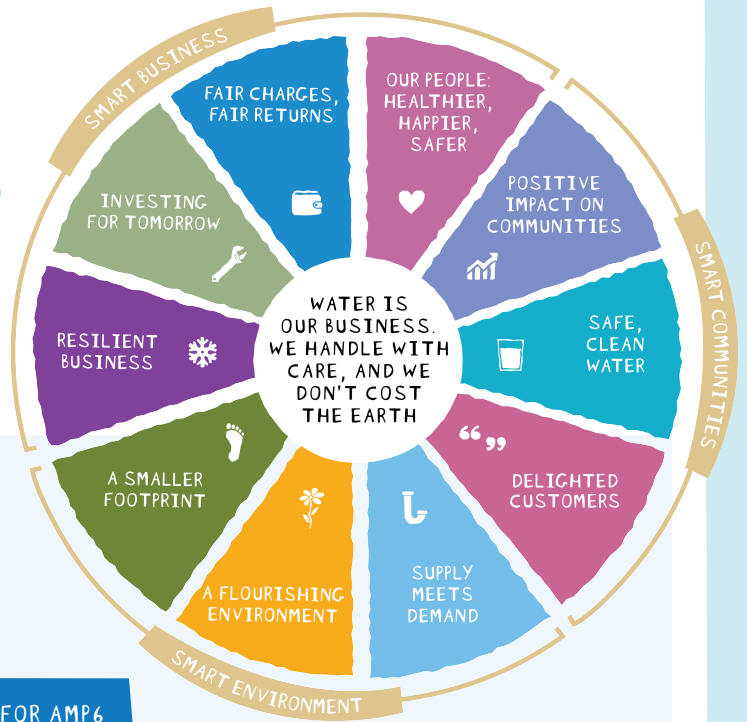


# OUR LEADING PERFORMANCE

We have a history of strong performance over the last three AMPs which shows that we can deliver exceptional outcomes for our customers. This creates a platform that allows our region and our customers to prosper.



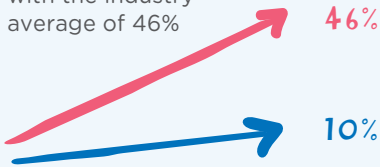
## FRONTIER ODI PERFORMANCE

We have met, or are forecast to meet, 91% of our performance commitments.

WE ARE FORECASTING A NET ODI REWARD OF £60M FOR AMP6

### JUST A 10%

increase in our bills (smallest of all companies) since privatisation compared with the industry average of 46%



### CUT OUR CARBON EMISSIONS

57% reduction on 2010 levels



### FRONTIER PERFORMANCE ON LEAKAGE

Our leakage is half the national average by water lost per kilometre of pipe



### BILLS HAVE FALLEN AROUND -10%

in the last five years, twice the industry average



### NUMBER ONE IN SIM

for customer service in 2017/18 and consistently in the upper quartile



### 7 MINS 24 SECS

ahead of target for interruptions to supply, despite having to cope with the challenges from the freeze-thaw



### £165M OF EFFICIENCIES

reinvested in resilience, digital and customer initiatives



### LEADING ON RESILIENCE

through work with Water UK, Water Resources East and National Infrastructure Commission



### WATER QUALITY: LESS THAN 5%

of national average since the measure was developed



# OUR PLAN AT A GLANCE

AMP7 is a five-year stepping stone in our long term 25-year vision. AMP6 has put us in a great place and, over the coming years, we will move closer to achieving our four Strategic Direction Statement ambitions.

## OUR STRATEGIC DIRECTION STATEMENT 25 YEAR AMBITIONS



MAKE THE EAST OF ENGLAND RESILIENT TO THE RISKS OF DROUGHT AND FLOODING



ENABLE SUSTAINABLE ECONOMIC AND HOUSING GROWTH IN THE UK'S FASTEST-GROWING REGION



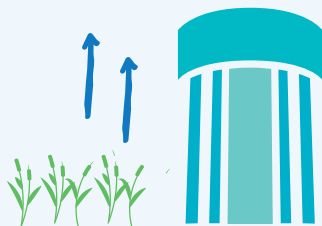
WORK WITH OTHERS TO ACHIEVE SIGNIFICANT IMPROVEMENT IN ECOLOGICAL QUALITY ACROSS OUR CATCHMENTS



BE A CARBON NEUTRAL BUSINESS BY 2050

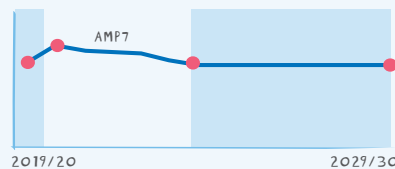
**c.30% INCREASE**

in our proposed investment compared to AMP6



**LESS THAN 1% INCREASE IN BILLS**

to deliver enhanced resilience and environmental obligations



**OVER £1.5 BN**

to be invested in resilient water supplies and a flourishing environment



**MORE THAN 80%**

of our customers agreed our proposed bill changes were both affordable and acceptable



**OVER HALF A MILLION**

customer interactions have co-created our plan - ten times more than our last plan



**ENSURING TRUST AND CONFIDENCE**

reducing levels of debt and making independent non-executives the majority of our board



**WE WILL OFFER SUPPORT TO 475,000**

customers, who have affordability issues in each year of AMP7

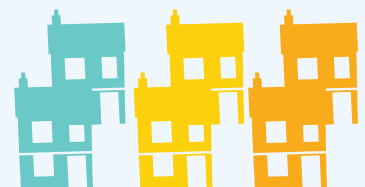


**22% REDUCTION**

in leakage by 2025 and 50% by 2050 from an already frontier position



**SERVING OVER 200,000** new homes in AMP7



# 1. EXECUTIVE SUMMARY

## 1.1 The right plan for our customers, and our region

We believe this is the right Plan for our customers, and our region. It builds on our historic achievements; acknowledges where we have further to go; and creates a platform that allows our region and our customers to prosper. It also responds positively to the priorities on resilience and affordability that Government set out in its Strategic Policy Statement to Ofwat.

Our Plan responds to the specific challenges facing our region, the most noteworthy of which are:

- rapid housing and economic growth and
- a changing climate

in a region which is already water-stressed, contains many ecologically sensitive wetlands and has a low-lying topography that supports the most significant agricultural production in the UK.

In our Plan, we identify how we will address these challenges and meet our environmental obligations. Doing so requires a step change in investment. Our [Water Resource Management Plan](#) (WRMP) for PR19 is nearly eight times larger than at PR14, delivering resilience through an extensive smart metering and demand management programme, as well as enhancements to supply. In parallel, our Water Industry National Environment Programme (WINEP) expenditure is more than double the PR14 level and is driven by the unique nature of the environment in our region.

This means bills will increase by a small amount, less than 1 per cent over the AMP – a number that may have been higher had we not robustly challenged the way in which these programmes will be delivered and driven the greatest degree of efficiency we have ever proposed into our Plan. Bills will go up in the early years before resuming their long term downward trajectory, such that bills at the end of the AMP will be at the same level as the beginning.

Investing in these programmes accords with the clear preferences of our customers, expressed through an engagement programme that is ten times larger than it was at PR14 (where Ofwat cited our approach as “leading”).

More than half a million interactions with stakeholders and customers made it clear that they want us to invest now to continue the war on leaks; to enable sustainable growth; to increase resilience to drought and flood; and to enhance our natural environment.

This proposal for a very modest bill increase must also be seen in the context our historic bill profile. At PR14, we reduced our bills by more than twice the industry average. And since privatisation, we have had the lowest increase in bills of any company: our bills have gone up just 10 per cent, against an industry average of 46 per cent.

Crucially, we acknowledge (and our customer engagement shows) that a small number of customers may struggle to pay their bills. For that reason, we have detailed how we will deliver a step-change in the support we provide for them and those who may be vulnerable.

We can be trusted to deliver our Plan, not least because our operational performance is very strong. We have the best performance in areas we know matter most to customers, such as service and leakage. Recent events such as this year’s freeze-thaw and prolonged dry spell – neither of which impacted on our customers despite facing similar challenges to the rest of the country – clearly illustrate our ability to deliver the service our customers expect, regardless of the scale of the challenges we face.

Additionally, our unique alliancing and supply chain structures mean we can deliver what customers want with maximum efficiency, both in the long term and over the shorter period covered by our Plan.

As a company recognised by Business in the Community as Responsible Business of the Year, we took the lead in taking rapid and far-reaching responses to the legitimacy challenges posed to the industry. We were the first to close our dormant Cayman Island company, the first water company to raise sustainable finance in the form of a sterling bond listed on the green bond segment of the London Stock Exchange and have taken multiple steps to improve transparency and show that we understand the importance of societal trust and the role we play in communities.

## 1.2 Customers have shaped our Plan, and our long term direction

The breadth and depth of the customer and stakeholder engagement undertaken to create our Plan is on a scale and of a nature that we have never before undertaken.

Recognising the long term nature of our business, we undertook detailed customer engagement to refresh our 25 year Strategic Direction Statement (SDS), first published in 2007. In consultation, we set out the challenges facing our region, and proposed four long term ambitions. Customer challenge suggested an ambition we posed relating to digital transformation was something we should simply do as part of our business. At the same time, stakeholders made clear their desire for us to add a long term ambition to improve the ecological quality of our catchments.

In response, we revised our latest SDS to reflect this clear feedback. This positive response to challenge is indicative of the way we have carried out all of our engagement in the creation of our Plan.

Our SDS ambitions are central to our region's future, and our Plan is a critical stepping stone in our ability to deliver them:



Building on our SDS consultation, we worked with our customers to co-create the most appropriate mechanisms for widespread engagement, jointly developing the consultation programme that resulted in the creation of our

Plan. More than 38 channels of engagement and in excess of half a million interactions have been synthesised and reflected in our Plan.

Our co-created engagement programme asked customers to make difficult trade-offs, informed by the specific challenges of a region that is growing very quickly and is particularly susceptible to the impacts of climate change. We will continue to invite customers, stakeholders and our Customer Engagement Forum (CEF) to hold us to account for delivery through our outcome performance commitment measures.

We also consulted with customers on our response to the challenge to improve trust and confidence in the sector, following comments from the Secretary of State and Ofwat in March 2018. We received very positive responses to our proposals – all now enacted – which include:

- removing a dormant Cayman Company from our structure (becoming the first in our sector to do this)
- enhancing transparency and repaying an inter-company loan of £1.6 billion
- committing to degear during AMP7 through a significant reduction in dividends to shareholders
- moved to a majority of independent non-executive directors on our Board
- and reinvesting £165 million of outperformance in this AMP to make an early start on our resilience plans.

This is indicative of our willingness, as Responsible Business of the Year, to act quickly on controversial issues. This approach was strongly welcomed by customers when we engaged with them on these specific questions.

### 1.2.1 Long term investment driven by what matters to customers

Our customers tell us that they do not want to delay investment in making our region more resilient. Our Plan responds by proposing twin-track investment in demand management and supply side enhancement on an unprecedented scale. This will increase our resilience to drought and flood.

Underpinning this, and supported by our customers, are proposals to take our already frontier leakage performance even further. These advance us towards our long term goal of halving leakage by 2045, taking us to world-leading levels.

This is supported by programmes to significantly reduce per capita consumption, driven by our WRMP plan which kick starts our smart meter rollout, targeting the installation of more than a million smart meters by 2024/25.

We have also taken a long term view of customer needs in relation to water recycling. We are the only company to have produced a Water Recycling Long Term Plan as a partner to our WRMP. It takes a 25 year view, ensuring we plan ahead on water recycling in a similarly adaptive way to our approach to Water Resources.

### 1.2.2 What matters to the environment

Our WINEP lays out the expectations placed on us to meet statutory obligations. Our customers rank environmental enhancement highly, so we have worked extensively with Defra, the Environment Agency and Natural England to devise a programme which meets these obligations in the most environmentally beneficial and cost effective way, utilising natural capital solutions – an area we have pioneered – where possible. Crucially, we have kept affordability for customers at the front of our minds in doing this.

The scale of WINEP obligations varies across water companies. The topography and economy of our region, made up of slow-moving rivers, rapid housing growth and extensive agriculture means our WINEP is significantly larger in AMP7, and contains 20

per cent of the total, national obligations. However, we have just 10 per cent of the nation’s customers.

## 1.3 Bills and affordability

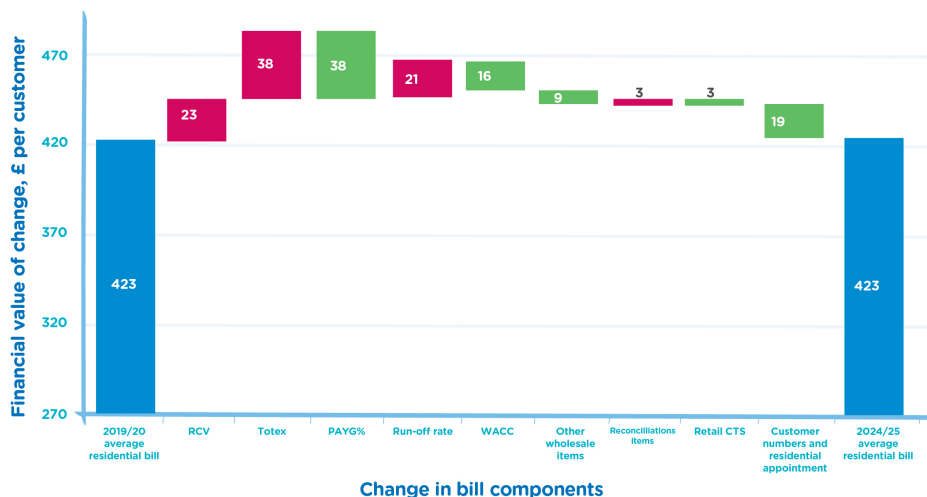
### 1.3.1 Affordability in the short term

The modest increase in bills proposed in AMP7 is the result of significant investment proposed in our WRMP and WINEP which customers support. Bills go up for a short period before resuming their downward trajectory, and the bill at the end of AMP7 is at the same level as at the start. To put this into context, if our WINEP investment was at the same level as AMP6, our average bills would be decreasing by 0.3 per cent over the AMP. If both WINEP and WRMP were at the same level of investment as the previous AMP average bills would be falling by 3.1 per cent over AMP7.

The proposed level of bill change is well within the bounds of what a large majority of customers considered acceptable, if that increase was enabling investment in resilience and environmental enhancement. Our proposed increase is much lower than the 2.5 per cent rise that four out of five customers supported during our extensive customer engagement, including our innovative “Be the Boss” game.

We are significantly increasing the assistance we provide for those who may struggle to pay their bills. The proportion of customers in this situation varies depending on the source used but is consistently less than one fifth of our customers.

Figure 1 Bill movement between PR14 and PR19

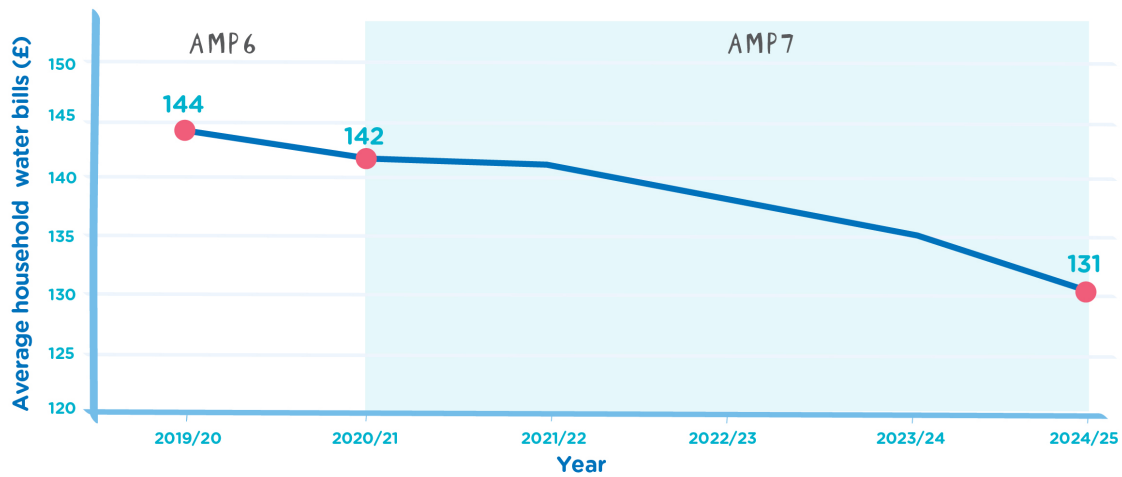




Hartlepool Water bills are projected to fall by 4.7 per cent during AMP7. This is because we have made investments in improving the resilience of Hartlepool in this AMP.

Also, the WINEP does not have an impact, and the WRMP investments in our Plan are to enhance resilience in the east of England and do not benefit Hartlepool customers.

**Figure 2 Hartlepool future average bills (2017/18 price base)**



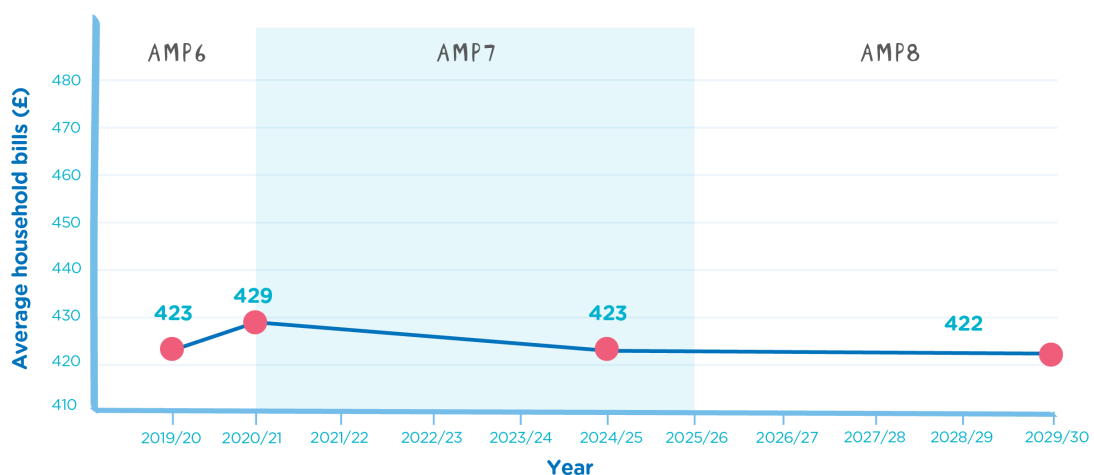
### 1.3.2 Affordability in the longer term

We see the use of proven natural capital solutions – such as the treatment wetland we have developed at Ingoldisthorpe, Norfolk – as a cornerstone of a plan that is both affordable, and maximises environmental benefits for our region. We are therefore delighted that detailed discussions with the Environment Agency, and the early success of the Ingoldisthorpe scheme, mean we are able to consider 34 WINEP schemes as candidates for natural capital solutions between 2020 and

2027. These schemes are likely to be more affordable and reduce the use of carbon, as well as enhancing our natural environment.

We recognise that not all of the future investment drivers are within our control, nor is the political and regulatory landscape. However, we have sought to project investment assumptions and bill profiles beyond 2025. We will return to a long run downward trajectory for bills after a short period of increase, to cover the costs of very significant investment in WINEP and WRMP.

**Figure 3 Anglian Water future average bills (2017/18 price base, AMP8 based on projections)**



### 1.3.3 Affordability for all

Notwithstanding the broad support for our Plan, we are aware that a sizeable minority (around 17%) of our customers did not support increases in bills. And a similar percentage report difficulties in paying their bill at some point.

Our Plan sets out the research we've undertaken to understand the drivers of affordability, which reach far beyond the water bill. We believe that what is often referred to as 'water poverty' is symptomatic of wider household affordability challenges, as the water bill alone is very rarely the single cause of household poverty.

Our proposed response to this builds on some areas of pioneering work in AMP6, but also takes learning from our peers. The result is a dramatic step-change in the number of customers we intend to help, and the quality of the support we will provide them. We will have the capacity to assist 475,000 customers a year with our affordability schemes. This reflects the analysis of the customers in our region who may have affordability problems, where we own the billing relationship.

The support we will offer includes help with budgeting, support on benefit maximisation, and driving down bad debt through behavioural economics. Our benefits maximisation approach has seen customers involved realise

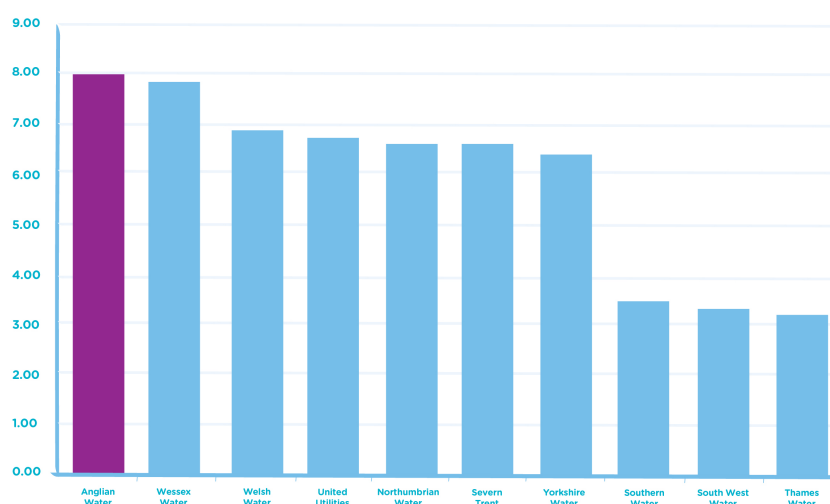
an average £2,900 annual increase in benefits where they have unclaimed entitlements – more than an average household's total water bills across an entire AMP.

In addition to this, we will support our customers who find themselves in vulnerable circumstances. This support will be underpinned by two Performance Commitments. One will measure our success in increasing the number of customers on our Priority Services Register to our target of 382,000 by 2025; and the other will make use of an independent panel who will assess our performance against our vulnerability strategy. Drawing lessons from the energy sector and in response to feedback from our Customer Engagement Forum, we propose any and all financial reward generated by these two ODs will be ringfenced for further support of customers in need of additional help.

### 1.4 Stretching performance for AMP7

We believe our performance over the last three AMPs has shown we can deliver exceptional outcomes for our customers. Most recently, when comparing company performance using seven of the metrics that customers tell us matter most to them, our analysis suggests that we are setting the standard for our industry.

Figure 4 Average performance score 2017/18



Source: Discover Water (analysis done by AWS, for detail please see Chapter 16. Accounting for past delivery)

The chart in figure 4 above draws from published performance statistics on customer service, delivery of performance commitments, acceptability of drinking water, environmental performance, customer satisfaction (water and waste water) and leakage to derive a score for relative performance. The results are calculated by converting each company's score for each measure into a score between 10 (best) and 0 (worst) then calculating an average.

But we want to go further than our current industry-leading performance levels, and we acknowledge that our customers expect that of us.

As part of the consultation on the revision of our SDS, our customers told us we needed to refresh our ten outcome goals, to take account of their increased expectations of us. This matches the rising expectations we have of ourselves.

Our revised outcome goals, agreed with our customers and stakeholders are detailed below, alongside the performance commitments we are proposing to measure progress in delivery of these outcomes.





# THE OUTCOMES OUR CUSTOMERS EXPECT AND OUR PERFORMANCE COMMITMENTS

**Key**

- Financial Incentive
- Reputational Incentive

**A+**  
Total mains bursts

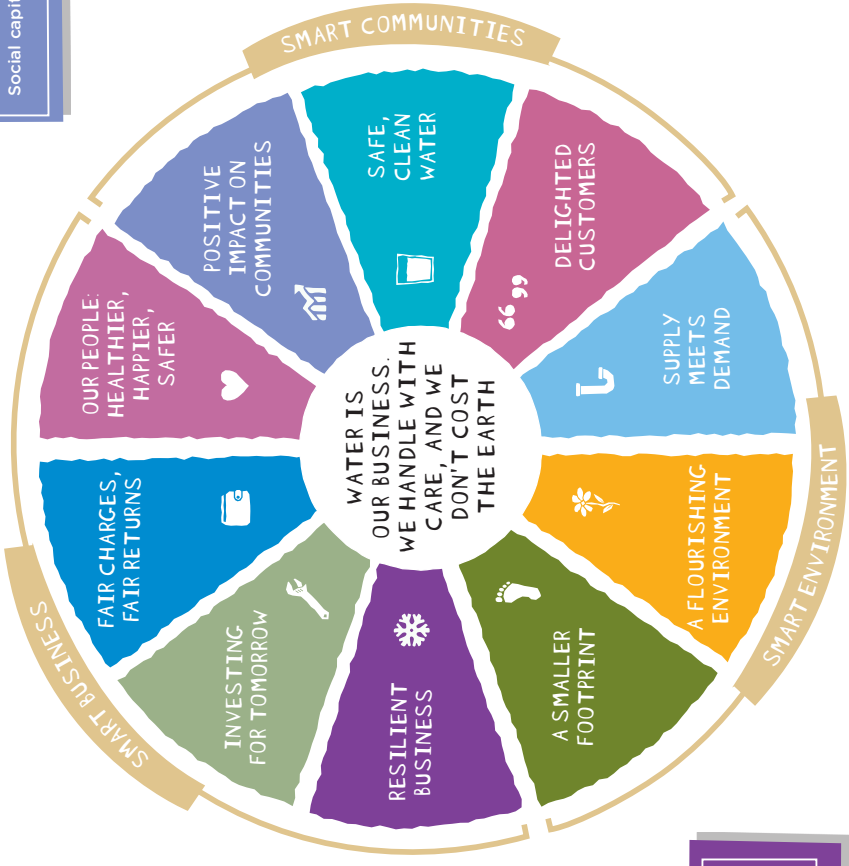
**£**  
Reactive mains bursts  
Unplanned outage  
Sewer collapses  
Treatment works compliance  
Properties flooded externally from sewers  
Properties at risk of persistent low pressure

**A+**  
Risk of severe restrictions in a drought  
Risk of sewer flooding in a storm

**£**  
Percentage of population supplied by single supply system

**A+**  
Operational carbon  
Capital carbon

**A+**  
Managing void properties



**A+**  
Social capital

**A+**  
Compliance Risk Index  
Compliance Risk Index (2) - Supply Points  
Event Risk Index

**£**  
Compliance Risk Index (1) - Water Treatment Works  
Compliance Risk Index (3) - Service Reservoirs  
Compliance Risk Index (4) - Water Supply Zones  
Water quality contacts

**£**  
Water supply interruptions  
Properties flooded internally from sewers  
Customer Measure of Experience (C-MeX)  
Developer Measure of Experience (D-MeX)  
Non-Household Retailer Satisfaction

**£**  
Per Capita Consumption  
Leakage

**A+**  
Natural Capital

**£**  
Pollution incidents  
Bathing waters attaining excellent status  
Abstraction Incentive Mechanism  
Water Industry National Environment Programme

Customer engagement has been central to the development of our performance commitment measures since PR14, and all measures, levels and incentives we are proposing between 2020 and 2025 have been extensively tested with customers.

### Some examples of what our Plan will deliver for our customers and our region include:

- ensuring none of our customers will be at risk of severe water restrictions in a severe drought
- reducing the number of internal sewer flooding incidents by 24 per cent
- reducing the duration of water supply interruptions experienced by the average customer by 50 per cent
- increasing resilience in our supply systems and reducing the proportion of customers supplied by a single system from 46.3 per cent today (2017/18) to 14.1 per cent by the end of AMP7
- aiming to have **no** serious pollution incidents and reduce the number of other pollution incidents by 25 per cent.

In addition, our **leakage targets** are particularly ambitious, not least because they respond directly to our customers and stakeholders who consistently tell us that this is an iconic issue for them, and their perception of our industry. We already set the industry frontier performance on leakage, but – with customer support – we plan to go further. We are proposing to reduce our leakage by a further 22 per cent between 2017/18 to 2024/25. Our proposed performance commitment level was supported by 82 per cent of household customers. Our proposed enhanced leakage reward for delivering this ambition was explicitly tested with more than 5,000 customers, 78 per cent of whom supported it. Beyond 2025, we intend to go even further: our target is a 50 per cent reduction in leakage by 2045.

Our ODI proposals have been extensively scrutinised by our Board; the Customer Engagement Forum and its sub-panels; our external assurance providers; and our customers, including through our online community. This scrutiny and subsequent feedback has resulted in a number of changes, including the introduction of a social capital

ODI, a revised approach to our proposed natural capital ODI, and more stretching targets in a number of areas.

Overall, our ODI range for AMP7 spans from the opportunity for potential outperformance payments of £292 million, to the potential to incur underperformance penalties totalling £422 million.

## 1.5 Investment and cost efficiency overview

We are proposing investment of more than £6.5 billion maintaining and enhancing wholesale and retail services during 2020-25.

The most significant areas of our totex plan include:

- £240 million to drive down consumption and the leakage frontier even further (including Smart Metering)
- £630 million to make the region resilient to the risks of drought and flood through our WRMP investment, nearly an eight-fold increase in the scale of investment in AMP6
- £783 million to support our flourishing environment through delivery of our WINEP programme
- £650 million to enable sustainable growth by investing in our water and water recycling networks
- £40 million to protect drinking water quality through catchment management
- £3.7 billion to maintain the vital services we provide to customers (i.e. total Botex)

We are proud of our track record as an increasingly efficient business, and our historic sharing of the benefits of this with our customers. In AMP7, we propose a further step change in efficiency, setting ourselves challenging future productivity assumptions of 1 per cent per annum on all areas of spend. We have tested our base costs against published and peer-reviewed cost models to ensure we are hitting stretching targets. Proposing this target means we expect to continue to outperform the wider UK economy between 2020 and 2025.

## 1.6 Financeability and financial resilience

We have built our Plan using Ofwat's indicative Weighted average Cost of Capital (WaCC). We intend to raise the majority of our debt to finance our capital expenditure programme in the form of sustainable green finance.

We have engaged with our customers on a number of key issues on financeability, including the rate of depreciation we should use. Through direct engagement on this question, customers told us they wanted the costs of assets to be recovered in line with the rate at which those assets were used. In our Plan, we will move from our current position towards the natural depreciation rate, but have held back on moving all the way, in order to keep bill increases to a minimum.

Our Plan is financeable on both an actual and a notional basis, but the combination of factors within Ofwat's methodology, and a very low WaCC, means our ratios are only just above the required levels.

## 1.7 Board assurance

Our Board provides assurance that our Plan is financeable on both a notional and actual basis.

Our Board has been fully engaged in the development of our Plan and has confidence in its quality, along with the depth and breadth of customer engagement that has shaped it and the assurance processes underpinning it. They are also confident of the deliverability of the proposals within our Plan, recognising that it will nonetheless be very stretching. Full details of how our Board has challenged our Plan, assured itself that it delivers long term resilience, is of high quality, responds to evidenced customer views and is consistent with Government policy priorities as expressed in its Strategic Policy Statement is set out in the Board Assurance Statement.

Our Plan has been shaped by our customers from the outset, and the extent of that engagement is far beyond anything we have undertaken before. This gives our Board confidence that our Plan is the right plan for our customers, and our region.

Our Plan is also challenging, operationally and financially. We will deliver stretching operating performance for our customers through our ODIs and the efficient investment that enables it.

We continue to hold ourselves to the highest standards of transparency and exceptional corporate governance. It is an approach which our customers demand and ensures that we remain trusted to deliver both for AMP7 and beyond. Our approach has been recognised externally, not least through the company being named as Responsible Business of the Year for 2017/18 by Business in the Community.