TA 17.1 Performance Commitment Forecasting Technical Annex

September 2018
Version 1.0

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Purpose:

This technical appendix provides further information on our approach to forecasting our performance for each of our PCs for the last two years of AMP6. It comprises part of the supporting evidence for business plan chapter 17 Accounting for Past Delivery.

The table below summarises the Ofwat tests that are addressed by the evidence presented in this Annex.

Table 1: Relevant Ofwat tests

Ref	Ofwat test		Comment
Primary Focus Areas			
PD2	How well has the company performed, and is forecast to perform, over the 2015-20 period and, taking into account this overall performance, how well has it put measures in place to ensure that it maintains confidence that it can successfully deliver its PR19 business plan?	High quality plan: The company will have a consistent approach to forecasting its performance for the remaining two years of the AMP. High quality plan: This will include ensuring that these forecasts are based on a combination of the previous trajectory of performance and planned interventions to affect this performance. High quality plan: This will include ensuring that these forecasts are aligned with AMP7's intended performance.	Our forecasts of operational performance for the remaining two years of AMP6 are set out in the main Accounting for Past Delivery chapter. This Annex explains: The methodology for forecasting the outcome of our performance commitments for the remaining two years of AMP6. The reasons behind any changes to forecast numbers submitted in the July submission.
Secondary Focus Areas			
CA4	Securing confidence and assurance		

Southern Water

Performance Commitment Forecasting

1. Introduction

This technical appendix describes our approach to forecasting each of our 32 PCs and SIM for the last two years of AMP6. These forecasts support the reconciliation adjustments included in our business plan.

As a general approach to forecasting, we began by considering our performance in the first three years of the AMP. We then took into consideration any remedial activity or projects, which we would expect to impact our performance relative to this historical trend. All of the final forecasts were subject to review and sign off by Southern Water subject matter experts. They have also been reviewed by PwC for consistency and reasonableness.

Note that our forecast SIM penalty has changed since our 29th July submission. This is due to the availability since then of SIM scores for all companies for 2017-18. This has allowed us to more accurately predict our penalty.

2. Basis of the forecast for each PC

Wholesale water

PR14SRNWSW_1: Water Asset Health

For the first three years of AMP6 all of the components of Water Asset Health were better than target. We expect this situation to remain the case for the remainder of the AMP and are therefore forecasting Stable performance and no ODI penalty.

Performance Commitment	2018-19 Performance Level – Forecast	2018-19 PCL Met?	2019-20 Performance Level – Forecast	2019-20 PCL Met?
Water Asset Health (rating)	Stable	Yes	Stable	Yes

PR14SRNWSW_2: Water Restrictions

We have not had any restrictions to date in this AMP. We are forecasting that we will not need to impose any restrictions for the remaining two years and hence no ODI penalty.

Performance Commitment	2018-19 Performance Level – Forecast	2018-19 PCL Met?	2019-20 Performance Level – Forecast	2019-20 PCL Met?
Water Restrictions (no. customers)	0	Yes	0	Yes

PR14SRNWSW_3: Leakage

For the first year of AMP6 we were 3 Ml/d below the target, while for 2016-17 and 2017-18 we exceeded the target by 1.7 Ml/d. The individual forecasts for 2018-19 and 2019-20 are 87.1 Ml/day and 86.2 Ml/d respectively. This results in a five-year average (on which our ODI is based) of 86.8 Ml/d, which is below the target of 87 Ml/d. No ODI penalty therefore applies.

Our forecast leakage in the final two years of AMP6 represents an improvement from our current position and reflects the forecast benefits of our leakage recovery programme, following our failure to meet our annual targets in 2016-17 and 2017-18. This programme includes increasing and optimising our active leak control efforts, faster leak repair times, better accounting for all domestic and non-household usage, and a focus on trunk main and reservoir losses. Our forecasts reflect the modelled improvements from these targeted initiatives.

Performance Commitment	2018-19 Performance Level – Forecast	2018-19 PCL Met?	2019-20 Performance Level – Forecast	2019-20 PCL Met?
Leakage (Ml/d)	-	-	86.8	Yes

PR14SRNWSW_4: Interruptions to Supply

For the first two years of AMP6 performance was better than the penalty deadband of 12 minutes and better than target of 9 minutes in 2016-17. In 2017-18 we experienced extraordinary weather conditions during the freeze/thaw event of March 2018. This led to us exceeding our target and deadband and incurring an ODI penalty. Based on our performance in 2015-16 and 2016-17, we are forecasting that - absent further extreme weather events – we will meet our target of 9 minutes for the final two years of AMP6. No further ODI penalties are therefore forecast.

Performance Commitment	2018-19 Performance Level – Forecast	2018-19 PCL Met?	2019-20 Performance Level – Forecast	2019-20 PCL Met?
Interruptions to Supply (minutes/prop/year)	9	Yes	9	Yes

PR14SRNWSW_5: Mean Zonal Compliance

Our performance on Mean Zonal Compliance has been better than target for each year of AMP6, but has deteriorated year-on-year. As a result of the observed deterioration we have put in place remedial plans to reverse this situation. We are forecasting our performance will remain static for 2018-19, with improvements being evident in 2019-20 as a result of this remedial plan. Forecast performance is better than target and therefore no ODI penalties are forecast.

Our remedial plan includes significant expenditure on water quality compliance at our treatment works. Our forecasts recognise that the benefits of this programme and investment will not be immediate - hence our static forecast for 2018-19, with an improvement expected in 2019-20.

Performance Commitment	2018-19 Performance Level – Forecast	2018-19 PCL Met?	2019-20 Performance Level – Forecast	2019-20 PCL Met?
Mean Zonal Compliance (%)	99.96	No	99.97	No

PR14SRNWSW_5a: Drinking Water Quality – Discolouration

Our performance on discoloration has been better than our target for the first three years of AMP6, fluctuating between 0.74 and 0.82. Based on this, we are forecasting that we will meet our target for the final two years of AMP6. No ODI penalties are therefore forecast.

Performance Commitment	2018-19 Performance Level – Forecast	2018-19 PCL Met?	2019-20 Performance Level – Forecast	2019-20 PCL Met?
Drinking Water Quality – Discolouration Contacts (no. per 1,000 population)	0.82	Yes	0.82	Yes

PR14SRNWSW_6: Water Pressure

We exceeded our target for water pressure in the first year of AMP6 (but remained within the deadband), but improved performance to better than target in years 2016-17 and 2017-18. On the basis of these two years we are forecasting performance in line with our target for the last two years of AMP6, resulting in no ODI penalty.

Performance Commitment	2018-19 Performance Level – Forecast	2018-19 PCL Met?	2019-20 Performance Level – Forecast	2019-20 PCL Met?
Water Pressure (no. of properties on DG2 low water pressure register)	257	Yes	257	Yes

PR14SRNWSW_7: Distribution Input

Distribution Input has been increasing from 520.6Ml/d in year one to 541.0Ml/d in year three. Performance was worse than our PC target in both 2016-17 and 2017-18. We have sought to identify the reasons for the increase and put in place mitigating actions. We expect Distribution Input to reduce as a result of these actions, but we are forecasting it remains worse than the target. This is a reputational PC so no ODI penalties are due.

The principal reasons behind the observed increase are a marked increase in our non-household consumption and the actual number of void properties versus our assumed number of void properties. Our response to this increase will be targeted water efficiency initiatives and an increased focus on voids management. We will also continue to focus on reducing leakage and PCC which will be reflected in Distribution Input.

Performance Commitment	2018-19 Performance Level – Forecast	2018-19 PCL Met?	2019-20 Performance Level – Forecast	2019-20 PCL Met?
Distribution Input (Ml/d)	536.21	No	534.75	No

PR14SRNWSW_8: Per Capita Consumption (PCC)

Our performance in the first three years of the AMP has been consistently better than our target and the reward deadband. PCC is particularly susceptible to weather patterns and we have therefore taken a conservative approach to forecasting for the final two years. Our 2018-19 and 2019-20 forecast PCC is 131.7 l/h/d for both years, which represents an increase, but is in line with the reward cap. This results in a five-year average (on which our ODI is based) of 130.7 l/head/day. This is better than the reward cap so the maximum ODI reward of £6.875m is earned.

Performance Commitment	2018-19 Performance Level – Forecast	2018-19 PCL Met?	2019-20 Performance Level – Forecast	2019-20 PCL Met?
PCC five-year average target (l/h/d)	-	-	130.7	Yes

Wholesale wastewater

PR14SRNWSWW_1: Waste Water Asset Health

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Performance Commitment	2018-19 Performance Level – Forecast	2018-19 PCL Met?	2019-20 Performance Level – Forecast	2019-20 PCL Met?
Waste Water Asset Health (rating)	Stable	Yes	Stable	Yes

PR14SRNWSWW _1a: Category 3 pollution incidents

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We continue to focus on the performance of our assets to ensure we continue to improve our pollution performance. We have improved considerably in our speed of response to a potential incident, which allows us to mitigate any impact sooner. This has resulted in our downward trajectory of incidents and we expect this improvement to continue.

Performance Commitment	2018-19 Performance Level – Forecast	2018-19 PCL Met?	2019-20 Performance Level – Forecast	2019-20 PCL Met?
Category 3 Pollution Incidents (no.)	116	Yes	114	Yes

PR14SRNWSWW_2: Internal Flooding Incidents

We have consistently reduced the number of internal flooding incidents from 492 in 2015-16 to 401 in 2017-18, a total reduction of 91 incidents. We are forecasting a continuation of this improvement over the last two years of AMP6, with a reduction of a further 36 incidents by 2019-20. This results in a five-year total (on which our ODI is based) of 2,076 which is above our target of 2,070, but within the deadband of 2,215 incidents. No ODI penalty therefore applies.

Performance Commitment	2018-19 Performance Level – Forecast	2018-19 PCL Met?	2019-20 Performance Level – Forecast	2019-20 PCL Met?
Internal Flooding Incidents (no.)	370	Yes	365	Yes

PR14SRNWSWW_3: External flooding incidents

We have been able to reduce external flooding incidents from 8,314 in 2015-16 to 7,106 in 2017-18. This is comfortably better than our target of 9,694 in each year. Our forecasts are based on the average of the first three years performance. This is a reputational PC so no ODI penalties are due.

Performance Commitment	2018-19 Performance Level – Forecast	2018-19 PCL Met?	2019-20 Performance Level – Forecast	2019-20 PCL Met?
External Flooding Incidents (no.)	7,810	Yes	7,810	Yes

PR14SRNWSWW_4: Sewer blockages

We have delivered a reduction in sewer blockages per km, from 0.56 in 2015-16 to 0.49 in 2017-18. This is comfortably better than the target of 0.58 in each year. For the remaining two years of AMP6, we have held our forecast constant at the 2017-18 performance level. No ODI penalty therefore applies.

Performance Commitment	2018-19 Performance Level – Forecast	2018-19 PCL Met?	2019-20 Performance Level – Forecast	2019-20 PCL Met?
Sewer Blockages (no. of sewer blockages per km)	0.49	Yes	0.49	Yes

PR14SRNWSWW_5: Odour complaints

This PC applies only in the last two years of AMP6, following delivery of two odour management schemes. The target is zero complaints in each year. We are forecasting to miss our target with 40 complaints in 2018-19 and two complaints in 2019-20, based on complaints received to data, and analysis of how complaints will reduce post the intervention at Portswood wastewater treatment works. This results in an ODI penalty for both years.

We missed our target in 2018-19 due to a project not meeting its implementation date. A supplier for our Portswood project went out of business causing the delayed implementation date from March 2018 to August 2018. A significant number of complaints were received in this period.

Performance Commitment	2018-19 Performance Level – Forecast	2018-19 PCL Met?	2019-20 Performance Level – Forecast	2019-20 PCL Met?
Odour Complaints at Portswood and Tonbridge (no.)	40	No	2	No

PR14SRNWSWW_6: Wastewater treatment works numeric compliance

███ We are forecasting that we will experience a maximum of three failed works per year for the remainder of AMP. This equates to 99.0% ████ ██

Performance Commitment	2018-19 Performance Level – Forecast	2018-19 PCL Met?	2019-20 Performance Level – Forecast	2019-20 PCL Met?
Wastewater Treatment Works Numeric Compliance (%)	99.0	No	99.0	No

PR14SRNWSWW_7: Proportion of Energy from Renewable Sources

This PC is based on delivering 16.5% renewable energy in 2019-20. We exceeded this percentage in 2017-18 with renewable energy representing 17.2% of our overall energy use. We expect to improve further to 17.5% by 2019-20 as a result of continued investment. This is a reputational PC so no ODI rewards or penalties apply.

Performance Commitment	2018-19 Performance Level – Forecast	2018-19 PCL Met?	2019-20 Performance Level – Forecast	2019-20 PCL Met?
Proportion of Energy from Renewable Sources (%)	-	-	17.5	Yes

PR14SRNWSWW_8: Bathing Waters to "Excellent" part 1

The target for this PC is to maintain 54 bathing waters at Excellent. In 2015-16 our performance slipped to 43 bathing waters at Excellent, incurring an ODI penalty. Performance in 2016-17 and 2017-18 improved, and while worse than target, was comfortably within the ODI deadband of 48.

Based on our 2017-18 performance of 53, we are cautiously forecasting that we will have at least 50 bathing waters at Excellent for 2018-19 and 2019-20. This is worse than the target but within the ODI deadband. Therefore we are not projecting any further ODI penalties.

Performance Commitment	2018-19 Performance Level – Forecast	2018-19 PCL Met?	2019-20 Performance Level – Forecast	2019-20 PCL Met?
Bathing Waters to "Excellent" part 1: (no.)	50	No	50	No

PR14SRNWSWW_9: Bathing Waters to "Excellent" part 2

This PC is associated with our commitment to improve seven bathing waters to Excellent by 2019-20. We are on track with these projects. The final list of beaches which have been agreed with our CCG for improvement are:

- Minster Leas
- Leysdown
- Deal Castle
- Worthing
- Middleton-on-Sea
- Selsey
- Shanklin

Performance Commitment	2018-19 Performance Level – Forecast	2018-19 PCL Met?	2019-20 Performance Level – Forecast	2019-20 PCL Met?
Bathing Waters to "Excellent" part 2: (no.)	0	Yes	7	Yes

PR14SRNWSWW_10: Bathing Waters to "Excellent" part 3

This PC requires us to return a portion of our funding if the re-estimated costs of the seven bathing water schemes is below the deadband of £24.56m. The estimated costs of the seven schemes following full scheme investigations was £25.7m, so no ODI penalty is due.

Performance Commitment	2018-19 Performance Level – Forecast	2018-19 PCL Met?	2019-20 Performance Level – Forecast	2019-20 PCL Met?
Bathing Waters to "Excellent" part 3: (£m)	-	-	25.7	Yes

PR14SRNWSWW_11: Serious pollution incidents

We have been able to reduce serious pollution incidents from 7 in 2015-16 to 4 in 2017-18, meeting our reduction target in each year. For the remaining two years of AMP6, we have a target of two and zero incidents. While we expect to continue to improve, we are conservatively forecasting that we will be worse than our target with three incidents in 2018-19 and two in 2019-20. This is a reputational PC so no ODI rewards or penalties apply.

One of the key challenges in this area is identifying problems before they cause a serious pollution. In some instances, we are not aware of a potential pollution incident and only become aware when notified by the EA. This can happen up to 14 days after the discovery. By working more collaboratively with the EA and other stakeholders, we expect to be able to put in place mitigating actions (even if the incident is not caused by our sites) earlier and reduce the impact of an incident.

Performance Commitment	2018-19 Performance Level – Forecast	2018-19 PCL Met?	2019-20 Performance Level – Forecast	2019-20 PCL Met?
Serious Pollution Incidents (no. category 1 and 2 incidents)	3	No	2	No

PR14SRNWSWW_12: Avoiding blocked drains

Our target for this PC is to improve performance year on year. We have achieved this in the first three years of AMP6 and are forecasting that we will continue to deliver year-on-year improvements for the remainder of AMP6. This is a reputational PC so no ODI rewards or penalties apply.

Performance Commitment	2018-19 Performance Level – Forecast	2018-19 PCL Met?	2019-20 Performance Level – Forecast	2019-20 PCL Met?
Avoiding blocked drains (percentage of customers aware of avoidance measures)	79	Yes	80	Yes

PR14SRNWSWW_13-15: Thanet, Woolston and Millbrook Scheme Projects

These PCs each relate to investment schemes that we committed to delivering in AMP6. Progress to date is in line with expectations and we therefore expect to deliver the improvements by the required dates. Therefore we are not projecting any further ODI penalties.

Performance Commitment	2018-19 Performance Level – Forecast	2018-19 PCL Met?	2019-20 Performance Level – Forecast	2019-20 PCL Met?
Thanet Sewers (scheme delivery)	-	-	Met	Yes
Woolston STW (scheme delivery)	-	-	Met	Yes
Millbrook Sludge (tonnes dry solid removed)	-	-	6,000	Yes

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Household retail

PR14SRNHHR_1: First Contact Resolution

Our performance has remained static through AMP6 at 67%, significantly worse than our target to improve each year from 80%. We are forecasting minimal improvement over the last two years of AMP6. This is a reputational PC so no ODI rewards or penalties apply.

Performance Commitment	2018-19 Performance Level – Forecast	2018-19 PCL Met?	2019-20 Performance Level – Forecast	2019-20 PCL Met?
First Contact Resolution (percentage of customer contacts resolved first time)	68	No	69	No

PR14SRNHHR_2: Dealing with Customers Individual Needs

Our performance has declined marginally from our first year's performance from 66% to 64% compared with our target to improve year-on-year from 76%. We are forecasting a marginal year-on-year improvement for the last two years of AMP6, but we expect to remain below the opening target of 76%. This is a reputational PC so no ODI rewards or penalties apply.

We continue to gather information about our customers and their needs through an extensive insight programme, which we believe will allow us to modestly improve our survey score.

Performance Commitment	2018-19 Performance Level – Forecast	2018-19 PCL Met?	2019-20 Performance Level – Forecast	2019-20 PCL Met?
Dealing with Customers Individual Needs (percentage of customers agreeing with survey statement)	65	No	66	No

PR14SRNHHR_3: Awareness of Water Hardness

Our performance has deteriorated since the start of AMP6 from 57% awareness. We are forecasting a slight improvement in 2017-18 performance and then for awareness to remain static in 2019-20. This is a reputational PC so no ODI rewards or penalties apply.

We continue to hone the online messages and social media awareness about water hardness, targeted to specific geographic areas impacted by water hardness.

Performance Commitment	2018-19 Performance Level – Forecast	2018-19 PCL Met?	2019-20 Performance Level – Forecast	2019-20 PCL Met?
Awareness of Water Hardness (percentage of customers aware of water hardness measures)	57	No	57	No

PR14SRNHHR_4: Where your Money Goes

Our performance in 2015-16 was a marked improvement on the baseline (60.0% vs 35.1%), but has deteriorated in 2016-17 and 2017-18. We are forecasting a marginal year-on-year improvement for the last two years of AMP6, but we expect to remain below the 2015-16 position of 60%. This is a reputational PC so no ODI rewards or penalties apply.

We will continue to try to improve our performance. We are reviewing all of the financial information that we publish. This includes clear infographics in publications such as the annual report. This will be tested with customer groups to check awareness and understanding. A value for money campaign around the value of water is planned for autumn 2018.

Performance Commitment	2018-19 Performance Level – Forecast	2018-19 PCL Met?	2019-20 Performance Level – Forecast	2019-20 PCL Met?
Where your Money Goes (percentage of customers aware of where their money goes)	58	No	59	No

PR14SRNHHR_5: Billing Queries

In 2015-16 our performance was slightly above the PC target. However, in 2016-17 we refined our reporting processes, followed a system change, which increased the level significantly above the target. Performance declined further in 2017-18. We are forecasting a recovery in our performance, but to a level that remains very much worse than our target. This is a reputational PC so no ODI rewards or penalties apply.

We expect to improve our performance over the last two years of AMP6 as a result of a number of improvement initiatives. These include: an award winning 'one bill' initiative with South East Water; the creation of a dedicated home move team; and the creation of an online portal to allow customers to more easily communicate with us.

Performance Commitment	2018-19 Performance Level – Forecast	2018-19 PCL Met?	2019-20 Performance Level – Forecast	2019-20 PCL Met?
Billing Queries (no.)	168,000	No	151,200	No

PR14SRNHHR_6: Take-up of Assistance Schemes

Our performance on this PC has been significantly better than target in all years of AMP6. By 2017-18 the number of customers assisted was 229,843, beating our target of 217,100 for the whole AMP. We are conservatively forecasting that we will continue to increase the number of customers helped each year. This is a reputational PC so no ODI rewards or penalties apply.

Performance Commitment	2018-19 Performance Level – Forecast	2018-19 PCL Met?	2019-20 Performance Level – Forecast	2019-20 PCL Met?
Take-up of Assistance Schemes	240,000	Yes	260,000	Yes

PR14SRNHHR_7: Value-for-Money

Our performance in 2015-16 was an improvement on the baseline (61% vs 53%), but has deteriorated in 2016-17 and 2017-18. We are forecasting a slight recovery in 2018-19 and then for our performance to remain static in 2019-20. This is a reputational PC so no ODI rewards or penalties apply.

We will continue to try to improve our performance. We are reviewing all of the financial information that we publish. This includes clear infographics in publications such as the annual report. This will be tested with customer groups to check awareness and understanding. A value for money campaign around the value of water is planned for autumn 2018.

Performance Commitment	2018-19 Performance Level – Forecast	2018-19 PCL Met?	2019-20 Performance Level – Forecast	2019-20 PCL Met?
Value-for-Money (percentage of customers who feel they get value-for-money)	57	No	57	No

PR14SRNHHR_8: Service Incentive Mechanism

Based on our average forecast for the whole of the AMP compared to our peers, we are now forecasting that we will incur the maximum SIM penalty of £36.4m. This is an increase compared with our July 2018 submission, when we forecast a lower penalty of £34.9m. The increase in our forecast is because the SIM scores of other companies improved more in 2017-18 than we predicted. For the purposes of forecasting our penalty, we have conservatively assumed no improvement in our own score.