sensitive and there are 714 outputs required in the NEP (along with 359 previously monitored CSOs). We were targeted with achieving 40% of the total monitored by the end of 2015-16, 43% by the end of 2017-18 and 100% by the end of 2019-20.

This measure has the potential for a customer refund; for each 1% we miss the target by we will refund £10k.

In 2015-16 we achieved 46% of the total monitored and we anticipate achieving the remaining programme in the AMP.

River water quality improved – The number of water bodies (designated by the EA) we have made improvements to by increasing the quality of final effluent we discharge into them, or by making other improvements.

From the draft NEP we calculated that we would be making improvements to 70 unique water bodies, assuming that the discharge from a STW affects the water body it discharges into and the next one downstream. This is the target for AMP6 and any financial incentive will only be applied in the final year.

This measure has the potential for both customer refunds and incentive payments. If we miss the target we will refund customers £1.674m per waterbody; if we exceed the target we can receive an incentive payment of £1.29m for each additional waterbody.

There is no target for 2015-16 but the programme is progressing well to achieve the target for the end of the AMP.

Sewage Flooding

Internal flooding incidents – The number of internal sewage flooding incidents per 10,000 properties that are caused by events other than insufficient capacity of our sewerage network (We capture issues around insufficient capacity of our system in the next performance commitment). This measure includes flooding incidents caused by blockages and asset failures.

This was one of the measures for which Ofwat set an industry wide target representing current upper quartile performance. As we were already an upper quartile performer our target was set tighter than this level at 1.66 incidents per 10,000 properties in 2019-20.

As a high customer priority this measure has the potential for both customer refunds and incentive payments. To account for the impact of weather on this measure we have a deadband around the target. This means that we will refund customers if we miss the target by over 0.2, and we can claim incentive payments if we beat the target by more than 0.13. We will refund £315k for each 0.01 we are over the deadband and we can claim an incentive payment of £204k for each 0.01 we are below the deadband.

In 2015-16 our performance was 1.36 sewer flooding incidents per 10,000 properties which is a significant improvement and results in an incentive payment of £5.1m. Weather conditions can affect performance, and our forecast position for the AMP takes account of this by assuming we perform at the average level we have achieved since 2012-13. This forecast results in an end of AMP total incentive payment of approximately £5.6m.

Risk of flooding – We measure the total risk of flooding due to lack of capacity by assigning all properties/areas on the flooding risk registers to a risk matrix based on the likelihood of flooding occurring and the impact if it does. We then use this to calculate the aggregate score for the company.

We are targeting a steady risk profile, maintaining an aggregate score of 50,651 despite upwards pressure from climate change and urban creep, over AMP6.

This is another measure that has the potential for both customer refunds and incentive payments, although as it is a new measure with limited historic data to support it there is a large deadband around the target. If we exceed the target by more than 20% we will refund customers £10.4m; if we beat the target by more than 20% we can claim an incentive payment of £7k for each additional point the aggregate score is reduced by.

In 2015-16 we achieved a risk score of 51,509 which is marginally worse than the target but well within the uncertainty deadband agreed for this measure. This increase was a result of the delays in the delivery of the Mark sewerage improvement project due to third party highway issues. This scheme will now be completed in early 2016-17.

Our investment programme to address flooding risks is progressing well and so the current prediction is that we will achieve performances at target or very close to target throughout the AMP.

North Bristol Sewer - Frome Valley – This is a measure required by Ofwat in the final determination to ensure timely delivery of the Frome Valley relief sewer.

If the delivery is delayed beyond 2019-20 we will refund customers £1.86m per year. There is a more severe penalty associated with not undertaking the scheme of £24.9m – there is no risk of incurring this as the scheme is underway.

There is no target in 2015-16, the programme is delivering as planned and we anticipate meeting the target later in the AMP.

North Bristol Sewer - Trym tunnel – This is a measure required by Ofwat in the final determination to ensure timely delivery of the Trym tunnel.

If we miss the initial milestones due in 2017-18 we refund customers £0.97m per year. There is a more severe penalty associated with not undertaking the scheme of £14.1m – there is no risk of incurring this as the scheme is underway.

There is no target in 2015-16, the programme is delivering as planned and we anticipate meeting the target later in the AMP.

Resilient Services

Sewer collapses – The five-year rolling average of the number of sewer collapses and rising main bursts. The target is set at 300 throughout AMP6. This represents the level that if we exceeded we could have incurred a penalty during AMP5 from Ofwat.

For every collapse/burst over 300 in a given year we will refund customers £8.4k.

In 2015-16 we had achieved 282 collapses and bursts, and while weather conditions were favourable in the year we do anticipate achieving the target for the rest of the AMP.

Reduced Carbon Footprint

Greenhouse gas emissions – Our annual net greenhouse gas emissions, in ktCO_2e.

We are targeting a reduction over AMP6, from 133 ktCO_2e in 2015-16 to 119 ktCO_2e in 2019-20 compared to a performance of 148 ktCO_2e in 2014-5.

As a large proportion of this is driven by the CO_2e emissions from grid electricity a factor that is outside our control there is no financial ODI associated with this measure.

For 2015-16 greenhouse gas emissions were 138 kilotonnes carbon dioxide equivalent, which is worse than target. This is assessed using the global warming potential figures for methane and nitrous oxide (using factors of 21 and 310 respectively) at the time of our final business plan submission. Our emissions are highly sensitive to the carbon intensity of grid electricity; if this stood at the level we forecast at the time of our FBP, our emissions would be six kilotonnes lower i.e. 132 kilotonnes, and better than target. We are constantly looking for ways to reduce our carbon footprint: key examples in recent years include the preventative aspects of catchment management, extensive energy efficiency work, and investment in food waste digestion which provides electricity consumed by regulated activity.

We are anticipating that we will continue to manage our activities to achieve the future year targets but as with 2015-16 our performance will be affected by other influences so we can’t guarantee the target will be met.

Energy self-generated – This measures the percentage of our electricity and gas use that is accounted for by our own renewable generation.

We are targeting an increase in the amount we generate over time, although this is mitigated by a heightened demand for power as we deliver other enhancements (eg. the integrated supply grid). The target is 21% in 2015-16 rising to 22% in 2016-17 and 2017-18, before falling to 21% in 2018-19 and rising again to 24% in 2019-20. The profile varies in the AMP period because of the integrated supply grid coming on stream mid AMP and anticipated increases in self-generation from sludge schemes at the end of the AMP.

If we miss the target in any year we will refund customers £99k for every % we are below this target.

Our renewable electricity generation came to 25%, better than our performance commitment. The renewable energy in this calculation includes:

a. Electricity from combined heat and power fuelled by sewage sludge biogas

b. Exported biomethane expressed as the electricity that it would have produced if the source biogas had been converted into electricity instead

c. Electricity from hydropower installations.

d. Renewable electricity from other on-site generation that is consumed by a regulated activity (i.e. water treatment, distribution, sewerage, sewage treatment or sludge treatment). In our case this includes electrical output of food waste digestion and solar power.

We confirm that the denominator for this performance commitment is total electricity demand. This is the basis of the historical performance and forward projection shown in our 2014 business plan submission. We use electricity as the single common unit and purposefully avoid combining electrical and thermal energy output to avoid confusion and disparities.

Our investment programme is subject to significant third party constraints but at this point we anticipate delivering the target for the remainder of the AMP.

Retail Performance Commitments

Excellent customer service

Service incentive mechanism (SIM) - This is the Ofwat measure of the quality of customer service. There are two elements to the SIM; an independent customer satisfaction survey and a customer contact measure covering written complaints and unwanted contacts. The scores for each of these measures are combined to produce a total score out of 100 following the Ofwat methodology. Companies are compared with each other in an Ofwat league table.

Our target is a SIM score of >86 in each year of the five years. In 2015/16 we achieved a score of 87.1% and we anticipate achieving the target for the rest of the AMP.

Percentage rating our service good or very good - This is the percentage of customers who have contacted us with an operational query/complaint that rate our service as ‘very good’ or ‘good’. The percentage is calculated from the answer to one of the questions in the survey used by our customer care team when they contact customers once their operational contact has been resolved. The survey is undertaken by telephone or by text message.

Our target is >95% rating our service as good or very good in each year of the five years. This is a reputational measure only.

In 2015-16 we achieved 96.3% rating following assessment by external auditors. Due to the nature of this performance commitment it is difficult to guarantee future performance. However, we continue to implement improvements that should provide the best chance of achieving the target in future.

Percentage rating good value for money - This is the percentage of customers in our region rating our overall service as good value for money. The percentage is calculated from the answer to the relevant question in our image tracking survey. This is a telephone survey of a random sample of 1,000 domestic customers in the Wessex Water region. The survey is carried out by an independent market research agency on our behalf.

The survey questions asked are consistent from year to year. The sample includes both people who have had reason to contact us in the year and those that have not.

We are targeting a 1% increase in value for money each year over AMP6, starting from 71% in 2015-16 to 75% in 2019-20.

This is a reputational measure only.

The result of the independent survey for 2015-16 is 78%, a particularly good performance. Due to the nature of this performance commitment it is difficult to guarantee future performance. However, we continue to implement improvements that should provide the best chance of achieving the target in future.

Customers rating ease of resolution - This is the percentage of customers in our region who said that their contact was easy to resolve. Like value for money, the % is taken directly from the answer to the relevant question in our annual image tracking survey. This is a telephone survey of a random sample of 1,000 domestic customers in the Wessex Water region. The survey is carried out by an independent market research agency on our behalf.

The survey questions asked are consistent from year to year. The sample includes both people who have had reason to contact us in the year and those that have not.

This is a new measure for Wessex Water. In 2014-15 79% of customers rated their contact as easy to resolve and we are targeting an improving trend over the AMP period.

This is a reputational measure only.

The result of the independent survey for 2015-16 is 81% an improvement on the prior year. Achievement of an improving trend relies on implementation of further improvements in systems and processes which are currently being designed.

Accessible communications - This is a measure of how accessible and inclusive our services are to our customers.

This is measured by the achievement of the BS Standard 18477 for inclusive service provision and the Customer Service Excellence award. Both are external accreditations with an annual external assurance process.

This is a reputational measure only.

The company achieved this British Standard certification and will now focus on maintaining it for the rest of the AMP period.

Affordable Bills

Volume of water used per person – The average volume of water used by a person per day. This is also referred to as per capita consumption (PCC).

We are targeting a reduction in PCC over AMP6, from 135 l/p/day in 2015-16 reducing by 1 l/p/day annually to 131 l/p/day in 2019-20. PCC is largely driven by external factors outside of the company's control and so no financial ODI is attached to this PC.

In 2015-16 the PCC was 138 l/p/day, marginally higher than the target of 135. We attribute this to better than average summer weather, falling water and other utility prices and a return to growth in real incomes. As stated above, due to the impact of external factors it is difficult to forecast or manage the delivery of this measure, other than to reflect the actual performance each year.

Volume of water saved by water efficiency promotion - To support the PCC target we have created a sub measure associated with water efficiency which is an element of the PCC over which we can have some control. Where we measure the PCC reduction we help customers through offering water saving devices and advice.

We are targeting to help customers save an additional 0.57 l/p/day in 2015-16 then 0.67 l/p/day in each subsequent year; measured on a cumulative basis.

If we miss the target in any year we will refund customers £1.89m for each l/p/day.
In 2015-16 the volume of water saved by water efficiency promotion was better than target at 0.68 l/p/day.

This is a challenging target and we are working hard to ensure we continue to perform for the remainder of the AMP.

Bill as a proportion of disposable income - This compares our average household bill with average household disposable income. To calculate the latter we use the Equivalised disposable income statistics, published by ONS in their report titled *The effects of taxes and benefits on household income*.

This data is published two years in arrears and we uprate it by the most recent forecasts of household disposable income from the OBR, taking into account the overall change in households using the ONS Families and Households publication. This gives us the final denominator to calculate the bill as a proportion of disposable income.

We are targeting a reducing trend over the five years.

Based on the latest ONS and OBR data our 2014-15 bill was 1.60% and our 2015-16 bill was 1.50% of disposable income; this meets the target.

Governance and Assurance

It is essential to maintain trust and confidence that we provide accurate and consistent information to our customers about our performance. We have robust governance and assurance processes in place to ensure this is the case and that the information reported internally to Directors and the Board is the same as published on our website and other media to our customers and wider community groups.

As part of the requirements of our published information assurance statement we have prepared a regulatory assurance manual agreed by the Audit Committee which provides the overall process and assurance required and the roles and responsibilities of different bodies and employees.

In summary, specialist staff provide the performance data which is reviewed and approved through signed certificates by managers responsible for each piece of data. The data and processes used to prepare the performance reports are audited periodically by internal audit as well as annually by an external auditor.

The overall performance and the content and messages contained in the Annual Review are all reviewed and challenged by the Audit Committee and the performance information in particular is reviewed and challenged by the Wessex Water Partnership. The Wessex Water Partnership is the independently chaired body representing our customers. The Wessex Water Partnership will advise the Board as well as publishing their report as a separate document on the company website. Finally the Board have overall responsibility for the sign off of the Annual Review, including the Annual Performance Report.

Any improvements identified through this assurance process will be incorporated into the information assurance statement for implementation by the following year's Annual Review.

Terminology and Acronyms

PC – performance commitment, the level of performance that the company is targeting

CPL – committed performance level, same as PC

MoS – measure of success, the definition of what we will be measuring

ODI – outcome delivery incentive, the incentive attached to a given performance commitment be it reputational or financial

Example – Volume of water leaked is the measure of success, the target of 69.3 in 2015-16 is the performance commitment (or committed performance level) and the financial reward or penalty we will in incur based on actual performance is the outcome delivery incentive.

FBP – final business plan

FD – final determination

ONS – Office of National Statistics

OBR – Office of Budget Responsibility (department within the Treasury)

SIM – service incentive mechanism, composite measure of customer service calculated by Ofwat

CSO – combined sewer overflow

EA – environment agency

DWI – drinking water inspectorate

NEP – national environment programme

rBWD – revised bathing water directive

TUB – temporary use ban

AIM – abstraction incentive mechanism

PCC – per capita consumption

EPA – environmental performance assessment, composite measure of environmental performance calculated by the EA

MZC – mean zonal compliance, composite measure calculated by the DWI of the quality of drinking water supplied to customers

Deadbands – a range around the target within which no financial incentive is applied to account for uncertain factors that can affect performance.

Caps/Collars – the performance level beyond which no financial incentive applies

Section 4: Additional Regulatory Information

Non-financial Information for the 12 Months ended 31 March 2016

Table 4A **Retail - household**	Current year		Prior year	
	Unmeasured	Measured	Unmeasured	Measured
Number of households billed ('000s)				
Water only connections	21.618	18.062	21.820	17.204
Wastewater only connections	303.806	326.247	312.876	292.934
Water and wastewater connections	196.861	306.723	202.558	292.957
Total	522.285	651.032	537.254	603.095
Number of void households	12.630	11.126	13.514	10.623
Per capita consumption (excluding supply pipe leakage) l/h/d (000's)	144.090	132.225	145.897	130.874

Wholesale	Current year		Prior year	
	Water	Wastewater	Water	Wastewater
Volume (Ml/d)				
Bulk supply export	1.079	0.359	0.996	0.197
Bulk supply import	7.753	-	8.909	-
Distribution input	332.652		330.440	

Wholesale Totex Analysis for the 12 Months ended 31 March 2016

Table 4B	Current year		Cumulative 2015 – 2020	
	Water	Wastewater	Water	Wastewater
	£m	£m	£m	£m
Actual totex				
Menu totex	150.0	169.4	-	-
Items excluded from the menu				
Pension deficit recovery payments	2.8	4.8	-	-
Third party costs	3.4	0.3	-	-
Other adjustments	(0.5)	(4.7)	-	-
Total costs excluded from the menu	5.7	0.4	-	-
Actual totex	155.7	169.8	-	-
Actual totex - base year prices	146.9	160.2	-	-

Allowed totex - base year prices	149.0	193.1	-	-

Forecast impact of performance on RCV

Table 4C	Current Year
	£m
Projected 'shadow' RCV	2,788.270
RCV element of Totex	16.454
Allowance (Rewards/penalties - ODI)	-
RCV determined at FD	2,804.724

Totex Analysis for the 12 Months ended 31 March 2016 – Wholesale Water

Table 4D	Water resources		Raw water distribution		Water treatment	Treated water distribution	Total
	Abstraction licences	Raw water abstraction	Raw water transport	Raw water storage			
	£m	£m	£m	£m	£m	£m	£m
Operating expenditure							
Power	-	2.1	-	-	4.7	1.3	8.1
Income treated as negative expenditure	-	-	-	-	-	-	-
Abstraction charges	1.3	-	-	-	0.1	-	1.4
Bulk supply	-	-	-	-	1.5	-	1.5
Other operating expenditure	-	2.7	-	-	8.7	15.5	26.9
Local authority rates	-	0.8	-	-	1.7	15.4	17.9
Total operating expenditure excluding third party services	1.3	5.6	-	-	16.7	32.2	55.8
Third party services	-	0.8	-	-	-	2.6	3.4
Total operating expenditure	1.3	6.4	-	-	16.7	34.8	59.2
Capital expenditure							
Maintaining long term capability of the assets – infra	-	-	-	0.1	-	19.7	19.8
Maintaining long term capability of the assets – non-infra	-	1.1	-	-	12.6	9.3	23.0
Other capital expenditure – infra	-	0.1	-	-	-	24.8	24.9
Other capital expenditure – non-infra	-	1.1	-	-	17.0	15.6	33.7
Total gross capital expenditure (excluding third party)	-	2.3	-	0.1	29.6	69.4	101.4
Third party services	-	-	-	-	-	-	-
Total gross capital expenditure	-	2.3	-	0.1	29.6	69.4	101.4
Grants and contributions	-	-	-	-	-	(7.7)	(7.7)
Totex	1.3	8.7	-	0.1	46.3	96.5	152.9
Cash expenditure							
Pension deficit recovery payments	-	0.4	-	-	0.8	1.6	2.8
Other cash items	-	-	-	-	-	-	-
Totex including cash items	1.3	9.1	-	0.1	47.1	98.1	155.7

Totex Analysis for the 12 Months ended 31 March 2016 - Wholesale Water (continued)

Unit cost information (operating expenditure) – Wholesale Water

Table 4D (continued)	Water resources		Raw water distribution		Water treatment	Treated water distribution
	Abstraction licences	Raw water abstraction	Raw water transport	Raw water storage		
Licenced volume available – Ml	190,822					
Volume abstracted – Ml		120,577				
Volume transported			-			
Average volume stored				-		
Distribution input volume – m3					121,418	
Distribution input volume – m3						121,418
Unit cost of operating expenditure	6.694	53.045	-	-	137.081	287.510

Numbers in the table above may be subject to rounding differences.

Totex Analysis for the 12 months ended 31 March 2016 - Wholesale Wastewater

Table 4E

	Sewage collection			Sewage treatment		Sludge			
	Foul	Surface water drainage	Highway drainage	Sewage treatment and disposal	Imported sludge liquor treatment	Sludge transport	Sludge treatment	Sludge disposal	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Operating expenditure									
Power	2.3	0.6	0.6	10.8	1.0	-	0.7	-	16.0
Income treated as negative expenditure	-	-	-	-	-	-	-	-	-
Discharge consents	0.6	-	-	2.4	-	-	-	-	3.0
Bulk discharge	-	-	-	-	-	-	-	-	-
Other operating expenditure	8.7	2.4	2.3	15.5	0.5	4.0	4.2	4.8	42.4
Local authority rates	0.1	-	-	7.8	0.4	-	1.9	-	10.2
Total operating expenditure (excluding third party)	11.7	3.0	2.9	36.5	1.9	4.0	6.8	4.8	71.6
Third party services	0.3	-	-	-	-	-	-	-	0.3
Total operating expenditure	12.0	3.0	2.9	36.5	1.9	4.0	6.8	4.8	71.9
Capital expenditure									
Maintaining long term capability of assets - infra	13.6	5.7	-	0.1	-	-	-	-	19.4
Maintaining long term capability of assets - non-infra	9.9	4.1	-	21.7	0.2	-	14.1	0.5	50.5
Other capital expenditure - infra	9.7	3.2	-	0.1	-	-	-	-	13.0
Other capital expenditure - non-infra	2.4	1.0	-	10.3	-	-	1.2	-	14.9
Total gross capital expenditure (excluding third party)	35.6	14.0	-	32.2	0.2	-	15.3	0.5	97.8
Third party services	-	-	-	-	-	-	-	-	-
Total gross capital expenditure	35.6	14.0	-	32.2	0.2	-	15.3	0.5	97.8
Grants and contributions	(3.1)	(0.8)	(0.8)	-	-	-	-	-	(4.7)
Totex	44.5	16.2	2.1	68.7	2.1	4.0	22.1	5.3	165.0
Cash expenditure									
Pension deficit recovery payments	1.1	0.3	0.3	2.2	-	0.5	0.3	0.1	4.8
Other cash items	-	-	-	-	-	-	-	-	-
Totex including cash items	45.6	16.5	2.4	70.9	2.1	4.5	22.4	5.4	169.8

Totex Analysis for the 12 months ended 31 March 2016 - Wholesale Wastewater (continued)

Unit cost information (operating expenditure)

Table 4E (continued)	Sewage collection			Sewage treatment		Sludge		
	Foul	Surface water drainage	Highway drainage	Sewage treatment and disposal	Imported sludge liquor treatment	Sludge transport	Sludge treatment	Sludge disposal
Volume collected foul - Ml	109,166							
Volume collected surface water drainage - Ml		33,454						
Volume collected highway drainage - ML			33,454					
Biochemical Oxygen Demand (BOD) sewage - tonnes				70,881				
Biochemical Oxygen Demand (BOD) imported sludge liquor - tonnes					5,131			
Sludge volume transported – m3						761,998		
Sludge treatment dried solid mass treated - ttds							70,367	
Sludge treatment dried solid mass disposed - ttds								52,078
Unit cost of operating expenditure	110.378	88.634	88.634	515.131	369.800	5.286	96.130	91.683

Numbers in the table above may be subject to rounding differences.

Operating Cost Analysis for the 12 Months ended 31 March 2016 - Household Retail

Table 4F (1 of 2)	Household Unmeasured Water only £m	Household Unmeasured Waste-water only £m	Household Unmeasured Water and sewerage £m	Household Unmeasured Total £m
Operating expenditure				
Customer services	0.061	0.854	0.697	1.612
Debt management	0.039	0.557	0.455	1.051
Doubtful debts	0.100	1.399	1.811	3.310
Meter reading	-	-	-	-
Other operating expenditure	0.113	1.582	1.135	2.830
Total operating expenditure excluding third party services	0.313	4.392	4.098	8.803
Depreciation	0.017	0.233	0.151	0.401
Total operating costs excluding third party services	0.330	4.625	4.249	9.204

Operating Cost Analysis for the 12 Months ended 31 March 2016 - Household Retail

Table 4F (2 of 2)	Household Measured				
	Water only £m	Waste-water only £m	Water and sewerage £m	Total £m	Total £m
Operating expenditure					
Customer services	0.073	1.307	1.566	2.946	4.558
Debt management	0.036	0.658	0.764	1.458	2.509
Doubtful debts	0.140	2.534	4.770	7.444	10.754
Meter reading	0.037	0.675	0.827	1.539	1.539
Other operating expenditure	0.097	1.742	1.826	3.665	6.495
Total operating expenditure excluding third party services	0.383	6.916	9.753	17.052	25.855
Depreciation	0.014	0.250	0.235	0.499	0.900
Total operating costs excluding third party services	0.397	7.166	9.988	17.551	26.755

Other operating expenditure - breakdown

	£m
Demand-side water efficiency - gross expenditure	0.177
Demand-side water efficiency - expenditure funded by wholesale	-
Demand-side water efficiency - net retail expenditure	0.177
Customer-side leak repairs - gross expenditure	2.748
Customer-side leak repairs - expenditure funded by wholesale	-
Customer-side leak repairs - net retail expenditure	2.748

Wholesale Current Cost Financial Performance for the 12 Months ended 31 March 2016

Table 4G	Water	Wastewater	Total
	£m	£m	£m
Revenue	172.7	299.7	472.4
Operating expenditure	(59.2)	(72.0)	(131.2)
Capital maintenance charges	(48.2)	(90.4)	(138.6)
Other operating income	(1.5)	(0.3)	(1.8)
Current cost operating profit	63.8	137.0	200.8
Other income	0.1	0.3	0.4
Interest income	0.3	0.5	0.8
Interest expense	(23.7)	(48.5)	(72.2)
Interest expense related to the unwinding of discounted liabilities	(1.8)	(2.9)	(4.7)
Profit before tax and fair value movements	38.7	86.4	125.1
Fair value gains / (losses) on financial instruments	-	-	-
Profit before tax	38.7	86.4	125.1

Financial Metrics for the 12 Months ended 31 March 2016

Table 4H	
Net debt	£1,856.3m
Regulated equity	£948.4m
Regulated gearing	66.18%
Post tax return on regulated equity	14.62%
RORE (return on regulated equity)	7.41%
Dividend yield	8.86%
Retail profit margin - Household	2.26%
Retail profit margin - Non household	2.12%
Credit rating	BBB+
Return on RCV	7.61%
Dividend cover	1.81 times
Funds from operations (FFO)	£250.5m
Interest cover (cash)	5.11 times
Adjusted interest cover (cash)	3.20 times
FFO / Debt	0.13 times
Effective tax rate	16.81%
Free cash flow (RCF)	£162.3m
RCF / capex	0.93 times

Revenue and earnings	£m
Revenue (actual)	509.0
EBITDA (actual)	332.8

Borrowings	%
Proportion of borrowings which are fixed rate	48.56
Proportion of borrowings which are floating rate	14.42
Proportion of borrowings which are index linked	37.02
Proportion of borrowings due within 1 year or less	0.23
Proportion of borrowings due in more than 1 year but no more than 2 years	0.26
Proportion of borrowings due in more than 2 years but no more than 5 years	7.53
Proportion of borrowings due in more than 5 years but no more than 20 years	58.77
Proportion of borrowings due in more than 20 years	33.21

Financial Derivatives for the 12 Months ended 31 March 2016

Table 4I	Nominal value by maturity (net) at 31 March			Total value at 31 March		Total accretion at 31 March
	1 to 2 years	2 to 5 years	Over 5 years	Nominal value (net)	Mark to Market	
	£m	£m	£m	£m	£m	£m
Interest rate swap (sterling)						
Floating to / from fixed rate	-	-	-	-	-	-
Floating to / from index linked	-	-	-	-	-	-
Fixed to / from index-linked	-	-	-	-	-	-
Total	-	-	-	-	-	-
Foreign Exchange						
Cross currency swap USD	-	-	-	-	-	-
Cross currency swap EUR	-	-	-	-	-	-
Cross currency swap YEN	-	-	-	-	-	-
Cross currency swap Other	-	-	-	-	-	-
Total	-	-	-	-	-	-
Currency interest rate						
Currency interest rate swaps USD	-	-	-	-	-	-
Currency interest rate swaps EUR	-	-	-	-	-	-
Currency interest rate swaps YEN	-	-	-	-	-	-
Currency interest rate swaps Other	-	-	-	-	-	-
Total	-	-	-	-	-	-
Forward currency contracts						
Forward currency contracts USD	-	-	-	-	-	-
Forward currency contracts EUR	-	-	-	-	-	-
Forward currency contracts YEN	-	-	-	-	-	-
Forward currency contracts Other	-	-	-	-	-	-
Total	-	-	-	-	-	-
Total financial derivatives	-	-	-	-	-	-

The Company has no interest rate or foreign currency swaps.

Financial Derivatives for the 12 Months ended 31 March 2016 (continued)

Table 4I (continued)	Interest rate (weighted average for 12 months to 31 March 2016)	
	Payable	Receivable
	%	%
Interest rate swap (sterling)		
Floating to / from fixed rate	-	-
Floating to / from index linked	-	-
Fixed to / from index-linked	-	-
Foreign Exchange		
Cross currency swap USD	-	-
Cross currency swap EUR	-	-
Cross currency swap YEN	-	-
Cross currency swap Other	-	-
Currency interest rate		
Currency interest rate swaps USD	-	-
Currency interest rate swaps EUR	-	-
Currency interest rate swaps YEN	-	-
Currency interest rate swaps Other	-	-
Forward currency contracts		
Forward currency contracts USD	-	-
Forward currency contracts EUR	-	-
Forward currency contracts YEN	-	-
Forward currency contracts Other	-	-

The Company has no interest rate or foreign currency swaps.

Narrative

Retail: Actual Expenditure v Final Determination

Retail Operating Costs

	Actual per 2C.11 (£m)	Determination (Allowed Cost to Serve) (£m)
Household	26.8	29.4
Non-household (excluding developer services)	3.2	3.1
Total Retail	29.9	32.5

Retail: Household

Our household retail costs have been held below that assumed in the final determination due to continued tight cost control both within our billing provider (BWBSL) and within our Operational customer services teams.

This has not been accompanied by a decline in service, and our efficiency has been assisted by a continued drop in complaints and further progress in first time resolution of customer contacts.

- The Consumer Council for Water (CCWater) published data in 2015 to show that we continue to receive the lowest number of complaints of any water and sewerage company
- We remain top of the industry service measure SIM
- We have achieved all of our regulatory retail performance commitments including improvements in our customer satisfaction and value for money ratings.

We have also been able to increase the accessibility of our services to customers with different needs and retained the British Standard (BS18477) on inclusive services.

Our charge for household doubtful debt has fallen to £10.8m from £11.2m last year reflecting:

- A decline in household revenues of 2.5% (£388m 2016, £397m 2015)
- Continued growth in our social tariffs which improve payment behaviours and reduces the amount of uncollectible debt written-off

The uptake of water meters has been slower than expected and this has also held retail costs down although the impact is not material. Allowed costs in our final determination would have been around £0.1m lower if assessed against our actual household charging base.

Retail: Non-Household

On a like for like basis retail costs for non-household are broadly in line with Ofwat's final determination. We have excluded retail developer services' costs from the comparison in the table above because Ofwat's final determination made no explicit allowance for either the costs or the revenues associated with these items.

Costs have increased from those in 2013-14 (which were used as the final determination cost allowance for all years up to 2020) by around 6%. Cost increases can be attributed to increases in input prices (predominantly labour) and to the additional costs associated with ensuring we continue to be operating compliantly and effectively as we move towards a wider competitive market in the retail non-household sector.

Customers and Metering

Aggregate customer numbers to which we provide retail services are also broadly in line with expectations in the final determination, however there are variances within categories of customer as follows:

- There has been a transfer of approximately 23,000 separate premises to household from non-household. Largely these are customers of our neighbouring water companies where we provide sewerage services in single flats (household) that had previously been attributed incorrectly to be blocks of flats (non-household)

- Levels of optional metering during the latter part of 2014-15 and 2015-16 have been somewhat lower than expected, which we believe has been driven by the bill reductions over this time reducing the impetus to switch.

Premises where household retail services are provided to customers

Type	Actual (‘000)	Determination (‘000)	Variance (‘000)
Unmetered	522.3	487.3	+35.0
Metered	651.0	665.7	-14.7

Our determination assumed 138,000 separate services (water, sewerage and trade effluent) would be billed to non-household customers in 2015-16, because of the transfer in allocation noted above. This has reduced to 109,200 services.

We have enhanced our promotion of optional meters in the early part of 2016 and have already seen a 40% growth in applications over the last 3 months of 2016 compared to the previous year. In 2016, having engaged with stakeholders, we will begin metering household premises at a change of occupation and this will substantially increase the numbers of meters fitted.

Material one-off items of expenditure

There have been no material one-off items of expenditure that have impacted on operating costs. We have however been investing significantly during the year to ensure that we are ready to operate compliantly and effectively in the new market for non-household retail once it fully opens in April 2017, and the impact of these costs will be seen in future year’s regulatory financial statements.

Totex Expenditure v Final Determination

Wholesale: Actual Expenditure v Final Determination

The following table provides a comparison of the actual expenditure to FD. The comparison is based on the net PAYG FD value at 2015-16 prices, so excludes any pension deficit repair allowance.

Across the wholesale business the total variance is £27.9m or 7.8% of FD for the year.

Variance between FD and Actual @15/16 Prices	Water £m	Sewerage £m	Total £m
Totex FD	156.4	201.9	358.3
Actual Totex	152.9	165.0	317.9
PAYG Variance	3.5	36.9	40.3

Wholesale: Water

The totex expenditure for Wholesale Water is marginally lower than the allowed FD for the year. Our representations at the time stressed that the FD allowance was challenging for us with a rural network and a large number of small water resource and production sites. Therefore we anticipate that our base expenditure will remain close to the FD allowance even after efficiency plans are implemented.

The marginal underspend in the year reflects the relatively benign weather conditions resulting in a reduced volume of reactive work than typically expected.

All major capital projects are on-track for delivery in the AMP and we are investing to deliver to our performance commitments where it is cost beneficial to do so.

Wholesale: Sewerage

The totex expenditure for Wholesale Sewerage is somewhat lower than the FD allowance for the following reasons:

The benign weather conditions and general improved ground conditions resulted in a significant reduction in larger sewer collapses and also of the volume of smaller reactive repairs on our network. This included a lower than expected reactive maintenance programme for our private sewers.

Base costs were reduced in part due to a re-organisation of our operational functions in this part of the business saving £6.4m.

The timing of the confirmed NEP 5 programme resulted in a significant deferral of expenditure as the managing uncertainty programme was defined. £17.4m was re-profiled to later years in the AMP.

Third party constraints impacting a sewer flooding project resulted in part of the scheme being deferred into the early part of 2016-17. As well as resulting in the business narrowly missing its flood risk performance commitment, it also resulted in a deferral of expenditure. However, we remain on track to deliver this programme for the remainder of the AMP.

All regulatory outputs were delivered in the year and the future programme is on-track to 2020. We continue to seek innovative ways of delivering our performance commitments to customers in the most cost-beneficial ways.