

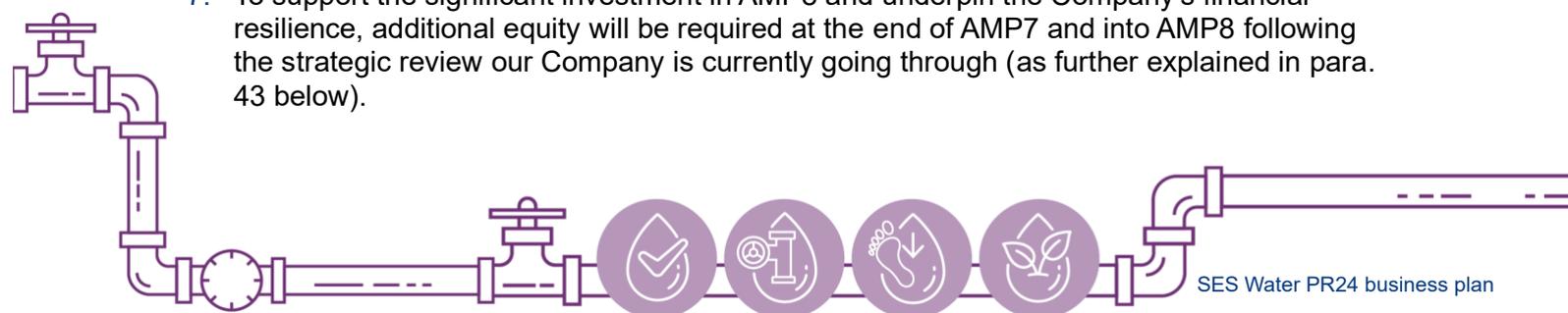
Chapter 2: Executive summary



1. Executive summary

Introduction to our business plan for 2025 to 2030

1. Our business plan sets out how we will further improve our service to customers between 2025 and 2030. It will enable us to deliver our purpose – **to harness the potential of water to enhance nature and improve lives** – which recognises our unique role in society, one where through our day-to-day business we can deliver additional benefits beyond the provision of safe, clean and reliable drinking water.
2. Our plan balances a number of factors including performance ambition, deliverability and affordability for customers. It builds on years of strong, and in many cases industry leading, performance and is the next step in our forward-looking and targeted investment programme which will deliver our vision to:
 - Transform our performance through digital innovation and smart technology where we aim to be one-step ahead, solving issues before they become problems and making systems-based, intelligence and data-led decisions about our approach and investment for the future;
 - Build the trust of our customers so they value water and the service we provide and are willing to play an active role in helping us tackle the challenges facing our local environment and our water supplies; and
 - Enhance the environment and provide our local communities with wider benefits from our day to day business activities so we improve the lives of current and future generations.
3. We will continue to be amongst the best in the industry in the areas that matter most to our customers including water quality, leakage reduction, supply resilience and environmental sustainability at what is considered an affordable bill level. Our advanced use of innovative technology will continue to deliver performance improvement and contribute to moving the whole industry forwards, enhancing the service received by customers across the country and helping to restore and rebuild trust in the water sector.
4. We will work proactively to enhance nature and improve the environment by reducing pollutants. Furthermore, we'll help our customers avoid wasting the water they pay for by eliminating leaks and wastage from homes and businesses and providing practical support that enables everyone to manage their water use as efficiently as possible.
5. Our plan also plays its part in increasing the resilience of water supplies across the water-stressed South East. Reducing leaks and wastage and achieving a lower and more sustainable level of water use will contribute to delivery of the regional water resources plan and enable water to be moved around our supply area and the region. It will help to reduce our reliance on some water sources where it may not be sustainable to continue to abstract at the rate we do today, helping to improve the environment for future generations.
6. It is an ambitious plan that reflects our customers' priorities. Average water bills will need to rise by c£25 per year from c£237 in 2024/25 to c£262 in 2029/30 (in 2022/23 prices excluding inflation) – a 10.5% increase – to help fund the extra investment we propose.
7. To support the significant investment in AMP8 and underpin the Company's financial resilience, additional equity will be required at the end of AMP7 and into AMP8 following the strategic review our Company is currently going through (as further explained in para. 43 below).



8. We believe our plan is deliverable and it has been comprehensively assured by our Board.

Shaped by our customers

9. Our business plan has been based on meaningful engagement with our customers. We have developed a deeper understanding of our customers and communities than ever before and have listened and understood their priorities and expectations.
10. We have, through engagement, research and customer challenge understood our customers' short and long-term priorities and identified areas where they want us to do more. That means we are going to fast track reducing leaks, improve the sources that provide our water, accelerate lead pipe replacement to help keep our water supplies safe and make our treatment works and network more resilient as the climate changes.
11. We will work more closely with our customers to achieve our goals such as lowering household and business consumption. We will transform how we engage with our customers, so they play an active role and work with us to reduce wastage and use water more efficiently. Making such a significant transformation to our customers' relationships with us and how they use water will be dependent on us continuing to build trust and using enhanced data and digital technology to deliver more targeted and proactive communication.
12. Our customers have told us they accept our plan and the investment it includes. However, we understand that some have concerns about whether they can afford the proposed rise in bills in the current economic environment. To mitigate this concern, we are proactively targeting our communications to customers who may need our help as well as proactively supporting customers to reduce their usage and therefore bills through programmes such as smart metering. With respect to financial support, we will continue to help those who are struggling financially through our social tariff and other schemes. Between 2025 and 2030, 25,000 customers will benefit from our social tariff (about 8.0% of our customer base).

Planning ahead for the future

13. Our business plan for 2025 to 2030 is set in the context of the long-term. Through our first long-term delivery strategy we have looked 25-years ahead and plotted a core adaptive pathway for the future, containing a series of no and low regrets investments over the next five years which will enable us to achieve our future performance ambitions and prepare us for the impacts of climate change and a growing population (with our household customer population expected to grow by c2.7% over AMP8 and up to c14.5% by 2050 from current levels).
14. It includes further investment in smart technology, which is already transforming how we operate our network and enhancing the service we provide. As the first UK water company with a fully smart network, we will boost this technology to incorporate more sensors and provide smart meters to our customers. This means we will be able to manage the use of the precious resource we supply as closely as possible and rapidly respond to leaks and bursts that waste water and risk interrupting our customers' supplies. We will also extend smart technology to all our water treatment works and pumping stations so our water will be monitored from source to tap – a first for the UK water sector.
15. We will maximise the use of advanced technology to help us understand the condition of our underground pipes without needing to dig them up, reducing cost, disruption and effectively targeting future investment. Together this will help transform us into a predictive business that foresees issues and addresses them before they become



problems and will enable us to always deliver best value for customers and the environment.

16. This focus on resilience will extend to our water treatment works, helping to protect them from the impacts of – and reducing their contribution to – climate change. It will also deliver solutions that enhance our local rivers and protect our water sources, so they remain clean and healthy and are able to adapt as the climate changes while providing resilient water resources and sustainable ecosystems.
17. Should the future be different to what we expect we have identified alternative investments that could be needed. We will monitor the rate of climate change and population growth closely and adapt if we need to. We're also prepared to reduce abstraction from some of our existing water sources and replace those supplies.

Improved outcomes for our customers and the environment

18. Over the next five years we have built our plan around four priority areas that together address all aspects of our business and performance. Under each area we have set short-term performance commitments that this plan will deliver, and which move us towards delivery of our long-term ambitions. We are seeking stretching performance.
19. We will continue to keep our drinking water quality the highest in the industry and maintain this strong performance to 2050 and beyond.

Provide high quality water from sustainable sources

20. We will always provide high quality water that is fully compliant with regulatory standards.
21. We will continue to receive amongst the fewest customer contacts in the industry about the taste, smell and appearance of our water, maintaining our current performance until 2030 and reduce the number of contacts we receive by half by 2050.
22. We will continue to soften water to the target level, supported by the proposed associated capital expenditure in the early years of the AMP.

Deliver resilient water supplies from source to tap with minimal wastage

23. We will reduce leakage to 17.8MI/day by 2030, a 26.6% reduction from 2019/20 levels and reduce by over 62% by 2050, exceeding (by 12.5%) the Government's target of 50% leakage reduction by 2050 and in line with our customers' expectations.
24. We will continue to steadily reduce water supply interruptions over the next five years and maintain our industry leading performance. By 2050 we will eliminate all supply interruptions longer than three hours.
25. We will continue to have one of the lowest number of mains repairs (bursts) in the sector, will make reductions in these levels by 2030, and then reduce bursts by 50% from 2019/20 levels by 2050.
26. We will reduce and maintain unplanned outages at our water treatment works at 1% of our peak week production capacity throughout the period and eliminate unplanned outage by 2050.

Reduce your water footprint and charge a fair and affordable price

27. We will reduce per capita consumption 26% by 2050 from 2019/20 levels so that our customers can achieve the Government's domestic water use target of 110 litres per person per day.
28. We will help reduce business water use by 5% from 2019/20 levels by 2029/2030 and nearly 17% by 2050.



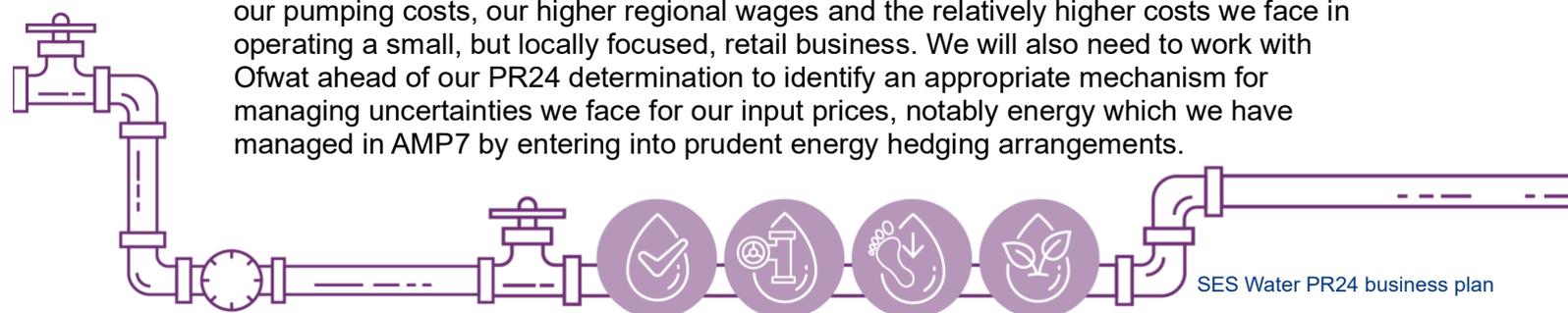
29. We will improve customer satisfaction so we perform consistently above the water industry median in C-MeX by 2030 and we will be achieving consistently higher levels of satisfaction by 2050.
30. We will also improve the service we provide to our developer customers, so we consistently perform above the industry median in D-MeX.
31. We will take a customer-orientated approach to working with water retailers, so we perform strongly against the new BR-MeX performance metric.

Improve the environment and have a positive impact on the local area

32. We will cause no serious pollutions incidents and remain fully compliant with our discharge permits between 2025 and 2050.
33. We will nominate 80% of our land for biodiversity net gain, generating marginal improvement over the next period and a 25% improvement by 2050. Informed by our Water Industry National Environment Programme (WINEP) work, we will also nominate third-party land to deliver additional biodiversity net gain, working in partnership with others and focusing on nature-based solutions.
34. We will reduce our operational greenhouse gas emissions by 17% by 2030 (compared to 2021/22 levels) and using a combination of market- and location-based interventions, achieve net zero carbon emissions by 2050.

Efficient costs with targeted enhancement investment

35. Between 2025 and 2030 we will spend £413 million, an increase of £13.3m per annum compared to the 2020 to 2025 period (in 2022/23 price base).
36. Our expenditure plans are efficient and stretching because:
 - We have challenged ourselves to deliver ambitious performance improvements over the next five years from a combination of the base expenditure we incur to maintain and run our wholesale and retail businesses (£360.2m) and additional enhancement spend (£52.8m);
 - We have benchmarked our costs as efficient against others in the industry, applying upper quartile efficiency benchmarks for our wholesale and retail costs respectively, which we consider to be challenging and stretching targets;
 - Our base cost forecasts include a stretching 1.0% p.a. target for ongoing 'frontier shift' efficiencies to be achieved in our costs over AMP8, this is particularly ambitious when considered alongside the improved outcomes we are also seeking to achieve from our base expenditure in AMP8; and
 - We have selected only the best value options for enhancements in AMP8 based on our investment appraisal processes and modelling using a recognised valuation framework to ensure that we are stretching ourselves to deliver only low regrets, high benefit-to-cost ratio investments, that are needed in AMP8 to support our core investment pathway in our long-term delivery strategy.
37. Our expenditure plan is predicated on Ofwat accepting a small number of well justified cost adjustment claims in its base cost assessment. These claims are related to our unique legal requirement to soften water, the topography of our supply area increasing our pumping costs, our higher regional wages and the relatively higher costs we face in operating a small, but locally focused, retail business. We will also need to work with Ofwat ahead of our PR24 determination to identify an appropriate mechanism for managing uncertainties we face for our input prices, notably energy which we have managed in AMP7 by entering into prudent energy hedging arrangements.



38. We have identified £56m of enhancement expenditure, focussed on areas where we need to act to protect our service from the impact of climate change, deliver improvements required by law or regulation or deliver a step-change in performance for customers – all of which are identified in our long-term delivery strategy. They are organised into five clusters and include:

(a) Drinking water quality enhancement - £9m:

- Installing UV treatment at two of our water treatment works to remove the risk of Cryptosporidium; and
- Replacing the lead pipes that supply 170 schools, colleges and nurseries to protect young people most at risk from lead exposure.

(b) Enhancing the resilience of our treatment works and processes - £7m:

- Making our water treatment works more resilient to climate change and security threats; and
- Rolling out smart technology across our water treatment works and pumping stations.

(c) Additional leakage reduction and enhanced network resilience - £10m:

- Increasing our leakage reduction activity and further enhance our smart network; and
- Embedding our DMA¹ Asset Health initiative that uses no-dig technology to assess the condition of our water mains, so we target our future maintenance and mains replacement programmes as efficiently as possible.

(d) Smart water customer experience - £24.5m:

- Funding the accelerated installation of 194,000 smart meters to further reduce leaks, help customers to lower their water use, integrate and analyse all our supply and demand data from source to tap to improve our performance; and
- Enhancing how we use data to engage with our customers, open our data and put the necessary cyber security in place to protect our customers.

(e) Environmental enhancement - £5m:

- Delivering our additional statutory WINEP schemes, environmental enhancement and biodiversity gains notably across our Bough Beech estate and within the wider Eden catchment.

Financially resilient with the right balance between risk and returns

39. Our PR24 business plan incorporates various components as specified by Ofwat, including TOTEX, official forecasts of inflation, the early view of allowed return and retail margin, PAYG levels and RCV run-off rates and is financeable on an actual and notional basis.

40. However, our financeability in AMP8 is dependent upon:

- Additional equity investment (modelled at £35m between 2024/25 and 2026/27) following the conclusion of the ongoing strategic review (in addition to the £22m receivable in 2023/24);
- Ofwat's acceptance of our TOTEX plans, and related efficiency assumptions;

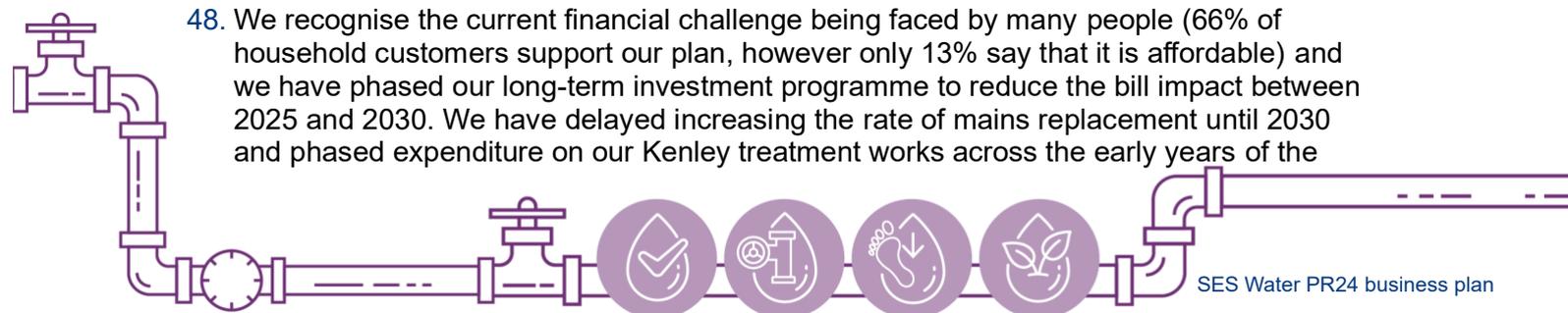
¹ DMA refers to a District Meter Area



- Retaining a RCV run-off rate of 7% consistent with PR14 and PR19 levels;
 - No downward movement in Ofwat's early view of allowed return and the inclusion of a company-specific uplift to the cost of debt after customer consultation of 30bps; and
 - Effective and efficient debt raising activity from late 2023 onwards, including a private placement bond offering in November 2023 and re-financing of our indexed-linked bond commencing in 2027.
41. On this basis we will be financially resilient throughout the period to 2033 as evidenced by our stress-testing of various Ofwat and company-specific scenarios (with the headroom to raise additional debt in our covenants sufficient to address these scenarios except for certain extreme single or combined scenarios, which would require further debt or equity funding).
 42. Our forecast financial metrics indicate the Company achieving, on average across AMP8, a credit rating of Baa1 under Moody's assessment criteria, albeit marginally, with as a minimum a solid credit rating of Baa2. However, achieving a credit rating of Baa1 is caveated with the need for solid operational and regulatory performance, TOTEX spend in line with final allowances from Ofwat, continued equity injections as detailed in our financing plan for 2023 to 2026, and absent any adverse macro-economic factors.
 43. Our assessment of risk associated with delivery of our business plan identifies an asymmetric RoRE range skewed to the downside, primarily due to the Company's exposure to the large adverse financial impacts of not meeting some of the ambitious performance commitment targets, notably PCC and business demand reductions, and not achieving our financing goals. The downside skew is probably exacerbated by likely financing underperformance from our inflation linked long-term bond. This downside risk can, to some degree, be mitigated via Ofwat accepting as part of our determination the introduction of lower ODI rates or additional collars on certain PCs and our company-specific uplift in the allowed cost of capital as part of our determination.
 44. Our dividend and executive pay policies conform to Ofwat's Final Methodology guidance and take account of recent letters from Ofwat to CEOs across the sector on enhancing dividend and executive pay policies.
 45. As noted in our APR 2023, our shareholders have commenced a strategic review of the Company, together with the other entities in the ESH Group, which may lead to the sale of the Company. This strategic review is envisaged to complete on or before 31 December 2023. In the event that the strategic review results in the sale of the Company, the Board expects that as part of the process of transferring the Company's water supply licence, a new owner would be required to confirm appropriate ongoing funding arrangements, which the Board believe would include c£35m of new equity. A new owner may of course wish to review and possibly amend the Company's plan.
 46. We will continue to proactively engage with our regulator to ensure that we have a financeable package to support the delivery of our ambitious business plan for customers.

Affordable for customers

47. Delivering our plan will require bills to rise by c£25 per year from c£237 in 2024/25 to c£262 in 2029/30 (in 2022/23 prices excluding inflation) a c10.5% increase.
48. We recognise the current financial challenge being faced by many people (66% of household customers support our plan, however only 13% say that it is affordable) and we have phased our long-term investment programme to reduce the bill impact between 2025 and 2030. We have delayed increasing the rate of mains replacement until 2030 and phased expenditure on our Kenley treatment works across the early years of the



AMP. The former means we can enhance our understanding of the condition of our pipes to target investment as efficiently as possible, so we deliver best value in the future. We've reduced the pace of our carbon reduction programme to further spread the cost to customers of achieving net zero.

49. We will continue to protect our customers who have financial challenges ensuring support is in place for those struggling to pay both temporarily and permanently.

Deliverability

50. Supply chain capacity and general resource availability concerns have rightly required an enhanced focus since the Covid pandemic and resultant economic impacts felt globally, particularly so with the water sector as it approaches what will be a larger programme of works over AMP8. Whilst we are not immune to these concerns and their implications, we assess our specific risk here to be medium to low.
51. Ensuring we remain an attractive client, with a focus on high degrees of predictability around work volumes and payment terms and focusing on supply chain partners that are suited to delivering the needs of a water-only company, will remain a key focus for us as we approach our next round of strategic procurement activity over the next 12-18 months.
52. Our concerns around smart meter availability have been largely placated as more companies have viable offerings and supply chain capacity in what is a buoyant global market for such devices, which the UK's plans play a small but important part in this. We also remain confident in the labour market, where we continue to attract high-calibre candidates from diverse backgrounds, keen to move into a comparatively stable sector with an employer not tarnished by many of the challenges faced elsewhere in the sector.
53. Our proposed deliverables in AMP8 compared with AMP7 vary considerably in terms of how our expenditure is being invested, for example our smart water customer experience enhancement case expenditure is broadly split between 38% (£9.4m) for meter assets and installation costs with the remaining 62% (£15.1m) for supporting technology, infrastructure, professional services, and systems licencing. Amongst other areas of base and enhancement expenditure within our plan, this means our requirements in terms of supply chain skills and expertise are more diverse and technology-orientated than in AMP7. This increase in supply chain diversity is mitigated by our digital strategy² which has enabled us to access a range of approved and tiered partners for globally recognised and resourced systems and technologies (e.g., Salesforce, Microsoft, Azure), therefore, accessibility and availability of such resources is considered resilient and low risk with regards to deliverability.

Assured and owned by our Board

54. The Company's Board has been integral to the governance surrounding the development and submission of the LTDS and this business plan. The wide-ranging breadth of professional experience and knowledge of board members has been applied where it could add most value and the assurance workstream has been overseen by the senior independent non-executive director.
55. The business plan, including data tables and compilation of supporting information, has been developed following well established Company systems and processes with associated internal assurance checks prior to the application of external assurance, where required.
56. The Board has taken account of Ofwat's general requirements for the LTDS and business plan and the more specific expectations in respect of assurance. The Board have

² SES042 Digital, Data & Cyber Appendix

provided direction and challenged management throughout the planning process, sought supporting assurance, and are confident that:

- The data and information that underpins the justification for our future plans is both accurate and consistent;
- The elements of our PR24 business plan submission add up to a high quality, stretching and ambitious plan that aligns to the Company's established purpose to harness the potential of water to enhance nature and improve lives;
- The plan for 2025 to 2030 is deliverable with the resources proposed, and will support the Company's long-term vision to transform performance through digital innovation and smart technology, to build the trust of our customers so that they value water and the service we provide, and to enhance the environment and provide local communities with wider benefits from our business activities;
- The plan reflects the priorities of our customers and communities that we serve;
- The innovation demonstrated in AMP7 across our operations continues into AMP8;
- The plan will deliver outcomes that are consistent with our legal and licence obligations, the Government's strategic policy statements and regulatory guidance and will deliver industry leading performance in a number of areas; and
- The plan will deliver operational, financial and corporate resilience, both in the period to 2030 and in the longer term.

