PR19 Business Plan Presentation Pro-forma – August 2018 update

### Briefing for Ofwat Non-Executive Directors and senior leadership

As indicated in our final methodology for the 2019 price review (PR19) published in December, this pro-forma draws together high level information and key metrics from the business plan and explains the drivers behind the business plan, the key benefits for customers and the impact on customer bills.

The pro-forma has been developed to support discussion at the PR19 business plan presentations taking place during September-October 2018, and to ensure a consistent approach across companies to briefing Ofwat board members for these. The pro-forma will be provided to Ofwat Board members and senior leadership ahead of these presentations. These presentations will not form part of our initial assessment of business plans process, nor are a substitute in any way for business plans.

The presentations are scheduled for an hour, with a presentation of 15 minutes followed by up to 45 minutes for questions and discussion. These presentations provide an opportunity for companies to set out their business plans to Ofwat, including Ofwat Board members. **We do not expect companies to use this pro-forma as the basis for the presentation itself.**

For PR19, we expect companies to deliver an ambitious business plan that delivers on our four key themes of innovation, great customer service, affordability and increased resilience. We are expecting companies to challenge themselves in these areas, and this pro-forma and the business plan presentations provide an opportunity for companies to demonstrate how they are meeting this challenge.

### Guidance on completing the pro-forma

To support companies in completing this pro-forma, we have published guidance tables which include references to the relevant PR19 business plan tables to draw the information requested from. Where the information requested is not held in PR19 business plan tables, we have indicated where this should be drawn from by companies (for example, the PR14 final determination). The PR19 bill movement model has also been published in order to complete the bill movement waterfall chart (table 2.1).

### Submission of pro-forma to Ofwat

We expect companies to submit the completed pro-forma, guidance tables and PR19 bill movement model to Ofwat along with PR19 Business Plans by 5pm Monday 3 September 2018.

### Publication of the completed pro-forma

As outlined in our final methodology, to improve transparency we want companies to make their business plans available to us, companies, customers, stakeholders and other regulators. We therefore expect them to publish the whole of their business plans at the same time as they submit their plans to us in September 2018. We ask that companies publish their completed pro-forma, guidance tables and PR19 bill movement model alongside their business plans as well as submitting these to us on 3 September 2018.

If a company considers some information should not be published – because it is commercially sensitive information, for example – then the company will need to provide its stakeholders and us with strong, robust reasons that are specific to the information concerned.

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# 1.Background

## **1.1 Company pen pic**

**Brisol Water is a water only company serving a population of around 1.2 million located in areas of Somerset, Gloucestershire and Wiltshire around the city of Bristol, from Tetbury in the north to Street in the South, Weston-Super-Mare in the west to Frome in the East.**

Bristol Water plc is 80% owned by a UK-based shareholder in iCON Infrastructure who are well versed in owning and operating water companies and other regulated infrastructure in the UK and globally, and are backed by long-term investors. The remaining 20% is owned by ITOCHU Corporation, a global, diversified trading company founded in 1858 and based in Japan, where it is listed on the Tokyo stock exchange.

## **1.2 List of attendees**

**Keith Ludeman – Non-Executive Chairman**

**Paul Malan – Non-Executive Director**

**Mel Karam – Chief Executive Officer**

**Iain McGuffog – Director of Strategy & Regulation**

**Peaches Golding OBE – Chair, Bristol Water Challenge Panel**

# 2. Key business plan metrics

PR19 key themes

Our mission is **“To be a company that our communities trust and are proud of. In doing so, we will deliver excellent experiences and create social and economic value”**.

#### Great customer services

We have an outcome dedicated to delivering “Excellent Customer Experiences”; going beyond great customer service with a promise to provide the best customer satisfaction amongst water companies, and aspire to be the best amongst utilities. We have also promised to treble the number of customers who receive extra care through our Priority Services Register. There is an additional promise of delivering community satisfaction, with our “Bristol Water For All” initiative.

#### Affordable bills for all

Our plan reduces bills by 6% (before inflation) by the end of 2024/25. In 2017/18 we achieved zero customers in water poverty through our social tariffs. Through bill reduction and expansion of social tariffs we aim to maintain this position in future.

#### Innovation and new ways of working

We know we need to transform our capabilities to deliver this ambitious and challenging plan. This is why we have embarked on a wide ranging Transformation Programme which involves improving our operational performance, our asset management capability, use of technology, and the way we collaborate with our supply chain and other partners. .

#### Long-term resilience in the round

Recent events such as the freeze thaw event have shown that we currently have a high level of resilience, and that we are agile enough to adapt as circumstances change. Our plans for the future delivers continued operational, service, corporate and financial resilience through our outcomes. Our plan suggests specific measures to support resilience including a 15% reduction in leakage and a ten year programme so all communities over 10,000 people can be supplied through more than one route.

**Table 2.1: Waterfall chart**

| **Drivers of changes to bills 2019-20 to 2024-25** | **£ per customer** |
| --- | --- |
| **2019-20 Bill** | **174** |
| **Changes between 2019/20 and 2024/25** |  |
| **Change in RCV**  | **1** |
| **Change in RCV run-off** | **-4** |
| **Change in WACC** | **-4** |
| **Change in customer numbers** | **-11** |
| **Change in totex** | **-3** |
| **Change in PAYG rate** | **27** |
| **Change in other wholesale items** | **2** |
| **Change in retail CTS** | **-6** |
| **Change in reconciliation items** | **-4** |
|  |  |
| **2024-25 Bill** | **172** |



Explanation of movement in customers’ bills

**The waterfall shows the standard bill movement from the CMA determination, noting that average bills in 2017/18 CPIH prices will be £183 in 2019/20, and from a customer perspective our plan starts from this point for a 6% reduction to £172 in 2025. We show bill movements from the customer perspective within section 12 of our main plan document.**

**The key movements, alongside an increase in customer numbers, are:**

* **The reduction in the WACC (including adjusting RCV run off rates for CPIH) reduces bills by £7. The small company cost of debt adjustment at c£2.50 is similar to the PR14 value.**
* **Wholesale totex reduces by £17m (4%) including c9% efficiencies, with a maintenance focus seeing the PAYG rate increasing from 55% to c73% as a result. RCV reduces by 0.1% p.a, after an initial reduction of £14m from reconciliation adjustments.**
* **Retail costs increase by c0.4% p.a, which together with lower wholesale revenues and increasing customer numbers drives a reduction in cost to serve.**
* **ODI revenue penalties, principally from calculating leakage without the benefit of technical adjustments, of £9.5m from 2015-20 reduce bills over 2015-20. Together with other reconciliation adjustments this reduces bills by £4.**

Customer Expectations

We listened to our customers and engaged with them extensively to understand their priorities and needs from their local water company. Customers expect us to build on their existing trust in us.

Our customers have consistently told us that their priority is for us to provide a safe and reliable supply of water at an affordable cost. The majority of our customers also told us that they expect us to play a role beyond this basic service. They expect us to be using existing resources efficiently, looking after the environment and making wider positive contributions to their local communities, and to give them great experiences whenever we interact with them. We gained specific support for a set of incentivised stakeholder initiatives, such as the Resource West partnership to tackle resource efficiency across sectors, building on initiatives such as Refill Bristol.

We have set ourselves stretching targets to deliver the service improvements our customers’ value, at the same time as reducing bills. By 2025 we will reduce leakage from our network by a further 15%, reduce interruptions to supply by 85% (forecast industry top quartile) and improve resilience of water supplies for over 45% of our communities. By 2025, our bills will remain £9 below 2015 levels with inflation. Our plan will ensure we continue to eliminate water poverty and will support all customers who may be at risk of it. The final plan achieves 93% customer acceptability. When presented with an alternative of slower progress in return for a £4 lower bill, 82% preferred our plan.

Following our extensive draft business plan consultation we targeted further efficiencies, lowering bills by £16 to reflect customer views. Customers supported our company specific cost of capital, supported by our sharing mechanism. They also supported capping annual ODI incentives to manage bill volatility.

**Table 2.2: Key business plan metrics**

| **Metric** | **PR14 (2019-20)****31 March 2020 estimate**  | **PR19 (2024-25)****31 March 2025 estimate** | **2019-20 to 2024-25** **% change****(leakage and PCC)** |
| --- | --- | --- | --- |
| **Number of residential water only customers (000s)** | **502.0** | **530.1** |  |
| **Number of residential wastewater only customers (000s)** | **N/A** | **N/A** |
| **Number of residential water and wastewater customers (000s)** | **N/A** | **N/A** |
| **Total leakage (Ml per day)**Based on PR19 definition*,* annual average | **43.0** | **36.5** | **-15.1%** |
| **Leakage (cubic metres per km of main per day)**Based on PR19 definition, annual average | **6.3** | **5.2** | **-17.5%** |
| **Leakage (litres per property per day)**Based on PR19 definition, annual average | **81.3** | **65.5** | **-19.4%** |
| **Per Capita Consumption (PCC)**Based on PR19 definition, annual average | **142** | **135** | **-4.9%** |
| **ODI RoRE range** | **-2.0% to +0.6%** | **-2.3% to + 1.1%** |  |
| **Appointee WACC (real RPI)** | **3.78%** | **2.66%** |
| **Appointee WACC (real CPIH)** | **4.59%** | **3.67%** |
| **Credit rating – actual financial structure** | **Moody’s Baa1** | **Moody’s Baa2** |
| **Metric** | **PR14 (2015-2020 Average)** | **PR19 (2020-25 Average)** |  |
| **Adjusted interest cover notional** | 1.54 | **2.22** |  |
| **FFO net debt notional** | **11%** | **13%** |
| **Metric** | **2017-18 Actual** | **PR19 (2020-25 Average)** |  |
| **Actual gearing** | 64.0% | 67.4% |  |
| **Adjusted interest cover actual** | 1.86 | 2.08 |
| **FFO net debt actual** | 12.0% | 11.1% |

Commitment to financial resilience

**Our financial resilience starts with the long-term support of our shareholders. During 2015-20 they have retained equity in Bristol Water as it transforms, reducing geaing from 71.5% in 2015 to 64% in 2018. The hard choices for financial resilience in the plan include one notified item for an uncertain cost we face from the Canal & River Trust, where we propose a 75% allocation of cost risk and opportunity to customers, as a fair allocation of risk.**

**In line with customer preferences for avoiding bill volatility, we propose capping the annual value of ODIs at £2.5m, with any excess rolling forward to the following year. Our plan indicates our actual credit rating with Moody’s below current levels, reflecting 2015-20 performance incentives and the lower cost of capital. Our financial resilience relies on the efficient company specific adjustment to the cost of capital, as well as the specific measures we propose.**

**Table 2.3: RCV**

|  |  |  |  |
| --- | --- | --- | --- |
| **Control** | **1 April 2020 (£m)****Opening RCV****2017-18 FYA (CPIH deflated)** | **30 March 2025 (£m)****Closing RCV****2017-18 FYA (CPIH deflated)** | **% growth** |
| **Water resources RCV** | 116.6 | 120.6 | 3% |
| **Water network Plus RCV**  | 410.9 | 401.4 | -2% |
| **Wastewater network Plus RCV** | n/a | n/a | n/a |
| **Bioresources RCV** | n/a | n/a | n/a |

**Table 2.4: Dividends**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Metric £m** **Outturn (nominal prices)** | **2015-16** | **2016-17** | **2017-18** |  |
| **Dividends (based on PR14 actual company structure)\*** | **0** | **-6.0** | **-4.0** |
| **Outturn (nominal prices)** | **2020-21** | **2021-22** | **2022-23** | **2023-24** | **2024-25** |
| **Dividends (based on PR19 actual company structure)** | **-6.0** | **-6.2** | **-6.4** | **-6.6** | **-6.9** |

\* Excludes intercompany interest dividends to be consistent with PR19

Dividend Policy

We will not pay out dividends that impair the ability to finance Bristol Water’s appointed activities, including the impact on key financial ratios consistent with the need to maintain investment grade credit rating statement.

We will pay a level of ordinary dividends that reflect efficiency, management of economic risk and delivery of performance commitments to customers. A base dividend level of 3.2% with 1.3% p.a. real growth is assumed which will be adjusted to reflect the actual level of gearing and performance. Adjustments will also be made for outcome and expenditure performance. Dividends for inter-company loans and preference shares are considered separately. As dividends in individual years may vary to reflect funding requirements, as an additional protection for customers, we propose a sharing mechanism where gearing increases above 70%.

Executive remuneration will not incentivise the payment of dividends to shareholders.

# 3. Appendices

# Appendix 1: Company presentation attendee biographies

**Keith Ludeman – Non-Executive Chairman**

Keith Ludeman was appointed to the Board in July 2012. He is the Non-Executive Chairman of the London Transport Museum, Chairman of HS1 Ltd and a Non-Executive Director of Eversholt Rail Group. He is also an advisor to Lloyds Development Capital. Formerly he was Chief Executive of Go-Ahead Group plc and has forty years’ experience in the transport industry.

**Paul Malan – Non-Executive**

Paul Malan is the Senior Partner of iCON Infrastructure LLP, an independent infrastructure investment firm which he founded in 2011. Mr Malan has over 20 years of experience in infrastructure advisory and investment at iCON Infrastructure LLP, Deutsche Bank and Macquarie Bank. He was appointed to the Board in July 2016.

**Mel Karam – Chief Executive Officer**

Mel Karam joined Bristol Water in April 2017. Prior to joining the Company, he was Partner and Global Head of Asset Management at KPMG International leading their work across 25 countries. Mr Karam has over 30 years of experience in operations, asset management and capital delivery in the power and utility sector with British Gas, National Grid, Scottish & Southern Energy, Thames Water and Southern Water. He is also a Non-Executive Director of MOSL and Bristol Wessex Billing Services Limited.

**Iain McGuffog – Director of Strategy & Regulation**

Iain McGuffog joined the Executive team at Bristol Water in October 2017. Iain joined Bristol Water from Ofwat, where he was Director, Strategy and Planning. Previous to this, Iain held a number of regulation and finance roles for over 13 years at South West Water, including as Chief Economist. Iain has also worked in the chemical, consumer electronics and rail sectors.

**Peaches Golding OBE – Chair, Bristol Water Challenge Panel**

Peaches is a trusted and respected business and community leader with an array of experience in representing customer groups not least from her time on Ofcom’s Viewer Panel for ITV West. She is Lord Lieutenant for the County & City of Bristol. She is widely regarded for her work representing diverse and disadvantaged communities. She has chaired the Bristol Water Challenge Panel, the independent Customer Challenge Group, since its formation in 2015.

# Appendix 2: Business plan executive summary


# Appendix 3: CCG report executive summary


# Appendix 4: Current operational performance

Table 4.1: PR14 Performance Commitments

*Please indicate in the table below which PR14 performance commitments have been met and which have not been met over the PR14 period. This table is not for Service Incentive Mechanism (SIM) data, for which table 4.2 has been provided. For financial ODIs please also indicate total forecast outperformance payment or underperformance penalty for the PR14 period.*

| No. | ID(eg W-A1) | Performance commitment | 2015-16PCL met?[[1]](#footnote-2) | 2016-17PCL met? | 2017-18PCL met? | 2018-19PCL met?(forecast) | 2019-20PCL met?(forecast) | Cumulative ODI(outperformance payments or underperformance penalties)£m to 4 decimal places2012-13 prices, net of tax |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **15/16-17/18 Actual** | **18/19-19/20****Forecast** |
| 1 | A1 | A1: Unplanned customer minutes lost | No | Yes | No | Yes | Yes | -1.4778 | 0.0000 |
|  | A2 | A2: Asset reliability - infrastructure | Yes | Yes | No | No | Yes | 0.0000 | -0.6850 |
|  | A3 | A3: Asset reliability - non-infrastructure | Yes | Yes | Yes | Yes | Yes | 0.0000 | 0.0000 |
|  | B1 | B1: Population in centres >25,000 at risk from asset failure | Yes | Yes | Yes | Yes | Yes | 0.0000 | 0.0000 |
|  | C1 | C1: Security of supply index (SOSI) | Yes | Yes | Yes | Yes | Yes | 0.0000 | 0.0000 |
|  | C2 | C2: Hosepipe ban frequency | Yes | Yes | Yes | Yes | Yes | 0.0000 | 0.0000 |
|  | D1 | D1: Mean zonal compliance (MZC) | No | Yes | No | No | No | -0.5680 | 0.0000 |
|  | E1 | E1: Negative water quality contacts | Yes | Yes | Yes | Yes | Yes | 0.0000 | 0.0000 |
|  | F1 | F1: Leakage | Yes | Yes | No | No | No | -1.0824 | -4.5100 |
|  | G1 | G1: Meter penetration | No | No | No | No | Yes | -0.4218 | -0.1520 |
|  | H1 | H1: Total carbon emissions | No | No | No | No | No | 0.0000 | 0.0000 |
|  | H2 | H2: Raw water quality of sources | Yes | Yes | Yes | Yes | Yes | 0.0000 | 0.0000 |
|  | H3 | H3: Biodiversity index | Yes | Yes | Yes | Yes | Yes | 0.0000 | 0.0000 |
|  | H4 | H4: Waste disposal compliance | No | No | No | No | No | 0.0000 | 0.0000 |
|  | G2 | G2: Per capita consumption (PCC), measured as litres per head per day (l/h/d) | Yes | Yes | No | Yes | Yes | 0.0000 | 0.0000 |
|  | I1 | I1: Percentage of customers in water poverty | Yes | Yes | Yes | Yes | Yes | 0.0000 | 0.0000 |
|  | J1 | J1: Service incentive mechanism (SIM) | Yes | Yes | No | Yes | Yes | 0.0000 | 0.0000 |
|  | J2 | J2: General satisfaction from surveys | No | No | No | Yes | Yes | 0.0000 | 0.0000 |
|  | J3 | J3: Value for money | Yes | Yes | No | Yes | Yes | 0.0000 | 0.0000 |
|  | K1 | K1: Ease of contact from surveys | No | No | No | Yes | Yes | 0.0000 | 0.0000 |
|  | L1 | L1: Negative billing contacts | Yes | No | Yes | Yes | Yes | 0.0000 | 0.0000 |
| **Total cumulative financial ODI** | **-3.5500** | **-5.3470** |

Table 4.2: PR14 Service Incentive Mechanism (SIM) Performance

| SIM Performance | 2015-16 | 2016-17 | 2017-18 |
| --- | --- | --- | --- |
|
|  |
| Total annual SIM score (out of 100) | 85 | 86 | 83 |

|  |
| --- |
|  |

# Appendix 5: PR19 proposed performance commitments

Table 5.1: Common Performance Commitments

| No. | Common performance commitment[[2]](#footnote-3) | ID (eg W-A1) | 2019-20forecast performance level(where relevant) | 2024-25proposed performance commitment level | ODI type | In period /end of period ODI | **2019-20 to 2024-25****% change**(leakage and PCC PCs) |
| --- | --- | --- | --- | --- | --- | --- | --- |
| 1 | **Water quality compliance** – the DWI’s Compliance Risk Index (CRI), a score greater than or equal to zero, where zero is least risk | PC01 | 1.27 | 0 | Under | In-period |  |
| 2 | **Water supply interruptions** – average supply interruption greater than 3 hours (minutes per property) | PC02 | 12.2 | 1.8 | Out & Under | In-period |
| 3 | **Mains bursts** – number of water mains bursts per 1,000 kilometres of total length of mains | PC03 | 142 | 133 | Under | In-period |
| 4 | **Unplanned outage** – proportion of unplanned outage of the total company production capacity (%) | PC04 | 1.74 | 1.74 | Under | In-period |
| 5 | **Leakage** – megalitres per day (Ml/d), three-year average | PC18 | 43 | 36.5 | Out & Under | In-period | -15% |
| 6 | **Per capita consumption** – average amount of water used by each person that lives in a household property (litres per person per day), three-year average  | PC19 | 142 | 135 | Out & Under | In-period | -5% |
| 7 | **Risk of severe restrictions in a drought** – percentage of the population the company serves that would experience severe supply restrictions (e.g. standpipes or rota cuts) in a 1-in-200 year drought | PC05 | 0 | 0 | Non-financial | n/a |  |
| 8 | **Treatment works compliance** – % compliance with environmental permits at water and wastewater treatment works (EA’s Environmental Performance Assessment definition) | n/a | n/a | n/a | n/a | n/a |
| 9 | **Internal sewer flooding** – number of incidents per year (sewerage companies only) | n/a | n/a | n/a | n/a | n/a |
| 10 | **Sewer collapses** – number per 1,000 kilometres of sewer (sewerage companies only) | n/a | n/a | n/a | n/a | n/a |
| 11 | **Pollution incidents** – category 1-3 pollution incidents per 1,000km of sewerage network, as reported to the Environment Agency and Natural Resources Wales (sewerage companies only) | n/a | n/a | n/a | n/a | n/a |
| 12 | **Risk of sewer flooding in a storm** – percentage of population at risk of sewer flooding in a 1-in-50 year storm (sewerage companies only) | n/a | n/a | n/a | n/a | n/a |

# Appendix 6: Expenditure

Table 6.1: Totex

|  |  |  |  |
| --- | --- | --- | --- |
| Total expenditure | Price Base | PR14 final determination 2015-2020 | Proposed for PR19 2020-2025 |
| Water network plus (£m) | 2017-18 FYA (CPIH deflated) | 474.398 | 375.913 |
| Water resources (£m) | 2017-18 FYA (CPIH deflated) | 81.284 |
| Wastewater network plus (£m) | 2017-18 FYA (CPIH deflated) | n/a | n/a |
| Bio resources (£m) | 2017-18 FYA (CPIH deflated) | n/a |
| Residential retail costs | Outturn (nominal prices) | 52.686 | 47.344 |

Table 6.2: Direct Procurement for Customers (DPC) proposals

|  |  |  |
| --- | --- | --- |
| No.  | Project name  | Total project cost (£m)2019-20 to 2049-50 2017-18 FYA (CPIH deflated) |
|  | None |  |
|  |  |  |

# Appendix 7: Trust, confidence and assurance

*Please explain how the company’s full Board has demonstrated that its governance and assurance processes will deliver operational, financial and corporate resilience over the next control period and the long term.*

*Please explain how the company’s full Board has assured themselves that the business plan will enable trust and confidence, including how the company’s Board has taken account of the decisions Ofwat set out in its decisions for PR19 business plans to* [*put the sector in balance*](https://www.ofwat.gov.uk/wp-content/uploads/2018/07/Benefit-sharing-decision-statement-FINAL-for-publishing.pdf)*.*

The capability and effectiveness of our Board is the starting point to ensuring that customers, regulators, government, stakeholders and investors can have confidence in our plan and the long-term commitments it contains.

The past performance of the business and the outcome of PR14 were followed by a change of ownership. The new shareholders understood that changes were needed and supported changes in the company’s strategy, business model, leadership team and operations. We have been building trust as we transform, recognised in being the most trusted utility in the UKCSI survey.

Our response to the challenges we face is based on strengthening the Board, improving our data and information, and increasing the effectiveness of scrutiny and challenge from senior, experienced people inside and outside the business.

Our transformation will continue and will have an increasing effect on our delivery to customers during AMP7. Since 2015, we have achieved a substantial transformation in business approach and efficiency. This has given us the scope to deliver resilience through an ambitious plan.

In 2016, following external review of the lessons to be learned from PR14 and recommendations for best practice for the conduct of PR19, the Board established the PR19 sub-committee. The Committee is chaired by the Senior Independent Director, with extensive experience of infrastructure regulation. Throughout the creation of the Plan, the Board has received regular reports from the company’s individual and strategic PR19 assurance partners, so it could interrogate and understand the scope of work, data sources and integrity, and the implications of their findings and recommendations. This has shaped an extensive and specific plan assurance statement

The full Board made all the key plan decisions, informed by the Bristol Water Challenge Panel, who will continue to help ensure that customers can have trust and confidence in our delivery.

This plan makes firm commitments, but we also provide Ofwat with confidence that part of our resilience is the adaptability that small local companies can deliver. Due to the ambition of the plan, the commitments go beyond the minimum required from the Ofwat “sector balance” expectations, and are necessary as the plan will be challenging to deliver. This adaptability will allow us, in meeting these commitments, to continue to change our approach as new information about our sector, customer and societal needs emerges. Our PR19 approach, and the Board decisions, has reflected these issues throughout.

1. **PCL met? - i**f the performance commitment level (PCL) for the reporting year was met, or is forecast to be met, enter ‘Yes’. If the PCL for the reporting year was not met, or is forecast not to be met, enter ‘No’. If a PCL has not been set for the reporting year enter "-" (hyphen). [↑](#footnote-ref-2)
2. This table includes all PR19 common performance commitments with the exception of C-Mex and D-Mex, as the design of these is different. [↑](#footnote-ref-3)