

Anna Bradley
Chair Southern Water CAP

21 June 2018

01903 272603

Dear Anna

Customer Advisory Panel Advice Note 2: Target 100

Many thanks to you and the rest of the CCG for your recent advice note (Advice Note 2) on Target 100.

I am, like you, enthusiastic about the Target 100 proposals and I believe it is right for the company to step-up its ambition in this area. We have shown genuine industry leadership in demand management over the last ten years starting with our successful universal metering programme. As well as reducing demand by around 16%, metering provided us with the platform to enhance our efforts during AMP6 to help customers reduce how much they use. The last five years have been crucial for us to increase our understanding of customer behaviour and how to best influence change. As you set out in your note, we have tried a range of pilot initiatives which have provided us with a much richer understanding of what works best, and the costs and resources needed to deliver such activity.

Government and our regulators expect demand reduction to be central to our plans and the recent report by the National Infrastructure Commission set some longer-term targets which we support and are committed to achieving, if not exceeding. We have actively supported the Commission's work over the last two years by providing evidence and technical expertise and their assessment has shined a light on what is needed to increase the long-term resilience of our service. In particular we have thrown our support behind their recommendation to increase the pace and scale of metering. Something we are lobbying government on to make compulsory across the country

Before we committed to scaling up our demand management activity, it was important that we understood our customers' priorities and confirmed they support investment in increased water efficiency activity and our target to reduce demand further. I am pleased to say that our customer and stakeholder engagement programme has consistently shown support for more activity and increasingly ambitious targets in this area, backed by a clear expectation from Government that more should be done to reduce demand and increase long-term resilience.

Now that we have a clear mandate from our customers to take things further, our attention has turned to how we scale up our activity to deliver our ambitious Target 100. Under the leadership of Helen Simonian, Director of Wholesale Water Services, we have begun work to develop an integrated programme of activity, focussed on reducing customer demand. In addition to the common performance commitment of PCC reduction, we are proposing additional bespoke performance commitments focussed on the number of customers using less than 100 litres per day and the estimated volume of water saved because of our water efficiency visit programme. These will provide an important focus for our activity and clear targets to measure success.

Helen and the team are currently developing a long-term strategy for delivering Target 100, with particular focus on the next five-year period. This will be based on learnings from our customer behaviour change activity carried out during AMP6, as well as looking at a wider evidence base both within and outside the industry, pulling in support from experts in this area. As part of this work we will clearly define both our short and long-term targets.

It is worth adding that, while the Target 100 core measure relates to average household consumption, we have not forgotten the importance of business and other non-household customers, whose usage constitutes more than 20% of total water into supply. While the opening of the retail market means we are one step removed from these customers, we have been actively seeking opportunities to work with retailers to promote the efficient use of water by their customers.

For example, in September last year we held a water efficiency conference for retailers, where we shared information about our water resources challenges and the opportunities to work in partnership with retailers on water efficiency. While the take up has been limited, as the market settles down we are starting to see more positive signs from retailers, with both Business Stream and the Water Retail Company being very vocal about their water efficiency offerings recently.

We also recognise the importance of agricultural water use and have been working closely with farmers in the Rother Valley, in conjunction with the Arun & Rother Rivers Trust. Initially this has focused on water quality risks but we will shortly be introducing water efficiency to this forum.

Over the next few years we want to work more closely with retailers and agricultural water users and we will ensure that as we build the Target 100 plan, business and non-household customers as well as the farming community are included. I agree with your advice that the business should use its planning capability to set out a clear, costed plan to scale-up the pilots that have been most successful and set timeframes for delivery. We will be committing appropriate resources and expertise to develop this over the coming months. By doing this it will allow us to identify the interdependencies between different areas of the business and ensure that activity is aligned and fully supported across the company.

We will also do more to influence how new homes across our region are built. We've already offered to waive our Infrastructure Charge for new homes that connect to our network, if they are built to a high water efficient specification. We will continue to engage with housing developers, local planners and Government to make water efficiency the norm in future developments. We are progressing an initiative in Ebbsfleet which involves working with communities to reduce consumption to below the Target 100. Where they do, we and the developers involved will provide funding to WaterAid to carry out important work overseas to provide safe access to water. This is part of achieving our outcome to increase the value of water in our daily lives.

We anticipate that the performance commitments within our Business Plan for this area will all be subject to Outcome Delivery Incentives and as such will be linked to company performance targets over the five-year period, providing the incentive for all teams across the business to support activity to achieve the targets. In addition, I anticipate there will be a number of employees who have specific KPIs associated with delivering Target 100.

I do not wish to pre-empt the outcome of our review and planning work, but I am confident that incentivising positive water use behaviour will be central to our approach. Not least because it has shown to be effective through our pilot work and our customers and stakeholders strongly support it. I agree that to do this we need to increase customer engagement and participation

and provide customers with real-time data about how much water they use. This is why we've put forward another bespoke performance commitment to increase the number of households with a device to provide them with information about their daily water consumption.

Supporting vulnerable customers is a key theme that runs throughout our plan. Our experience during AMP6 is that providing targeted water efficiency advice to help such customers is highly effective, both in terms of reducing their usage and bill but also to increase their overall engagement with the company.

Providing clear and transparent reporting is critical, as it is with all our Business Plan targets, to demonstrate to our customers and stakeholders the level of progress we are making and providing confidence in our performance. We will be sharing our proposal for this with the CAP in due course and welcome your expert advice on how we can best deliver this in a way that is engaging and meaningful for customers.

The team and I are committed to progressing our plans in this area at pace so they ready for delivery in AMP7. Your note has provided some timely advice to help focus our planning and once we have developed our proposed programme we will share it with the CAP for further advice and challenge.

In the meantime, if there is anything else you wish to raise, please don't hesitate to contact me.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Bill Tame', with a long, sweeping underline that extends to the right.

Bill Tame
Chairman
Southern Water