

January 2018

Trust in water

Service delivery report 2016-17

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This report provides information on the services delivered to customers by the 17 largest water and wastewater companies ('companies') for whom we set price controls. It looks at their performance in relation to the commitments each company agreed to when we set price controls for the period 2015 to 2020 in the 2014 price review (PR14).

At PR14, we required companies to talk to and listen to their customers about the services they wanted companies to deliver over the long term ('outcomes'); the specific levels of service or outcomes they expected companies to deliver ('performance commitments'); and the level of any outperformance payments and underperformance penalties for meeting or exceeding them ('outcome delivery incentives' or 'ODIs'). Companies must report annually on their performance on their outcomes in an Annual Performance Report (APR).

We expect the comparisons we make in this report, together with the information water companies publish themselves, to highlight areas of good and poor performance. This information will help us and others – such as customer groups, environmental groups and investors – to hold companies to account.

At PR14, companies set their own performance commitments, which led to a number of similar, but not identical, definitions. As a result, it is not always possible to directly compare companies' performance in the current control period.

There are core performance commitments that all customers across Wales and England value highly. We consider it is beneficial for all companies to therefore have a core of commitments with common definitions. These include commitments related to the quality and reliability of the water and wastewater supply, resilience, asset health and customer service.

We are requiring companies to include these common performance commitments for the 2020 to 2025 price control and are working with them to ensure these are reported on and defined in a consistent way.

This report draws on information published by individual companies in APRs for the year to 31 March 2017. We have also considered other publicly available information to highlight issues for the sector, including information published by Water UK on [Discover Water](#).

Introduction

Key points

Overall
sectoral
performance

Performance &
resilience

Glossary

Overall sectoral performance

We monitor overall sectoral performance across a number of areas. We expect companies to be working hard towards meeting their operational commitments, and striving for greater efficiencies, while also increasing levels of customer trust and satisfaction.

- **Overall performance against commitments**– Most companies met over 60% of their performance commitments for 2016-17, although the range varies. Companies need to work hard to deliver the increasingly stretching performance commitments through to the end of the control period and beyond. When we set price controls for 2020-25, we are expecting companies to set stretching performance commitments with a greater proportion linked to financial incentives (see slide 5) .
- **Totex performance**– Good management can improve performance, lower cost and deliver long-term planning and resilience. We expect all companies to be able to demonstrate to stakeholders how they are targeting improvements in service and cost performance in the context of a long term resilient services to customers. Over the first two years of the current price control period, a majority of companies have reported cost efficiencies beyond those anticipated at PR14. This will help set the efficiency challenge going forward, but should not be achieved at the expense of poorer service standards. The reported Return on Regulated Equity (RORE) figures show that most companies reporting on outperformance on expenditure have also reported outperformance of performance commitments with financial delivery incentives but this is not universal (see slide 6).
- **Customer service and satisfaction** – Customer service and satisfaction has increased in 2016-17 compared with the previous year. This is a positive sign given the importance of a continuing focus on high levels of customer service alongside making efficiency savings and delivering value for money. When we set price controls for 2020-25, we will use the customer measure of experience (C-MeX) to improve the experience of residential customers and the developer services measure of experience (D-MeX) to improve the experience of developer services customers in England and Wales. These will provide stronger incentives to improve service and allow companies to take more innovative approaches to delivering high levels of service to customers (see slide 7).

Introduction

Key points

Overall sectoral performance

Performance & resilience

Glossary

Performance and resilience

This report highlights information on a number of broadly comparable performance commitments that relate to companies' day to day operations.

- 1. Leakage** – In the next price control period, companies will be expected to set significantly more stretching commitments on leakage. In 2016-17, performance has slightly worsened compared with 2015-16, with some companies missing performance commitments (see slide 8).
- 2. Water supply interruptions** – Supply interruptions have a direct impact on customers and unplanned interruptions can also be a sign of problems with asset health. Last year there was, on average, a decrease in the length of supply interruptions across the sector (see slide 9), although five companies did report an increase.
- 3. Sewer flooding** – With most companies targeting reductions in sewer flooding over the 2015-20 price control period, reported performance in 2016-17 shows some companies have more to do to ensure they meet their committed performance levels (see slide 10).
- 4. Mains bursts** – While the number of burst mains has reduced substantially since privatisation, when a burst occurs it can have a major impact on water supply and local communities. Performance in 2016-17 was broadly in line with previous years (see slide 12).
- 5. Water quality contacts** – The [Drinking Water Inspectorate](#) reports on company performance against the strict standards that apply to drinking water. For the current control period, companies also set performance commitments for contacts from customers on specific characteristics of water such as taste, odour and discolouration. There remains more work for companies to do to meet their commitments on these aspects of service (see slide 13).

Introduction

Key points

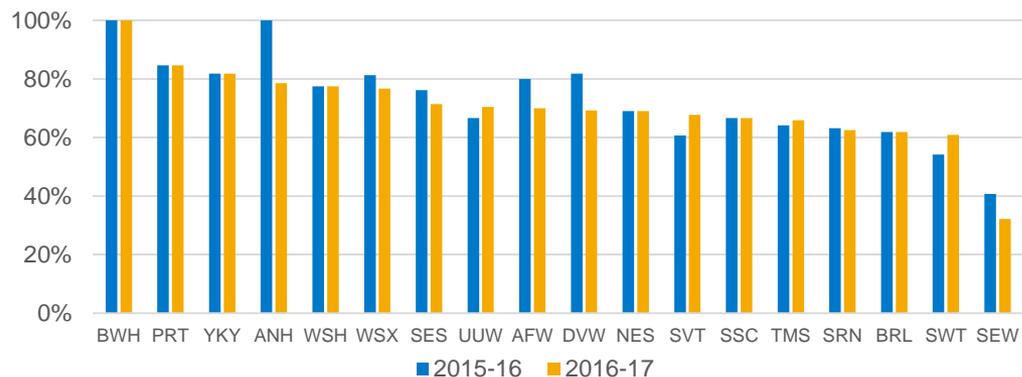
Overall
sectoral
performance

Performance &
resilience

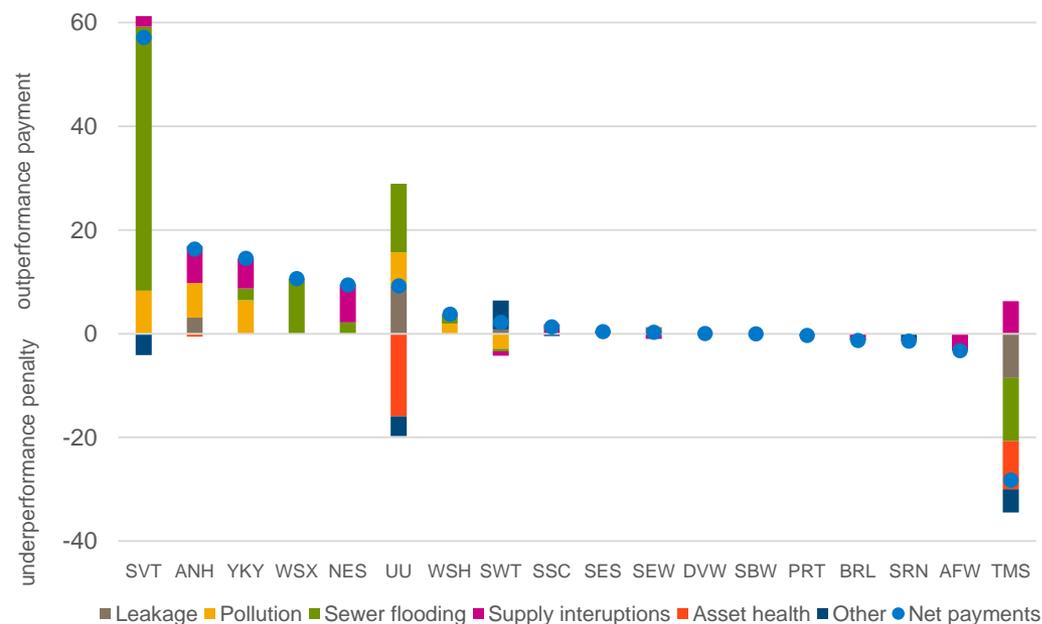
Glossary

Overall delivery against performance commitments

Performance commitment level – % met by company



Cumulative financial performance on outcomes – (£m)



Most companies met over 60% of their performance commitments for 2016-17, although the range varies. Companies are incentivised to meet and exceed their performance commitments through a mixture of financial and reputational incentives and will need to work hard to deliver the increasingly stretching performance commitments through to the end of the control period.

For the 2015-20 control period, financial incentives were focused on a subset of performance commitments that customers identified as a priority.

So far, companies report outperformance payments for meeting or exceeding performance commitments of £167m. These payments will only be made where customers receive a higher level of service than promised. Companies also report underperformance penalties of £76m, money will be returned to customers because they are not receiving the service promised. These payments reflect specific companies' performance against customer priorities such as sewer flooding, leakage and supply interruptions.

When we set price controls for 2020-25 we expect companies to set stretching performance commitments with a greater proportion linked to financial incentives to provide incentives for companies to continue to improve across all aspects of service. We expect to use the performance of the best companies in 2015-20 to help inform the commitments for all companies in 2020-25.

Introduction

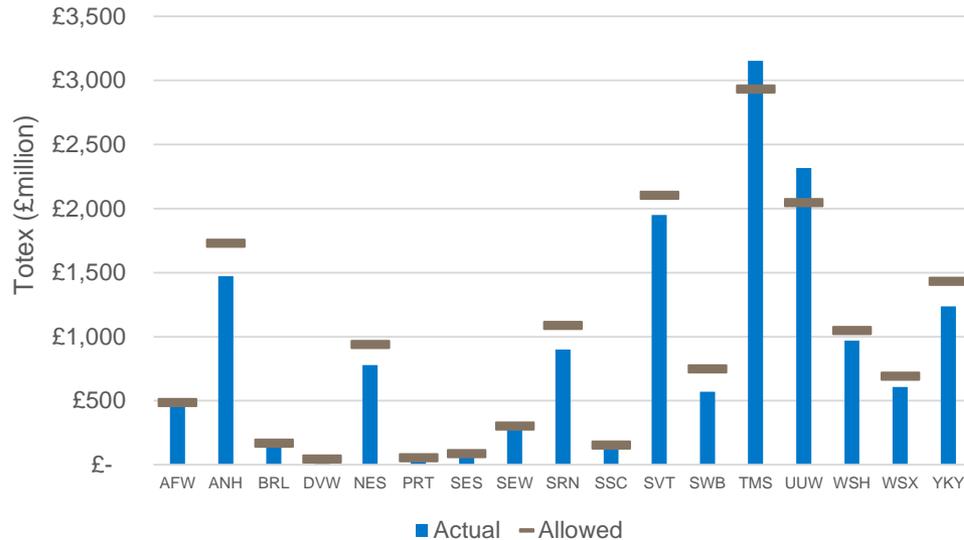
Key points

Overall sectoral performance

Performance & resilience

Glossary

Cumulative water and wastewater totex – Actual compared to Allowed



RORE performance – Outcomes and expenditure only



*Expenditure performance includes the RORE impact of both wholesale water and wastewater totex spending vs allowances as well as spending on both retail controls.

In the top chart, we present companies' actual wholesale total expenditure (totex) for the first two years of the price control (blue bars), against their allowances at PR14 (dashes). The chart shows some variation between companies' totex performance, but - on average - actual totex is lower than their allowances. However, this difference could be due to a range of factors, from efficiency improvements to re-profiling of investment plans.

In order to understand companies' totex performance more clearly, we need to look at their Return on Regulated Equity (RORE). We show the RORE impact companies are reporting from expenditure performance* together with the RORE impact of companies' performance on their outcomes, taken from information presented in our [Monitoring financial resilience report](#).

Good management can improve performance, lower cost and deliver long term planning and resilience. We expect all companies to be able to demonstrate to stakeholders how they are targeting improvements in service and cost performance in the context of a long term resilient services to customers.

Over the first two years of the current price control period, a majority of companies have reported cost efficiencies beyond those anticipated at PR14. This will help set the efficiency challenge going forward, but should not be achieved at the expense of poorer service standards. The reported Return on Regulated Equity (RORE) figures show that most companies reporting on outperformance on expenditure have also reported outperformance of performance commitments with financial delivery incentives but this is not universal.

Conversely, most companies reporting underperformance on expenditure also report underperformance of performance commitments.

Introduction

Key points

Overall sectoral performance

Performance & resilience

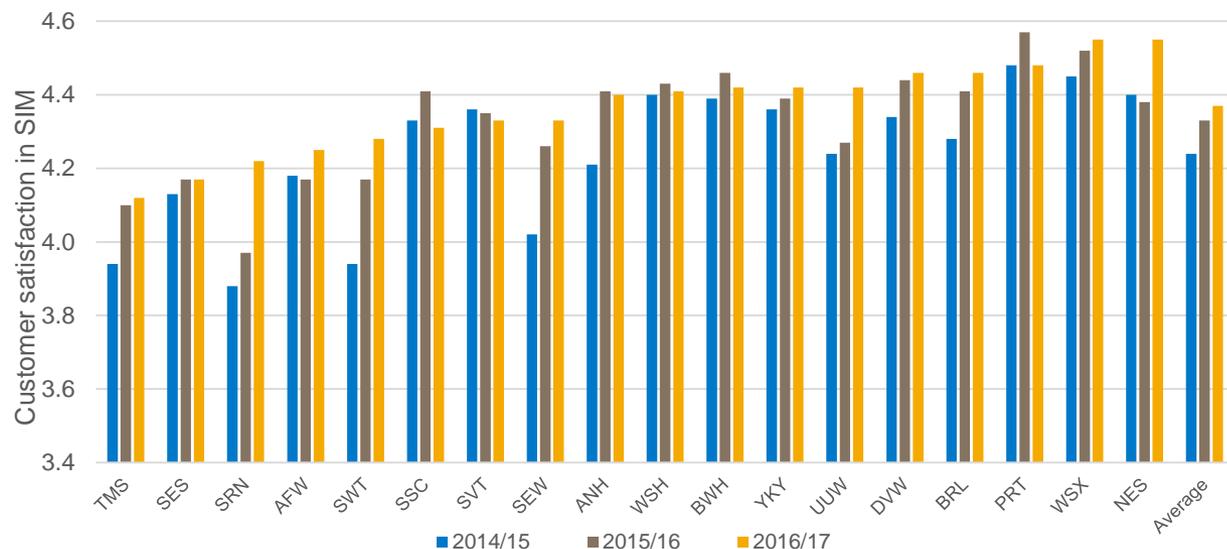
Glossary

Measuring levels of customer service

Customer satisfaction, as measured by the Service Incentive Mechanism (SIM)¹ increased in 2016-17 compared with the previous year (see table). Customer satisfaction also improved, on average, across the sector in 2016-17. Customer satisfaction is an important measure of how customers feel about the services companies provide and we expect companies to work hard to continue to provide good service and think of ways of improving customer satisfaction.

Company	Overall SIM score
Portsmouth Water	87.7
Wessex Water	87.5
Northumbrian Water	87.5
Bournemouth Water	86.5
Dee Valley Water	86.0
Bristol Water	85.9
Anglian Water	85.6
United Utilities	85.4
South East Water	84.6
South Staffordshire Water	84.4
Severn Trent Water	83.6
Yorkshire Water	83.4
Dŵr Cymru	82.9
South West Water	81.6
SES Water	79.6
Affinity Water	78.6
Southern Water	78.1
Thames Water	77.3
Average 16/17	83.7
Average 15/16	82.5

Customer satisfaction element of SIM



When we set price controls for 2020-25, we will use the customer measure of experience (C-MeX) to improve the experience of residential customers and the developer services measure of experience (D-MeX) to improve the experience of developer services customers in England and Wales. These will provide stronger incentives to improve and include greater emphasis on customer satisfaction with their overall experience of their water company. It will allow companies to take more innovative approaches to delivering high levels of service to customers.

¹SIM measures overall levels of customer service and provides a comparable indicator of customer service between water companies. It is calculated by an independent provider who conducts a large national customer satisfaction survey each year, which provides 75% of the total SIM score, with the other 25% based on the number of complaints a company has received.

Introduction

Key points

Overall sectoral performance

Performance & resilience

Glossary

Leakage – Challenging the sector

Since 1994, the amount of water lost through leakage has been reduced by around a third, but since 2000 leakage levels have remained relatively static. A number of companies missed their 2016-17 commitments (none missed them in 2015-16).

The most significant was Thames Water, which underperformed by 47 MI/day. This resulted in an automatic underperformance penalty of £8.55m. We have also opened an investigation into Thames Water to consider whether the company has contravened any of its statutory obligations or licence obligations by missing its leakage target. This could result in enforcement action over and above this automatic penalty. While Thames Water has stated that it aims to achieve its leakage performance commitment by the end of the current price control period, it is forecasting a large underperformance penalty for the period overall¹.

Water is a finite resource and its transportation and treatment is costly. Fewer leaks could reduce customers bills, benefit the environment and improve the resilience of water supplies.

While some water companies have made real efforts to cut leakage, we are encouraging companies to go much further and set ambitious commitments with their customers. We expect companies to adopt ambitious leakage commitments for 2020-25, that reflect the challenges we set, which include: a 15% reduction by 2025 and forward-looking upper quartile performance on leakage per property per day.

To achieve these commitments, companies will need to find new and improved ways of reducing leakage. Companies will be expected to provide robust evidence and a strong rationale to us and their customers if they propose less stringent commitments.

¹Thames Water - Annual Performance Report 2016-17

Company	Commitment MI/day		Actual MI/day
	2016-17	2019-20	2016-17 ⁸
Affinity Water	179	162	173
Anglian Water ¹	192	192	186
Bristol Water	47	43	47
Bournemouth Water ²	-	20	19
Dee Valley Water ³	91	91	89
Northumbrian Water	137	137	134
Northumbrian Water ⁴	66	66	68
Portsmouth Water	30	30	30
SES Water	24	24	24
South East Water	91	88	89
Southern Water ⁵	-	87	88
South Staffordshire Water	71	71	70
South Staffordshire Water ⁶	14	14	14
Severn Trent Water	439	424	432
South West Water	84	84	82
Thames Water	630	606	677
United Utilities Water ⁷	-	-	439
Dŵr Cymru	177	169	175
Wessex Water	69	67	68
Yorkshire Water	297	287	295

¹ ANH's commitment is based upon their three year average leakage figure. This is assessed annually.

² BWH's commitment is 20 MI/day by 2019-20

³ Measured on a litres/property/day basis, all other figures are MI/day.

⁴ Essex and Suffolk area reported separately.

⁵ SRN's commitment is to achieve a five-year average of 87MI/d by 2019-20.

⁶ Cambridge area reported separately.

⁷ UJW's commitment is maintaining leakage at or below 462.7 MI/d from 2015-16. Its incentives are linked to the variance against this level. For 2016-17 it reported leakage of 439MI/d, which was 23 MI/d below its committed level of leakage

⁸ Green cell signifies outperformance against company 2016-17 commitment performance level. Blue cell signifies that a company does not have a specific commitment this year, some companies have commitments that are averages across the period or a level of performance at the period end. Figures shown are rounded.

Introduction

Key points

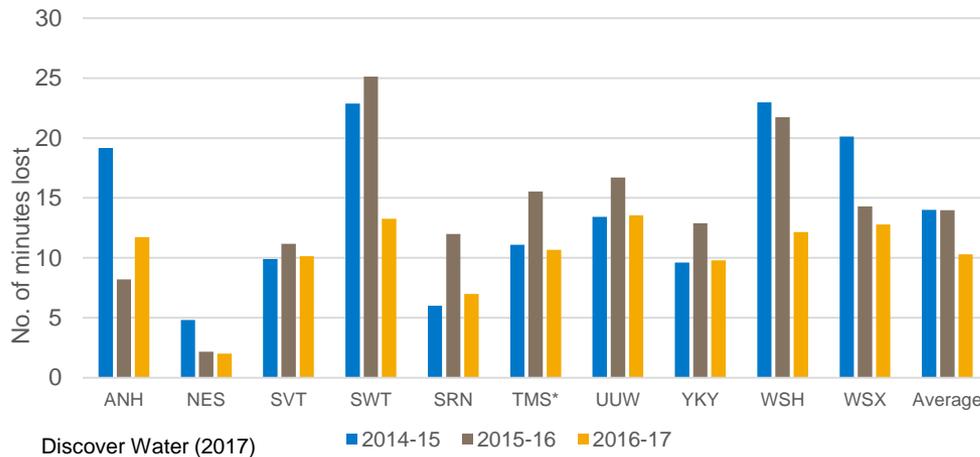
Overall sectoral performance

Performance & resilience

Glossary

Water supply interruptions – overall reduction in length of interruptions

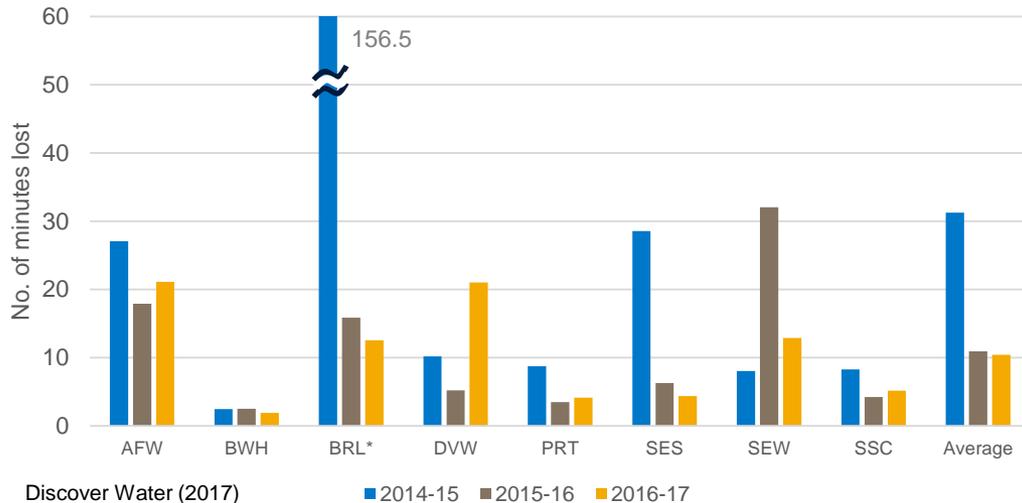
Average length of supply interruptions of >3 hours from 2014/15 to 2016-17 (per total properties served) (WaSCs)



Last year the incidents of supply interruptions of more than three hours duration (supply interruptions) decreased on average across the sector. For most companies, supply interruptions are measured as the number of minutes lost of supply of greater than three hours, on a per property basis. For most companies this also includes both planned and unplanned supply outages¹.

Five companies - Anglian Water (ANH), Affinity Water (AFW), Dee Valley Water (DVW), Portsmouth Water (PRT) and South Staffordshire Water (SSC) reported increases in supply interruptions in 2016-17. Supply interruptions have a direct effect on customers and, when unplanned, can also be a sign of problems with asset health. We expect companies to work hard to minimise interruptions to customers.

Average length of supply interruptions of >3 hours from 2014/15 to 2016-17 (per total properties served) (WoCs)



In 2014-15 customers served by Bristol Water (BRL) faced a very significant increase in interruptions to their supply driven by large mains bursts in Kingswood and Burnham on Sea. Since then, BRL has reported levels of supply interruptions in 2015-16 and 2016-17 close to the average.

¹ Thames Water reports interruptions per property greater than 4 hours rather than three. Bristol Water's measure is based on unplanned interruptions using the total number of minutes lost divided by the total number of properties served. Note: Supply interruptions data from Discover Water calculated by dividing the total length of interruptions lasting for 3 hours or more by the number of properties supplied by the company. This gives an average figure in minutes. While all 17 companies have specific performance commitments on this element of service, there are some small differences in how they report this measure to their customers (e.g. some companies use hours and others minutes).

Introduction

Key points

Overall sectoral performance

Performance & resilience

Glossary

Tackling sewer flooding

Internal sewer flooding is one of the most distressing service failures for customers, and reducing it is a very high customer priority. It is also an indicator of wastewater network resilience. At PR14, through conversations with their customers, all wastewater companies agreed to commitments on sewer flooding. While five companies met or exceeded committed performances for 2016-17, we note that 2016-17 was a slightly drier year on average across the country¹, which would have benefited performance in this area. The 2017-18 reporting year has been more mixed, with a wet summer and drier autumn and all companies need to work to deliver their commitments in this area for customers.

For 2020-25 internal sewer flooding will be a common performance commitment. The definition of this performance commitment will include ‘incidents due to severe weather events’. We want to ensure companies are incentivised to mitigate the risk of service failure during severe weather and still deliver resilient services.

Company	Measure	Starting level	Commitment		2016-17 – actual ⁶
		2014-15	2016-17	2019-20	
Anglian Water ²	No. of properties flooded internally (three year average)	475	-	448	430
Northumbrian Water ³	No. of properties flooded internally per year (Public network)	300	224	186	119
Northumbrian Water ³	No. of properties flooded internally per year (TDS network)	228	228	228	215
Southern Water	No. of internal sewer flooding incidents	551	436	382	448
Severn Trent Water	No. of internal sewer flooding incidents	1,031	989	892	901
South West Water	No. of internal sewer flooding incidents	157	148	135	165
Thames Water	No. of internal sewer flooding (other causes) incidents	1,209	1,126	1,085	1,214
United Utilities Water ⁴	Sewer flooding index (UU bespoke)	101.6	83.9	68.1	94.4
Dŵr Cymru	No. of properties subjected to internal sewer flooding	313	300	269	242
Wessex Water ⁵	No. of internal sewer flooding incidents per 10,000 properties	1.77	1.72	1.66	1.20
Yorkshire Water	No. of internal sewer flooding incidents	1,857	1,898	1,919	1,769

¹ Met Office (<https://www.metoffice.gov.uk/climate/uk/summaries/2016/annual>)

² Anglian Water’s actual performance commitment is to achieve a reduction in the three-year average number of properties flooded internally from sewers compared to the average reported in 2014-15 of 27. For ease of comparison we have included the three-year average number of properties internally flooded in the table.

³ Northumbrian Water has separate commitments for internal sewer flooding for the performance of sewer pipes that transferred into its ownership in 2011 under the transfer of private drains and sewers (TDS network), and for those assets which were already under NES ownership (Public network).

⁴ This is an index of sewer flooding based on a number of submeasures.

⁵ For Wessex Water: 1.2 incidents per 10,000 properties equates to 148 incidents in total.

⁶ Green cell signifies outperformance against company 2016-17 commitment performance level. Blue cell signifies that a company does not have a specific commitment this year, some companies have commitments that are averages across the period or a level of performance at the period end

Introduction

Key points

Overall
sectoral
performance

Performance &
resilience

Glossary

How the sector monitors Asset Health

When assets fail it can have serious effects on customers and the environment. Asset health is a concept that seeks to understand the risks around company assets and service performance, using a range of data to help build an overall picture of asset health. The type of data companies use to monitor asset health are set out in the table below:

Water		Wastewater	
Infrastructure	Non infrastructure	Infrastructure	Non infrastructure
<ul style="list-style-type: none"> • Discoloured water complaints • Poor water pressure • Mains bursts (see next slide) • Drinking water quality compliance 	<ul style="list-style-type: none"> • Reactive (vs. planned) maintenance • Turbidity performance at treatment works • Tonnes of chemical per MI of water 	<ul style="list-style-type: none"> • Repeat sewer flooding • Sewer collapses (physical condition) • Sewer blockages • Pollution events • Rising mains bursts 	<ul style="list-style-type: none"> • Reactive (vs. planned) maintenance • Effluent quality monitoring

Sector challenges, such as climate change and population growth, underline the importance of companies understanding their assets, how they are performing and planning efficient investment to deliver resilient services in the long term. We expect company boards to assure us and themselves that they have assessed the risks to consumers arising from their assets and made plans to deal with any areas that fall short.

Summary of sector performance

We have looked across reported performance and found that, for those companies with performance commitments on asset health, they are not reporting deteriorating trends in performance. Companies commonly measure performance using a 'basket' of data indicators for the different types of assets. Companies incurring underperformance penalties on their asset health measures this year were:

- The assessed performance of Thames Water's below ground water infrastructure was downgraded to 'marginal' in 2015-16 and remained at this level in 2016-17. Its assessment of asset performance is determined by performance across a number of measures, including water pressure, number of burst pipes and interruptions to supply (see slide 9). As a result, the company earned an underperformance penalty of £4.7m, which was the same as the previous year.
- United Utilities failed to meet their 'reliable water service index' performance commitment, earning an underperformance penalty of £8m, as it did last year. The measure considers total bursts, interruptions, pressure and unwanted customer contacts for water availability.
- Anglian Water reported an underperformance penalty of £0.6m for its water infrastructure serviceability performance commitment because its performance on mains bursts and supply interruptions over 12 hours exceeded the upper control limit for this group of assets.

Introduction

Key points

Overall sectoral performance

Performance & resilience

Glossary

Mains bursts

Mains bursts can have a major impact on water supply, but also on local communities, such as through damage to properties, disruption to traffic and risks to personal safety. It is important that companies both meet their commitments to reduce the number of mains bursts, and work with local communities to reduce the impact of mains bursts.

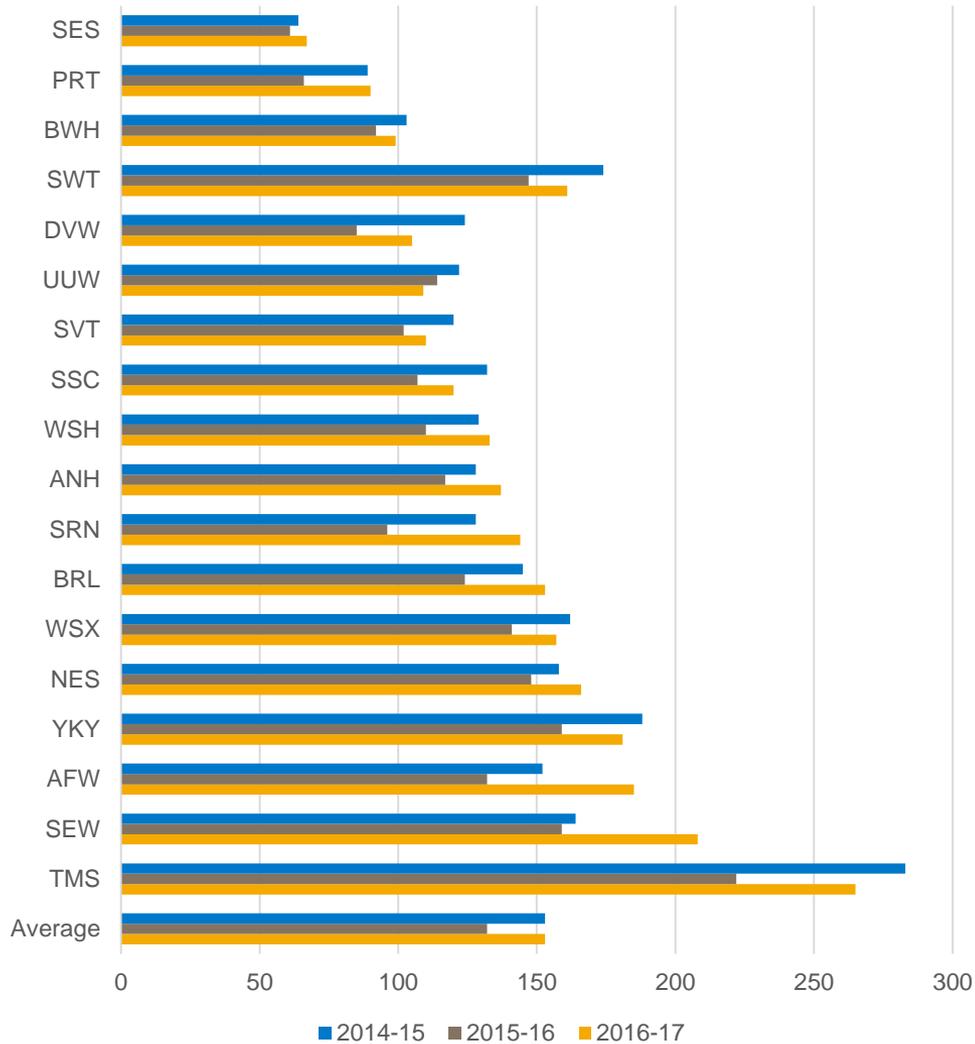
The number of mains bursts can reflect the prevailing weather conditions in any given year, but upward trends in burst mains can be a signal of deteriorating physical infrastructure condition for water companies, and are a commonly used asset health indicator.

Performance in 2016-17 was broadly in line with previous years. While rates are slightly above 2015-16 levels, they are similar to 2014-15.

Mains bursts is one of the common performance commitments companies will be required to deliver against during 2020-25.

Note: Data for mains bursts is from Discover Water. Only 8 companies have specific performance commitments on this element of service, other companies use mains bursts as sub-measures to broader commitments on asset health.

Mains bursts per 1000 km of mains



Discover Water (2017)

Introduction

Key points

Overall sectoral performance

Performance & resilience

Glossary

Water quality contacts

The [Drinking Water Inspectorate](#) reports performance against the strict standards that apply to drinking water. Companies also set performance commitments for contacts from customers on specific characteristics of water such as taste, odour and discolouration. There remains more work for companies to do here - only eight companies performed ahead of their 2016-17 commitments on water quality contacts. Companies cite a range of factors for not meeting their commitments, from very challenging targets, the impact of customers' internal plumbing, the quality and source of raw water to the success of strategies to make it easier for customers to contact the company. They refer to initiatives intended to improve their service such as: optimising chlorine levels; dealing with leakage and bursts; targeted mains renewals and treatment process work; and improving customers' plumbing knowledge.

Water quality is important to customers. We expect companies to take action if customer contacts are increasing and/or they are missing their commitments in this area. For 2020-25 there will be a common performance commitment for water quality compliance developed by the Drinking Water Inspectorate called the Compliance Risk Index (CRI).

Introduction

Key points

Overall sectoral performance

Performance & resilience

Glossary

	Water quality contacts ² Measure	Commitment		2016-17 actual ⁴
		2016-17	2019-20	
Affinity Water	Customer contacts for discolouration (No. per 1,000 population)	0.66	0.66	0.28
Anglian Water	Water quality contacts (No. per 1,000 population)	1.32	1.23	1.38
Bristol Water	Negative water quality contacts (No. of contacts per year)	2,409	2,221	2,162
Bournemouth Water	Customer contacts: taste and appearance (No. per 1,000 population)	1.24	1.23	0.89
Dee Valley Water	Discoloured water contacts (No. per 1,000 population)	1.9	1.01	1.07
Northumbrian Water ¹	Satisfaction with taste and odour of tap water (No. of complaints per year)	1,069	903	1,229
Northumbrian Water ²	Discoloured water complaints (No. of complaints per year)	3,508	2,962	3,227
Portsmouth Water	Water quality contacts (No. per 1,000 population)	0.425	0.413	0.67
SES Water	Taste, odour and discolouration (number of contacts received)	350	350	375
South East Water	Discolouration contacts (No. per 1,000 population)	0.78	0.58	0.96
Southern Water	Drinking water quality - discolouration contacts (No. per 1,000 population)	0.85	0.82	0.74
South Staffordshire Water	Acceptability of water to customers (No. per 1,000 population)	1.43	1.23	1.66
Severn Trent Water	Number of complaints about drinking water quality (Number received)	10,995	9,992	14,461
South West Water	Taste, smell and colour contacts (No. per 1,000 population)	3.9	3.0	2.7
United Utilities Water	Water Quality Service Index (bespoke index)	130.3	145.9	116.9
Dŵr Cymru	Customer acceptability (drinking water) contacts (No. per 1,000 population)	1.89	1.23	3.20
Wessex Water	Customer contacts about drinking water quality (Number received)	2,072	1,608	2,172
Yorkshire Water	Drinking water contacts (Number received)	8,120	6,108	9,093

^{1,2} Northumbrian Water has two performance commitments on water quality. The performance commitment for discoloured water is based on a 3 year average performance at the end of 2017-18, 2018-19 and 2019-20. The company 3 year average performance of 3,227 was for the period 2014/15 to 2016/17. The performance in 2016-17 was 2,874.

³Thames Water does not have a performance commitment related directly to water quality customer contacts. It reports complaints about discolouration (0.17 complaints per 1000 population in 2016-17 compared to a target of 0.38), chlorine (0.06 per 1000 population in 2016-17 compared to 0.07 target) and hardness (0.01 complaints per 1000 population in 2016-17 - this is only monitored, there is no committed performance level).

⁴Green cell signifies outperformance against the company's 2016-17 commitment level, blue cell signifies that a company does not have a specific commitment in the year.

Water companies

AFW	Affinity Water
ANH	Anglian Water
BRL	Bristol Water
BWH*	Bournemouth Water
DVW	Dee Valley Water
NES	Northumbrian Water
PRT	Portsmouth Water
SES	SES Water (formerly called Sutton East Surrey Water)
SEW	South East Water
SRN	Southern Water
SSC	South Staffordshire Water
SVT	Severn Trent Water
SWB	South West Water (including Bournemouth Water)
SWT	South West Water
TMS	Thames Water
UUW	United Utilities
WSH	Dŵr Cymru Cyfyngedig (Welsh Water)
WSX	Wessex Water
YKY	Yorkshire Water

*In April 2016, South West Water and Bournemouth Water merged to create a single water and sewerage company. In this report we continue to present South West Water and Bournemouth Water's performance commitments separately, apart from on totex and RORE, where we present the information on the merged company and use the acronym: SWB.

Other terms

Performance commitment	A commitment from a company to attain a certain level of performance in relation to a particular customer expectation.
Performance commitment level	The level of performance a company has committed to reach.
WaSC	Water and sewerage company
WoC	Water only company

Introduction

Key points

Overall sectoral performance

Performance & resilience

Glossary

Ofwat (The Water Services Regulation Authority) is a non-ministerial government department. We regulate the water sector in England and Wales. Our vision is to be a trusted and respected regulator, working at the leading edge, challenging ourselves and others to build trust and confidence in water.

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