

## **Appendix 3**

**LEF Report to Ofwat on key changes to Bristol Water's 2015-2020  
Business Plan. June 2014**



**Bristol Water  
Local Engagement Forum**

18<sup>th</sup> June 2014

Keith Ludeman  
Chairman  
Bristol Water

By email:

Dear Chairman

I write to you in my capacity as the Chairman of Bristol Water's Local Engagement Forum (also referred to as a Customer Challenge Group).

Since I wrote to you on 26<sup>th</sup> February 2014, we have reviewed in detail Ofwat's challenges to the company's revised proposals and the company's responses and have conducted a further round of detailed discussions and challenges which has resulted in a number of further adjustments to the plan. That process culminated in a meeting of the full LEF board following which we have compiled a report setting out the stakeholder and customer views on your business plan as it stands today.

I have pleasure in enclosing this for the information of your board and I would be grateful if you would now inform Ofwat of the outcome of this final formal consultation.

**Charles Howeson**  
Chairman  
Bristol Water Local Engagement Forum

CC: Members of the LEF

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# Bristol Water's

## Local Engagement Forum



Report to Ofwat on key changes to  
Bristol Water's 2015-2020 Business Plan

June 2014

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## Executive Summary

The purpose of this report is for the Bristol Water Local Engagement Forum (LEF) to provide opinion to Ofwat on the key changes to Bristol Water's 2015 – 2020 Business Plan since its original submission in December 2013 (and reported on by the LEF at that time).

The LEF has operated and challenged the Company in the same way as it did for the original Business Plan. As before, the LEF has been given adequate and appropriate access to Company information and personnel.

Bristol Water has made changes to its original Business Plan as a result of challenge and further guidance from Ofwat.

The LEF has reviewed the key changes to the original Business Plan submission as supplied to it by Bristol Water on 13 June 2014. The revised Plan was subject to the approval of the Company Board at that time.

The LEF has the following comments on the key changes:

**Customer bills** - The LEF is pleased to note that, as a result of Bristol Water's revisions to its 2015 – 2020 Business Plan, customers' bills on average will fall further than was originally planned. The further reduction in bills has been achieved through the Company's acceptance of tighter margins and returns and greater capital expenditure efficiency rather than cuts in the proposed level of investment or delivery of outcomes, which remain the same as in the original Business Plan submitted in December 2013. The flatter bill profile now adopted by Bristol Water does not account for any rewards or penalties it could incur.

**Customer engagement** – In response to Ofwat's review and updated guidance, Bristol Water has carried out additional customer research in four areas:

1. Performance targets and incentives and how to apply them
2. Targets for ease of contact with Bristol Water
3. Customer water charges over the longer term
4. The long term target for reducing water poverty

The Company amended its research methodology in certain areas in response to questions and challenges from the LEF Customer Survey Sub-Committee (CSSC). The CSSC and the LEF were content with the final methodology adopted.

The LEF supports the Company's responses to these findings with regard to the changes it has made to its Plan on points 2 to 4 above, and provides its opinion on point 1 on incentives later in this report.

**Willingness to Pay** - The Company has provided additional information on its WTP calculations and a valuation framework to support its revised Plan. Its WTP values and methodology remain as used in its December 2013 submission and which were supported by the LEF at that time.

**Performance Commitments** – In response to challenge and further guidance from Ofwat, Bristol Water is now proposing a total of eight Performance Commitments with financial incentives compared to five in its December Plan. Significantly for the LEF the Company has incorporated financial rewards into five of its Commitments.

Individual members of the LEF have expressed their opinions on the adoption of financial rewards and their views are expressed within this report. The LEF has discussed these views and supports them. The LEF's concerns about financial rewards expressed in its December 2013 report to Ofwat remain, because while customers could support the theory of rewards and penalties, the sticking point was how they were funded. Customers generally rejected the idea that the rewards were funded through an increase in customer bills.

However, the LEF recognises that Bristol Water has had to create a package of revisions to its Business Plan to satisfy Ofwat's demands.

The way Bristol Water has outlined its positive rewards does accord with how customers prioritised issues in the willingness to pay research. Bristol Water has also responded to customer views by increasing the size of the penalties to more than the size of the reward, which the LEF supports.

**Performance measurement and governance** – Bristol Water intends to measure and record its performance in AMP6 every six months and have it independently audited. The LEF welcomes the Company's plans to establish independent panels with representatives from customers and stakeholders to review and challenge its performance. The LEF considers that is important that a monitoring organisation such as that proposed is put in place which will report stakeholder and customer views to the Chairman and board of the Company.

**Costs and investment** – The LEF is concerned over the significant difference between the views of Ofwat and the Company on the cost of the proposed investment in 2015-2020. While supportive of an efficiency challenge being made by Ofwat, it is difficult to understand how the Company could deliver the proposed investment for 63% less than its estimates.

The key priority for the LEF is for the company to deliver the investment the Company has outlined at an efficient price. The LEF considers the Company's customers would be unhappy if it was unable to deliver its Plan, which they found overwhelmingly acceptable, and which now they could benefit from even lower bills.

**Cost of Capital** – The LEF was keen to understand the Company's revised assumptions on Cost of Capital and the impact on bills if the Small Company Premium (SCP) was not allowed in the price determination. The Company said that an SCP would add £5 to bills, but if that were not allowed a 'pay as you go' approach would be needed which would add £10 to bills. Clearly this is worrying. The LEF looks to Ofwat to agree an SCP if this offers customers a lower bill compared to alternative approaches. The LEF would be most concerned if Bristol Water had to remove any of the customer benefits from its Plan, all of which have been carefully negotiated in detail, as a result of financeability factors.

It is not the role of the LEF to take a formal view on the SCP. However, in the case of Bristol Water, the LEF can see that stakeholders and customers could benefit overall from the Company being awarded a SCP.

In summary, with the exception of the inclusion of positive rewards, the LEF is content with the key changes Bristol Water had made to its 2015 – 2020 Business Plan in response to challenges and additional guidance from Ofwat. The LEF is pleased to note that the overall Plan continues to reflect an appropriate balance of the needs of customers and other stakeholders and now includes the potential for even lower bills.

Considering the Plan overall, the LEF is comfortable the revised Plan is consistent with the Company's original strategies and policies and that it remains good value for customers.

## **1.0 Introduction**

The independent Customer Challenge Group (CCG) for Bristol Water's business plan submission for Ofwat's 2014 price review is known as the Local Engagement Forum (LEF).

Bristol Water submitted its 2015 – 2020 Business Plan to Ofwat in December 2013. The LEF's opinion on the Company's Business Plan was provided to Ofwat at the same time.<sup>1</sup>

Ofwat has undertaken a review of Bristol Water's Business Plan and of the LEF's opinion and has informed the Company that it requires further information and evidence in order to publish its Draft Determination of Prices for the period 2015 to 2020.

Ofwat has requested that the LEF engages with the Company on revisions to its Business Plan and that the LEF provides a short-form report containing its views on the key changes.<sup>2</sup>

The purpose of this report is to provide the LEF's opinion to Ofwat on the key revisions to Bristol Water's 2015 – 2020 Business Plan as submitted by the Company in June 2014.

The report is regarded by the LEF as a supplement to and should be read in conjunction with its December 2013 submission to Ofwat.

## **2.0 LEF engagement and challenge process**

The LEF has engaged with Bristol Water on its revisions to the 2015-2020 Business Plan in a similar fashion to that adopted for the Company's December 2013 submission.<sup>3</sup>

The LEF has been given adequate and appropriate access to Company information and personnel throughout the process. Bristol Water co-operated fully with information requests from the LEF and responded positively and constructively to its challenges.

The LEF has maintained a diary of the challenges it has made together with the resulting responses and outcomes. The Challenge Diary is reproduced in Appendix 1 to this report.

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<sup>1</sup> LEF's "Report to Ofwat on Bristol Water's 2015 – 2020 Business Plan" dated December 2013

<sup>2</sup> "Setting price controls for 2015-20 – policy and information update" Ofwat – April 2014

<sup>3</sup> The LEF's terms of reference and governance process is described in its report to Ofwat entitled "Report to Ofwat on Bristol Water's 2015 – 2020 Business Plan; LEF Governance Process" dated December 2013"

A list of the LEF meetings held since December 2013 is given in Appendix 2. The minutes of these meetings are reproduced in Appendix 3.

### **3.0 LEF's opinion on the key changes to Bristol Water's Business Plan**

The LEF's opinions are based upon information provided to it by Bristol Water up to 13 June 2014 which had not been reviewed by and received the approval of the Company Board.

The LEF will report separately if there are any material changes to the Company's proposals following approval by its Board.

It should also be noted that the LEF has not seen Bristol Water's resubmission document, although it is content that it has seen the key changes Bristol Water is proposing.

#### **3.1 Customer bills**

The LEF is pleased to note that, as a result of Bristol Water's revisions to its 2015 – 2020 Business Plan, customers' bills on average will fall further in the period than was originally planned. Average bills in 2019-20 will now be around £4 less than in 2013-14 compared to £2 in the original Plan.

The LEF notes that the further reduction in bills has been achieved through the Company's acceptance of tighter margins and returns and greater capital expenditure efficiency rather than cuts in the proposed level of investment or delivery of outcomes, which remain the same as in the original Business Plan submitted in December 2013.

#### **3.2 Customer engagement**

Ofwat considered the customer engagement strategy used by Bristol Water for its December 2013 Business Plan submission to be acceptable.

However, Ofwat considered that the Company had provided insufficient evidence to show it had directly engaged customers on the longer-term affordability on bills and its intention to reduce the number of customers in water poverty.

Ofwat issued revised guidance on Risks and Rewards in April 2014 in which it expects companies to include Performance Commitments in its future plans that provide opportunities to earn financial rewards for out-performance as well as suffer penalties for poor performance. Bristol Water did not include positive incentives in

its December 2013 Business Plan because it had strong evidence that customers did not support them.

In response to Ofwat's review and updated guidance, Bristol Water has carried out additional customer research in four areas:

- Performance targets and incentives and how to apply them
- Targets for ease of contact with Bristol Water
- Customer water charges over the longer term
- The long term target for reducing water poverty

The research was undertaken through a deliberative workshop in May 2014, which was attended by 32 customers covering a range of household customer groups. A separate extended group discussion was held with nine vulnerable customers.

The LEF Customer Survey Sub-Committee (CSSC) was asked by the Company to review its research methodology on behalf of the LEF prior to its implementation as it had done so for all other Bristol Water customer research for PR14.

The Company amended its research methodology in certain areas in response to questions and challenges from the CSSC. The CSSC was content with the final methodology used and the LEF was happy to accept this assurance. The report compiled by the CSSC for the LEF is reproduced in Appendix 4.

The LEF notes the headlines from the latest customer research as follows:

- Customers do not endorse the principle of financial rewards to the Company (at the expense of customers) for good performance. Once customers were given the context that Ofwat required the Company to propose financial rewards, there was lukewarm acceptance of the performance areas and of the amounts proposed. Customers consider that penalties should be greater than rewards.
- While customers were impressed at the concept of a 95% target, the Company's proposed ease of contact target of greater than 95% was below current performance, so the target was not universally approved on principle.
- Customer preferred as flat a bill profile as possible into the future.
- The 2020 target business plan target is supported by the Company's social tariffs research and if it intended to use cross-subsidies to get to the 1% 2040 target it would need to repeat this research. In the May 2014 customer research, there was some support (by no means unanimous) for a higher target (lower than 1%) but this wasn't to be achieved through cross-subsidised social tariffs; it was in the context of 'so long as we're not paying for it'.

The LEF believes the Company's has appropriately reflected findings which include:

- Having to comply with Ofwat's requirement to adopt positive incentives but incorporating customers' views that rewards should not be greater than penalties
- Increasing the ease of contact target from greater than 95% to greater than 96.5% to reflect current performance
- Adopting the flattest of the four bill profiles shown to customers to 2025
- Retaining its original target for reducing water poverty

The LEF notes that Bristol Water intends to repeat its customer consultation process on social tariffs before 2020.

### **3.3 Willingness to Pay information**

Ofwat considered Bristol Water's approach to willingness to pay information gathering for its December submission to be appropriate.

The Company has provided additional information on its WTP calculations and a valuation framework to support its revised Plan.

The LEF has reviewed this additional information and has noted that Bristol Water's independent Reporter has audited it. The WTP results have not changed since the December 2013 Business Plan submission. The LEF supported these results.

### **3.4 Performance Commitments**

#### ***3.4.1 Performance Commitments***

Ofwat has challenged Bristol Water on a number of its proposed Performance Commitments including:

- Raw water quality of sources
- Biodiversity Index
- Unplanned customer minutes lost
- Negative water quality contacts
- Waste disposal compliance
- Pumping efficiency
- Meter penetration
- Total carbon emissions

- Sustainable environmental impact
- Negative billing contacts
- Per capita consumption
- Efficient use of water by customers

Ofwat's challenges included lack of evidence or justification to support the choice of performance level, insufficient reference to past and current performance and lack of explanation as to how targets will be met. Not all of these shortcomings applied to each of the commitments listed above however.

Bristol Water has responded where applicable by providing greater explanation of its Performance Commitment methodologies (including its cost benefit assessments and its use of willingness to pay data), by making clearer reference to its historic and current performance (including its recently obtained data for 2013/14), and by providing additional information in the form of letters of support from third parties or newly commissioned independent technical assessments.

The LEF notes that Company has converted a number of commitments, including pumping efficiency, into KPIs. The LEF supports these changes of status.

The Company is now proposing a total of eight Performance Commitments with financial incentives compared to five in its December Plan. These include additional financial incentives for Metering, Cheddar Two Reservoir and Cheddar Treatment Works. The Company briefed the LEF on the rationale behind these new Commitments and, whilst the Environment Agency requires more details, the LEF is content with the approach.

Significantly for the LEF the Company has incorporated financial rewards into five of its Commitments. These include Leakage, Unplanned Customer Minutes Lost, Negative Water Quality Contacts, Resilience and Metering. Where financial incentives are proposed the Company has provided assurance that customers will be protected in the event of underperformance.

The LEF's concerns about financial rewards expressed in its December 2013 report to Ofwat remain, because while customers could support the theory of rewards and penalties, the sticking point was how they were funded. Customers generally rejected the idea that the rewards were funded through an increase in customer bills.

Individual members of the LEF have expressed their opinions on the adoption of financial rewards and their views are expressed in the following paragraphs. The LEF has discussed these views and supports them.

## **Consumer Council for Water**

CCWater is supportive of the specific outcomes (and the service performance measures for each outcome) that the Business Plan sets out. The package of outcomes and specific service measures for each one are reflective of customer priorities and preferences revealed through extensive research in the development of the Company's Business Plan, and challenged where required by the Company's LEF, including CCWater.

However, CCWater has concerns with the principle of applying financial rewards and penalties to drive service improvements, and the potential negative customer reaction this could lead to.

While CCWater understands the regulatory rationale for applying financial incentives to encourage companies to outperform on service delivery (moving the emphasis from potential company and shareholder returns from financial performance to service delivery), research by CCWater shows that there is a significant risk that customers may react negatively to having to pay for rewards in the future for company outperformance.

Additionally, research by Bristol Water with its local customers showed that while customers could support the theory of rewards and penalties, the sticking point was how they were funded. Customers generally rejected the idea that the rewards were funded through an increase in customer bills.

As Bristol Water conducted further research in May 2014 on incentives, they received very similar messages:

- Acceptance that incentives and penalties can be effective in principle;
- but rejection of applying 'rewards' as an increase to customer bills.

And despite customers being given information on Ofwat's requirements, cynicism remained: "*it's all about trying to get more money out of us.*"

While CCWater is disappointed that Ofwat is requiring Bristol to disregard the views of its customers on the principle of how rewards are funded, it can state that the way Bristol Water has outlined its positive rewards does accord with how customers prioritised issues in the willingness to pay research. Bristol Water has also responded to customer views by increasing the size of the penalties to more than the size of the reward, which CCWater supports.

However, given the results of the customer research, CCWater would have liked to have seen smaller rewards to give some weight to the view of local customers. It has not seen the full detail behind how the rewards are triggered; although it understands it triggers when Bristol Water goes over its target. They seek assurance

through Ofwat that the rewards are appropriate for efficient costs incurred when the Company exceeds its target.

Additionally CCWater hopes that Bristol's proposed Customer and Stakeholder Panels will have a role in influencing how and when it is appropriate for Bristol Water to take the reward, which would allow good linkage to the customer input.

### **Environment Agency**

The Environment Agency (EA) welcomed the opportunity to comment on the revised suite of Performance Commitments although at the time of writing it has not seen the full detail behind the rewards and penalties and how they are triggered.

The EA is supportive of Performance Commitments which appropriately incentivise performance relating to environmental outcomes. The EA does not support rewards for meeting statutory minimum standards, but it welcomes rewards which drive performance above and beyond the minimum requirements.

The EA is supportive of the revised Performance Commitments in the main. It is engaging with the Company over the detail behind them. The EA is keen to see more details around the three extra performance commitments and five financial rewards referred to. It will offer continued support and feedback to the Company on the additional details at the earliest possible opportunity, prior to the Draft Determination process and subject to the detailed information being made available. If EA does have any remaining concerns after these discussions it will consider responding to the Draft Determination in August 2014.

### **Natural England**

Natural England (NE) is also supportive of performance rewards that drive the achievement of environmental outcomes over and above minimum statutory standards. NE notes that the EA wishes to have further discussions with the Company over some aspects of the revisions, before the Draft Determination in August 2014.

NE also notes that Bristol Water's PR14 gap analysis, which deals with points raised in OFWAT's 2014 risk-based review, provides little further information on the development of the Biodiversity index. NE is keen to know how Bristol Water plans to develop this over the 2014 price review period. NE was involved in discussions with Bristol Water about the development of the Biodiversity Index in 2013, but the more detailed conclusions of these do not appear to have been utilised in the Business Plan. NE is keen to engage with the Company before the Draft determination in August to better understand its plans for the development of this index.

### **3.4.2 Performance measurement, recording and governance**

Ofwat considered that the Company needed to provide significantly more evidence to support its proposals for the measurement, recording and governance of its performance against its commitments in AMP6.

Bristol Water has shared with the LEF its current plans to establish a local household Customer Representative Consultation Panel and a wider Stakeholder Representative Consultation Panel, including early thoughts on the proposed purpose and composition of them. The Company intends to publish performance data on its commitments every six months and to discuss these with the Panels and be challenged on them. The Panels will also provide independent oversight and challenge on a range of subjects covering customer and stakeholder communications and initiatives and other local issues concerning service and activities.

The LEF welcomes the Company's proposals to establish a stakeholder and customer board comprising the two Panels. The LEF is keen to see the customer element is comprehensively represented on the Stakeholder Panel and that the Company's performance against its commitments will be made available to both Panels.

The LEF considers it is important that a monitoring organisation such as that proposed is put in place which will report stakeholder and customer views to the Chairman and board of the Company.

The LEF hopes that Bristol's proposed Customer and Stakeholder Panels will have a role in influencing the eligibility, quantum and timing of any rewards and penalties associated with Performance Commitments.

### **3.5 Cost assessment**

Ofwat considered that Bristol Water had not provided sufficient persuasive evidence to support its claims for wholesale cost adjustments. It also required significantly more evidence to support the Company's costs when compared to its view of an efficient company.

The Company has responded by providing more evidence to support its view that cost adjustments are warranted in nine areas. It has also submitted a modeling response paper to Ofwat in which it provides evidence it considers supports its concerns with Ofwat's cost models, including an independent report and other benchmarking to supplement its arguments.

Ofwat has also requested further evidence to support the need for the second Cheddar Reservoir and other key projects and the Company has shared its response to Ofwat with the LEF.

The LEF is concerned over the significant difference between the views of Ofwat and the Company of the cost of the proposed investment in 2015-2020. While supportive of

an efficiency challenge being made by Ofwat, it is difficult to understand how the Company could deliver the proposed investment for 63% less than its estimates.

The issues relating to wholesale costs are for the Company and Ofwat to resolve. The LEF was content with independent assurance provided for the original cost estimates and it supported the overall package of work and the associated bill impacts, but welcomes an efficiency challenge. The Company's customers would be unhappy if it was unable to deliver its Plan, which they found overwhelmingly acceptable, and which now could result in even lower bills.

The LEF noted that Ofwat was generally happy with regard to the Company's allocation of wholesale costs between households and non-households, but that additional evidence was required to support the allocation of retail costs. The Company has amended its retail cost allocation to align with Ofwat's latest guidance and its financial auditors have reviewed it.

### **3.6 Cost of Capital and Small Company Premium**

The Company has briefed the LEF on its revised assumptions on Cost of Capital including the incorporation of a Small Company Premium. It has shared with the LEF an independent report on the Small Company Premium commissioned by a number of water only companies including Bristol.

The LEF was keen to understand the Company's revised assumptions on Cost of Capital and the impact on bills if the Small Company Premium (SCP) was not allowed in the price determination. The Company said that an SCP would add £5 to bills, but if that were not allowed a 'pay as you go' approach would be needed which would add £10 to bills. Clearly this is worrying. The LEF looks to Ofwat to agree an SCP if this offers customers a lower bill compared to alternative approaches. The LEF would be most concerned if Bristol Water had to remove any of the customer benefits from its Plan, all of which have been carefully negotiated in detail, as a result of financeability factors.

It is not the role of the LEF to take a formal view on the SCP. However, in the case of Bristol Water, the LEF can see that stakeholders and customers could benefit overall from the Company being awarded a SCP.

### **3.7 Conclusion**

In summary, with the exception of the inclusion of positive rewards, the LEF is content with the key changes Bristol Water had made to its 2015 – 2020 Business Plan in response to challenges and additional guidance from Ofwat. The LEF is pleased to note that the overall Plan continues to reflect an appropriate balance of the needs of customers and other stakeholders and now includes the potential for even lower bills.

Overall, the LEF recognises that Bristol Water has had to create a package of revisions to its Business Plan to satisfy Ofwat's demands and the LEF is comfortable the revised plan is consistent with the Company's original strategies and policies and that it remains good value for customers.

**Appendix 1**  
Challenge Diary

TOPIC	CHALLENGE DESCRIPTION	RAISED BY	RESPONDENT	DATE CHALLENGE RAISED	OUTCOME, COMMENTS, RESPONSES	Green = Nn further action required Blue = Change made as result of challenge Yellow = Awaiting outcome	DATE COMPLETED
Uncertainty mechanisms	The EA raised an issue about Ofwat also proposing to change uncertainty mechanisms with a move away from logging up/down. The EA would be making the point nationally that these mechanisms should continue.	EA	BW	25/02/2014	BW agreed that the company would need to make the case for why these should continue.		25/02/2014
Enhanced Status	Bristol City Council asked for clarification on what an enhanced company meant.	Bristol City Council	BW	25/02/2014	BW explained that enhanced companies would get an earlier draft determination. Other benefits are not yet known but may include more revenue or additional incentives.		25/02/2014
Customer Benefits	CCWater raised the issue of short term versus long term benefits for customers.	CCWater	BW	25/02/2014	BW replied that in the long term the whole customer base should benefit as companies are incentivised to deliver better business plans.		25/02/2014
Cost of Capital	CCWater asked what level of cost of capital BW could not accept.	CCWater	BW	25/02/2014	BW said a cost of capital of 3.7% would lead to difficulty in obtaining the finance required in the plan. BW stated a 3.7% cost of capital equates to a £7 reduction in customers bills.		25/02/2014
Small Company Premium	CCWater asked about the new piece of work BW has commissioned from Oxera.	CCWater	BW	25/02/2014	BW explained this was considering how Water Only Companies (WoCs) are better for customers and also have value as comparators. The previous work by Oxera only considered the higher financing costs of WoCs.		25/02/2014
Business Rates	The Chair asked BW what it intended to do regarding business rates.	Chair	BW	25/02/2014	BW said its plan included an assumption that rates could be adjusted through a logging up mechanism.		25/02/2014
Customer Incentives Research	Bristol City Council was nervous about the robustness of such a small sample size from this research. It suggested the rationale for positive incentives could reflect the broader Customer Priorities research where leakage, reliable supply and water quality were the three top areas.	Bristol City Council	BW	25/02/2014	BW agreed this was a very valid point. The customer incentives research also showed that customers expected that: Ofwat should set or approve the ODI targets, that the ODI rewards/penalties should be imposed on all companies or none; and that Ofwat should cap the profit companies could make. BW considered that Ofwat's risk and reward guidance did address these customer concerns.		25/02/2014
New Incentive Targets	CCWater asked if the new incentive targets were challenging.	CCWater	BW	25/02/2014	BW showed for leakage the performance would have to be better than the industry best performance to achieve the maximum reward. BW also explained that outperforming the population at risk from asset failure would require delivery of an additional resilience scheme.		25/02/2014
Customer Minutes Without Supply	Bristol City Council said the targets looked very achievable based on the last three years' data being within the reward band. UWE considered that there was a good case to include a deadband for this measure.	Bristol City Council	BW	25/02/2014	BW explained the last three years' performance reflected the benign weather over Winter.		25/02/2014
Customer Minutes Without Supply	CCWater raised whether this measure would improve as a result of the Southern Resilience Scheme.	CCWater	BW	25/02/2014	BW said that performance is driven by maintenance work.		25/02/2014
Customer Minutes Without Supply	CCWater asked whether there was a get out clause due to extreme weather for this measure.	CCWater	BW	25/02/2014	BW confirmed that unlike sewer flooding there were no exceptions for how this measure was reported.		25/02/2014

TOPIC	CHALLENGE DESCRIPTION	RAISED BY	RESPONDENT	DATE CHALLENGE RAISED	OUTCOME, COMMENTS, RESPONSES	Green = Nn further action required Blue = Change made as result of challenge Yellow = Awaiting outcome	DATE COMPLETED
Leakage	Bristol City Council again raised the issue of the rewards looking very achievable.	Bristol City Council	BW	25/02/2014	BW confirmed recent good performance reflected additional investment because of drought concerns. To achieve an increasing level of performance, BW would have to increase spending.		25/02/2014
Behavioral Change	The Report Writer asked about the impact of positive incentives on the company's behaviour.	Report Writer	BW	25/02/2014	BW said it was possible there would be more budget for speculative work.		25/02/2014
Behavioral Change	The EA asked if this approach would make the company focus its efforts only in these specific areas	EA	BW	25/02/2014	BW said it would not.		25/02/2014
Monitoring	The Chair said it was clear from the discussion that there would need to be a monitoring mechanism wider than just the statutory regulators to confirm BW's delivery of outcomes and incentives for customers	Chair	BW	25/02/2014	BW confirmed performance would be assured and published annually and that there would be a customer/stakeholder body set up to oversee delivery.		25/02/2014
Affordability	CCWater asked if BW has considered the impact on affordability should it receive the maximum possible +£6 reward.	CCWater	BW	25/02/2014	BW confirmed this was only achievable if rewards applied in the following control period.		25/02/2014
Affordability	The Chair said a +£6 increase was not acceptable and that the LEF needed assurance from BW that the new proposals must deliver the bill neutrality of 2nd of December 2013.	Chair	BW	25/02/2014	BW agreed to defer the timing of any rewards to the next period.		25/02/2014
Affordability	CCWater asked how BW would manage the -£7 reduction from the lower Cost of Capital.	CCWater	BW	25/02/2014	BW stated it would need to adjust the PAYG ratio.		25/02/2014
Affordability	Age UK asked about the effect of the Ofwat guidance on BW – would it consider redundancies?	Age UK	BW	25/02/2014	BW said it could still deliver the business plan if it gets the Small Company Premium.		25/02/2014
Ofwat Risk & Reward Guidance	Small Company Premium; what are BRL's intentions after the consultant's report has been considered? Can we see the report? Note that a smaller company than BRL has stated that it will not be going for a small company premium; where does that leave BRL?	CCWater	BW	31/03/2014	We intend to continue to argue the need for a small Company Premium. We are happy to share the report once it is finalised. Shared with LEF on 13/06/2014 This is not relevant to Bristol Water as each company's situation may be different.		13/06/2014
Ofwat Risk & Reward Guidance	The transfer from RCV funding and PAYG funding is confusing. What level of money value schemes are involved here that BRL are converting from RCV to PAYG? What effect on delivery?	CCWater	BW	31/03/2014	The PAYG is the proportion of totex that is treated like opex (also known as fast money), with the remainder being treated as capex and being added to the RCV (slow money). Fast money adds to bills immediately, whereas slow money impacts bills over the life of the assets. Increasing PAYG leads to higher bills in the next period, but RCV will be slightly lower at the end. The PAYG rate is set as a % rather than being assessed on an individual scheme basis – we would not expect any change in the PAYG ratio to impact delivery.		02/06/2014

TOPIC	CHALLENGE DESCRIPTION	RAISED BY	RESPONDENT	DATE CHALLENGE RAISED	OUTCOME, COMMENTS, RESPONSES	Green = Nn further action required Blue = Change made as result of challenge Yellow = Awaiting outcome	DATE COMPLETED
Ofwat Risk & Reward Guidance	Are BRL one of the 11 companies that Ofwat are suggesting are remunerating investors twice for the retail business? Is this significant? And the effect on bills?	CCWater	BW	31/03/2014	We do not consider that our plan remunerated investors twice for the retail business. However, in its presentation to investors on January 29th Ofwat used the graph shown at the end of this paper to show the seven companies who have proposed separate wholesale and appointee WACCs, we were one of the eleven companies who did not do so.		02/06/2014
Ofwat Risk & Reward Guidance	The number of notified items for BRL is 3 in the Ofwat document but I thought they were done for BRL?	CCWater	BW	31/03/2014	Our plan did not include any notified items. We assume that the three adjustments Ofwat is referring are the change mechanisms for business rates, metering and competition costs.		02/06/2014
Outcome Incentives	Following from the LEF letter to Bristol Water, CCWater are not happy that there is a potential increase after 2020; - can you update us on discussions over the average customer bill upto and after 2020 please.	CCWater	BW	31/03/2014	Bills from 2020 will depend upon a range of different factors including actual inflation, input price pressures, efficiencies actually delivered, cost of capital in the next period, and the extent of any new obligations placed on water companies. Our plan indicated that all things being equal, and based on the anticipated capital programme in AMP7, bills would increase by £5 in the next period. i.e. between 2014/15 and 2024/25 bills would have increased by 1.5% above inflation (0.15% pa). This increase is due to the AMP7 capital programme. In practice all things will not be equal, and prices at the next review will need to reflect the various pressures the company faces and the results of customer consultation at PR19.		02/06/2014
Outcome Incentives	Need to understand the 25 February set of ODIs that are in the BRL revised BP and the Mott MacDonald 'audit'? Probably need a meeting to talk through.	CCWater	BW	31/03/2014	We intend that the ODIs that we will include in our revised business plan are as presented at the meeting. Presented to LEF on 13/06/2014		13/06/2014
Resilience	Details of the additional resilience scheme [Somerset Levels area] including costs and impact on bills. How are BRL able to afford this scheme without increasing prices?	CCWater	BW	31/03/2014	We are currently progressing with detailed design for this scheme. We anticipate the costs being £3-5m, although this may change. This is not included within our plan. The menu incentive and additional outcome incentive would allow around three quarters of these costs to be recovered from customers after 2020. BW would have to bear around a quarter of the cost and finance the work ahead of 2020. Ideally this would be offset by finding efficiencies in other parts of the programme.		02/06/2014
Change Mechanisms	Need to understand BRL's proposals in this area before being able to voice an opinion	CCWater	BW	31/03/2014	We proposed three areas for logging up at the 2020 review: Any changes in business rates from 2017; the costs if the number of meters added is different to the plan (to avoid an incentive not to meter); and additional costs (if efficient) beyond those in the plan associated with the introduction of competition in 2017.		02/06/2014

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Monitoring	Details of intentions need to be understood	CCWater	BW	31/03/2014	We agree, and are working to clarify our approach. We will make clear our proposals when presenting our revised business plan to the LEF. Revised Plan shared with LEF on 13/06/2014.		13/06/2014
Small Company Premium	Need to see the results and conclusion of the Oxera report into supporting evidence of the benefits to BRL customers and the industry as a whole	CCWater	BW	31/03/2014	Will circulate once finalised. Provided to LEF on 13/06/2014.		13/06/2014
Non-Household Retail Margin	What is the likely reduction in prices?	CCWater	BW	31/03/2014	0.5% reduction in non-household bills on average.		02/06/2014
Tax	We are led to believe that the company tax will be reduced soon, what is the effect on BRL and on their customers' bills?	CCWater	BW	31/03/2014	The reduction in the corporate tax rate was reflected in our business plan. Tax paid in the next period will be slightly higher due to the accounting changes arising from the alignment of UKGAAP with IFRS and the consequential loss of infrastructure accounting.		02/06/2014
Trade-Off	Ofwat's view is that there could be a trade-off of a lower WACC in return for additional rewards. This is not what Bristol have done. Bristol have clawed back the lost revenue from the lower WACC by transferring costs from RCV to PAYG. And then added the positive ODIs on top.	CCWater	BW	31/03/2014	As explained at the LEF meeting, the trade-off remains in place. A lower WACC means lower returns for shareholders. The benefits to customers would be realised in later periods. We set the PAYG as low as was consistent with credit rating agency metrics (S&P). The change in WACC does not affect the S&P metrics, and therefore we need to maintain revenue in line with the plan. Note that our PAYG was one of the lowest of all companies.		02/06/2014
Bill Impacts	This explains what Bristol have done in more detail. As stated above they should not have clawed back the £7 via the RCV to PAYG transfer but by putting into place ODIs with a total positive reward of £7 and then improved their performance to achieve this.	CCWater	BW	31/03/2014	As explained at the LEF meeting, the £7 is the impact in the absence of a small company premium. It is not the anticipated impact. The LEF agreed that it was important to defer any ODI rewards until the next period as this gives customers more stability. The PAYG adjustment does the same for the customer benefits from a lower WACC.		02/06/2014
Additional Costs	We accept that BRL will have to invest extra resources to achieve the additional performance to meet the ODI targets, but this formula ensures that BRL is able to claim this cost back by reducing the penalty, thus there is no risk to BRL. Thus they can try various methods with no risk to themselves, this does not seem correct.	CCWater	BW	31/03/2014	This is not a correct understanding. The calibration of the incentives is such that it is only worth the company investing to improve service if it can find innovative ways of doing it more cheaply than it can at present.		02/06/2014

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Incentive Band	Can you clarify how the 'between +/-1% and +/-2%' gives an allowable zone which makes sense for an incentive. It doesn't seem to make sense so far.	CCWater	BW	31/03/2014	This range was taken from Ofwat's risk and reward guidance. Ofwat stated that "This is in order to provide an effective package of rewards and penalties that will provide meaningful incentives to encourage the best service".		02/06/2014
Deadbands	BRL need to explain their new thinking and its effect on customers.	CCWater	BW	31/03/2014	We have removed deadbands from the two-sided incentives. This ensures that any performance below target will attract a penalty.		02/06/2014
Incentives	These new ODIs [and any recent changes] need to be reviewed by LEF members, once BRL have finalised their proposals	CCWater	BW	31/03/2014	At present we anticipate retaining ODI incentives in line with those presented and accepted at our meeting on 25th February. Updated plans presented to LEF on 13/06/2014.		13/06/2014
Research Proposal	It would be useful to find out what it is precisely that you want to use the findings for. We understand you are resubmitting to Ofwat but what is your angle? For example if affordability is an issue for your resubmission, what are you wanting to test and how might it affect your business plan for the better?	CCWater		28/04/2014	Research methodology reviewed by CSSC and challenge addressed satisfactorily. See CSSC report on 'Seeking Customers Views on Bristol Water's PR14 Business Plan submission' dated June 2014		04/06/2014
Research Proposal	The three issues customers will be asked to look at (long term bill impacts, affordability/cross subsidies, and acceptance of incentive proposals) are linked. Will customers look at this 'in the round' e.g. if a package of financial incentives is selected by a customers will they know what bill impact rewards/penalties could possibly have at a later stage? Short and long term bill profiles could be affected by the level of rewards and penalties and the timescale over which rewards could be recovered if the	CCWater		28/04/2014	Research methodology reviewed by CSSC and challenge addressed satisfactorily. See CSSC report on 'Seeking Customers Views on Bristol Water's PR14 Business Plan submission' dated June 2014		04/06/2014
Research Proposal	Topic 3 is titled 'acceptance of incentive proposals'. You acknowledge that customers don't like the principle (as per page 2 of the proposal), but as you say, you are required to apply them, you want customers 'views on the suggested rewards/penalties package. Will customers be informed in this exercise that your research last year revealed that customers don't like the concept? What happens if customers do comment on where rewards and penalties could be applied but again dislike the principle?	CCWater		28/04/2014	Research methodology reviewed by CSSC and challenge addressed satisfactorily. See CSSC report on 'Seeking Customers Views on Bristol Water's PR14 Business Plan submission' dated June 2014		04/06/2014
Research Proposal	1: you say you are going to cover preferences on long term bill impacts over different 5 years periods. We are not sure what this means. Is this for Amp 6 or 7?	CCWater		28/04/2014	Research methodology reviewed by CSSC and challenge addressed satisfactorily. See CSSC report on 'Seeking Customers Views on Bristol Water's PR14 Business Plan submission' dated June 2014		04/06/2014

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Research Proposal	2.1/2.2: are you going to ask if people are on a water meter?	CCWater		28/04/2014	Research methodology reviewed by CSSC and challenge addressed satisfactorily. See CSSC report on 'Seeking Customers Views on Bristol Water's PR14 Business Plan submission' dated June 2014		04/06/2014
Research Proposal	2.2: are you going to include the bullet point here (as you do in 2.3) "All to be Bristol Water customers"?	CCWater		28/04/2014	Research methodology reviewed by CSSC and challenge addressed satisfactorily. See CSSC report on 'Seeking Customers Views on Bristol Water's PR14 Business Plan submission' dated June 2014		04/06/2014
Research Proposal	2.3: in the table you have 18-35 year olds and 25-45 years olds then 55+. So you are repeating 25-35 year olds but missing out 45-55 year olds. Is there a reason for this or is it a typo?	CCWater		28/04/2014	Research methodology reviewed by CSSC and challenge addressed satisfactorily. See CSSC report on 'Seeking Customers Views on Bristol Water's PR14 Business Plan submission' dated June 2014		04/06/2014
Research Proposal	2.4: you are inviting vulnerable groups in during the evening. Might it be more practical to see them during the day (for example, single parent families who might have child care in the evenings or unemployed people could come during the day).	CCWater		28/04/2014	Research methodology reviewed by CSSC and challenge addressed satisfactorily. See CSSC report on 'Seeking Customers Views on Bristol Water's PR14 Business Plan submission' dated June 2014		04/06/2014
Research Proposal	4: the presentation to the LEF in the table is w/c 9th June. Do you have a fixed date in mind yet?	CCWater		28/04/2014	Research methodology reviewed by CSSC and challenge addressed satisfactorily. See CSSC report on 'Seeking Customers Views on Bristol Water's PR14 Business Plan submission' dated June 2014		04/06/2014
Incentives	<p>you are planning to research with customers about incentives. When we met you on 25 February and you discussed positive incentives (rewards), you outlined some thoughts on what this could look like, but you still had to finalise your thinking. CCWater remain of the view that Bristol Water should not include positive incentives as customers did not support the concept. As you are considering including positive incentives, we would appreciate seeing your current thinking on incentives, including the use of deadbands. We expect you will plan to amend your incentive package when you understand customers' views on the issue, and we would want to be involved in that review. It was good to see Bristol Water stand by customers' views in its Business Plan, and we hope you will reflect this in the TARG when you review the business plan.</p>	CCWater		30/04/2014	Research methodology reviewed by CSSC and challenge addressed satisfactorily. See CSSC report on 'Seeking Customers Views on Bristol Water's PR14 Business Plan submission' dated June 2014		04/06/2014
Long Term Bill Impacts	<p>the active use by Bristol of the TARG ratio to reduce bills in AMP6 and increase bills in AMP7 [Ofwat test 13.2] rather than alternative methods [increasing efficiency challenge] should be supported by customer research. We believe that this is one of the themes of the proposed customer research and we would want to be involved in the review of the business plan.</p>	CCWater		30/04/2014	Research methodology reviewed by CSSC and challenge addressed satisfactorily. See CSSC report on 'Seeking Customers Views on Bristol Water's PR14 Business Plan submission' dated June 2014		04/06/2014

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Water Poverty	Ofwat want the long term target of reducing the number of customers in 'water poverty' to be supported by evidence of customer views. We believe that this is one of the themes of the proposed customer research and we would want to be involved in the review of the results.	CCWater		30/04/2014	Research methodology reviewed by CSSC and challenge addressed satisfactorily. See CSSC report on 'Seeking Customers Views on Bristol Water's PR14 Business Plan submission' dated June 2014		04/06/2014
Small Company Premium	Our report suggests a small company premium of 0.3–0.8%. A CCWater report (yet to be published) suggests that a small company debt premium is justified at 0.3% - 0.4%. CCWater will be making Ofwat aware of our report and asking Ofwat to scrutinise cases that suggest a higher debt premium is justified.	CCWater		30/04/2014	Revised cost of capital and small company premium assumptions presented to LEF on 13/06/2014.		13/06/2014
Resilience Schemes	You have said you plan to go ahead with a scheme in the Glastonbury area to protect properties in and around the Somerset Levels. Could you clarify how you will pay for this scheme – efficiency savings? Or by dropping another less cost/beneficial scheme? If the later could you confirm the scheme(s) you are dropping please.	CCWater		30/04/2014	Schemed not in revised Plan but BW intend to go ahead with it self funded subject to final determination costs.		13/06/2014
Gainshare	Could you outline your plans to improve on your previous gainshare submission, given Ofwat's praise of South West's approach.	CCWater		30/04/2014	Gainshare to remain as previously proposed.		13/06/2014
Cost Benefit	Ofwat has raised the issue of whether some schemes are cost –beneficial. We understand they are now content with the Cheddar costs v benefits, but could you update us on your confidence around how cost beneficial the schemes are that Ofwat has highlighted.	CCWater		30/04/2014	Further information to be provided to Ofwat. Shared with LEF on 13/06/2014.		13/06/2014
Performance Commitment	Could you outline your response to the comments around performance commitments from Ofwat. Can you reassure us that the targets are stretching and offer value for money to the customers.	CCWater		30/04/2014	Revised proposals discussed with LEF on 13/06/2014.		13/06/2014
Wholesale Cost Assessment	Can you explain Ofwat's view that your costs are 63% out of line with average costs, and what response you are making to Ofwat on the issue please.	CCWater		30/04/2014	Discussed with LEF at meeting on 13/06/2014.		13/06/2014

## **Appendix 2**

### List of LEF Meetings in 2014 and Key Agenda Items

Date	Meeting	Key Agenda Items
25 February 2014	Local Engagement Forum (LEF)	Update on the price review process Risk & Reward guidance and cost of capital implications Changes to Outcome Delivery Incentives CCWater incentives research
13 May 2014	Customer Survey Sub-Committee (CSSC)	Update on PR14 process Customer research workshop Stimulus material for the research Discussion guide for the research
13 June 2014	Local Engagement Forum (LEF)	Update on PR14 process Customer research results Gap Analysis and Resubmission of Business Plan

## **Appendix 3**

### Minutes of LEF Meetings



**Bristol Water**  
**Local Engagement Forum**  
**Meeting 25<sup>th</sup> February 2014 at 10 am**  
**Minutes (Draft until signed by Chair)**

	Action	Date action due
1	<b>In Attendance</b> In accordance with the Attendance Register for 25.02.14	
	<b>Apologies</b> Apologies were received in accordance with the Attendance Register for 25.02.14	
2	<b>Welcome</b> The Chair welcomed everyone to the meeting. He said the situation had changed since BW had submitted, and the LEF had fully endorsed in its report, the business plan. He explained that Ofwat had issued guidance shifting the balance of risk to the shareholder with a lower Cost of Capital but the chance for companies to earn rewards for outperforming on Outcome Incentives.  The objective of the meeting was to see if the LEF - as representatives of the customer base - could continue to support the business plan in light of changes Bristol Water were proposing to make to meet Ofwat's risk and reward guidance.	
3	<b>General points raised</b>  The EA raised an issue about Ofwat also proposing to change uncertainty mechanisms with a move away from logging up/down. The EA would be making the point nationally that these mechanisms should continue. BW agreed that the company would need to make the case for why these should continue.  Bristol City Council asked for clarification on what an enhanced company meant. BW explained that enhanced companies would get an earlier draft determination. Other benefits are not yet known but may include more revenue or additional incentives.  CCWater-JS raised the issue of short term versus long term benefits for customers. BW replied that in the long term the whole customer base should benefit as companies are incentivised to deliver better business plans.	
4	<b>To fully understand these minutes, readers will need to have open LEF Presentation 13 by Bristol Water</b>  <b>Slide 3 – Update on Process</b> BW explained the key date was the 10 <sup>th</sup> of March when Ofwat would invite pre-qualifying companies to be enhanced by accepting the risk and reward guidance. Pre-qualifying companies would then have to submit updated business plans by the 17 <sup>th</sup> of March. The results of the risk based review would be made by Ofwat on the 4 <sup>th</sup> of April.	



**Bristol Water**  
**Local Engagement Forum**  
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**Minutes (Draft until signed by Chair)**

**Slide 4 – Overview of Risk and Reward guidance**

Bristol Water explained that the guidance set out Ofwat's views on the following areas of the business plan:

- Cost of Capital,
- Retail Margins,
- Outcome Delivery Incentives; and
- Uncertainty mechanisms.

BW confirmed that there are no changes to costs, capital programme or service levels set out in the business plan.

**Slide 6/7 – Cost of Capital**

BW said the BW&Ofwat column on slide 6 was a pure translation of the guidance. CCWater-JS asked what level of cost of capital BW could not accept. BW said a cost of capital of 3.7% would lead to difficulty in obtaining the finance required in the plan.

BW stated a 3.7% cost of capital equates to a £7 reduction in customers bills. **Slide 8 – Small Company Premium**

BW was still hoping to make a successful case on the Small Company Premium. CCWater-JS asked about the new piece of work BW has commissioned from Oxera. BW explained this was considering how Water Only Companies (WoCs) are better for customers and also have value as comparators. The previous work by Oxera only considered the higher financing costs of WoCs.

**Slide 10 – Outcome Delivery Incentives (ODIs)**

BW believes Ofwat's guidance is intended to reward companies for delivering better service to customers through ODIs rather than through other mechanisms such as financial restructuring.

The Chair said that he had to agree to disagree with Ofwat on rewards. Bristol Water's customers did not support positive incentives and that it was not appropriate to re-consult customers.

**Slide 11 – Bill impacts of new guidance**

BW explained the Pay as you go (PAYG) ratio is how much expenditure is reflected in bills straight away rather than long term from RCV growth. To maintain the company's credit rating, the PAYG ratio has to be adjusted to offset the lower Cost of Capital.

The Chair asked BW what it intended to do regarding business rates. BW said its plan included an assumption that rates could be adjusted through a logging up mechanism.



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Meeting 25<sup>th</sup> February 2014 at 10 am  
Minutes (Draft until signed by Chair)**

**Slides 13 - Incentives**

This slide cover the method for calculating Outcome Delivery Incentive (ODI) penalties and rewards and states that these need to be within a range of +/-1% and +/-2% of Return on Regulated Equity (RORE).

**Slides 14/15 – Recap of customer incentives research results**

BW showed that a minority of customers supported penalties and rewards. BW was focusing on leakage and interruptions as the two areas most supported by this minority.

Bristol City Council was nervous about the robustness of such a small sample size from this research. He suggested the rationale for positive incentives could reflect the broader Customer Priorities research where leakage, reliable supply and water quality were the three top areas. BW agreed this was a very valid point.

The customer incentives research also showed that customers expected that:

- Ofwat should set or approve the ODI targets,
- that the ODI rewards/penalties should be imposed on all companies or none; and
- that Ofwat should cap the profit companies could make.

BW considered that Ofwat's risk and reward guidance did address these customer concerns.

**Slide 16 - Recap of acceptability research**

BW reminded the LEF that in stage 1 of the acceptability research, customers had found a +£6 bill increase (before inflation) acceptable to deliver the service levels that were ultimately included in the business plan. BW felt this may lend support to ODI rewards that were within this range.

**Slide 18 - Recap of incentives proposals in the business plan**

BW reminded the LEF of the business plan incentives proposals. The six penalty-only financial incentives were within a range of -2.9% and -3.5% on RORE. Therefore BW would have to reduce these to meet the Ofwat guidance.

**Slide 19 – Financial incentives**

BW explained that it proposed to apply any reward/penalty two years in arrears of the performance. This differed from the business plan where all the rewards/penalties applied in the following control period.

The Chair set out his view that any changes made to reflect the Ofwat guidance could not impact on the bill neutrality for customers within the period.

**Slide 20 – Overall impact of new incentive proposals**



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BW showed that they had added rewards for four of the six measures:

- Customer minutes without supply (see also slides 30 and 31)
- Population at risk from asset failure (see also slide 33)
- Negative water quality contacts (see also slide 35 and 36)
- Leakage (see also slides 37 and 38)

The biggest rewards applied to customer minutes without supply and leakage. Overall the potential range of bill impacts was -£6 to +£6. BW said it expected the achievable range to be within -£3 to +£3.

CCWater-JS asked if the targets were challenging. BW showed for leakage the performance would have to be better than the industry best performance to achieve the maximum reward. BW also explained that outperforming the population at risk from asset failure would require delivery of an additional resilience scheme.

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#### **General discussion**

##### *Customer minutes without supply*

Bristol City Council said the targets looked very achievable based on the last three years' data being within the reward band. BW explained the last three years' performance reflected the benign weather over Winter. UWE considered that there was a good case to include a deadband for this measure.

CCWater-JS raised whether this measure would improve as a result of the Southern Resilience Scheme. BW said performance is driven by maintenance work.

CCWater-TD asked whether there was a get out clause due to extreme weather for this measure. BW confirmed that unlike sewer flooding there were no exceptions for how this measure was reported.

##### *Leakage*

Bristol City Council again raised the issue of the rewards looking very achievable. BW confirmed recent good performance reflected additional investment because of drought concerns. To achieve an increasing level of performance, BW would have to increase spending.

The LEF commented that the presentation of the targets may need revision to make it clearer that they were challenging.

##### *Behavioural change*

The Report Writer asked the impact of positive incentives on the company's behaviour. BW said it was possible there would be more budget for speculative work.

The EA asked if this approach would make the company focus its efforts only in



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these specific areas. BW said it would not.

*Monitoring*

The Chair said it was clear from the discussion that there would need to be a monitoring mechanism wider than just the statutory regulators to confirm BW's deliver of outcomes and incentives for customers.

BW confirmed performance would be assured and published annually and that there would be a customer/stakeholder body set up to oversee delivery.

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**Slides 21 to 23 - Next steps**

CCWater-TD asked if BW has considered the impact on affordability should it receive the maximum possible +£6 reward. The Chair said a +£6 increase was not acceptable and that the LEF needed assurance from BW that the new proposals must deliver the bill neutrality of 2<sup>nd</sup> of December 2013.

BW confirmed this was only achievable if rewards applied in the following control period. CCWater-TD asked how BW would manage the -£7 reduction from the lower Cost of Capital. BW stated it would need to adjust the PAYG ratio.

Following discussion BW agreed to defer the timing of any rewards to the next period. This was welcomed by the Chair.

Age UK asked about the effect of the Ofwat guidance on BW – would we consider redundancies? BW said we could still deliver the business plan if we get the SCP.

**Action**      Chair to circulate a letter setting out the LEF's views on the revisions Bristol Water has made for comment.

Chair      ASAP

**KEY:**

Age UK	Alicia Webster
Bristol City Council	Alex Minshull
BW	Bristol Water
CCWater - JS	Consumer Council for Water Jenny Suggate
CCWater-TD	Consumer Council for Water Tony Denham
EA	Environment Agency, Tim de Winton
NE	Natural England, Mark Taylor
ODI	Outcome Delivery Incentive
Report Writer	Jeremy Hawkins
SCP	Small Company Premium
UWE	University of the West of England, Chad Staddon



**Bristol Water  
Local Engagement Forum  
Meeting 25<sup>th</sup> February 2014 at 10 am  
Minutes (Draft until signed by Chair)**

Signed

.....	.....
Chairman	Date

*[Handwritten signature]*

**Bristol Water  
Local Engagement Forum  
Meeting 13<sup>th</sup> June 2014 at 9 am  
Minutes (approved by Chairman)**

Item Number	Item
1	<p><b>In Attendance</b>            In accordance with the Attendance Register for 13.6.2014</p> <p><b>Apologies</b>            Apologies were received in accordance with the Attendance Register for 13.6.2014</p>
2	<p><b>Welcome and Chairman's Business</b>            Meeting started at 9.03am</p> <p>The Chair, Charles Howeson (CH) welcomed everyone to the meeting. He explained why the LEF report resulting from this meeting is written to the Chairman of Bristol Water rather than to Ofwat, which is a unique approach in this region, and that Ofwat have acknowledged and accepted this.</p> <p>CH explained to LEF that Ofwat require an Incentive package, so Bristol Water (BW) have had to include one in their Business Plan. Customers do not like incentives, and the report will rely upon the Consumer Council for Water (CC Water) to reflect customers' view that companies should not be rewarded for simply doing their job. CH stated that the LEF must provide a unanimous report after this 2 year journey.</p> <p>The purpose of the meeting - are the LEF comfortable with the answers provided by BW? By the time we break for coffee we will be in a position to see if the LEF are in agreement and happy with what BW have presented, or if there is a need to discuss any issues raised as a sub-group. By Monday 16<sup>th</sup> June, CH wants to send the report to the LEF, and then to the Chairman of BW by Tuesday 17<sup>th</sup> June.</p> <p>Introductions: Paul Hardy (Environment Agency) &amp; Nicola Parsons (Bristol Water) were introduced to all those present.</p>
3	<p><b>Gap Analysis and resubmission of Business Plan</b></p> <p>To fully understand these minutes, readers will need to have open "<i>Local Engagement Forum Meeting 14</i>" Presentation. Available on the LEF Porthole as document LEF130614B.</p> <p><b>Pages 9 and 10 Ofwat's risk based review and the June 2014 business plan</b></p> <p>BW:BW outlined the areas Ofwat had scored during its risk based review and highlighted how well Ofwat had viewed the Customer Engagement and Board assurance aspects of BW's business plan. The key area of disagreement between Ofwat and BW was on the wholesale cost assessment.</p> <p>BW confirmed that the outcomes and performance commitments from the December 2013 that 92% of household customers had found acceptable remained unchanged.</p> <p>Some updates had been made to the plan to reflect the Ofwat's feedback and the latest customer research results.</p> <ul style="list-style-type: none"> <li>• Bill impacts as a result of a greater efficiency challenge – further £2 reduction per customer bill</li> <li>• Cost of Capital - reduced</li> <li>• Wholesale cost assessment – cost exclusions</li> <li>• Outcome Delivery Incentives – inclusion of rewards</li> <li>• Performance commitments – increased targets for ease of contact and for general satisfaction measures</li> <li>• Affordability – revised long term bill profile</li> </ul>



**Bristol Water**  
**Local Engagement Forum**  
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**Page 11 – Bill impacts(subject to board approval)**

BW: Bills have a reduction of £4 instead of £2, subject to Bristol Water Board approval

CH: Further bill reduction was unexpected

CCW: Does the flat line profile reflect rewards or penalties?

BW: The customer research found customers preferred a flat bill profile so we have adjusted accordingly. The bill profile now includes the greater efficiency challenge but assumes no rewards or penalties during AMP7 as it is the central case.

**Page 13 – Cost of Capital**

BW: We have adopted Ofwat's risk and reward guidance except for asset beta (company specific estimate) and used actual embedded cost of debt.

CCWater: Hasn't the company already benefited from lower interest rates and isn't it time the customer benefited?.

BW: Most of BW debt is longer term than the recent lower interest rates and was procured efficiently at the time.

**Page 14 – Small Company Premium**

JH – Are Oxera doing a report? Are these figures in line with Oxera figure, are assumptions different? BW: The Oxera report has found that benefits to customers of WOCs is in the order of lower water bills of ~£25. This compares to the small company premium of £5 for BW customers.

CCW: The small company premium is twice what Ofwat allowed at PR09. Does BW think Ofwat is likely to accept this level?

BW: The questions Ofwat needs to answer to satisfy itself on an appropriate level of small company premium are 1) has the embedded debt been acquired efficiently and 2) is the asset beta right. The difference in embedded cost of debt is a measurable difference. Ofwat allowed it last time. For asset beta, 1% is the difference in equity the Competition Commission identified in its determination 4 years ago.

CH: If the figures are grey, need to provide a set of figures with the award of small company premium (SCP), and another set without. For BW to have the discussion with Ofwat. BW: The impact on customers is a £5 increase on bills. However, removing the SCP would mean BW would have to adjust the PAYG ratio, impacting future bills by +£10.

CH: BW need to discuss with Ofwat as this is beyond the remit of the LEF. Do not want to reopen the removal of benefits to ease pain. 3 options:

1. Shareholders take the hit,
2. Customers take the hit,
3. Remove packages from the plan.

This will be between BW & Ofwat. CH knew that LEF would need to be involved in financediscussions, despite Ofwat saying it was not part of its remit. We do not want to see a removal of the package of benefits from the plan. BW: This is already part of the resubmission.

CH: BW need to have pre-discussion with Ofwat on this issue.

BW: Mike King, Luis Garcia and Wendy Staden are meeting with Sonia Brown of Ofwat on Monday 16<sup>th</sup> June.



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	<p>Report Writer: Have any other companies had a discussion?</p> <p>CH: Not aware of any other companies, all companies are different. Recommendation is subject to board approval, Ofwat meeting on Monday will drive Board decision. We (LEF) note position with a little concern, finance-ability is beyond CCG remit, but do not want to see benefits in BW's business plan relinquished.</p> <p>CH: We will include in our report that we have been briefed.</p> <p><b>Page 16 – Wholesale Cost Assessment</b></p> <p>BW: Explained that the approach to assessing costs is a major departure from previous price reviews. BW has provided Ofwat with its concerns and issues with the new approach.</p> <ol style="list-style-type: none"><li>1) Efficiency – Ofwat's results are diametrically opposite to findings of previous approach</li><li>2) Enhancement expenditure is not treated correctly as two thirds of the allowance comes from the totex models so a company will low enhancement expenditure can be allowed more than it requires and vice versa for a company with high enhancement expenditure.</li><li>3) Results are not driven by customers priorities as the numbers were populated prior to companies business plan submissions in December</li><li>4) Variables included in the model are not significant. Customer service levels are not captured in Ofwat modelling. Models also don't capture difference for example in treatment, don't predict or allow for complexities and differences.</li></ol> <p>CH: Should Water UK not have raised an issue with the modelling on behalf of the industry? BW: as some companies have benefited, there is not a united view. Chair now feels much better informed by BW. Ofwat already made decisions based on models so may face challenges if it doesn't use the same for all companies.</p> <p><b>Page 17 &amp; 18 – Cost exclusions</b></p> <p>BW: Talked through cost adjustments which are cases for areas of cost that Ofwat models aren't capturing. This is particularly around upstream assets and water treatment where BW is developing econometric models. All cost exclusion cases add up to a modelled baseline above the level of expenditure included in our business plan.</p> <p>Assurer: What is Ofwat's view on whether its baseline for BW is unachievable?</p> <p>BW: Ofwat's view is all differences are to do with efficiency although this may have changed now following feedback from companies. Difference between BW baseline &amp; Ofwat is a problem for both parties.</p> <p>CCWater: Customer statement need in LEF report to say they support investment schemes that BW have in plan, customers would be unhappy if BW do not carry out schemes.</p> <p>CH: Agree with CCWater, we must state customer view, and that we were also happy with the package which was researched and agreed upon..</p> <p><b>Page 19 – Cheddar Reservoir Two</b></p> <p>CCW: Does BW already supply the Seabank power station?</p> <p>BW: Wessex Water provides a tertiary supply to the owners SSE but they have been talking to us to provide a water supply as well.</p> <p>Report Writer: What has been the Board assurance around costs?</p> <p>BW: Detailed cost reports on all exclusions explaining needs, costs and benefits. Special Factors report in Business Plan resubmission for all exclusions.</p>
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Mendip Councillor: What is an "impounding reservoir"? BW: Water collection that impounds a river or reservoir. Cheddar Reservoir Two is an impounding reservoir which takes water out of the river in winter and stores it for use in Summer when it would have environmental impact to abstract.

Mendip Councillor: What is Seabank?

BW: Seabank 1 and 2 are the power stations already at Avonmouth. SSE (the owner) want to build a third gas power station in the next 5 years. This is out to public consultation.

Report Writer: Are BW planning to go ahead with Glastonbury and Somerset levels resilience schemes in plan?

BW: Scheme not in revised Plan but BW intend to go ahead with it self funded through efficiency savings subject to final determination costs.

**Page 20 - Outcome Delivery Incentives (ODI's)**

BW: ODIs based on 25<sup>th</sup> February LEF Meeting presentation and the further customer research in May 2014.

CCWater: Referring to Gap Analysis detail document (page 22), considering customers rejected rewards, how can BW now say customers support it when they don't? Needs to better reflect research findings.

BW: These words are from the GAP analysis, revised words will go into the business plan resubmission to better reflect the results of the research on rewards and would feed back this point to Ofwat

CH: Need to change the wording. Our LEF report will get it right, need to remove misunderstanding with use of better wording.

**Page 23 - ODI's**

BW: Explained slide, and that BW have put in incentive for metering. Ofwat do not want logging up or down.

CCW: Have you changed the meter penetration target?

BW: No

**Page 24 - ODI's (subject to board approval)**

BW: Upside 1% on RORE (Return on regulated equity), maximum bill impact for rewards is just under £4. The 92% acceptability from households was for flat bills so even with the maximum bill impact from rewards, this is still within the acceptability boundary.

CCWater: Other companies who have similar customer bases paired down their rewards significantly. Have BW considered lowering further rewards?

BW: Rate of reward follow detailed formulas provided by Ofwat. Limited impact on how formulas work through. Comes from willingness to pay (WTP), cost assessment and WTP different for different companies.

CCW: When do rewards apply? When target met or when over target?

BW: Some rewards are when over target, for penalties when below target with no deadband. For some rewards, eg, leakage, we don't apply the reward until we've done better than our recent performance.

CCWater: How are rewards reflected in the bill profile?

BW: Central case is no rewards/penalties assumed.



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	<p>EA: Any details on calculations behind incentives? [This lead to an offline discussion with the EA on 16/06/2014]</p> <p>CH: Would it be any help to air the draft ODIs to CCW and Environment Agency (EA)? JH: Timeline does not allow this before business plan resubmission on 27<sup>th</sup> June. LEF can paraphrase EA &amp; CCWater in their report – cannot support rewards, and the EA say similar, but EA support incentives that have environmental outcomes, that drive performance above and beyond standard statutory requirements. CCW &amp; EA will say these things. LEF will reflect the overall view.,.</p> <p>CCWater: Need to say that customers support the principal, but don't support rewards, and go on to say we know that BW have been forced to do this by Ofwat, and back up with what customers actually said in the research.</p> <p>CH: All very positive up to this point in the meeting, think we are getting there, and considerably better than what we had in December.</p> <p><b>Page 26 – Performance commitments (easy to contact)</b> BW: Have changed some performance commitments to Key Performance Indicators (KPI's) to reflect Ofwat's view. In response to risk based review, BW will explain reason for service levels more sufficiently in the June Business Plan submission. For two performance commitments, targets are now set above what BW has already been achieving as a response to the additional customer research carried out.</p> <p>BW: For the long term 2040 affordability target, we will not go beyond 2020 targets without further customer research. CH: Only 3 companies have done that, happy that South West regional water companies talk to each other. The principal in summary – affordability programme sufficient, doing what customers have told us they want.</p> <p><b>Summary of first meeting session by Chair</b> CH: Is there anything we have not covered in this first session, and are the LEF happy with Bristol Water's presentation and update on the Business Plan? LEF: members unanimous that they were happy with BW, so no need for sub-group discussions after coffee break.</p> <p>Report Writer: Are the LEF concerned with average cost to serve adjustment, and 2010-2015 adjustments? CCWater: Have they changed since the December submission? BW: Tiny adjustments, no change to average costs to serve. Legacy figures are broadly the same due to advice from Ofwat.</p> <p>JH: Non household and household differences? BW: The non-household margin has come down slightly so non-household bills have reduced slightly. CCWater: Is there any independent assurance Assurer: Following data tables for consistency, completed in line with Ofwat guidance.</p> <p>CCWater: Any further reviews? BW: No</p>
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	<p>CCWater: Resubmission – do the LEF get to see the resubmission before it goes, as there is a chance we will report blind.</p> <p>CH: LEF have seen details of the changes, but not the final resubmission, we will write that we haven't seen it but have been briefed. When will any unknowns be decided upon?</p> <p>BW: After the next BW Board meeting on Wednesday 18<sup>th</sup> June</p> <p>PH: EA would be happy to make comment after resubmission</p> <p>CH: Do that at National level</p> <p><b>Break for coffee at 10.30am</b></p>
4	<p><b>Local consumer representative consultation panel – the future</b></p> <p>CH: How was the last three years experience for the LEF and Bristol Water – positive for both. Chairman feels it may aid integrity if a monitoring capacity is added to the process. Ofwat may want "LEF" for the next business plan.</p> <p>BW: We want to share our early thinking for consumer representation. Phil Marshall (BW) has spoken to CC Water (Tony Denham &amp; Jenny Suggate) about consumer representation for the "usual business" of BW, a panel or group. Thoughts around a stakeholder group (SHG) and a consumer representative panel (CRP) with the LEF moving into a new phase. CRP would ensure suitable representation of consumers, and look at commitments, practise and policies of BW and be more akin to the Customer Survey Sub Committee (CSSC). The SHG would be more strategic and more akin to the LEF Experience has shown that some topics have been more difficult for the whole LEF, i.e. finance. CRP would be less formal than SHG, and feed up to the SHG, both would meet half yearly.</p> <p>CH: CRP look at day to day business, broaden representation and raise performance.</p> <p>CCWater: This does not say anything about looking at performance commitments on the CRP? CH: Assume that consumer/customer will serve on the SHG also, and the SHG would be unwise if it did not listen to customers, and they need to have a full voice at the full meeting.</p> <p>BW: This is early thinking at this stage, some consumer groups, i.e. CCWater, need to be on both the SHG and CRP. Key Performance Indicators (KPIs) and Outcome Performance is for broader SHG. SHG would include consumer, for the purpose of independent scrutiny, CRP would be put in place to look lower level day to day business activities to advise and comment.</p> <p>CCW: Is the CRP for household customers only?</p> <p>BW: Yes, due to the development of non-household competition in AMP6</p> <p>CH: Other companies are leaning towards a stakeholder group with consumer/customer input to that provided by a panel. Example of mixed interest by stakeholders on these groups is Cornwall County Council wanting more investment on beaches as it's important to the local economy. Big issue is how much you spend, which then becomes a consumer issue, and tolerance over investment. At SHG level has to be an informed debate, which needs customer group input. SHG however reports stakeholder and customer views to the company, chairman and board.</p> <p>Chris Curling (Non Executive Director BW): Want to state that there is consistency between the discussions</p>



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	here at the LEF and around the board room table. Both groups challenge the company executive, and it is striking the criticality around issues. It has been a huge help for the board to know that LEF deliberations are so consistent and supportive. Executive have accepted reports and areas of support & challenge. Absolute logic that we retain structure going forward. The SHG and CRP should not become shadow groups, and need a direct and easy line of communication between CRP, the SHG and the board. Lots of thought needs to be given to this. Thanks for the huge amount of work the LEF has done over the last 3 years.
5	<b>Closing</b> Luis Garcia BW: Thanks to the LEF, we will meet again in September, when we hope that the business plan is in a positive position. Would like to continue with a strong relationship between customers and the company for AMP6.  CH: Has enjoyed the process, would like to compliment Bristol Water executives and staff team, have shown full transparency, information has always been given when asked for. Thanks also to Drinking Water Inspectorate, Consumer Council for Water, Natural England and the Environment Agency – always shown integrity, have been forceful and seen others point of view. All those at the meeting should expect emails from Jeremy Hawkins and Chairman, and the final report needs to be approved by all. Chair approved and signed the minutes from the LEF meeting on 25.2.2014. Meeting finished at 11.05
<b>Action points arising</b>	
Bristol Water to provide Oxera Report to Chris Curling & Jeremy Hawkins	
Wendy Staden to liaise with Paul Hardy (EA) to arrange meeting	
Bristol Water to provide Modelling Report document (author Mike King) to Chris Curling & Jeremy Hawkins	
Minutes prepared by Bristol Water	
LEF Report finalised	
<b>Key</b>	
Chairman	Charles Howeson
BW	Bristol Water
CCWater	Consumer Council for Water, Jenny Suggate
EA	Environment Agency, Paul Hardy
Report Writer	Jeremy Hawkins
Assurer	Mott Macdonald, Andrew Heather
Signed	
Chairman.....Date.....	

## **Appendix 4**

Report from the LEF Customer Survey Sub-Committee

**Bristol Water Local Engagement Forum  
Customer Survey Sub Committee  
Seeking Customer Views to Support Bristol Water's PR14 Business Plan**

## Preamble

Bristol Water (BW) submitted their Business Plan to Ofwat on the 2 December 2013, the same day as their Local Engagement Forum (LEF) submitted their report to Ofwat on the customer engagement throughout the 2 year planning process.

Ofwat's response was published on 4 April 2014 in the form of a risk based review and an element categorisation scorecard. Ofwat requested that BW respond by submitting a 'gap analysis' for all the points raised in the published documents by 27 June 2014. Ofwat expected BW to discuss the completed gap analysis with their LEF before submission and requested the LEF to submit a 'short form' report on the gap analysis on the same date.

BW's review of the Ofwat documents concluded that they needed to consult their customers on 3 topics; this was later increased to 4. These topics were aimed at bridging the gaps in the area of customer engagement highlighted by the Ofwat risk based review assessment.

The Customer Survey Sub Committee (CSSC) was asked to review the research on behalf of the LEF as it had for all other BW PR14 research.

This document reports on the CSSC review of the research and provides a comment on the quality of the process and an opinion on its acceptability to a future LEF. The CSSC does not comment on the research results.

## Process

### Research proposal

CCWater received a proposal [CSSC130514A] written by Blue Marble (BM) on behalf of BW on the 28 April

The research would be undertaken via qualitative workshops. The main workshop would be for 32 respondents, arranged in 4 groups. There would be a group for each of the following social economic groupings:

- Higher-mid income; 18-39 years; Pre-family and young family
- Higher-mid income; 40+years; older family and empty nesters
- Mid-lower income; 18-39 years; Pre-family and young family
- Mid-lower income; 40+years; older family and empty nesters

Each group will comprise:

- 8 respondents, all to be BW customers and jointly or solely responsible for paying the water bill
- 4 male, 4 female
- Minimum of 3 respondents per table with a water meter
- Mix of respondents living in Bristol City and in surrounding area

There would be 1 BM moderator with each group. BM would welcome respondents; BW would provide general information on BW and their Business Plan whilst BM would present the 4 topics for discussion. BW would be available to answer questions from the respondents.

There would be a smaller workshop for 9 vulnerable customers recruited using the criteria:

- All struggling to pay utility bills
- All in receipt of means-tested benefits or on low income
- All to be BW customers and jointly or solely responsible for paying the water bill

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CCWater responded with comments on the next day. There were 6 specific points of clarification and 3 points on the higher level aims of the research as follows:

1. What were the research findings to be used for in the re-submission to Ofwat?
2. Requesting that the respondents had an opportunity to view the proposals 'in the round' as the topics were linked, and
3. Requesting that the respondents were reminded that previous research on positive incentives revealed that most customers do not like the concept.

The points raised were shared with BM and formed part of the discussion between BW and BM on the material BM needed to draft for the workshop.

BW responded on the 29 April. The 6 specific points of clarification were either incorporated or satisfactorily answered. The responses to the 3 points on the higher level aims of the research were respectively:

1. The Business Plan BW submitted in December was acceptable to 92% of their customers and will be what BW resubmits in June. The purpose of this research is to address the few queries raised by Ofwat on areas of engagement and to put together a package of Outcome Delivery Incentives that are acceptable to customers but also meet Ofwat's risk and reward guidance.
2. The intention is to build up the discussion with customers from long term bill profiles to the potential impact from out/underperformance. As part of this discussion BW will clearly be asking customers to consider both the impact on long term affordability for themselves and for customers in water poverty so that both topics are considered together.
3. BW intend to signpost very clearly the results of the previous research showing customers did not support the principle but in a similar way to the social tariffs research, where the principle wasn't supported but the bill impact was deemed acceptable. BW are hoping customers will support a pragmatic application of regulatory requirements in terms of rewards and penalties.

The discussed research proposal and the 2 recruitment specifications [CSSC130514B and CSSC130514C] were sent to all CSSC members on 1 May. BW requested comments and notified members that a CSSC meeting had been arranged for 13 May. There were no further comments from CSSC members.

#### Workshop Discussion Guide

The agenda for the CSSC meeting was circulated on the 12 May followed by the first draft of the stimulus material [CSSC130514D] intended to be used at the customer research workshop event on the 21 May. It was explained that this was very much a draft of the presentation which was intended as the starting point for discussions about the content at the next day's CSSC meeting. Those unable to attend the discussion meeting were requested to feedback any comments on the content of the document, as opposed to the layout & design. Three sets of comments were received.

#### CSSC Meeting

After introductions, BW gave an update on the PR14 Process and why further research was required. During questions BW confirmed that they were not changing their plans from the December 2013 submission as the same package of work was to be delivered at the same or lower cost.

The four main topics to be presented and discussed at the workshop were:

- Targets for ease of contacting Bristol Water

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- Changes to customer water charges over the longer term
- Performance Targets and Incentives
- How affordable is water in the long term

All the comments sent in by CSSC members were discussed at the meeting. The main aim was to simplify the material so some slides were considered to be redundant and thus removed; changes were made to ensure customer friendly wording and the charts were easy to understand.

Two changes were made to the main process; BW staff were not to be sitting with each group but 'floating' and available to answer queries, in this way the same answer was provided to each group. Also the presentation was changed such that each topic was presented by BM; the respondents asked to record their view; this was followed by a group discussion and then the respondents were asked to again record their view and if it had changed then why they had changed. This would assist BM when analysing the results.

BM updated the workshop presentation and stimulus material and circulated it to CSSC members on the 15 May, with a request that comments be provided by the next day. There were a few minor corrections required, but the main point was the number of data gaps still to be filled by BW. It was important for the respondents that this data was presented in a customer friendly way. The remaining data arrived later on the 16<sup>th</sup>.

Updated versions of the documents arrived on the 19 May; no further comments were received from CSSC members.

#### Workshop

The main workshop was held on the evening of the 21 May and CSSC members were invited to attend; the vulnerable customers' workshop was held on the previous afternoon. Both workshops utilised the same stimulus material and presentation.

#### **Results Discussion**

Initial findings from the main workshop were received from BM on the 23 May and the final report on the 29 May [CSSC130514E]

The main workshop went well with some interesting comments that BW will need to take into consideration in the use of the results. Most of the comments revolved around the topic on Performance Targets and Incentives, where the respondents found the exercise very difficult due to lack of knowledge about the issues and concepts involved and the difficulty for lay persons in interpreting the performance data.

#### **Statement**

The process described above demonstrates that the members of the CSSC have had the opportunity to discuss and raise queries at each stage of this research to seek customer views on 4 topics raised by Ofwat during their risk based review of the BW Business Plan submitted on 2 December 2013. The CSSC members have amended documents appropriately.

This approach has ensured customer representatives from the CSSC have been involved in the research process at all stages as required by the LEF. No further arrangements are needed to ensure an auditable approach to sign-off of this research.

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The CSSC does not comment on the research results or on the use of this research by BW in their gap analysis response to Ofwat.

Tony Denham  
CCWater  
Chair  
Customer Survey Sub Committee  
June 2014