



**Bristol Water  
Business Plan  
2020-2025**

**Report on Bristol Water's response to  
Ofwat's Initial Assessment (IAP)**

March 2019

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## Executive Summary

Ofwat has made an initial assessment of Bristol Water's Business Plan prepared for Price Review 2019 (PR19) and the company has responded to this. Ofwat's assessment is known as the Initial Assessment of the Plan (IAP).

The Challenge Panel has reviewed the IAP questions in detail to determine which were relevant to its terms of reference. Its main areas of focus have included customer engagement, affordability and vulnerability, PCs and ODIs, customer service levels and customer bills.

The Challenge Panel assessed the materiality of Bristol Water's changes to its Business Plan resulting from its IAP response and their impacts on customer service and future bills. It also established if customers would be facing increased risk of poor service or unexpected costs.

The Challenge Panel applied its own tests of best practice in order to assess the quality of Bristol Water's customer engagement undertaken in response to the IAP. It also observed some of the additional engagement in the field and helped shape modifications to the research methodologies as a result.

The Challenge Panel found that the additional customer engagement undertaken by the company was appropriate. The results have not altered the company's outcomes, priorities or promises made to customers in its original PR19 Business Plan.

In addition, the impact on service levels and customers' bills of the company's changes to performance commitments and outcome delivery incentives in response to the IAP has not materially changed from those originally proposed. Future bills will remain in line with the results of the customer engagement undertaken for the Business Plan in 2017 and 2018.

The Challenge Panel has been assured by the Board of Bristol Water and its external assurers that the company, rather than customers, will bear any resulting increase in financial risk arising from its response to the IAP.

The Board has also confirmed that the company will have sufficient capability and leadership to transform the company, its systems and procedures and its network to meet the efficiency challenges posed by Ofwat.

## 1. Introduction

The independent Customer Challenge Group for Bristol Water is known as the Bristol Water Challenge Panel (the Challenge Panel). As well as monitoring Bristol Water's ongoing performance the Challenge Panel is also required to review and challenge the company's customer engagement policies and procedures and examine how customer preferences and priorities have driven decision making and business planning for the next price review.

Ofwat has asked the Challenge Panel to provide a short report on the regulator's initial assessment of Bristol Water's Business Plan prepared for Price Review 2019 (PR19) and the company's responses to it. Ofwat's assessment is known as the Initial Assessment of the Plan (IAP). This report has been prepared in response to Ofwat's request and covers the Challenge Panel's views on:

- The feedback and challenges raised in the IAP which are considered to be relevant to customers and the work of the Challenge Panel
- The extent and quality of additional customer engagement undertaken by Bristol Water in response to the IAP
- The impact of the IAP, and Bristol Water's responses, on the affordability of bills and the vulnerability of customers
- The effect of the IAP, and Bristol Water's responses, on the proposed delivery of outcomes for customers

This report should be read in conjunction with the Challenge Panel's original views on the PR19 Business Plan as reported to Ofwat in September 2018.

A glossary of terms used in this report is provided in Appendix 1.

The Environment Agency (EA), as a member of the Panel, supports the views expressed in this report. However, these views will not necessarily influence any subsequent position the EA takes as part of its ongoing statutory and regulatory duties associated with Bristol Water's environmental obligations.

## 2. Overview of the IAP

The Challenge Panel's summary of the main points arising from the IAP is included in Appendix 3.

The Challenge Panel is pleased to see that Ofwat has assigned 'Slow Track' status to Bristol Water's PR19 Business Plan, as this reflects the Challenge Panel's view that it is a significant improvement on its submissions for PR14 and demonstrates that Bristol Water is listening to customers.

Bristol Water is also no longer in Ofwat's 'Prescribed' Company Monitoring Framework category for its information assurance activities. This improvement reflects the significant work Bristol Water has undertaken to improve its information reporting processes and the governance around its information. The Challenge Panel welcomes this.

The Challenge Panel welcomes the company's recent achievement in obtaining the Service Mark accreditation from the Institute of Customer Service following an evaluation of all of its processes, not just those that are customer facing. Bristol Water will hold the accreditation for three years, before seeking to renew.

The Challenge Panel notes that Ofwat has recognised the high quality of Bristol Water's customer engagement for its PR19 Business Plan and the clear line of sight from the results of its customer research and engagement to the proposed outcomes for customers. This view was also shared by the Challenge Panel in its review of the PR19 Business Plan. However, Ofwat has raised questions on whether the approach to triangulation was inconsistent with industry best practice.

Ofwat considered Bristol Water's PR19 Business Plan includes some high-quality aspects relating to affordability of bills and proposals to help vulnerable customers. Ofwat did question the lack of ambition relating to the level of this help and the reach of its Priority Service Register (PSR). It also highlighted the lack of evidence of engagement on Bristol Water's approach to long-term affordability and that the company appeared to have largely determined the needs of vulnerable customers from engagement with stakeholder groups rather than individuals.

Ofwat noted Bristol Water's high-quality approach to defining its Performance Commitment (PCs) and considered that the level of stretch in its service targets was appropriate. It did note there was insufficient evidence to support its package of outcome delivery incentives (ODIs), some deadband proposals, how the proposed ODI package aligns the interests of management and shareholders with customers and how the ODI package incentivises the company to deliver on its PCs.

Ofwat considered Bristol Water engaged well with customers on a range of resilience risks and mitigation options but the Business Plan lacked sufficient evidence of the approach to the assessment of resilience, including certain aspects of its financial resilience.

Ofwat has assessed Bristol Water's costs to be 15% inefficient.

One of the IAP tests of how Bristol Water has aligned risk and return identifies insufficient evidence for the requested company-specific cost of debt adjustment (also known as the 'Small Company Premium'), including that customers would be adequately compensated for the additional cost, or that they support funding it.

In the IAP Ofwat states that Bristol Water's PR19 Business Plan falls significantly short of high quality for evidence on the deliverability for outcomes and customer complaints handling. It questions whether Bristol Water understands the drivers of its past performance in this area of service and identifies that the Plan does not include appropriate measures to improve performance. Bristol Water has also not acknowledged that it has a high and increasing number of complaints per customer and that it provides insufficient evidence on lessons learnt or measures to improve performance.

Finally Ofwat considers that the Board of Bristol Water has not provided assurance statements in many of the areas requested by Ofwat.

The Challenge Panel has considered these issues in its response to the IAP.

### 3. The IAP review and challenge process

The Challenge Panel and its Customer Engagement Sub-Group have met with Bristol Water three times since the IAP was published at the end of January 2019 to review the IAP and Bristol Water's response to it. A list of the Challenge Panel's members who have attended meetings and contributed to the IAP response is given in Appendix 2.

In addition to these meetings, the Chair, Deputy Chair and Report Writer have met twice to draft the Challenge Panel's IAP report.

The main points discussed at each meeting were as follows:

Meeting	Date	Main areas for discussion
Customer Engagement Sub-Group (CESG)	19.02.19	Review of the IAP and Bristol Water's proposed additional customer engagement activities
Challenge Panel	07.03.19	IAP details and Bristol Water's response
Chair, Deputy Chair and Report Writer	14.03.19	The Challenge Panel's IAP report
Challenge Panel	21.03.19	Additional meeting of the Panel to review Bristol Water's IAP responses and the Panel's opinions on these
Chair, Deputy Chair and Report Writer	27.03.19	The Challenge Panel's IAP report and its report to Bristol Water's Board

Both at these meetings and between them Bristol Water provided details of the IAP to Challenge Panel members together with comparative and publicly-available IAP information on other companies' business plans.

The company also shared its IAP Action Tracker spreadsheet with the Challenge Panel as it was populated during the IAP response period.

The Challenge Panel welcomed the continued cooperation and positive and constructive working relationship with Bristol Water throughout the process.

The Challenge Panel reviewed the IAP questions in detail to determine which were relevant to its terms of reference. It also referred to its opinions on the PR19 Business Plan provided to Ofwat in September 2018. The Challenge Panel produced a schedule of the IAP questions and worked with Bristol Water to agree which ones the Challenge Panel wished to review and on which it wanted to report to Ofwat. Schedules of the IAP questions and Ofwat's required responses and the Challenge Panel's decision to respond to them, to review them (for information and/or a possible response) or to not respond to them (because they fell outside the Panel's terms of reference) are given in Appendices 4 and 5.

The Challenge Panel's main areas of focus included customer engagement, affordability and vulnerability, PCs and ODIs, customer service levels and customer bills.

The Challenge Panel assessed the materiality of Bristol Water's changes to its Business Plan resulting from its IAP response and their impacts on customer service and future bills. It also established if customers would be facing increased risk of poor service or unexpected costs.

Bristol Water outlined the scope and approach to its additional customer engagement, the proposed research materials and the initial results. The Challenge Panel had the opportunity to review and challenge this information and it also attended some of the focus groups.

The Challenge Panel applied its own tests of best practice in order to assess the quality of Bristol Water's customer engagement processes. These tests included the preparation of terms of reference, the recruitment of specialists (including tendering processes), the design of research materials, the selection of samples (including the use appropriate customer segmentation), the use of pilot studies, the appropriate weighting and interpretation of results and the drawing of robust conclusions, including triangulation with other survey results.

The Chair reported the views of the Challenge Panel to the Bristol Water Board on 28<sup>th</sup> March 2019.



## 4. Customer engagement

Bristol Water has undertaken further customer engagement in response to a number of challenges raised by Ofwat in the IAP. This section outlines Ofwat's challenges, the additional customer engagement undertaken and the results obtained and the Challenge Panel's review and findings of them.

The Challenge Panel notes that the additional customer engagement has not altered the company's outcomes, priorities and promises made to customers in its original PR19 Business Plan. In addition, the impact on service levels and customers' bills is materially the same as originally proposed and that future bills will remain materially in line with the results of the customer engagement undertaken for the Business Plan in 2017 and 2018. The Challenge Panel has been assured by the Board of Bristol Water that the company, rather than customers, will bear any resulting increase in financial risk.

Ofwat raised several actions in the IAP which required Bristol Water to obtain additional customer support covering such diverse topics as of long-term bill profiles, social tariff cross subsidy, company specific cost adjustment (known as the Small Company Premium) as well as various elements of the company's proposed ODI structure including deadbands, outperformance incentive rates, caps and collars.

In addition, Ofwat requested that Bristol Water should confirm that testing has been assured by its CCG and conducted in line with social research best practice.

Ofwat also challenged Bristol Water on the robustness of its triangulation methodology, particularly on apparent limitations in the approach with a lack of adoption of industry best practice.

Bristol Water split the additional IAP research into three distinct surveys as follows:

- Updated acceptability research, which covered future bill profiles, the overall ODI package and small company premium
- ODI Focus Groups, which tested views on outperformance incentives, outperformance caps, underperformance collars, deadbands, and the approach to asset health incentives.
- Social tariff cross subsidy research

The company has also been undertaking further customer engagement on its proposed Social Contract and the Challenge Panel has had some involvement with this as described later in this section.

### ***Updated acceptability research***

The updated acceptability research used the summer 2018 acceptability survey results as its basis. The survey was updated to cover the following topics:

- Future bill profiles
- The overall ODI package
- Small Company Premium

The Challenge Panel was able to comment on the updated acceptability research survey wording before it was finalised and accepted that as the survey was an update of that used in summer 2018

there was no requirement for pilot testing. Sample sizes and quotas were set to meet Bristol Water customer demographics. Challenge Panel members were provided with a copy of the online survey to try out; these inputs were not included in the survey result.

The overall research was managed by independent market research agencies. A sample size of 415 was achieved in the short time available. This compared with the 300 participants in summer 2018. The intended demographic quotas were met and there was no need for any weighting of the results. There was consensus across all the customer segments which gives the Challenge Panel high levels of confidence that the engagement met the intended purpose.

The survey results were presented to the Challenge Panel on 21 March 2019. The Challenge Panel took the opportunity to challenge Bristol Water on the performance of the survey and whether it covered the environmental PCs and ODIs, which it did.

As a result of its review and challenges the Challenge Panel considers that the survey met with social research best practice. The Challenge Panel also considered the updated Acceptability engagement achieved sufficient accuracy and demographic spread. The results have been included in Bristol Water's IAP response and do not result any material changes to service levels or customer bills.

The Challenge Panel then considered the results of the three parts to this engagement, as follows;

#### *Future bill profiles research*

The changes to the 2018 survey allowed testing of Bristol Water's bill profiles in the period 2025-2030 as well as repeating the survey for the period 2020-2025. The acceptability for the whole period 2020-2030 was over 90%. When presented with the option of a slower plan that delays investment and has a lower bill, 82% of respondents opted for the original plan.

The results show that customers are highly supportive of the company's business plan and bill profiles in the longer term; the Challenge Panel agreed with this conclusion. The results have been included in the company's IAP response and do not result any material changes to service levels or customer bills.

#### *The ODI package*

Respondents were presented with four ODI packages; a fixed bill for the five years and three options where the bill started lower and could vary up and down with small, medium and large incentive packages. The respondents were asked to place the options in order of preference.

When considering the respondents' first choices, only the option with small incentive package was the most popular. The reasons stated by participants for this choice were to promote innovation, ensure bills reflect performance and to encourage Bristol Water to invest in long term assets.

When the respondents' first two choices were considered together the package with small incentives remained the most popular choice with over 70% of choices.

The survey indicated that customers have a high level of support for financial incentives for the reasons stated above. The Challenge Panel agreed that the customer engagement supported this view. Bristol Water has included the results in its IAP response. There are no material changes to service levels or customer bills.

### *Small Company Premium*

A simpler method for the testing of the Small Company Premium was adopted than was used in Summer 2018, based upon a successful survey carried out by another water-only company which had been identified as acceptable by Ofwat. In addition, the total cost was reduced to £1.80 per annum on the annual bill, rather than the £3 used for the previous research.

When informed about the reduction from £3 per annum to £1.80 per annum, 87% of customers indicated they were content to pay this cost. Customers indicated they support the Premium because they support local companies providing local services and, given bills are already lower than the national average, they indicated they were happy to pay this additional amount. The Challenge Panel notes that customers expressed similar views on the Premium in the research undertaken last year.

The results of this latest research into the Small Company Premium have been included in the company's IAP response. The results do not have a material impact on customer bills.

### ***ODI focus groups***

The Ofwat IAP requested further customer support for Bristol Water's proposed application of outperformance incentives, outperformance caps, underperformance collars, deadbands, and the overall approach to asset health incentives. The extent of customer support was explored in a series of ODI focus groups.

The Challenge Panel was provided with the material to be used in the focus groups and given time to comment on the survey materials. The Challenge Panel members were also invited to observe a focus group.

Bristol Water originally intended to explore all topics in each focus group, but it soon became clear to the Challenge Panel member observing the first focus group that some respondents were having difficulty understanding the concepts involved, particularly when related to the more technical ODIs. This necessitated a rethink of the approach by Bristol Water and a simplification of the process such that not all topics were covered in each subsequent focus group. This targeting of respondents' time on fewer topics at a time worked well but did mean that there were fewer respondents reviewing each topic. The Challenge Panel considers this was a reasonable response to the challenges faced by the first focus group.

The results from these focus groups when combined with the survey results from summer 2018 showed that customers welcomed the ODI framework to ensure Bristol Water has an incentive to deliver for customers. All the various topics reviewed during the engagement were supported in principle by the respondents. They highlighted the need to continue to drive innovation, prevent a focus on one aspect of service to the detriment of others, ensure Bristol Water is not penalised or rewarded for activities outside its control, to help smooth bills and to prevent perverse incentives.

Respondents accepted that the Asset Health PCs are important, that they should have financial incentives and that the proposed incentives are in the right proportion for the bill range.

The Challenge Panel considers that, while the results from these ODI focus groups should not be considered in isolation, they can be used in conjunction with the associated research undertaken in

summer 2018 to add to confidence in the overall research into incentives and that this research reaffirms Bristol Water's original ODI package. Bristol Water has however changed the overall balance of its ODIs in line with Ofwat's policy and IAP feedback. This change does not have a material impact on service levels or customer bills and still results in a package that aligns to customers' priorities.

### ***Social tariff cross subsidy research***

The IAP noted that Bristol Water needed to increase the number of customers on its social tariff, above the current level of social tariff cross subsidy that past customer research supported. Bristol Water advised the Challenge Panel that the current level of cross subsidy was adequate for the immediate future and that it intends to undertake acceptability research nearer the time when it would need to implement the increase. This was discussed with the Challenge Panel and CCWater. Both parties agreed that a delay in this research would enable Bristol Water to take care over the development of the survey mechanism and allow for more time for the research described above. Bristol Water assured the Challenge Panel that this delay would not deter the company in achieving its Business Plan annual targets of getting qualifying customers onto its social tariffs.

### ***Bristol Water's Social Contract***

The Challenge Panel notes that Bristol Water is the first water company in the UK to have launched a Social Contract and has begun the process of shaping and evolving it for full implementation from April 2020.

The company has been engaging with its customers on the objectives and possible scope of Social Contract since its PR19 Business Plan was submitted last September. The Chair and Deputy Chair attended a recent Social Contract stakeholder event hosted by Bristol Water.

Bristol Water intends to involve the Challenge Panel in the design of the Social Contract and in its implementation and the monitoring of its success. The Challenge Panel is looking forward to this involvement as it will need to understand the Social Contract 'journey', the key milestones, communication with customers, the quality of the performance measurement system and the interaction with the proposed PR19 PCs and ODIs.

The Challenge Panel is pleased to see Ofwat has recognised Bristol Water's proposed Social Contract initiative and that the company is pressing on with this at this time in the price review process.

### ***Triangulation***

Ofwat challenged Bristol Water on the robustness of its methodology for the triangulation of its various sources of valuation information for each service area it consulted on, particularly on apparent limitations in the approach with a lack of adoption of industry best practice. In response the company commissioned its triangulation consultants (NERA) to review the methodology against UKWIR best practice.

In 2017 and 2018, the Challenge Panel attended a number of presentations and seminars by Bristol Water and NERA on the triangulation methodology. The challenges raised by the Challenge Panel at that time are described in its report to Ofwat of September 2018. At the end of the process, including the company's decision to have its triangulation methodology peer reviewed, the Challenge Panel was satisfied that the methodology used was appropriate for the purposes of business

planning.

The Challenge Panel has reviewed NERA's report on best practice and the Bristol Water's response to Ofwat's challenge. The Challenge Panel welcomes and accepts NERA's findings, which indicate that the triangulation methodology used by Bristol Water for its PR19 Business Plan is consistent with industry best practice and goes beyond this when testing point estimates with customers using objective surveys to better inform its ODI rates.

## 5. Affordability and Vulnerability

This section outlines the IAP challenges to Bristol Water on aspects of vulnerability and affordability, the company's responses and the Challenge Panel's review of them. None of the company's responses have a material impact on its original Business Plan proposals for customer service or customer bills.

While Ofwat highlighted many good points about Bristol Water's proposals on affordability and vulnerability, its IAP challenges included that the PR19 Business Plan:

- demonstrated a lack of ambition on its proposed increase in the reach of its Priority Services Register (PSR);
- forecast a bill increase of 2.1% for 2025-30 without providing evidence that it tested the bill profile with customers
- included insufficient engagement with customers on the approach to long-term affordability
- included insufficient evidence to demonstrate customer support for the proposed increased social tariff cross subsidy
- the needs of vulnerable customers appeared to have been largely determined from engagement with stakeholder groups rather than individuals
- demonstrated a lack of ambition in addressing vulnerability

The Challenge Panel reviewed Bristol Water's responses to these IAP challenges.

Bristol Water has adopted Ofwat's newly-proposed industry wide reputational PC associated with the PSR which sets a common target of 7% of customers on the PSR by 2024-25. The Challenge Panel welcomes this and that the PC also requires the company to check at least 90% of the data on the PSR vulnerable customers every two years.

The company has now undertaken acceptability testing of bills post 2025. The Challenge Panel's view of this engagement is given in Section 4 of this report.

Bristol Water advised the Challenge Panel that the current level of cross subsidy was adequate for the immediate future and that it intends to undertake further customer research on it nearer the time when it would need to implement the increase. This is discussed in Section 4 of this report.

In its report to Ofwat in September 2018, the Challenge Panel noted the company's customer research into vulnerability included; surveys, panels, focus groups, social media, ongoing data gathering and face-to-face interactions. The Challenge Panel reviewed and challenged the research methodologies and the results obtained at that time and was satisfied that there had been effective and targeted ongoing and bespoke engagement on vulnerability.

## 6. PCs and ODIs

Ofwat has raised several questions on Bristol Water's proposed PCs and ODIs. This section outlines these challenges, the company's response to them and the Challenge Panel's review and opinion on the responses.

The Challenge Panel was reassured by Bristol Water that its proposed changes to its PCs and ODIs in the light of the IAP do not alter its outcomes, priorities and promises made to customers in its original PR19 Business Plan. In addition, the impact on customers' bills is materially the same as originally proposed and that future bills will remain materially in line with the results of the customer engagement undertaken originally for the Business Plan.

Ofwat has noted Bristol Water's high-quality approach to defining its PCs and that the level of stretch in its service targets was appropriate. However Ofwat's view is that there was, in some areas, insufficient evidence to support the package of ODIs, some deadband proposals, how the proposed ODI package aligns the interests of management and shareholders with customers and how the ODI package incentivises the company to deliver on its PCs.

The Challenge Panel notes that several of the IAP challenges on PC targets and ODI rates and deadbands arise from Ofwat's benchmarking of performance across the industry and its assessment and imposition of the resulting upper quartile performance levels. These targets supersede Bristol Water's forecasts made when it prepared and submitted its PR19 Business Plan.

Ofwat has also requested further evidence from Bristol Water to justify its service targets and ODI rates for certain PCs.

The Challenge Panel has reviewed each IAP PC and ODI-related question and challenge and Bristol Water's responses to them. It has also reviewed Bristol Water's additional customer engagement on its ODIs (see Section 4 of this report).

The Challenge Panel has assessed Bristol Water's changes to its PCs and ODIs in response to the IAP and the materiality of their impacts on customer service and future bills. It also assessed if customers, rather than Bristol Water, would be facing increased risk of poor service or unexpected costs as a result of the changes. Its review included the materiality of the under and outperformance payments and the effect of these on bill levels and volatility.

Bristol Water has modified 12 of its originally-proposed PCs and ODIs in the light of the IAP questions and challenges. Several changes to service levels and incentive types and rates arise from the cross-company benchmarking undertaken as part of the IAP. Some of these changes result in more stretching service level targets for the company to achieve (such as for unplanned outage) and the Panel welcomes this as it may mean customers get a better service. The only target which is less stretching is supply interruptions, but this is due to Ofwat's standard upper quartile judgement, and the Challenge Panel understands the company has not amended its ambition. The Challenge Panel notes the IAP changes the design of some of Bristol Water's ODI targets, with a small reduction in outperformance and an increase in underperformance payments overall.

Therefore, there appear to be no material detrimental effects on customer service targets and the Challenge Panel welcomes Bristol Water's commitment to maintain its original plans to invest in system and operational resilience measures.

The Challenge Panel also established that the company has no major concerns over the deliverability of the revised service targets and any increased risk associated with the ODI changes. It has received assurance from the Board of Bristol Water that the company's financial resilience will not be affected materially by its response to the IAP.

A new reputational PC relating to retailer measure of experience (R-Mex) has been introduced by Bristol Water following the IAP challenge to Bristol Water to introduce a new bespoke PC on retail gaps and voids. The Challenge Panel has reviewed the proposed R-Mex PC and ODI and considers it to be a reasonable response to Ofwat's challenge. It notes that 'R-Mex' is a title used by Bristol Water and is not an industry-wide common PC, although it is a term recognised in the business retail market. The Panel will be seeking further clarity of definition of this PC and its service target and its implementation.



## 7. Challenges to the Board of Bristol Water

The Chair of the Challenge Panel attended the meeting of the Board of Bristol Water on 28<sup>th</sup> March 2019.

The Chair presented the findings and opinions of the Challenge Panel on Bristol Water's response to the IAP. This included an overview of the review and challenge process used by the Challenge Panel and that its primary focus had been on the impact of the company's IAP response on service levels and customer bills.

The Chair sought assurance from the Board on behalf of the customer on three key points.

The company's external assurer informed the Board that the company has sufficient financial resilience to accept the changes on under and out performance rewards or penalties in the revised business plan, to achieve the efficiencies required (and to implement the actions required to meet such efficiencies) and to meet the test regarding the small company premium.

The company's external assurer also reported to the Board that its assurance statements in response to the IAP will meet Ofwat's requirements and will include the terminology sought and other changes required by the regulator.

The Board and the Chair of the Challenge Panel interrogated the external's assurer's report.

The Board confirmed that, as well as the company having the operational and network capabilities and leadership to transform and achieve the efficiency required by Ofwat, the Challenge Panel would be kept up to date with the progress of the transformation required. The Board has recruited an independent non-executive director who is designated to observe the level of detail and scrutiny carried out by the Challenge Panel and to assist in linking the Panel to the Board and the Board to the customer.

The Chair was satisfied with the assurances provided on these three points.

## 8. Conclusions

The Challenge Panel is pleased that Bristol Water has achieved 'Slow Track' status and a 'Targeted' assurance category as a result of the IAP. This represents a significant improvement from PR14 and reflects the company's efforts to improve its processes and governance.

The company's achievement in obtaining the Institute of Customer Service's 'Service Mark' accreditation following an evaluation of all of the company's processes, not just those that are customer facing, is welcomed.

The Challenge Panel is pleased to see Ofwat has recognised Bristol Water's proposed Social Contract initiative and that the company is pressing on with this at this time in the price review process. The Challenge Panel looks forward to assisting the company in the design and implementation of its Social Contract and in monitoring its success.

The Challenge Panel has undertaken an in-depth review of the IAP and Bristol Water's responses to it. Its review has concentrated on materiality of the impact of the IAP responses on customer engagement, customer service and customer bills.

The Challenge Panel considers that the additional customer engagement carried out by Bristol Water is appropriate and robust and that it meets the Panel's tests of best practice. The results of the engagement have been used appropriately, in conjunction with previous engagement outcomes in some cases, to reshape the PR19 Business Plan where necessary. Bristol Water has decided that further research into its social tariff cross subsidy should be undertaken over a longer timeframe in order to provide robust findings. The Challenge Panel agrees this is the best course of action.

Ofwat raised questions around the robustness of Bristol Water's approach to the triangulation of its customer engagement results. The Challenge Panel has reviewed the company's response to this and has been reassured that the methodology used was in line with industry best practice and went beyond this by testing point estimates with customers using objective surveys to better inform ODI rates.

Bristol Water has adopted Ofwat's newly-proposed industry wide reputational PC associated with the PSR. The Challenge Panel welcomes this as it will further benefit the identification of customers in vulnerable circumstances and the provision of assistance to them.

The Challenge Panel has reviewed the IAP questions relating to PCs and ODIs and Bristol Water's resulting changes to them. The Challenge Panel has been assured that the changes to PCs and ODIs do not alter the company's outcomes, priorities and promises made to customers in its original PR19 Business Plan. While some changes result in more stretching service level targets, some incentives are less rewarding and penalising, and others more so. This is due to the methodology used by Ofwat for the IAP.

Overall the Challenge Panel is satisfied that the changes arising from the company's response to the IAP will not materially affect customer service and that customer bills will remain materially in line with the results of the customer engagement undertaken originally for the PR19 Business Plan.

The Challenge Panel has received assurance from the Board of Bristol Water, via the Board's external assurers, that the company has given sufficient attention to the proposed changes in PCs and ODIs arising from the IAP and that these changes will not result in customers bearing additional financial or operational risk. The Board has also informed the Challenge Panel that the outcomes, priorities and promised made in the Business Plan will be met and that the company will have sufficient capability and leadership to transform the company, its systems and procedures and its network to meet the efficiency challenges posed by Ofwat.

## Appendices

## Appendix 1

### Glossary

AIM	Asset Incentive Mechanism
BW	Bristol Water
BWCP	The Bristol Water Challenge Panel
Caps and Collars	Upper and lower limits of performance beyond which no financial incentive applies
CCG	Customer Challenge Group
CCWater	The Consumer Council for Water
Deadband	A range either side of the performance target within which no financial incentive applies
DD	Draft Determination of prices (by Ofwat scheduled for July 2019)
EA	Environment Agency
FD	Final Determination of prices (by Ofwat scheduled for December 2019)
IAP	Ofwat's Initial Assessment of the Business Plan
NERA	National Economic Research Associates
NHH	Non household
NHS	National Health Service
ODI	Outcome Delivery Incentive. Delivery of each Performance Commitment will be assigned a financial or reputational incentive by Ofwat in the Final Determination
Ofwat	Water Services Regulation Authority - The economic regulator of the water sector in England and Wales
Outcome	Strategic outcomes for customers, derived from BW's customer engagement, and defined in its Strategic Direction Statement (SDS)
Performance Commitment (PC)	Performance measures supporting the Outcomes. The levels of performance (targets) were set by Ofwat in the Final Determination
PR19	Price Review 2019
RCV	Regulatory Capital Value
WINEP	Water Industry National Environmental Programme
WTP	Willingness to pay

For information on the economic regulation of the water industry in England and Wales including the setting of prices and Ofwat's expectations of CCGs, the reader is directed to the regulator's website [www.ofwat.gov.uk](http://www.ofwat.gov.uk).

## Appendix 2

### Challenge Panel members who have contributed to the IAP response

Peaches Golding OBE	Chair
Tony Denham	Deputy Chair
Jeremy Hawkins	Creoda Consulting
Michael Barnes	CCWater
Mike Bell	CCWater
Tamsin Sutton	Environment Agency
Dr Mark Taylor	Natural England
Cllr. Robert Cleland	North Somerset District Council
Cllr. Terry Napper	Mendip District Council
Dr. Tabinda Rashid-Fadel	National Health Service
Luke Hasell	The Story Group

## Appendix 3

### The Challenge Panel's summary of the main points arising from the IAP

#### Engaging Customers

##### Good

- demonstrates high-quality engagement with customers
- robust, balanced and proportionate evidence base
- demonstrated a clear line of sight from the results of its customer research and engagement to the outcomes
- evidence of behavioural change campaigns,
- effectively engaged with its customers on both the business plan and on longer-term issues.

##### Not so good

- approach to triangulation was not consistent with industry best practice
- largely determined the needs of vulnerable customers from engagement with stakeholder groups

#### Addressing affordability and vulnerability

##### Good

- demonstrates high quality on some aspects of affordability and vulnerability
- a real bill reduction of 6% between 2020 and 2025
- customer support for the affordability of the bill is relatively high
- proposes to help customers who cannot afford to pay their bills

##### Not so good

- demonstrates a lack of ambition on its proposed increase in the reach of its Priority Services Register (PSR);
- it forecasts a bill increase of 2.1% for 2025-30 without providing evidence that it tested the bill profile with customers
- did not engage customers sufficiently on its approach to long-term affordability
- demonstrates a lack of ambition on addressing vulnerability

#### Delivering outcomes for customers

##### Good

- evidence of a high-quality approach to its performance commitments
- appropriately stretching performance commitments

##### Not so good

- insufficient evidence to support its package of outcome delivery incentives
- proposes deadbands for a large number of performance commitments without sufficient evidence
- insufficient evidence as to how the outcome delivery incentive package aligns the interests of management and shareholders with customers
- insufficient evidence as to how the outcome delivery incentive package incentivises it to deliver on its performance commitments.

#### Securing long-term resilience

##### Good

- engaged with customers on a range of resilience risks and preferred mitigation options
- customers collaborated through approaches such as gamification

- proposes a stretching package of resilience-focused performance commitments

#### Not so good

- concerns about the evidence provided on how it prioritises risks and the clarity of its resilience assessment
- insufficient evidence to demonstrate that it has an integrated and systems-based approach to resilience
- insufficient evidence that the headroom in its financial ratios will allow it to maintain long-term financial resilience
- insufficient evidence for how it would secure financial resilience if it does not receive a cost of debt adjustment

#### **Targeted controls, markets and innovation**

##### Good

- provides high-quality evidence about its approach to enabling innovation
- its evidence on RCV allocation is complete
- its strategy for water resources aligns with its Water Resource Management Plan (WRMP)

##### Not so good

- insufficient evidence on its use of water catchment management or alternative third-party options for water resources
- does not set out in depth alternatives to abstracting water from the Gloucester-Sharpness Canal
- its bid assessment framework omits details on what information bidders might have to provide
- its approach to protecting third party's commercially sensitive information omits details
- provides limited justification as why no scheme met the £100 million totex threshold

#### **Securing cost efficiency**

##### Good

None

##### Not so good

- company level costs are 15% above our view of efficient and justified costs;
- two of the cost adjustment claims lack compelling evidence
- our modelled cost allowance already reflects three of the cost adjustment claims

#### **Aligning risk and return**

##### Good

- some aspects of high quality, such as demonstrating the company's choice of pay as you go (PAYG) rates

##### Not so good

- provides insufficient evidence for the requested company-specific cost of debt adjustment, including that customers would be adequately compensated for the additional cost, or that they support funding it
- provides insufficient evidence for the choice of target credit rating for the notional and actual structures, and that its financial ratios are consistent with the actual target credit rating
- provides insufficient evidence its choice of RCV run-off rates
- provides insufficient evidence of risk and risk mitigation measures in the return on regulatory equity (RoRE) assessment for the notional company



### **Accounting for past delivery**

#### Good

- sufficient evidence that for the deliverability of costs and major incident performance

#### Not so good

- falls significantly short of high quality for evidence on the deliverability for outcomes and customer complaints handling
- insufficient evidence that it understands the drivers of its past performance
- insufficient evidence that it includes appropriate measures to improve outcomes performance
- does not acknowledge that it has a high and increasing number of complaints per customer and so provides insufficient evidence on lessons learnt or measures to improve performance

### **Securing confidence and assurance**

#### Good

- makes good quality proposals on gearing benefits sharing, dividend policy and executive pay

#### Not so good

- Board does not provide assurance statements in many of the requested areas
- falls short of providing sufficient evidence to demonstrate high quality in the securing confidence and assurance test area

## Appendix 4

### Schedule of the IAP questions and Ofwat's required responses relating to Outcomes and the Challenge Panel's decision to respond to them.

Action	Required Action	Bristol Water response	BWCP Response
<b>BRL.OC.A1</b>	The company should propose a bespoke PC covering business retail gaps and voids or justify why not.	We will not be introducing a PC in this area; it is the retailer who is responsible for managing the billing of NHH properties, and thereby determining whether they are occupied or not. Instead, we propose a separate PC on retailer satisfaction to show that we are thinking about our interaction with the NHH market. It's reputational only and has a rolling 93% target throughout AMP7 This reflects the working model discussed at the Retailer Wholesaler Group.	BW have explained PC R-Mex. The Panel are supportive of the new PC.
<b>BRL.OC.A2</b>	In cases of rejection or revisions to enhancement expenditure or a cost adjustment claim, the company should consider the implications, if any, for the associated level of the PC and ODI incentive rates proposed and provide evidence to justify any changes to its business plan submission.	There are no changes to PC and ODI incentive rates as a result of enhancement expenditure.	No response required as detail covered by other Outcome actions
<b>BRL.OC.A3</b>	The company should review our PC-specific concerns about the justification for certain deadbands, and in each case the company should decide whether to remove the deadband or provide further justification for why the deadband is appropriate and in customers' interests.	C3 sets out our review of ODI caps and collars. We have adjusted / removed caps and collars where appropriate and removed them where this is supported by the evidence, and retested the principles through further customer research. This confirmed the extensive customer research on our ODIs, including the design features, in our original plan	BWCP support changes supported by customer engagement. Section 4
<b>BRL.OC.A4</b>	The company should provide further explanation of how its ODI package incentivises it, through	Our ODIs provide strong incentives for delivery around our performance commitments. They reflect	No response required as detail covered by other Outcome actions

Action	Required Action	Bristol Water response	BWCP Response
	better aligning the interests of management and shareholders with customers, to deliver on its PCs to customers.	the right balance of financial under and outperformance incentives and reputational incentives. Outperformance payments will only be earned if we are delivering performance over and above our challenging, value for money targets – and where customers tell us this is what they want.	
<b>BRL.OC.A5</b>	The company should provide sufficient evidence that its customers support its proposed asset health outperformance payments.	We only had outperformance on low pressure, which has customer support	No response required as detail covered by other Outcome actions
<b>BRL.OC.A6</b>	The company should apply additional protections through an appropriate outperformance payment sharing mechanism.	The mechanism is not required as our maximum ODI outperformance in any one year is less than 3%. However we adopt it anyway for industry consistency, and in case ODIs change during the remainder of PR19 (not that we believe this should be the case), or at future reviews as the principle is welcomed. We maintain our short term bill volatility plan proposal of a separate £2.5m annual bill impact cap.	Welcome sharing mechanism but note that it will not affect BW customers.
<b>BRL.OC.A7</b>	<b>Water quality compliance PC:</b> The company should explain and evidence how its proposed ODI rate for CRI is coherent with the rates proposed for other asset health PCs.	We are applying ODI rates based on our own research, which is well evidenced. This has been supported by further research	BWCP support the NERA paper justifying the triangulation process
<b>BRL.OC.A8</b>	<b>Water quality compliance PC:</b> We propose to intervene to ensure companies perform to the regulatory requirement of 100% compliance against drinking water standards. The company should set a collar at 9.50 for 2020-25.	Ofwat proposed ODI design adopted. Deadband changed from 1.27 to 1.5, as well as collar at 9.5, to be consistent with Ofwat interventions in fast track companies	No involvement as change instructed by Ofwat
<b>BRL.OC.A9</b>	<b>Supply Interruptions PC:</b> We expect the company's service levels to reflect the values we have calculated	Ofwat proposed service levels adopted (3 minutes in 2025 etc)	No involvement as change instructed by Ofwat

Action	Required Action	Bristol Water response	BWCP Response
	for each year of the 2020 to 2025 period.		
<b>BRL.OC.A10</b>	<b>Supply Interruptions PC:</b> The company should clarify the single standard outperformance incentive rate to be applied and set out further evidence to justify the calculation and selection of this rate.	Standard (lower) outperformance rate used (consistent with adopting BRL.OC.A9 service levels). The proposed unit rates reflect our customer research and WTP, and therefore we do not propose to reflect the industry ranges	Underperformance set by Ofwat at upper quartile which reduces penalty risk for BW.
<b>BRL.OC.A11</b>	<b>Mains Bursts PC:</b> The company should explain and evidence how its proposed ODI rate for mains bursts is coherent with the rates proposed for PCs relating to the associated customer facing-impacts of the asset failure	NERA proving to Ofwat that valuation driven by a innovative (better) triangulation approach). No material material change from original submission (although further evidence to justify our deadband has been included)	BWCP support the NERA paper justifying the triangulation process
<b>BRL.OC.A12</b>	<b>Mains Bursts PC:</b> The company should either remove the proposed underperformance deadband from this PC or provide convincing evidence to explain why this deadband is appropriate and in customers' interests.	The deadband is supported by existing and revised customer evidence.	BWCP support changes supported by customer engagement. Section 4
<b>BRL.OC.A13</b>	<b>Unplanned Outage PC:</b> The company should provide details on the actions needed to comply with the standard definition of this common performance	Any changes to the guidance will be reflected in our submissions on May 15th.	No involvement
<b>BRL.OC.A14</b>	<b>Unplanned outage PC:</b> The company is required to provide fully audited 2018-19 performance data by 15 May 2019.	We do not currently expect the forecast data to change as a result of this action.	No involvement
<b>BRL.OC.A15</b>	<b>Unplanned outage PC:</b> The company should explain and evidence how its proposed ODI rate for unplanned outages is coherent with the rates proposed for PCs relating to the associated customer facing- impacts of the asset failure	The proposed unit rates reflect our customer research and WTP, and therefore we do not propose to reflect the industry ranges	BWCP support the NERA paper justifying the triangulation process
<b>BRL.OC.A16</b>	<b>Risk of severe restrictions in drought PC:</b> The company should explain its	The methodology required has changed since the business plan. The	No material impact

Action	Required Action	Bristol Water response	BWCP Response
	level of stretch and submit the intermediate calculation outputs as shown in the common definition guidance published on our website for the drought resilience metric.	intermediate table changes the 2020 target to 40% from 0%, and then the stretch reflects the Water Resource Management plan leakage and metering delivering which reduces the 40% to 0% over time	
<b>BRL.OC.A17</b>	<b>Leakage PC:</b> The company should explain why its proposed rates differ from our assessment of the reasonable range around the industry average	The proposed unit rates reflect our customer research and WTP, and therefore we do not propose to reflect the industry ranges.	BWCP support the NERA paper justifying the triangulation process
<b>BRL.OC.A18</b>	<b>Leakage PC:</b> The company should provide further ODI-specific evidence to support its use of a cap and a collar	The caps and collars are supported through specific customer research. We set out the evidence in section C3 for the technical reasons and customer support	BWCP support changes supported by customer engagement. Section 4
<b>BRL.OC.A19</b>	<b>Per capita consumption (PCC) PC:</b> The company should explain why its proposed rates differ from our assessment of the reasonable range around the industry average	The proposed unit rates reflect our customer research and WTP, and therefore we do not propose to reflect the industry ranges	BWCP support the NERA paper justifying the triangulation process
<b>BRL.OC.A20</b>	<b>Per capita consumption (PCC) PC:</b> The company should reconsider whether to apply an outperformance deadband to this PC. The company should provide a convincing and well-evidenced justification in its response.	We have removed the outperformance deadband, supported by additional customer research.	BWCP support changes supported by customer engagement. Section 4
<b>BRL.OC.A21</b>	<b>Customer contacts about water quality – appearance PC:</b> The company should provide further evidence to justify the selection of the chosen outperformance incentive rate from the two rates provided.	We have used the lower (standard) outperformance rate, as well as removing the outperformance deadband as part of a balanced approach in response to the IAP challenges. This is supported by custom	BWCP support the NERA paper justifying the triangulation process. BWCP support changes supported by customer engagement. Section 4
<b>BRL.OC.A22</b>	<b>Customer contacts about water quality – taste and smell PC:</b> The company should provide further evidence to justify the selection of the chosen outperformance incentive	We have used the lower (standard) outperformance rate, as well as removing the outperformance deadband as part of a balanced approach in response to the IAP	BWCP support the NERA paper justifying the triangulation process. BWCP support changes supported by customer

Action	Required Action	Bristol Water response	BWCP Response
	rate from the two rates provided.	challenges. This is supported by customers.	engagement. Section 4
<b>BRL.OC.A23</b>	<b>Customer contacts about water quality – taste and smell PC:</b> The company should either remove the proposed underperformance deadband from this PC or provide convincing evidence to explain why this deadband is appropriate and in customers' interests.	We have removed deadbands supported through additional customer research. We maintain the underperformance collar based on the customer research, and it is based on the worst historic performance in the past 10 years.	BWCP support changes supported by customer engagement. Section 4
<b>BRL.OC.A24</b>	<b>Properties at risk of receiving low pressure PC:</b> The company should provide further evidence to demonstrate how it will avoid the double counting of outperformance incentives between this PC and Leakage.	There is no double counting with leakage, as leakage does not cause persistent low pressure properties.	No material impact
<b>BRL.OC.A25</b>	<b>Properties at risk of receiving low pressure PC:</b> The company should either remove the proposed underperformance deadband from this PC or provide convincing evidence to explain why this deadband is appropriate and in customers' interests.	We have removed the underperformance and outperformance deadbands. Although supported in the customer research, a balanced package of ODIs allows us to protect customers better through this change.	No material impact
<b>BRL.OC.A26</b>	<b>Turbidity performance at treatment works PC:</b> The company should reconsider whether to apply an underperformance collar to this PC, taking account of its broader approach to customer protection.	We have extended the underperformance collar to 5 rather than 1, but as no turbidity failures have ever occurred, there is no specific rationale for this. Customers do not support unlimited penalties	No material impact
<b>BRL.OC.A27</b>	<b>Unplanned maintenance – non-infrastructure PC:</b> The company should either provide further evidence to set out the marginal costs used within the ODI rate calculation, or amend the underperformance payment to reflect any required adjustments.	The unplanned maintenance ODI rate has reduced following our review, to remove the impact of multipliers over the marginal costs	No involvement
<b>BRL.OC.A28</b>	<b>Unplanned maintenance – non-infrastructure PC:</b> The company should either	Following reviewing updated asset management data analysis, we have	No material impact

Action	Required Action	Bristol Water response	BWCP Response
	remove the proposed underperformance deadband from this PC or provide convincing evidence to explain why this deadband is appropriate and in customers' interests.	removed the deadband for this ODI. This has the impact of spreading the asset health marginal costs over a larger range of performance	
<b>BRL.OC.A29</b>	<b>Population at Risk from Asset Failure PC:</b> The company should provide further evidence to justify the use of an outperformance payment for this PC, including evidence of customer support.	The customer support was set out in our plan, including customer forum and the acceptability testing and was noted as an area of good practice in the IAP for the customer engagement on resilience and proposing a forward looking ODI.	BWCP support changes supported by customer engagement. Section 4. However BW have capped the out performance at two years early delivery.
<b>BRL.OC.A30</b>	<b>Population at Risk from Asset Failure PC:</b> Should the company propose to keep the outperformance payment on this ODI, the company should provide further evidence to justify the use of >24 hour supply interruptions as a proxy for customer willingness to pay for this ODI, or formulate marginal benefits based upon specific customer evidence relevant for this ODI. The company should provide further evidence to justify the appropriateness of the proposed ODI outperformance payment, or revise its rate downwards in line with customer evidence. In either case the company should provide its evidence and rationale.	The ODI rate is based on customer WTP, adjusted for data on the actual risk. See section C3. We have not amended this since the original plan, but we have amended the scope of outperformance.	BWCP support the NERA paper justifying the triangulation process. BWCP support changes supported by customer engagement. Section 4
<b>BRL.OC.A31</b>	<b>Population at Risk from Asset Failure PC:</b> The company should reconsider whether to apply an underperformance collar to this PC, taking account of its broader approach to customer protection.	An underperformance collar is mathematical by design. Performance cannot exceed the starting point which is reflected in the collar.	BW have capped the out performance at two years early delivery.
<b>BRL.OC.A32</b>	<b>Value for money PC:</b> The company should confirm that the survey will be externally assured and conducted in line	The survey will be reviewed with the BWCP and will be conducted in line with social research best	No material impact

Action	Required Action	Bristol Water response	BWCP Response
	with social research best practice.	practice by an accredited firm.	
<b>BRL.OC.A33</b>	<b>Percentage of satisfied vulnerable customers PC:</b> The company should provide evidence that its measurement methodology will provide robust results based on 300 responses, rather than using the entire sample of PSR customers surveyed to determine satisfaction levels in addition, the company should confirm that the survey will be externally assured and conducted in line with social research best practice.	We will base our survey on a sample of 500 customers and base the number on representative percentages of the vulnerability needs codes as at the end of the previous year. The survey will be conducted by telephone interviews but will also be supplemented by face-to-face interviews and paired interviews if needed. The survey will be externally assured and conducted in line with social research best practice.	No material impact
<b>BRL.OC.A34</b>	<b>Percentage of satisfied vulnerable customers PC:</b> The company should justify the setting of an 85% target, in comparison to its existing rating on PSR customer satisfaction.	The "easy to contact" level of service applies generally to all customers. Satisfaction with services for vulnerable customers reflects the observations through customer research that what individual vulnerable customers found most frustrating was that support was available that they only found out about after the event. Therefore the metrics are totally different and not comparable in any way.	No material impact
<b>BRL.OC.A35</b>	<b>Gaps and voids PC:</b> The company should reconsider its proposed percentage target for 2020-25. The company should clearly set out the evidence and rationale for the revised targets.	We have maintained our target as it is stretching compared to local authority data and Wessex Water, who cover the same population as us with the same service provider for billing and contact services.	No material impact
<b>BRL.OC.A36</b>	<b>Void properties PC:</b> The company should provide evidence to demonstrate that an outperformance payment would benefit customers and that it is designed in such a way that does not create perverse incentives with respect to the timely and accurate registration of void sites.	The outperformance payment reflects a cash flow benefit and there is clear customer support for this metric.	No material change



Action	Required Action	Bristol Water response	BWCP Response
<b>BRL.OC.A37</b>	<b>Meter penetration PC:</b> The company should provide further evidence to justify the use of an outperformance payment for this PC, including evidence of customer support.	An outperformance payment has been retained. Further customer research has been undertaken to justify its inclusion.	BWCP support changes supported by customer engagement. Section 4
<b>BRL.OC.A38</b>	<b>Meter penetration PC:</b> The company should provide further ODI-specific evidence to support its use of a cap and a collar, while also considering how its use of these features aligns with its broader approach to customer protection.	The cap is based on the maximum feasible metering without compulsory metering powers. The collar relates to the pre-existing level of metering, and is mathematical as meter penetration cannot materially reduce.	BWCP support changes supported by customer engagement. Section 4
<b>BRL.OC.A39</b>	<b>Raw Water Quality of Sources PC:</b> The company should ensure that its definition of this PC is transparent and any uncertainty in measurement is reduced.	There is no uncertainty in the definition of measurement. This is set out in section C3.	No material change
<b>BRL.OC.A40</b>	<b>Raw Water Quality of Sources PC:</b> The company should provide further evidence to justify why this PC has financial incentives associated with it, despite the evidence presented indicating that customers prefer non-financial incentives. The company should demonstrate how financial incentives will benefit customers.	The incentives have customer support - the research reference is taken out of context based on the AMP6 performance incentive which is very different from AMP7. The incentive allows innovation in catchment management and wider benefits which has a wider social and environmental benefit.	BWCP support changes supported by customer engagement. Section 4
<b>BRL.OC.A41</b>	<b>Biodiversity Index PC:</b> The company should provide further evidence to justify the use of an outperformance payment for this PC, including evidence of customer support. The company should demonstrate how this ODI will benefit customers.	The incentives have customer support - this is due to the priority for habitats around our lakes and reservoirs and on other land that we own.. The incentive allows innovation in biodiversity and wider benefits, beyond legal minimums.	BWCP support changes supported by customer engagement. Section 4
<b>BRL.OC.A42</b>	<b>Biodiversity Index PC:</b> The company should reconsider whether to apply an underperformance collar to this PC, taking account of its broader approach to customer protection.	The underperformance collar reflects a baseline survey of environmental impact, beyond which WINEP non-compliance from deteriorating habitat status would kick in. This therefore avoids double	BWCP support changes supported by customer engagement. Section 4

Action	Required Action	Bristol Water response	BWCP Response
		counting ODI underperformance incentives.	
<b>BRL.OC.A43</b>	<b>Waste disposal compliance</b> <b>PC:</b> The company should reconsider whether to apply an underperformance collar to this PC, taking account of its broader approach to customer protection.	Customers support the deadband. It was justified based on uncertainty surrounding a new discharge consent. Based on resolution of this uncertainty, we can now amend our deadband from 96% to 97%.	BWCP support changes supported by customer engagement. Section 4
<b>BRL.OC.A44</b>	<b>Local community satisfaction</b> <b>PC:</b> The company should justify its reasoning for selecting the price control for this measure. The company should clarify how performance on each of the survey questions will be combined with the results of the qualitative interviews to give the overall performance score.	There is only one survey question which is set out in C3.	No material change
<b>BRL.OC.A45</b>	<b>Local community satisfaction</b> <b>PC:</b> The company should provide further evidence to justify the use of outperformance payments for this ODI and evidence of customer support for this approach. The company should demonstrate how this ODI will benefit customers.	The outperformance was specifically supported by customers, including outperformance payments, as part of the research in the original plan. The benefit to customers was specifically noted, through wider societal benefits that link to the future of water services	BWCP support changes supported by customer engagement. Section 4
<b>BRL.OC.A46</b>	<b>Local community satisfaction</b> <b>PC:</b> The company should either provide further evidence to demonstrate how it will avoid double counting outperformance on this PC with other incentives, or revise its ODI rates downwards (in absolute terms) to reflect this.	The WTP value is not reflected in other performance commitments, reflecting the value customers gain through a way of working through other stakeholders. The value will be reflected in long term service delivery and future stretching incentive targets	BWCP support the NERA paper justifying the triangulation process.
<b>BRL.OC.A47</b>	<b>Local community satisfaction</b> <b>PC:</b> The company should provide further ODI- specific evidence to support its use of a cap and a collar.	The cap and collar are supported by customers, reflecting for the collar the current level of satisfaction without this innovative approach and the cap reflecting a limit to customers WTP, through a	BWCP support changes supported by customer engagement. Section 4. BWCP support the NERA paper justifying the triangulation process.

Action	Required Action	Bristol Water response	BWCP Response
		link to current targets for customer satisfaction from direct water services.	
<b>BRL.OC.A48</b>	<p><b>Abstraction Incentive Mechanism (AIM) PC:</b> The company should either remove the proposed deadbands from this PC or provide convincing evidence to explain why these deadbands are appropriate and in customers' interests. The company should provide further ODI- specific evidence to support its use of a cap and a collar, while also considering how its use of these features aligns with its broader approach to customer protection. The company's evidence should include justification for the levels at which the cap and collar are set, with the company explaining why these levels are appropriate and in customers' interests.</p>	<p>The deadbands, caps and collars are inherent in this bespoke AIM PC, given the environmental impact of the specific abstraction being targeted. We have tested our approach further with customers who support the principles we have applied.</p>	<p>BWCP support changes supported by customer engagement. Section 4.</p>

## Appendix 5

### Schedule of the IAP questions and Ofwat's required responses relating to other areas and the Challenge Panel's decision to respond to them.

Action	Required Action	BW response	BWCP Response
<b>BRL.AV.A1</b>	Bristol Water should undertake customer engagement on long-term bill profiles for the 2025-30 period and provide sufficient evidence to demonstrate customer support for each of the profiles tested. Bristol Water should confirm that testing has been assured by its CCG and conducted in line with social research best practice.	Tested in acceptability testing showing strong customer support for the Bill profile. To be assured by BWCP.	Supported in Section 4
<b>BRL.AV.A2</b>	Bristol Water should undertake social tariff cross-subsidy testing with customers to confirm that the required amount (£2.12) to achieve the Performance Commitment target of providing social tariffs to 100% of customers that are eligible (c 25,000) is acceptable to customers.	Social contract allows funding when eligibility increases above 75% (c. 2025?). Will undertake research close to when it is required (discussed with BWCP and CCWater), to reflect social circumstances and customer support at the time.	Supported in Section 4
<b>BRL.AV.A3</b>	We propose to introduce a Common Performance Commitment on the Priority Services Register (PSR): Bristol Water should include a Performance Commitment which involves increasing its PSR reach to at least 7% of its customer base (measured by households) by 2024/25 and committing to check at least 90% of its PSR data every two years.	Accept PSR target and definition	BWCP support new reputational PC. BW to achieve both parts
<b>BRL.LR.A1</b>	We expect the company to satisfy the relevant actions set out in relation in the outcomes areas ensuring a line of sight between risks to resilience and package of outcomes.	Original plan proposals recognised as strong. Ofwat calls suggest easily resolved with presentation with little plan bill and especially service impact	BW confirmed a non-material bill change and minimal service level impact
<b>BRL.LR.A2</b>	Securing long term resilience via an action plan by 22 August 2019	We are happy to provide this commitment.	BWCP no further involvement before 1 April
<b>BRL.LR.A3</b>	The company should provide a commitment to work with the	We make this commitment	No involvement

Action	Required Action	BW response	BWCP Response
	sector to develop robust forward looking asset health metrics		
<b>BRL.LR.A4</b>	The company has noted the possibility of additional equity investment as a financial risk mitigation measure to maintain long term financial resilience.	We provide a full explanation of the risk mitigation	No involvement
<b>BRL.CMI.A1</b>	The company should provide further explanation of the impact of the ongoing dispute with the Canals and Rivers Trust in relation to the provision of water resources, including the risks and mitigating actions to ensure that the company has access to secure long term water resources.	The Canal & Rivers Trust should have no impact on future water resources, other than the discussion on price	Concern over uncertainty of possible material change to bills
<b>BRL.CMI.A2</b>	The company should revise its water resources bid assessment framework document to provide clarity on how the company will handle and protect confidential information submitted by bidders.	We commit to meet this action by 15/07/2019 as requested	No involvement
<b>BRL.CE.A1</b>	We expect it to address areas of inefficiency, or lack of evidence, in the revised business plan.	We have no investment proposals that require withdrawal based on the IAP	BW confirms no reduction in service levels
<b>BRL.CE.A2</b>	The company should investigate and agree with the DWI the scale and timing of any potential changes compared to its submitted plans.	The ban on metaldehyde means that we will no longer need to subsidise the additional cost to farmers of the alternative	BW confirm no reduction in service levels
<b>BRL.RR.A1</b>	The company should remove the requested company specific adjustment from its plan and associated financial modelling or provide compelling evidence following the three-stage approach set out in the PR19 methodology if it continues to request a company specific adjustment.	We have maintained the company specific adjustment at a lower value of 38bps. This is at the lowest end of the range analysed by KPMG, who have confirmed that Ofwat's challenges to their methodology increased rather than reduced the value of the company specific adjustment. We provide compelling evidence for further discussion with Ofwat based on the three stage approach, including 88% customer support for the adjustment.	Supported in Section 4
<b>BRL.RR.A2</b>	The company should provide further information on its proposed uncertainty mechanism relating to Canal & River Trust costs – to consider specifically whether the cost	The costs will remain uncertain as the arbitration has not yet been triggered by the Canal & River Trust.	Concern over uncertainty of possible material change to bills

Action	Required Action	BW response	BWCP Response
	item will remain uncertain at the time of draft and final determinations.		
<b>BRL.RR.A3</b>	The company should provide convincing evidence to support its view that this is reasonable for the long term financeability of the notional company.	We cover this in a section associated with C6.	No involvement
<b>BRL.RR.A4</b>	The company should provide further evidence to support its view that this is reasonable for the financeability of the actual company.	We cover this in a section associated with C6.	No involvement
<b>BRL.RR.A5</b>	Further evidence and Board assurance is required that the business plan is consistent with maintaining the target credit rating.	We cover this in a section associated with C6.	No involvement
<b>BRL.RR.A6</b>	The company should ensure it is using the correct assumptions for the notional company in assessing the key financial ratios.	We assess our ratios with and without the cost of capital adjustment	No involvement
<b>BRL.RR.A7</b>	The company should provide further evidence to support the calculation of RCV run-off rates and demonstrate that the rates are consistent with the approach set out in the business plan.	We cover this in a section associated with C6.	BW confirm minor bill change and no change to service levels
<b>BRL.RR.A8</b>	The company should ensure its subsequent submission contains a consistent set of assumptions.	This has been corrected in the revised plan by not rounding the data tables to the stated decimal places	No involvement
<b>BRL.PD.A1</b>	Bristol Water is required to provide additional evidence to support the forecast trajectory in table App9.	This forecast has been provided with a commentary in revised C7	No involvement
<b>BRL.PD.A2</b>	Bristol Water is required to provide evidence of how it considers leakage performance should be rounded before applying the outcome delivery incentive rate	The leakage performance should be rounded to 1d.p. as per the PR14 corrigenda and the revised data tables have been recalculated on this basis.	BW confirm non material change to bills
<b>BRL.PD.A3</b>	Bristol Water is required to update its forecast for 2019-20 performance to take account of the actual 2018-19 performance for all its performance commitments	We committ to providing this updated forecast alongside our APR for 2018/19	No involvement
<b>BRL.PD. A4</b>	Bristol Water is required to provide further clarity on the reasons for the difference	The customer numbers have been updated to reflect 2019/20 charges forecasts. The forecast	BW confirm non material change to bills

Action	Required Action	BW response	BWCP Response
	between reforecast customer numbers and actual customer numbers in 2018-2019 in table R9 and clarify the justification for its 2019-2020 forecast which departs from the previously observed trends.	differed from previously observed trends due to the meter penetration target, and have been revised based on the revised forecast of this performance which is explained in section C7	
<b>BRL.PD. A5</b>	Bristol Water is required to provide further explanation for the change to the 2017-18 value and the forecast trajectory in table R10.	We provide this explanation in C7.	No involvement
<b>BRL.PD. A6</b>	Bristol Water is required to amend the values as submitted match those in the model	Through IAP queries it was identified that we had reflected the CMA final determination in the tables correctly	No involvement
<b>BRL.PD. A7</b>	Bristol Water is required to use the 2015-16 revenue recovered value from table WS13 in the model.	This action was withdrawn during the IAP query process and we have submitted revised forecasts.	No involvement
<b>BRL.PD. A8</b>	We will require the company to refresh all of its PR14 reconciliations to replace its forecast performance with actual performance.	We will comply with this action by the date required.	No involvement
<b>BRL.PD. A9</b>	Bristol Water should produce and provide to Ofwat additional evidence on past performance and transformation	We present an appendix which specifically addresses this as part of our transformation programme	BW confirm non material change to bills
<b>BRL.PD.A10</b>	Bristol Water should produce and provide to Ofwat additional evidence on past performance and transformation	We provide this action plan within section C7 and A1, setting out how we will continue to report transparently and accurately on our performance measures	BW confirm non material change to bills
<b>BRL.PD.A11</b>	Bristol Water should produce and provide to Ofwat additional evidence on past complaint handling	We provide a specific appendix in response to this action. The number of complaints, rather than complaint handling, has had a historic increase due to operational incidents that our recent improvements and future transformation are targeted to resolve.	BW confirm non material change to bills
<b>BRL.PD.A12</b>	Bristol Water should produce and provide an action plan that sets out how Bristol Water will continuously monitor performance with reference to CCWater analysis and targets	We provide this action plan within section C7 and A1, setting out how we will continue to report transparently and accurately on our performance measures	BW confirm non material change to bills
<b>BRL.CA.A1</b>	The Board does not provide an explicit statement of assurance.	We make a compliant Board statement	No involvement

Action	Required Action	BW response	BWCP Response
	Provide a restated and compliant Board assurance statement.		
<b>BRL.CA.A2</b>	The Board does not confirm that large-investment proposals are deliverable or that options chosen are the best for customers Provide a restated and compliant Board assurance statement.	We make a compliant Board statement	No involvement
<b>BRL.CA.A3</b>	The Board does not provide assurance that its governance and assurance processes will deliver operational, financial and corporate resilience over the next control period and the long term	We make a compliant Board statement	No involvement
<b>BRL.CA.A4</b>	Please provide an update on the steps you are taking to fully meet the expectations as set out in our putting the sector in balance position statement.	We confirm this commitment in our revised plan	No involvement
<b>BRL.CA.A5</b>	Please provide an update on the steps you are taking to fully meet the expectations as set out in our putting the sector in balance position statement.	We confirm this commitment in our revised plan	No involvement
<b>BRL.CA.A6</b>	Provide a revised financial model (based on version 16z released on 31 January 2019) and data tables on 1 April 2019.	We provide a revised suite of financial models and the data table as requested.	No involvement
<b>BRL.CA.A7</b>	The company should remove the requested company specific adjustment from its plan and associated financial modelling	We provide a revised suite of financial models and the data table as requested.	No involvement