



# OUR BUSINESS PLAN

2025-2030

# QUESTIONS & ANSWERS

NOVEMBER 2023



# YOUR WATER YOUR SAY

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# YOUR WATER YOUR SAY

This document is designed to be read alongside the transcription from our 'Your Water, Your Say' meeting on the 6th of November. We received over 600 customer questions, many which covered similar topics and themes (Figure 1). Therefore, we have provided this FAQ document to act as a more digestible guide to, and summary of, the questions asked at the meeting.

The four themes set out by Ofwat and the CCW for this meeting are: CUSTOMER SERVICE PRIORITIES, LONG TERM OUTCOMES, ENVIRONMENTAL OUTCOMES, and AFFORDABILITY. This document is laid out in order of these themes.

## CUSTOMER SERVICE PRIORITIES



## LONG TERM OUTCOMES



## ENVIRONMENTAL OUTCOMES



## AFFORDABILITY



**Figure 1 – Proportion of Customer Questions by Theme and Topic**  
(The larger the bubble the more questions asked)

## **CUSTOMER SERVICE PRIORITIES**

### **1. Why do you pay dividends to your shareholders when you could spend this money elsewhere?**

By paying dividends to our shareholders, we encourage them to fund investments. We raise money from shareholders and lenders to fund investment across our network. Dividends provide a return to shareholders for their investment, which is allowed for in customers' bills over time as customers benefit from investments.

This is vital as we firmly believe that our [business plan for 2025-30](#), costed at approximately £2.8billion<sup>1</sup>, is the right deal for right now. Two-thirds of the funding for this plan is coming from our shareholders to whom we pay dividends, and one-third coming from rises in customer bills. Consequently, we are paying dividends so that we can continue to do the right thing by addressing our four priorities: water quality and resilience, storm overflows and pollutions, net zero and environmental gains, and affordability and delivering for customers.

### **2. Why are your executive directors paid the quantity they are?**

We have always sought to take a responsible approach to pay. The remuneration package for executives is conditional on the delivery of strict financial, customer, operational, and personal objectives, and is overseen by our independent board. While the water industry is not a natural competitive market, the market for talent is. This means that we must pay the market rate for staff, including at the most senior level. We are also proud that South West Water is an accredited living wage employer<sup>2</sup>, and that our CEO to median employee pay ratio has fallen by 450% since 2019/20.<sup>3</sup>

From 2025, our Independent Challenge Group, the WaterShare+ Group Panel, will scrutinise and review our executive pay and dividend policy. This will ensure that external voices and those of our customers are heard when pay levels and dividends are decided upon. As well as this, our executive remuneration policy aligns 70% of bonus<sup>4</sup> pay with our four priorities so you can be confident that leadership will be striving to reach the improvements laid out in our plans.

### **3. You claim that your plan is acceptable to 74% of your customers, what is the basis of this?**

Our affordability and acceptability research showed that our business plan for 2025-30 was acceptable to 67% of customers in Devon and Cornwall, 80% in Bournemouth, and 82% in Bristol. With weighting by population, this led to an overall acceptability of 74% of customers who felt the increase in bills were acceptable, reflecting the right balance between investment and affordability. Over 2,000 customers took part in this research<sup>5</sup>.

All the research we do is representative of our customer base and undertaken in accordance with guidelines prescribed by Ofwat. Whilst two thirds of customers support this plan, we know that for some any bill increase is challenging, in particular during the cost-of-living crisis. We have worked hard to ensure our bill increases are kept as low as possible. With increasing investment, we are doing our utmost to lessen the impact of this on all our customers bills, including moving more customer onto reduced tariffs. You can find out more about what we are doing to address affordability and deliver for customers, [here](#).

<sup>1</sup>[Business Plan 2025-30](#) p4

<sup>2</sup>[Penon. Utility company accredited as Living Wage Employer](#)

<sup>3</sup>[Business Plan 2025-30](#) p71

<sup>4</sup>[Penon Annual Report and Accounts 2023](#) p148

<sup>5</sup>[PR24 Affordability & Acceptability Report](#)

#### 4. How will the business be held to account so that it delivers for customers?

Running a water company is a privilege, given customers can't choose their provider. Each day we focus on operating a socially responsible business that can deliver for colleagues, customers, and the environment. For that reason, we developed the WaterShare+ incentive scheme, in line with our Board Pledge to empower customers. This is unique to South West Water and puts customers at the heart of what we do. Currently, 1 in 14 of our household customers are shareholders, giving customers a direct say in how South West Water is run.

Apart from this, we are heavily regulated by a number of bodies including the Ofwat, Environment Agency (EA), Drinking Water Inspectorate (DWI), Consumer Council for Water (CCW), Department for Environment, Food, and Rural Affairs (Defra), and other government authorities.

We are also held to account on our performance by our WaterShare+ Panel, who hold regular meetings with the Executive team. Everyone is invited to our WaterShare+ meetings which are attended by our CEO and the executive team. These give customers regular opportunities to get involved, speak directly to our executive team on any topic they wish, and hold us to accounts on how we are performing against our plans.

By working with customers and regulators across the region, the panel ensures that customers' voices are represented within the business. The Panel has improved the transparency of our performance, how we are held to account, and strengthened the two-way engagement with our customers – making sure that customers have a say in the business and are more in control than ever.

For us, the scheme is a fundamental shift of the dial to a socially responsible business. Now, more than ever, it is essential when we need to rebuild trust, and for our customers and communities to feel listened to.

We have also proactively engaged in the 'Your Water, Your Say' sessions championed by Ofwat and CCW. On our website you can find more information on [WaterShare+](#) and '[Your Water, Your Say](#)'. We are also looking to establish a new independent environmental advisory panel to ensure we are focused on putting the environment first.

#### 5. Leakage is far too high, what is being done about this?

Reducing leakage is very important to us as we seek to reduce demand on our network. We have invested in a leading Network Training Centre to train our internal teams and partners to provide the best possible service. As well as this we are continuing a new programme of pressure management which will deliver a reduction in pipe bursts, while exploring solutions that allow us to carry out repairs while maintaining water flow. As well as fixing leaks on the pipes we own, we are also committed to free leak fixes on certain pipes in customer properties so that as little water goes to waste as possible. Lowering water usage in this way is vital to improving the resilience of our water supply. We are aiming to reduce leakage level to less than 10% on our pipes and less than 5% on our customers' pipes by 2030<sup>6</sup>.

#### 6. The water that comes out of my tap is very hard and leaves lots of limescale on my appliances, what are you doing to remedy this?

The water in much of our supply area is hard water, in particular around Bristol and Bournemouth. While we appreciate that hard water can be irritating to deal with, this is not a water quality issue. A certain degree of hardness is important, as this protects pipework from corrosion and provides magnesium and calcium that is important to your diet. We do not soften the water we provide to customers as

<sup>6</sup>[Business Plan 2025-30](#) p49

## Customer Service Priorities continued

the process is expensive, energy intensive, and can be environmentally unfriendly. If you would like to learn more about water softening you can find more information on the [Drinking Water Inspectorate's website](#).

### 7. Do you fluoridate the drinking water that you provide?

Whilst some water companies do introduce fluoride to their drinking water, we do not. The decision on whether to add fluoride to the drinking water supply is not taken by water companies, but by the Department of Health and Social Care, and fluoride levels are monitored by the [Drinking Water Inspectorate \(DWI\)](#).

### 8. I keep having supply interruptions, when will this be improved?

For 2022-23 our average supply interruption for customers is 8 minutes 42 seconds<sup>7</sup>. This is above our target, so we are making changes to improve service reliability. We have invested in a leading Network Training Centre to train our internal teams and partners to provide the best possible service. As well as this we are continuing a new programme of pressure management which will deliver a reduction in pipe bursts, while exploring solutions that allow us to carry out repairs while maintaining water flow. We are aiming to have an average supply interruption of five minutes by 2025 across<sup>8</sup> all of our regions.

## LONG-TERM OUTCOMES

### 9. What are you doing to improve water storage capacity and capture ability?

We are developing four new water supply schemes equivalent to 70 million litres per day. This includes developing both the Mendips Quarry and Poole Harbour regional supply schemes and developing and commencing construction of the new Cheddar 2 reservoir<sup>9</sup>. This is in addition to the substantial new water resources currently being developed, such as the South Cornwall desalination plant. We are also taking action to reduce demand, including reducing leakage to less than 10% on our pipes<sup>10</sup>.

We are also very conscious that building more reservoirs has a significant impact on the environment. Consequently, we also need to consider other ways of managing water resources including:

- Supporting water efficiency and reducing the amount of water we all use
- Reducing leakage both in our pipes and on customer properties to reduce wastage
- Alternative water sources such as desalination and disused quarries
- Working with other water companies, such as Wessex Water, to ensure we are looking at resources across the wider region, to spread the risk of drought and improve the quality and resilience of our water supply.

### 10. I'm concerned about the effect of increasing development and population growth on the Southwest, how are you dealing with this challenge?

We factor into our planning the new housing developments and their impact on water resources. We also consider the long-term impact of population growth and housing developments through our water resources plans.

By 2030 we will have delivered a step change in the water and wastewater services across the South West of England. We will also have additional water sources equivalent to serving three cities the size of Exeter, so that you can be confident that there will be enough water for everyone, even as the climate continues to change.

<sup>7</sup>[How we're performing 2022-23](#)

<sup>8</sup>[Business Plan 2025-30](#) p86

<sup>9</sup>[Business Plan 2025-30](#) p50

<sup>10</sup>[Business Plan 2025-30](#) p50

### **11. Why are you not a statutory consultee on new developments?**

We are not a statutory consultee on new developments, so we have no right to object to planning applications. South West Water is also legally required to accept wastewater from new developments. We would like to see changes to the law that would remove this automatic right to connect, as well as policy change that would make it necessary for developers to put in more comprehensive SUDS systems. This way we can start to reduce the loads on our system by taking the storm water out of wastewater sewers.

### **12. Why have the investments you are making now, not happened sooner?**

Taking the decision to increase investment and therefore bills is a difficult one, especially because we know that our customers do not get to choose their water company. We have invested continuously since South West Water was formed, with our £13 billion invested to date<sup>11</sup>. The benefit of this investment can be seen in improved bathing water quality and high-quality drinking water across the region, but, we know there is more to be done. However, our customer research has shown that our plan for 2025-30 has a customer acceptability of 74%. We believe that our £2.8 billion plan for 2025-30 is the right deal plan, allowing us to meet customer expectations across a range of areas including our four priorities; water quality and resilience, storm overflows and pollutions, net zero and environmental gains, and affordability and delivering for customers.

### **13. If Ofwat's determination of your business plan means that you must make significant changes to it, how will you respond?**

Ofwat will publish a draft determination in May/June 2024, and will make their final determination in December 2024. This provides a six-month window during which, if Ofwat does not green-light our plan, we will discuss this with them. If Ofwat decide that we should raise bills to a lesser extent while maintaining the same level of investment this is something we will have to discuss with our investors as well as Ofwat in order to work through the financing of the plan in detail. Regardless, we will seek to work collaboratively with Ofwat to provide the best outcome for our customers, rather than taking any form of legal action.

### **14. Why and where are you building desalination plants? How are you dealing with the energy costs of this?**

The use of desalination has been growing around the world, driven by increasing water demand, population growth, and climate change impacts on water availability. It can provide a vital source of freshwater during periods of water stress and advances in desalination technology continue to improve efficiency and reduce environmental effects.

Desalination is a part of our proposed solutions to providing additional sources of water and is an effective and reliable way to add additional non-climate dependent capacity to our water network. We are looking to build desalination plants in order to diversify our portfolio of water supply assets, so that we can both spread and reduce the risk of drought on our network. We currently operate desalination plants on the Isles of Scilly and plan to build more to provide water to the Isles. So far, we are planning for desalination plants in Tresco, Bryher and St Agnes as well as those in St Marys and St Martins that should be complete for 2025.

We are also planning to commence construction of our first mainland plant in Par, southern Cornwall, very soon. You can find more information on desalination in Par, here.

<sup>11</sup>[Pennon Investment Proposition](#)

**Long-Term Outcomes continued**

Whilst desalination is an energy intensive process, it's important to understand that the plant will not be operating 24/7. The desalination plant forms part of our wider ambition to provide resiliency and ensure that our customers have a plentiful supply of water at all times. We are currently working to consider how an increase in energy use can be offset by interventions elsewhere, including energy recovery systems at the proposed desalination plant and at Restormel. We will also look at how renewable energy can be harnessed as part of our wider vision.

The plant at Par will be powered by electricity supplied by National Grid Electricity Division. South West Water have a 100% REGO renewable energy supply contract which is supported by Renewable Energy Guarantees of Origin (REGO).

It is envisaged that by 2028, South West Water will have 50% organic renewable electricity and 50% REGO. All the energy used on site will be either electric, hydro-electric and solar (where possible) to align with South West Water's net zero commitment by 2030.

**15. How much will your 2025-30 business plan cost, and what will it be spent on?**

Our business plan for 2025-30 is costed at approximately £2.8billion. We have very carefully considered the scale and cost of this investment and actively sought to strike the right balance between customer contribution and overall cost. This deliberation has consisted of a vast amount of customer research, and we have engaged with over 250,000 customers over the last two years to fine tune our plan. Two-thirds of this £2.8billion will come from our shareholders, and one-third coming from rises in customer bills.

The bulk of this money will be spent on our four priority areas:

- Water Quality and Resilience - £359 Million + £280 Million enhanced investment<sup>12</sup>
- Storm Overflows and Pollutions - £761 Million<sup>13</sup>
- Net Zero and Environmental Gains - £431 Million<sup>14</sup>
- Addressing Affordability and Delivering for Customers - £200 Million<sup>15</sup>

**16. I find hosepipe bans unacceptable, what are you doing to prevent them?**

Given the unique topography of our region, being a largely granite peninsula where over 90%<sup>16</sup> of our water resources are surface water rivers and where there are few sustainable boreholes, we need to strike the right balance between supporting the natural environment and taking water for drinking water purposes and as we look to build a more diversified portfolio of raw water resources for future resilience. Given this we are already investing in new water resources and strategic network transfers to break the drought cycle – and ensure the environment is protected from abstractions, developing first of a kind desalination and water reuse schemes to support the water cycle.

We are building more water storage, starting by building the Cheddar 2 reservoir in Bristol and a water re-use plant in Poole. On top of improving our ability to store water we are also improving our ability to collect water, with investments in desalination plants in Cornwall to reduce the risk of drought. As well as this we are enhancing our inter-regional water grid to move 60%<sup>17</sup> more water into Devon and Cornwall from our other, more water-rich, regions. Outside of Devon and Cornwall we are also delivering the Cheddar 2 reservoir, while creating a water grid to support our most drought-prone regions by harnessing excess water from elsewhere.

<sup>12</sup>[Business Plan 2025-30](#) p50

<sup>13</sup>[Storm overflows and pollutions](#) p39

<sup>14</sup>[Net zero and environmental gains](#) p4

<sup>15</sup>[Addressing affordability and delivering for customers](#) p5

<sup>16</sup>[Business Plan 2025-30](#) p48

<sup>17</sup>[Water quality and resilience](#) p5



**Long-Term Outcomes** continued

Across the company we will be promoting our 'find and fix' service to fix leaks on customers pipes. Our Save Every Drop campaign is encouraging and supporting customers, businesses and tourists across the region in reducing non-essential water usage to help protect water supplies, by highlighting how small everyday changes in our water use habits can have an extraordinary impact on reducing daily demand, cutting bills for those on a water meter and helping to protect our natural environment.

**17. Why is rainwater and wastewater not separated?**

The combined drainage system is a historical legacy of the 19th and 20th centuries when much of these systems were built. Combined systems are very cost and space efficient, however they require storm overflows so that during periods of heavy rainfall the excess demand on the system can be expelled without entering homes and businesses. While modern developments are often be built with double separated systems that route rainwater and wastewater separately, retrofitting such systems to the UKs existing infrastructure and building new separated sewers to carry rain and wastewater is a vastly expensive and highly disruptive activity.

## **ENVIRONMENTAL OUTCOMES**

**18. Are you working with farmers to improve water quality?**

We work with farmers through our award-winning initiative, Upstream Thinking. Primarily, this means that we work collaboratively with our agricultural stakeholders to prevent pollutants from entering waterways, rather than simply removing pollutants after the fact. This involves providing grants to build fences to prevent livestock entering waterways, helping farmers to efficiently irrigate to prevent runoff, and other cost-effective programmes that improve raw water quality.

**19. Does your plan include nature-based solutions?**

We are committed to delivering nature-based solutions across 80% of drinking water catchments<sup>18</sup> and assess 100% of storm overflow solutions using the principle of 'Green First'<sup>19</sup> – so that nature-based solutions are considered from the outset. Our approach blends nature-based and engineering solutions, coupled with comprehensive water monitoring and sampling programme, to rebuild trust in our communities. For example, we will be creating more reed beds to reduce storm overflow usages, restoring peatlands to capture carbon, and delivering our 'Upstream Thinking' initiatives to improve raw water quality.

**20. What are you doing to stop raw sewerage from entering our waterways?**

When Combined Storm Overflows (CSO) spill it is diluted storm water, not raw sewerage that is spilling. We have an action plan in place to reduce the number of spills from CSO's and continuing to lower the number of spills is one of the four priorities of our new 2025-30 business plan. We have already reduced the number of CSO pollution incidents by 50% over the last two years . In our new plan we will expand the use of green solutions, such as reed beds, whilst building more wastewater storage facilities, to further reduce pollution incidents. Reaching net zero and caring for the environment are another priority for 2025-30, we are on track to reach net zero by 2030. We have also recruited a new director of natural resources, who will help us to maximise our positive impact on the environment while minimising our use of storm overflows and reducing pollutions.

<sup>18</sup>Business Plan 2025-30 p26

<sup>19</sup>Business Plan 2025-30 p10

**Environmental Outcomes** continued

**21. Why are you allowing farmers to spread products from wastewater onto their land?**

Sludge is a by-product of the sewerage and water treatment process. This sludge is a high-quality product that is tested to strict standards, and which provides much-needed nutrients to promote the soil health of our region. The Environment Agency is responsible for ensuring that sludge is used responsibly and for enforcing the Sludge (Use in Agriculture) Regulations 1989.

**22. How do you monitor the size and frequency of storm overflow spills? Where can I find this information?**

100% of our storm overflows are now monitored with water level sensors that can detect when levels are high enough that a spill will occur. You can find close to real-time information on where storm overflows have been active on the [WaterFit Live map, available online](#).

## **AFFORDABILITY**

**23. Why are you raising bills to pay for the business plan for 2025-30, and what proportion of this spending is going to come from bill increases?**

We are raising bills so that we can invest heavily in the necessary infrastructure to meet our goals for the 2025-30 period. This includes minimising the use of storm overflows, cutting leakage, improving the natural environment, and increasing the resilience of our water resources. Our plan for this period is costed at £2.8 Billion, with two-thirds of this coming from our shareholders and one-third coming from rises in customer bills.

**24. Tourists to our region do not pay water bills to you, yet they use our water and sewerage system. Given that the number of tourists to the region is increasing, what are you doing to ensure that residents of the region pay a fair bill?**

While tourism is important for the economy, we are aware we need to see how we make the charging of the water fair for all. Tourists may not pay directly for water usage but all businesses that host and service visitors are paying for water usage and are nearly all on water meters, therefore, paying for the water used.

We are piloting new charging structures from April 2024, providing different choices for customers, so that bills better reflect the service and benefits that customers receive. The pilots will test seasonal tariffs that reflect the higher cost of peak summer demand, rebalancing charges based on property type, and exploring progressive tariffs that are fairer. You can read more on our new charging trials, [here](#).

Different charging mechanisms are a key part of our plan for keeping bills affordable, we will publish more information as part of our charging scheme on 1st February 2024.

Our ongoing water efficiency campaign 'Save Every Drop' is encouraging and supporting customers, businesses, and tourists across the region in reducing non-essential water usage to help protect water supplies, by highlighting how small everyday changes in our water use habits can have an extraordinary impact on reducing daily demand, cutting bills for those on a water meter and helping to protect our natural environment.

**Affordability continued**

**25. Water Bills in the South West Water area are very high, how are you going to support customers that are already struggling to pay?**

We have a wide range of help to support customers that are struggling to pay. We are also using new technology to auto-enrol customers out of water poverty and onto the best tariff for them. Our affordability toolkit covers help from having a water meter to payment plans and our WaterCare tariff that has discounts of 15-85% to low-income customers. Our WaterSure tariff can offer discounts to metered customers that need to use a lot of water, for example if anyone in your household has certain medical conditions. For more information on the support we offer, [check our website](#).

**26. Our water bills are high. How much of this goes toward paying interest on the company's debts?**

Pennon Group's net finance costs for 2022-23 were £118.2 million, which is approximately £34 per customer for the year<sup>21</sup>. Our debt portfolio is highly diverse, with a relatively low level of index-linked debt compared to the industry average, allowing us to outperform and enabling us to reinvest this outperformance. Our efficient use of finance has meant we have an effective interest rate of 5.5% for 2022-23<sup>22</sup>, barely higher than the current Bank of England base rate. Our gearing has also seen a year-on-year reduction, down to 60.8% - lower than most other water companies in England and Wales. We have a robust financial model that stands us in good stead to fulfil our ambitious 2025-30 business plan. For full details on our financial performance, you can find the [Pennon 2023 Annual Report Online](#).

**27. What are your plans for smart metering, and how will this work?**

We are planning on rolling out smart meters to customers from 2025 onwards. These will work similarly to a smart meter from your electricity or gas supplier. The meter will measure the amount of water you use and send that information directly to us via the mobile phone or radio network, so that you don't have to read your own meter. By 2030, we are planning to roll out 340,000 smart meters to Devon and Cornwall, 180,000 to Bristol Water Customers, and 10,000 to Bournemouth Water customers<sup>23</sup>.

<sup>21</sup>[Pennon Group plc Annual Report and Accounts 2023](#) p46

<sup>22</sup>[Pennon Group plc Annual Report and Accounts 2023](#) p48

<sup>23</sup>[Business Plan 2025-30](#) p51

