

Appendix 4

**LEF Report on the Ofwat Determination on Bristol Water's 2015-2020
Business Plan. October 2014**

Bristol Water's

Local Engagement Forum



Report on the Ofwat Draft Determination
on Bristol Water's 2015-2020 Business Plan

October 2014

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Executive Summary

The purpose of this report is for the Bristol Water Local Engagement Forum (LEF) to provide its views on Ofwat's Draft Determination on Bristol Water's 2015 – 2020 Business Plan published in August 2014 and the Company's representations on the Draft Determination submitted to Ofwat in October.

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

The LEF has reviewed the Draft Determination and has received presentations from Bristol Water on its associated representations to Ofwat up to the date of publication of this report. The representations were subject to the approval of the Company Board at that time.

The Draft Determination envisages customer bills in the 2015-2020 will be lower than proposed in Bristol Water's 2015 – 2020 Business Plan. This has arisen because Ofwat has concluded that the Company can deliver its proposed outcomes at significantly lower cost than it has estimated and that it can finance its activities more cheaply. Ofwat has also intervened to apply a shortfall for the Company's performance on certain aspects of serviceability in 2010 -2015.

Whilst lower bills for customers are welcomed the LEF is very concerned and finds it difficult to understand the significant differences between the Company's cost and financing assumptions and those of Ofwat. As a result, the LEF has concerns over the potential implications for customers in terms of the ability of the Company to deliver its outcomes in 2015 – 2020 and to finance its activities.

CCWater, the Drinking Water Inspectorate (DWI), the Environment Agency (EA) and Natural England (NE) are each responding separately to Ofwat on the Draft Determination. Additional comments from them are included in this report where appropriate.

The LEF has the following comments on key aspects of the Draft Determination and the Company's representations on it:

Investment and costs

The Draft Determination assumes that Bristol Water can deliver a number of key schemes and programmes of work at significantly lower cost than the Company has estimated. They form the major part of its investment plan and are key to the delivery of its proposed outcomes that the customers found overwhelmingly acceptable.

The LEF is pleased to see that the Bristol Water still plans to undertake these schemes and programmes of work in 2015 – 2020.

The Environment Agency is concerned that any partial cost allowances could delay the Company meeting its statutory environmental obligations or being able to maintain its network and infrastructure to ensure supply and protect the environment and customers.

The Company has undertaken additional independent benchmarking of its capital and operating costs and has applied additional efficiencies to parts of its proposed investment plan totaling some £20m, in particular:

- An additional 5% efficiency on maintenance
- £1m off Cheddar Two Reservoir
- £2m off trunk mains relining and trunk mains
- An additional 7.5% efficiency on enhancement schemes (excluding Cheddar Two Reservoir)

The LEF understands the impact of the proposed efficiencies is to lower bills by a further £5 in real terms over the Business Plan submission of June 2014.

Small Company Premium

The Draft Determination does not allow the Small Company Premium (SCP) Bristol Water included in its Business Plan. The Company is continuing to argue that customers will benefit from lower bills as a result of the inclusion of a SCP and its independent advisors consider the SCP requested to be reasonable. The LEF remains concerned if Bristol Water had to remove any of the customer benefits from its Plan, all of which have been carefully negotiated, as a result of financeability factors, but is unclear of the customer benefits that would arise from the application of the SCP, that would echo those provided by Sembcorp Bournemouth or Portsmouth Water.

2010 – 2015 Serviceability Performance

In the Draft Determination Ofwat has intervened to apply a shortfall for the Company's performance in the current period on dealing with supply interruptions and iron compliance in the network.

It has shared evidence with the LEF to show that its performance against these measures was either volatile and heavily influenced by factors beyond its control (in the case of supply interruptions) or that statutory work is currently underway and will be substantially finished this year which will minimise iron compliance problems in future. The Company has included this evidence in its representations to Ofwat.

Outcome Delivery Incentives

The Draft Determination alters or removes incentives in five areas.

In its representations the Company has looked again at its proposals and has either modified them in response to Ofwat's challenges or has commissioned further independent reviews to strengthen its original proposals. It has shared the results of its work with the LEF.

The LEF is supportive of the Company's arguments in its representations with the exception of its proposed deadband on mean zonal compliance because of the potential negative impact on customers. The LEF accepts the water quality standard hasn't been lowered and that Ofwat has imposed the revised incentive across the industry with the exception of South West Water.

The DWI notes the minimum statutory requirement is to achieve 100% compliance for mean zonal compliance, and it is not possible for DWI to formally support a business case to achieve less than this

Given that customers of Bristol Water do not support rewards, if Ofwat require rewards, then the LEF considers they should not be in paid unless the Company is achieving sector-leading performance.

Customer engagement – non household price control

The LEF has been consulted by the Company on the length or form of price control for non-households, default tariffs and the proposed level of bills. The Company has also undertaken acceptability testing with non-household customers on the proposed bill levels and associated service improvements.

The LEF is supportive of the Company's proposals for non-household controls.

Summary

The LEF is pleased to note that in its representations on the Draft Determination Bristol Water still intends to implement its Business Plan as submitted to Ofwat in June 2014.

The LEF considers the Company's Business Plan reflects an appropriate balance of the needs of customers and other stakeholders, is consistent with the Company's original strategies and policies and with what customers found acceptable.

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 and updated it in June 2014 in response to Ofwat's requests for further information and evidence.

The LEF's opinion on the Company's Business Plan submissions was provided to Ofwat at the time.¹

In August 2014 Ofwat published its Draft Determination on Bristol Water's Business Plan submission of June 2014 and the Company's responses to Ofwat's subsequent queries on the Plan.

The Draft Determination sets out the draft allowed revenues for Bristol Water together with the outcomes the Company is expected to deliver. It also sets out the costs Ofwat has assumed the Company will incur, adjustments to price controls to reflect the Company's performance in 2010- 2015 and assumptions on risk and reward.

Under the price review methodology, Bristol Water has the opportunity to make representations to Ofwat on the Draft Determination. Ofwat will consider these and publish its Final Determination in December 2014.

The LEF has engaged with the Company on the Draft Determination and its representations and is providing this report to Ofwat and the Company with its views on key aspects.

The report is regarded by the LEF as a supplement to and should be read in conjunction with its December 2013 and June 2014 submissions to Ofwat.

2.0 LEF engagement and challenge process

The LEF has engaged with Bristol Water on the Draft Determination and the Company's representations on it in a similar way to that adopted for the Company's Business Plan submissions.

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.

¹ LEF's "Report to Ofwat on Bristol Water's 2015 – 2020 Business Plan" dated December 2013 and "Report to Ofwat on key changes to Bristol Water's 2015-2020 Business Plan" dated June 2104

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.

A list of the LEF meetings held is given in Appendix 2 and the minutes of these meetings are reproduced in Appendix 3.

3.0 LEF's opinion on the Draft Determination and Bristol Water's representations

The LEF's opinions are based upon information provided to it by Bristol Water up to the publication of this report at which time the Company's representations had yet to be reviewed by and received the approval of the Board.

It should also be noted that the LEF has not seen the final version of Bristol Water's representations on the Draft Determination, although it is content that it has seen the key points Bristol Water is proposing to make.

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

3.1 Investment and costs

The LEF notes that the Draft Determination assumes that Bristol Water can deliver the following schemes and programmes of work at significantly lower cost than the Company has estimated:

- Cheddar Two Reservoir
- Bedminster Reservoir
- The National Environment Programme
- Capital maintenance
- Southern Resilience Scheme
- Cheddar Treatment Works raw water deterioration
- Growth expenditure

The LEF has not been required to comment on the robustness of the Company's cost estimate associated with these schemes and is not party to Ofwat's assessment methodologies. However it is concerned over the significant difference between the views of Ofwat and the Company on the cost of the proposed investment in 2015-2020.

The LEF pleased to see that the Bristol Water still plans to undertake these schemes and programmes of work in 2015 – 2020. They form the major part of its investment plan and are key to the delivery of its proposed outcomes that the customers found overwhelmingly acceptable.

The Environment Agency has comments on specific schemes as follows:

National Environment Programme - We are concerned about the partial allowance allocated for Bristol Water to deliver its National Environment Programme (NEP). This could delay the Company meeting its statutory environmental obligations. We are keen to understand which elements of the NEP have been included in Ofwat's models.

Cheddar Two Reservoir - We note Ofwat's decision not to fund the Cheddar Two reservoir. We have consulted with Defra who have advised that removal of the Cheddar Two Reservoir option would not constitute a material change to the Bristol Water WRMP.

Capital Maintenance - We note Ofwat have rejected Bristol Water's claim for capital maintenance. It is important that an appropriate allowance is made to maintain Bristol Water's network and infrastructure to ensure supply and protect the environment and customers.

In its national response to Ofwat, Natural England has included its detailed views on the disparity between Bristol Water's proceed NEP costs and the allowance in the Draft Determination. It considers the current position poses a significant risk that the Company will be unable to meet its statutory responsibilities under the Countryside Rights of Way Act 2000 and the Eels (England and Wales) Regulations 2009 and to adequately assist the UK Government in fully meeting its obligations under the Ramsar Convention and its Biodiversity 2000 policy outcomes.

The Company has commissioned further independent assurance to confirm or otherwise its original expenditure estimates. It has shared the findings of this work with the LEF and has taken the LEF through the testing undertaken. The LEF notes that in some areas this new work has identified variances between the Company's costs and the new benchmarks. The Company has amended its costs in these cases to reflect this additional information.

In particular it has applied the following additional efficiencies to parts of its proposed investment plan totaling some £20m:

- An additional 5% efficiency on maintenance
- £1m off Cheddar Two Reservoir
- £2m off trunk mains relining and trunk mains
- An additional 7.5% efficiency on enhancement schemes (excluding Cheddar Two Reservoir)

The LEF understands the impact of the proposed efficiencies is to lower bills by a further £5 in real terms over the Business Plan submission of June 2014.

The LEF also notes Ofwat has challenged Bristol Water's case for areas of its costs that it considers are special to its operating environment and which it considers are excluded from Ofwat's cost modeling but should be included in setting the total expenditure allowance. These include:

- Water treatment (raw water quality)
- Water treatment (canal water)
- Canal and river trust payments
- Bristol traffic congestion

LEF notes that the Company has undertaken a review of its totex in these four areas. It has shared the findings with the LEF.

Bristol Water has also commissioned an independent review of Ofwat's operating cost modeling approaches and the relevance of considering explanatory factors pertinent to its operating environment such as age of mains, the extent of upstream assets and water treatment capacity. The LEF has noted the findings.

Additionally, in order to confirm that its proposed level of capital maintenance expenditure is efficient, the Company has had CH2MHill review its infrastructure and non-infrastructure maintenance models developed by SEAMS. Again it has shared the findings with the LEF which it has noted.

3.2 Small Company Premium

The LEF notes that Ofwat has not allowed the Small Company Premium (SCP) Bristol Water included in its Business Plan.

The Company has informed the LEF that it will continue to argue that customers will benefit from lower bills as a result of the inclusion of a SCP. The Company's independent advisors consider the SCP requested to be reasonable.

The LEF would want to see that stakeholders and customers will benefit overall from the Company being awarded a SCP. It remains concerned if Bristol Water had to remove any of the customer benefits from its Plan, all of which have been carefully negotiated and supported by customers, as a result of financeability factors. The LEF is unclear of the customer benefits that would arise from the application of the SCP, that would echo those provided by Sembcorp Bournemouth or Portsmouth Water.

3.3 2010 – 2015 serviceability performance

Ofwat is proposing to shortfall Bristol Water on two aspects of its serviceability performance in the period 2010 – 2015.

With respect to supply interruptions greater than 12 hours, the LEF notes that Ofwat proposes a penalty of £6.3m on the Company. Given the considerable disruption that can be suffered by customers in the event of an interruption, ensuring the Company maintains serviceability is important.

The Company has told the LEF that it considers the size of the penalty to be disproportionate because they relate to two large events which were beyond the Company's control. The Company also considers that Ofwat's performance assessment is inconsistent with its historic approach. The LEF can see that performance against this measure has been very volatile year on year and is sensitive to large events and factors some of which may appear to be beyond management control. It also understands that the Company delayed restoring supplies to some customers in order to flush the network so that water quality was maintained. The LEF has been informed that the Company has provided evidence to Ofwat to support its arguments.

Ofwat also proposes a penalty of £5.7m for iron failures on the Company's network during 2010 – 2015.

Bristol Water has explained to the LEF that most of these failures were in zones supplied by trunk mains which are currently being renovated as part of a statutory water quality obligation. The LEF is assured that the work will be substantially complete by the end of 2014 – 2015 and that iron performance on the rest of the network is currently stable. The Company has informed the LEF that it has provided associated evidence to Ofwat as part of its representations on the Draft Determination.

3.4 Outcome Delivery Incentives

Ofwat has intervened on a number of Bristol Water's Outcome Delivery Incentives including:

- Asset reliability (infrastructure and non-infrastructure)
- Delivery of Cheddar Two Reservoir (Phase 2)
- Mean Zonal Compliance
- Cheddar Treatment Works

- Negative Water Quality contacts

3.4.1 Asset reliability

Ofwat has requested that Bristol Water reviews its proposed asset reliability penalty because it is significantly higher than other companies.

The Company has had a third party look at its proposals and has removed some potential double counting with other outcome delivery incentives such as unplanned minutes lost, mean zonal compliance and negative water contacts. This has reduced its proposed maximum penalty by half bring it into line with other companies. It has shared its revised proposals with the LEF and these are noted.

3.4.2 Cheddar Two Reservoir

In the Draft Determination Ofwat has removed the Company's proposed penalty incentive for the construction of Phase 2 of this scheme.

The LEF notes that the Company wishes to retain the project in its Plan and the penalty incentive associated with it.

It has commissioned independent benchmarking of its cost estimate for the scheme which has found its original estimates to be slightly high. It has reduced its cost estimate accordingly. The LEF notes that most of the cost saving will be in the period 2020-2025.

3.4.3 Mean Zonal Compliance

In the Draft Determination Ofwat has added a penalty only incentive with the target set at 100%, the deadband at 99.96% and the collar at 99.95%.

The LEF notes that Bristol Water is arguing for a deadband set at 99.94% because it believes the new lead standard will make achievement of higher compliance levels difficult.

The DWI notes the minimum statutory requirement is to achieve 100% compliance, and it is not possible for DWI to formally support a business case to achieve less than this – whether 99.96% or 99.94%. It understands that the proposed incentive is a generic requirement across companies to improve performance towards the historic upper quartile, and we understand the reasons why this has happened. On the potential for an unfavourable co-incidence of circumstances to influence the MZC figure, the DWI agrees that such risks exist, and may well happen. In addition to the example provided by the Company of the potential for an increase in lead failures resulting from a tightening of the lead standard, DWI could also point to seasonal and weather related impacts for pesticides such as metaldehyde, and iron,

manganese or turbidity in distribution arising from discolouration. However, DWI notes that the Company's Mean Zonal Compliance (MZC) score has not dropped below 99.96% in each of the last seven years.

Whilst there are risks with all performance measures to varying degrees, the use of MZC is susceptible to impacts that will require companies to be alert and proactive to mitigate those risks. DWI believes that these are matters that companies collectively or individually need to discuss with Ofwat directly, with a view to establishing a shared understanding as to how the measures might be consistently interpreted. That debate is of interest to DWI, but will not influence how it scrutinises and enforces regulatory requirements for drinking water quality outcomes.

The LEF has found it difficult to support the Company's proposal because of the potential negative impact on customers although it accepts the quality of the water customers are receiving won't have changed and that Ofwat has imposed the revised incentive across the industry.

3.4.4 Cheddar Treatment Works

Ofwat is proposing to change the penalties for late and non-delivery of this scheme to reflect its £13m downward adjustment of the costs. The LEF notes that Bristol Water will accept Ofwat's change subject to confirmation from Ofwat on its calculation.

3.4.5 Negative Water Contacts

The LEF notes that Ofwat has changed the performance target against this measure from 2017 – 2018 from 2,200 contacts per year (proposed by Bristol Water) to 1,470 to reflect upper quartile performance across the industry.

The Company is resisting this change because it claims that a tighter performance target would require significant investment (with no guarantee of success) which would be out of line with customers' acceptability and willingness to pay. The LEF understand this investment could total as much as £40m.

The LEF confirms that such performance and associated investment is not aligned with the views of Bristol Water's customers including their willingness to pay. The LEF would want assurance, given the lack of support for customers for rewards, that Bristol Water were not rewarded unless they were an upper quartile performer.

DWI notes that the proposed incentive is a generic requirement across companies to improve performance towards the historic upper quartile, set as 1.2 contacts/1000 population, but is confined to discolouration and taste/odour contacts only.

Companies who have been slow in managing their asset legacy issues may well find this requirement a challenge. Nevertheless, consumers of all companies are clear in repeatedly expressing their expectation that their water supply should be both clean and safe. The Company's performance across all contacts (greater than the sub-set noted above) for the last three years was 1.87(2013), 2.15(2012), and 2.22(2011), compared to an industry wide average of 1.91(2013).

Whilst there are risks with all performance measures to varying degrees, the use of consumer contacts is susceptible to impacts that will require companies to be alert and proactive to mitigate those risks. DWI believes that these are matters that companies collectively or individually need to discuss with Ofwat directly, with a view to establishing a shared understanding as to how the measures might be consistently interpreted. That debate will not influence how DWI scrutinises and enforces regulatory requirements for drinking water quality outcomes.

3.5 Customer engagement – non-household price control

Ofwat has asked all water companies to engage with customers and/or their CCGs on three aspects of the non-household price control:

- Length or form of price control
- Default tariffs
- Bill levels

Bristol Water has consulted the LEF on all three aspects and previously undertook acceptability testing with non-household customers on the proposed bill levels and associated service improvements.

The LEF's views are as follows:

3.5.1 Length or form of price control

The LEF was asked to consider four possible options for the length or form of non-household price control:

- A one-year control, followed by a four-year control
- A two-year control, followed by a three-year control
- A five-year control – (the current default option)
- A five year control with a 'reopener'

The LEF has concerns that there is a risk of over complicating this issue. Whilst a five-year control with a 'reopener' might be best as long as there can be appropriate short cuts for essential approvals, the LEF believes that a two-year control, followed by a three-year control represents the best compromise and a logical way forward. It

also allows the second price control to coincide with the opening of the competitive market in April 2017 and any delay that may occur.

3.5.2 NHH default tariffs

Bristol Water's proposals for default non-household tariffs reflects its wholesale charges in that customers in higher consumption bands pay higher standing charges and lower volumetric charges. This aligns with the costs of supplying larger customers. The Company has included an additional retail band to accommodate customers with low consumption but who traditionally have low levels of debt (as opposed to lower use customers who tend to be bad debtors).

The LEF considers the Company's proposed tariff structure to be appropriate to non-household customers.

3.5.3 NHH bill levels

The Company has provided information to show the impact of its new tariffs in 2015/16. The LEF has reviewed this and notes a reduction in tariffs in line with domestic tariffs.

Bristol water previously undertook acceptability testing with a sample of its non-household customers of the proposed bill levels and associated service levels. It has established that its proposals were acceptable to a large majority of the customers who took part in the testing.

The LEF has reviewed the Company's methodology for the acceptability testing and its interpretation of the results and is happy that the results are soundly based.

3.6 Customer engagement – bill profile

Ofwat has suggested the Company consults its customers on the future profile of bills.

The LEF agrees with the Company that its customer research conducted earlier this year showed that customers wish to see a steady profile to their future bills.

3.7 Customer engagement – changes to Pay As You Go (PAYG) ratio

Ofwat has also suggested the Company consults its customers on changes to its PAYG ratio.

The LEF believes PAYG is not a subject that customers would readily understand. It notes that Bristol Water is not proposing to change its PAYG ratio from the value proposed in its June 2014 Business Plan submission to Ofwat.

The LEF accepts that the final PAYG ratio will have to reflect the cost allowance in the Final Determination.

3.8 Conclusion

The Draft Determination envisages customer bills in the 2015-2020 will be lower than proposed in Bristol Water's 2015 – 2020 Business Plan. This has arisen because Ofwat has concluded that the Company can deliver its proposed outcomes at significantly lower cost than it has estimated and that it can finance its activities more cheaply. Ofwat has also intervened to apply a shortfall for the Company's performance on certain aspects of serviceability in 2010 -2015.

Whilst lower bills for customers are welcomed the LEF is very concerned and finds it difficult to understand the significant differences between the Company's cost and financing assumptions and those of Ofwat. As a result, the LEF has concerns over the potential implications for customers in terms of the ability of the Company to deliver its outcomes in 2015 – 2020 and to finance its activities.

The LEF is pleased to note that in its representations on the Draft Determination Bristol Water still intends to implement its Business Plan as submitted to Ofwat in June 2014.

The LEF considers the Company's Business Plan reflects an appropriate balance of the needs of customers and other stakeholders, is consistent with the Company's original strategies and policies and with what customers found acceptable.

Appendix 1
Challenge Log

Draft Determination: Challenge Log

Area	Query Number	CC Water Query	Bristol Water response
Bedminster Reservoir	BR1	1. Ofwat have highlighted this scheme as needing further information from you. The LEF were not aware of this scheme, as it didn't feature in any discussions we had in the Investment sub-group or the main LEF. We would like to hear more about your plans for this scheme; the costs; how much it will add to customer bills; what benefits it will deliver for customers; what other options there are to address the weekly peak and whether other schemes are now not needed if this is put in place.	Bedminster Reservoir has always been part of the Capital Maintenance component of the plan. At the IPSC 25th July 2013 we identified two areas where service reservoirs were to be invested in: capital maintenance and growth. We provided the IPSC with a list regarding growth and Bedminster Reservoir was one of the schemes included under capital maintenance. Once we had greater visibility of Ofwat's approach we decided that the costs of replacing a large service reservoir was not typical of the industry's costs and was unlikely to be captured by the Implicit allowances in Ofwat's models. We therefore treated Bedminster Reservoir as a cost exclusion case. It was presented to the LEF as one of the 10 cost exclusion cases prior to the June submission; at the LEF meeting Tony asked about Bedminster Reservoir and we explained that the reservoir was on site at BW Head Office and very briefly explained that it was a failed structure.
Cheddar Treatment Works	CTW1	1. During LEF discussions last year we asked if the Southern Scheme could replace the water needed through doing the Cheddar TW algae work. You said once it is operational yes, but it wouldn't deal with peak demand. You now are proposing Bedminster Reservoir, which wasn't under discussion then – could that work with the Southern Scheme and replace the need for the work at Cheddar TW?	Bedminster Reservoir is not a new component to the plan. It is the replacement of an existing reservoir which has failed and its replacement has been included in the plan from the start so it is not a new proposal. It has therefore been in the plan when all other considerations were made. The Reservoir is not connected to the Cheddar supply area.
Raw Water Deterioration	RWD1	As the DWI 'commended for support' this scheme, do you have any feedback from the DWI on this decision?	At a bilateral between the DWI and BW on 15th of Sept 2014, the DWI said that as Ofwat has agreed with the need of all the schemes the DWI supported they do not have any specifics to go back to Ofwat with.
	RWD2	What is the remaining life of the 'old plant' and thus the cost to the customer of these 'stranded assets'?	The existing slow sand filters date from the [60s]. They are now fully depreciated so there is no cost to customers from stranded assets.
	RWD3	Only a sample of the costs were assessed and resulted as 'industry typical'. Why were not all costs assessed and why not aim for upper quartile?	All assurance and audit processes use sampling to test processes - this was no different. We were not aware of the requirement for upper quartile costs when the schemes were initially costed, and even now, true upper quartile costs are not available (only Ofwat's assessment of overall upper quartile costs, which are not linked to specific interventions or levels of service)
	RWD4	What is the 'more demanding efficiency target' that Bristol has set? Does it match the 6.5% imposed by Ofwat?	Prior to the June submission we challenged ourselves to get closer to Ofwat's assessment of upper quartile costs, which resulted in us increasing the efficiency challenge to 5%. Ofwat's efficiency challenge comprises of 14% (based on its interpretation of the Chandlers assessment) and the additional 6.5% making it 20.5% (14% + 6.5%)
	RWD5	Is there anywhere the various percentage efficiency targets in the entire Plan are listed for comparability?	There is a section on Efficiency starting on page 75 of the June Submission Wholesale Plan. The efficiency assumptions are summarised for operating costs in Table 14 and for capital expenditure in Table 18.
Southern Resilience	SR1	Incentive: Do Bristol Water have any insight into Ofwat's amendment on the penalty collar to 69,063?	We have no particular insight, except that Ofwat seem to have made the adjustment to manage the RORE impact of the penalty. The adjustment is not made in relation to specific schemes or assessment of the resilience of our network.
	SR2	Have Ofwat accounted for population growth whereas Bristol Water are working on current population numbers?	We do not believe this is the case, as detailed above.
Capital Maintenance	CM1	Efficient level of Costs - Bristol state that they '...do not consider it appropriate to use the upper quartile figure...' because '...there is strong evidence of deterioration in performance across the industry...'. This needs clarification.	We explained this case in the capital maintenance Cost Exclusion Case. The statement was in response to capital maintenance expenditure. The evidence we provided to Ofwat showed there has been significant deterioration in interruptions and events notified to the DWI over the last period. Given this there is a risk that some companies are not spending sufficient on capital maintenance. Since companies that are not spending sufficient on maintenance are likely to appear more efficient, upper quartile levels of efficiency are unlikely to be compatible with adequate maintenance.
Cheddar 2 Reservoir	C2R1	Ofwat state that the reservoir appears to add £7 each year to full life notional bills. This seems to run counter to the statement that Bristol gave to the LEF that domestic customers would not pay for the reservoir. Could Bristol please explain?	The cost selected by Ofwat is the difference in costs of schemes with and without the reservoir and differences are not only due to cost of the reservoir. In addition, the scheme costs do not take into account additional revenue streams from potable and non potable non household supply and does not include any other efficiencies that the company may use to offset costs
	C2R2	Data from SSE website states that the cooling water for Seabank 3 will come from the Wessex Water Waste Water Treatment Works at Avonmouth [as does the current Seabank 1&2] with the drinking water from the main towns water supply. How secure is the arrangement/contract with SSE to base the build of Cheddar 2?	We understand from SSE that they wish to have a combined water source and TTE supply to existing Seabank 1& 2 and the new Seabank 3.

Draft Determination: Challenge Log

Area	Query Number	CC Water Query	Bristol Water response
	C2R3	<p>If the supply to the power station is not definite, what other options are there to meet demand caused by a growing population?</p> <ul style="list-style-type: none"> * Can this be done without building the reservoir and at what cost? * Would the reservoir still be needed, but would the loss of the SSE contract mean it could be delayed? * Is anyone else building a reservoir in England or Wales, what are the comparative costs? 	<p>A large resource development will be required in future, irrespective of whether non potable supplies are made available for local energy generation. The modelling shows that a reservoir is the most cost optimal solution if customers wish to enjoy the security of supply they requested through focus groups and the LEF. If no non potable supplies are made available, the reservoir would not be required until 2025. If we implement leakage reduction and metering at the level set out in our plan, the need for a reservoir can be delayed until 2028 but the overall water resource plan becomes non cost optimal with an increased risk of not meeting our existing levels of service.</p>
	C2R4	<p>Cost effectiveness:</p> <ul style="list-style-type: none"> * Why is the discussion just on making 'additional water available' and not also demand management? Such things as leakage, metering, etc should be considered. * Why are only a selection of project costs were subject to review and not all types of costs? * Why only the process was reviewed (as robust) and not the actual costs? * What is an 'acceptable tolerance'? Surely customers would expect Bristol to be aiming for upper quartile in all their costs, or even 'cutting edge'? 	<p>Water available is the difference between deployable output and demand for water, a calculation that includes the impacts of demand management. In our plan we have maximised leakage reduction to the point that it becomes more expensive than providing the additional yield of the reservoir and maximised metering to what we think is achievable given the number of expected annual housing exchanges (metering on change of occupier). We could only accelerate metering by compulsory area metering schemes, but at LEF CCW indicated that they did not favour compulsory metering. Before the June submission, BW had some of the costs benchmarked by Mott MacDonald and Chandlers. Mott MacDonald found the costs were lower than the comparator average while Chandler found they were higher. This resulted in BW applying a 5% efficiency challenge to its costs in the June business plan submission. Mott MacDonald has now reviewed approximately half the costs of the capital maintenance programme (see third party report for further details). The approach to cost estimating followed the same process as PR09. We are finding that the outturn costs for AMP5 are coming in around 3% lower than the PR09 estimates. Therefore we believe that the process provides reasonable estimates of expenditure. It is difficult to assess what are upper quartile costs without access to data from all the other companies.</p>
National Environment Programme	NEP1	<p>What do Environment Agency think about Ofwat's comments?</p>	<p>The Environment Agency has provided the following specific comments for the LEF report:</p> <p>National Environment Programme - We are concerned about the partial allowance allocated for Bristol Water to deliver its National Environment Programme (NEP). This could delay the Company meeting its statutory environmental obligations. We are keen to understand which elements of the NEP have been included in Ofwat's models.</p>
	NEP2	<p>Could you provide an overview/breakdown of where the key expenditure is?</p>	<p>See chart in attached comment for breakdown of costs</p>
	NEP3	<p>What is the cost differential between providing eel protection at Purton versus your other sites? Is Purton causing the bulk of the expenditure and is this different to eel scenarios other companies are dealing with?</p>	<p>If screening is required at Purton this will cost £6.6m.</p> <p>Other screening at Littleton, Chew Magna and River Axe will cost a further £3.9m, taking the total cost of screening to £10.5m.</p>
Discoloured Water Contacts	DWC1	<p>Why is all the work on the discoloured water contacts and not on the 698 other negative water quality contacts?</p>	<p>The majority of the other 698 contacts are due to chlorinous taste/odour. We have already installed booster chlorinators within the network to minimise the number of chlorinous taste/odour contacts received. These enable us to maintain a lower and consistent residual throughout the system. We have been unable to determine any additional cost benefit investment that would further reduce taste and odour complaints. This was stated in our submission.</p>
	DWC2	<p>Does the DWI have a view?</p>	<p>DWI position provided by email 30/9/14</p>
OPEX	OP1	<p>Executive summary: Bullet points 1 and 2 seem to be the same: about the variability of the canal water entering Purton. Bristol need to explain about the variation and give some other examples of the cost increases this causes them above other companies' raw water processing costs, both the direct running costs and effect on the plant life.</p>	<p>This was explained in the Cost Exclusion Case. The resources and treatment model does not fully take into account the higher costs associated with the treatment of water from the Sharpness Canal by the treatment works at Purton and Littleton. The water abstracted from the Gloucester and Sharpness Canal is of poor and variable quality.</p>
Small Company Premium	SCP1	<p>Ofwat suggest that Bristol Water should have explained the interaction of the small company premium with the pay as you go ratio and the effect on bills in terms of notional financeability. Could you outline if you plan to present evidence to Ofwat on your need for a small company premium, and if you do, could you re-explain the effect on bills in terms of notional financeability.</p>	<p>Ofwat required the Board to sign-off that our plan was financeable. From the Board's perspective they need to consider the financeability of the actual company rather than the "fictional" notional company. Without a small company premium the notional company is not financeable irrespective of the PAYG ratio. Other companies (e.g. Thames) have also identified this.</p>

Draft Determination: Challenge Log

Area	Query Number	CC Water Query	Bristol Water response
Traffic Congestion Charge	TCC1	Could you explain the reason for this (traffic congestion) £6M charge?	Essentially because average traffic speed in the BW region is slower than in most other areas, our staff spend more time moving from job to job than they would in other company areas. The cost of this time is what leads to the estimate of £6m over 5 years. This adjustment has been accepted by Ofwat at the PR04 and PR09 determinations.
Bill Profile	BP1	Ofwat have suggested Bristol Water should engage with customers on the bill profile outline in the Draft Determination. Could you outline your plans around this?	We have no plans to engage with customers regarding the bill profile in the DD. When we engaged with customers regarding bill profiles previously they indicated that they would not wish to see significant movements in bills between years.
Cost of Capital	CoC1	Pass through of cost of capital reduction to bills: your plans to address the comments from Ofwat on this please	We did pass on the cost of capital reduction in bills. Between December and June we reduced bills by £2. The impact of bills of reducing WACC by 0.2% was a reduction in bills of around £1.60. The remained of the reduction reflected a slight reduction in capex.
Costs to cover Market Opening	MO1	You have applied for costs to cover market opening, which other companies have not applied for. Could you outline what these costs are and whether they will change in your submission on the draft determination?	The costs are to cover the costs to the non-household retail business of interfacing with the Market Operator. The costs we included were from the Openwater estimate for these costs. Opting for a 2 year, then 3 year price control will mean that these costs do not need to be taken into account in the PR14 determination, and so allow us to remove these costs in our Draft Determination response.
Costs	C1	Why did Bristol Water not review its costs after the Chandler KBS report?	We have two perspectives from cost consultants; one says we are efficient, the other says we are not. In response to the Chandlers report we endeavoured to understand the difference and this resulted in us applying a further 5% efficiency to the capital components of our costs for the June submission. Our DD Response proposes a further reduction of £20m, which means that the full efficiency proposals from Chandlers are incorporated.
Performance Commitments	PC1	General: These were added late in the submission process and the LEF did not have chance to review the detail. Having now read both the Bristol BP and DD the description is very complex, and probably has to be, but could a simpler explanation be provided clarifying the points at which penalties and reward become due.	For 'these' we are taking it to mean deadbands, caps and collars? We will provide additional explanation in simple terms in a briefing paper.
	PC2	Overview: Comparing pages 21/22 with 80 in the Company Wide Plan there are a few small variations. But the main point is that Bristol are expecting to achieve a higher satisfaction level with their customer [>95%] than with their staff [only >90%]. This seems disappointing and needs explaining.	Historically staff satisfaction levels have been far lower than 90%, so setting a 90% target is considered to be very challenging. Clearly there are different factors that impact job satisfaction compared with satisfaction with our service, so we do not consider the two measures to be directly comparable.
	PC3	Unplanned Minutes Lost: I have had difficulty understanding how this with work [see above], but it appears [page 73 of the DD] to me that with the current level of 13.7 and a penalty band not starting until 13.8 it is possible for Bristol to do their intended work and have not affect on the result so that Bristol are not penalised for achieving the same result in 2020 as in 2015. This does not look good.	Explanation on how incentive works provided in briefing paper.
	PC4	Horizontal Comparison: Ofwat have intervened and changed some of the PC targets as a result of their 'horizontal' comparison. Do Bristol think these new targets are acceptable and if not will you be challenging them and on what grounds?	We consider that the MZC deadband is too high and will propose a lowering of 0.02%. A deadband of 99.96% does not take into account that historic performance will be different to future performance due to the the new lead standard. The revised negative water quality target is not consistent with (a) our customer research (which favoured investment in other areas) (b) the level of expenditure we have included in our plan. In addition we do not consider that it is possible to achieve this target level of performance within AMP6. Our DD response will restate our business plan performance levels for this measure.
Gainshare	GS1	The method of sharing out performance [p 138-145 of the BP] does not describe how the reward would be returned to the customer [money, increased service level, etc], nor is there any indication of asking the customers for their preference.	We intend that one of the roles for our new stakeholder group would be to contribute on this choice.
	GS2	Also it would help if Bristol could say when in the last two AMPs this criteria of shareholders earning real returns of greater than 11% been applied and what sort of level of return would have been returned to customer; this will add confidence that the target is realistic.	Bristol Water has not previously achieved this level of out-performance. However, it has been achieved occasionally by other water companies.

Appendix 2

List of LEF Meetings

Date	Meeting	Key Agenda Items
11 September 2014	Local Engagement Forum (LEF)	Update on progress Ofwat's draft determination PR14 assurance
25 September 2014	Customer Survey Sub-Committee (CSSC)	BW response to draft determination Customer engagement

Appendix 3
Minutes of LEF Meetings

**Bristol Water
Local Engagement Forum
Meeting 11th September 2014 at 9.30 am
Minutes (approved by Chairman)**

Item Number	Item
1	<p>In Attendance In accordance with the Attendance Register for 11.9.2014</p> <p>Apologies Apologies were received in accordance with the Attendance Register for 11.9.2014</p>
2	<p><u>Welcome and Chairman's Business</u></p> <p>Meeting started at 9.32am</p> <p>The Chair, Charles Howeson (CH) welcomed everyone to the meeting. Asked if any introductions were needed. Paul Hardy of Environment Agency introduced himself to those who did not meet him at the previous LEF meeting on 13.6.2014.</p> <p>CH explained that Drinking Water Inspectorate (DWI), Consumer Council for Water (CCW), Natural England (NE), the Environment Agency (EA) and the LEF as a whole were happy with the Business Plan after the last LEF meeting (13.6.2014) as it delivers benefits for all.</p> <p>The £200m gap derives from Ofwat's standard industry models, which is beyond the understanding of the LEF. Customer facing issues have been done well; there is a need for constructive discussion of the models between Bristol Water (BW) and the regulator. Customers & stakeholders can do very little about this apart from standby the backing of the plan.</p> <p>What can the LEF do between now and the 3rd October when the responses to the draft determination (DD) are due? The LEF needs to look at issues from the DD. The Chairman will at the end of the meeting ask formal permission of the LEF to intervene with Ofwat from a customer viewpoint.</p>
3	<p><u>LEF response to Chairman's opening comments</u></p> <p>Bristol Water Phil Marshall (BW PEJM): The LEF and their contribution to the whole PR14 process is not reflected in where we are today. CH: We are in a difficult position (The LEF), don't understand why, and recognises the size of the problem.</p> <p>Mark Taylor Natural England (NE): Regarding the Ofwat models, what is the reason for the £200m difference? BW MJK: Three main issues with models.</p> <ol style="list-style-type: none"> 1. Enhancement – models have no enhancement drivers so assume all companies are the same. The enhancement expenditure for BW is large. 2. Operating costs - models are simple and don't include factors such as complexity of water treatment, number of upstream assets or age of network. 3. Functional form is unstable – significance of variables change depending on data set is included. BW performs badly on all three areas. <p>CH: Clarified that the question asked by NE was asked on behalf of all LEF members</p>

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	<p>Jeremy Hawkins (JH): The big issues are around cost, technical assumptions and modelling assumptions. Can the LEF report on these? CH: No, beyond our jurisdiction but we can decide to intervene with Ofwat. When the Business Plan was signed off, the LEF was satisfied on outcomes for customers. Who decides now what is in customers' best interest. The LEF was never happy to have lower bills without the improved service levels.</p> <p>Tony Denham Consumer Council for Water (CCW TD): The DD is very long and complex, and was different compared to the last 2 price reviews. It felt like it was having a go at the LEF for not considering costs but Ofwat has told the LEF not to look at costs.</p> <p>Jenny Suggate CCWater (CCW JS): CCW and the other regulators will need to write their own formal responses to Ofwat, separate to the LEF report.</p>
4	<p><u>Bristol Water LEF Meeting Presentation</u> (Hardcopy available to all at meeting, supporting document to these minutes <i>LEF Meeting presentation110914.pptx</i>)</p> <p><u>Slide 7 – Ofwat’s decisions on Cost Exclusion Cases (CEC)</u></p> <p>CCW JS: Please can you explain reason for fails on the NEED for Cheddar reservoir, and the state of play with the contract with the power station.</p> <p>BW MJK: The reason for Cheddar Reservoir Two (CR2) is that Ofwat say we don’t need to supply a non-household customer. The others we failed on because although Ofwat recognises we have a need to do them but that BW is not different to any other company.</p> <p>CCW JS: So Ofwat sees these costs as normal business? BW MJK: Yes. Average for industry= model= how much you get. Costs exclusions (CEC) are different, one off plans. The operating expenditure CEC are all adjustments Ofwat allowed at PR09 and PR04 – the old ‘special factors’.</p> <p><u>Slides 16-19 and 28 – Ofwat’s Totex Water Modelling Approach</u></p> <p>Sally Birse Bristol Water (BW SEAB): Explained the triangulation approach from Ofwat’s three models (refined top-down totex model, full COLS totex model and bottom-up totex model) and showed how this had been applied to the National Environment Programme (NEP) to arrive at the £3.2m allowance compared to the £11.9m asked for.</p> <p>CCW JS: Asked if they believed the NEP could be delivered for £3.2m, and whether Bristol has failed to evidence the complexity at Purton in their submission.</p> <p>Paul Hardy Environment Agency (EA): Stated the NEP was statutory, and the EA will be challenging Ofwat in their response on how it had arrived at the NEP figure as the EA was concerned. Purton is £3m alone so £3.2m given by Ofwat is too low. The EA will challenge with opinions as well as observations & comments.</p> <p>CCW TD: Asked if the triangulation approach was new for this Price Review and if it was expected? BW MJK: No, unexpected. CH: Models came out late in the process, then not shared until March 2014 so</p>

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no warning.

BW: CEC were BW's response to the result of the models. Ofwat assumes all CEC are additional costs to the bottom-up totex model and everything else is already captured in the other two models. Getting Ofwat to move on that is a challenge. Ofwat has only allowed 7% of all companies overall claims for CEC.

Slide 7 – Ofwat's decisions on Cost Exclusion Cases

BW: Capital Maintenance – we have spent what Competition Commission gave us 5 years ago. Our own modelling produced 20% less than last period and this is what was included in business plan.

CCW TD: £203m in AMP5, had been reduced by BW to £164m in AMP6 to maintain service levels but further cut must run risk of service failures, also customer service & environment?

EA: The EA also has concerns over capital maintenance as this will impact on the environment and resources available at the EA.

CCW TD: You have explained triangulation, but I'm still stuck on the independent report from Chandlers that said BW costs were 19% above everyone else. BW MJK: In March 2014, costs went to ICS Consulting for independent review. Chandlers has looked at a few schemes and BW was able to explain 14% of the difference. This is why BW moved to 5% efficiency between December 2013 and June 2014 Business plans. Now have Chandlers and Mott Macdonald looking at more costs.

Action Point: Provide CC Water and LEF with a list of third parties carrying out reports and assurance, timeline for that work to be completed by, and a summary of third party findings.

MM AH: We looked at a small sample of schemes and BW's costs were competitive (19% more efficient). Now reviewing a greater sample as well as reviewing Chandlers' report. BW need to understand differences.

CCW TD: Concern is that it is only a sample of schemes, as long as a sample is good enough. Wendy Staden Bristol Water (BW WJS): A sample is the standard audit process.

MM AH: BW modelling gives size of capital maintenance programme and used a cost curve to establish value. MM now looking at base costs of cost curve up to half of programme's value so can be more confident.

BW MJK: If costs are over or under we may need to move position.

Luis Garcia Bristol Water (BW LG): The BW board met yesterday and agreed they are happy with our approach.

Chad Staddon UWE (UWE): We have put options to our customers in lots of different ways. Appears that Ofwat have not considered us, they have a "we don't care" attitude, and ignored our customer research views. As a member of the LEF, I feel insulted by Ofwat's draft determination.

Slides 9 and 10 - Ofwat's DD overview

BW MJK: Explained what the DD meant in terms of household water charges and BW's view on how the wholesale allowance would be split between operating costs, enhancement expenditure and capital maintenance expenditure. Consultants who had looked for efficiencies in operating costs said BW would struggle to deliver more than already in the business plan. The remaining DD wholesale allowance would not deliver enhancement and capital maintenance.

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Slide 11 - Small company premium (SCP)

CCW JS: I understand that Bournemouth got awarded a SCP on historical debt

BW MJK: Ofwat has acknowledged debt premium of 0.25% but only allowed SCP to the two water only companies below its TOTEX benchmark.

BW SEAB: Ofwat expressed concerns about BW explanation on the SCP. At the June LEF meeting were presented the conclusions from the Oxera report into customer benefits of the water only companies. For BW, a SCP means £5 on bills. Mike King explained the effect in previous meetings that without SCP bills increase by £10.

BW MJK: This was based on real financeability, not notional financeability as Ofwat request, as it didn't make sense for our company.

CCW JS: We were happy at the time with what was discussed; a £5 or £10 was straightforward. Ofwat have an issue with how BW presented this to the LEF. CC Water just wanted an explanation, happy with that just provided.

CCW TD: I am confused by the quote from p37 of the DD "failure to provide [a SCP] uplift will result in bills increasing by £10.....". Ofwat accuse BW of misleading the LEF and customers.

BW MJK: Bills would be £10 higher with lower cost of capital based on real financeability. Ofwat say it should have been done on a notional basis. CH: Declaration of financeability on a notional basis cannot be done. We will agree to disagree with Ofwat.

Slide 12 – Proposal to shortfall 2010-2015 performance on serviceability

BW MJK: Two performance measures have been outside the ranges.

- Iron non-compliance – all the failures already have s19 enforcement orders on.
- DG3>12 hours interruptions - One or two major incidents can have a large impact on figures. 22,000 people were affected by the incident in Burnham earlier this year. Only one burst on that main previously in 2008/09. We surveyed customers after Burnham incident and they were happy with how BW dealt with the incident. Have spent £125m on infrastructure maintenance in the period.

CH: Supply has to be resilient in the next 5 years - customers want a resilient supply.

Slide 14 – Comparison with AMP5 expenditure

BW MJK: The TOTEX approach does not explicitly calculate operating costs separately but if you apportion the DD allowance the operating costs are 33% lower than our current operating costs.

CCW TD: £384m on slide 14 but shown as £359m on page 10 of presentation? Slide 13 shows how the menu interaction converts £359m into £384.

BW MJK: BW is considering if we become too attached to our plan, too anchored? Getting independent verification by Oxera, Baringa, Mott Macdonald, ICS Consulting. CCW TD: As long as results come back in acceptable format.

Slide 15 – why we believe our costs are credible

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	<p>NE: Would WFD costings for good ecological status by Environment Agency be useful too? EA: We could include in the EA's response.</p> <p>BW MJK: The process for costings is the same as PR09. We have achieved 3% savings in AMP5 so a 5% reduction in AMP6 is challenging and realistic. CCW TD: Is that per year or over the period of the plan? BW MJK: Over the 5 year plan. Further work being done by Halcrow and Mott Macdonald on best practice approaches.</p> <p><u>Slide 25 – Water Quality</u> BW MJK: Mean Zonal Compliance (MZC) Ofwat has set a target of 100% and a penalty if we fall below our AMP6 target of 99.96%. Talking to DWI regarding this. The new standard for lead is likely to lead to a 0.2% change in compliance so 99.94 would be better. The DWI may still have concerns. Penalties can create incentives for misreporting; this is an industry issue, not a BW only issue. CCW TD: I understand the effect of a failure is bigger on small companies than larger companies and also on the size of the water resource zones, which seems wrong. Has it been thought through? Will leave this issue with BW to debate.</p> <p>BW MJK: For Negative Water Quality Contacts (NWQC) Ofwat has moved everyone to upper quartile performance. Based on BW's current performance we would incur a £4.1m fine. Again an industry wide issue. CCW TD: Ignores BW's customer research findings. Applies to 14 companies but I don't know if it applies to enhanced companies? Concerned about the equability across the industry, two standards if not the same for enhanced companies.</p> <p><u>Slide 32 Retail household plan - adjustments</u></p> <p>BW MJK: Ofwat has not included an adjustment for input price pressure except for Yorkshire Water.</p> <p>CH: If all happy at this point we will break for coffee for 15 minutes? When we return I will summarise meeting to this point, then allow CCW to ask questions of Bristol Water (list of questions emailed to BW by CCW on 4.9.2014 ahead of this meeting), as well as any other members of the LEF. Agreed, break started at 11.03am.</p>
5	<p><u>Summary of meeting so far & CC Water questions for Bristol Water</u></p> <p>CH: So far we have had a scoping of the current situation, then Bristol Water explanations, and the views of the regulators. The situation seems incredible; a whole part of the process is missing. We want no misunderstanding in this room. As Chairman, I will speak to the director of Ofwat today.</p> <p>Jenny Suggate of CCW to now run through list of questions (Supporting document to these minutes <i>CC Water queries for LEF Meeting 110914.xlsx</i>).</p> <p>CCW Question: <u>Cheddar Reservoir Two (CR2)</u>. BW MJK: BW approached to supply a new power station, letter received. New power station depends on current auction. Wessex Water supply tertiary treated effluent to existing power stations but no contract for new power station. We have priced the value of the water to the power station so it is not paid for by</p>

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customers.
 CCW TD: Raw water from Purton for cooling is ok, clean water is not significant. Is this regulated business?
 BW MJK: yes

CCW JS: Does power station get supplied by CR2?
 BW MJK: Not directly. Revenue from power station will reduce bills by £7. If we build CR2 & power station does not happen, by 2025 the level of service on hosepipe ban frequency will increase from 1 in 15 years to 1 in 25 years. If we don't build CR2 and power station comes, there will have to be faster and more expensive solutions, so building CR2 is more beneficial than not.

CCW TD: Timings? BW MJK: Power station by 2021/21 with CR2 by 2025 or a lower level of service.

EA: In the Water Resources Management Plan, BW asked to run scenarios; did they include supplying the existing power station? May need to be changed.

CCW JS: Do you need CR2 to meet demand from a growing population in Bristol?
 BW MJK: We would start building the reservoir five years later to meet the supply/demand balance by 2029 and maintain service. We can build CR2 by 2025 without bills going up, we have customers support for this and for additional resilience it provides. We have a single season risk in the cheddar zone, risk if a dry hot summer; building CR2 alleviates this risk.

CCW JS: When to build? Based on a 2029 reservoir can you put a delay on plan for Ofwat purposes?
 BW MJK: A big chunk of expenditure is in the next period 2015-20. £44m in AMP6 and then £76m in AMP7. If starting build moved into the next period, it would be hard to keep bill profiles flat.
 BW PEJM: Research is clear; customers want flat bills, no spikes, also supported as part of this Business Plan proposal.

CCW TD: Ofwat want robust costs, what comparisons to show costs are reasonable?
 BW MJK: Costs developed by ARUP but Mott Macdonald is now checking detailed design.
 AH MM: There is no one list of how much reservoirs cost to build as they are very geographically specific. We do dams internationally and each one is unique.
 CCW TD: When will work on costs be done by Mott Mac?
 AH MM: To be done for 19th September for the BW Board meeting at the end of the month.

CCW Question: Bedminster Reservoir
 CCW JS: We were surprised by the inclusion of this scheme.
 BW WJS: This was always in the business plan. It is part of capital maintenance of service reservoirs but was flagged as a CEC in the June submission because of Ofwat's totex modelling approach.
 BW MJK: Its supply gravitates downhill to serve Bristol but has been empty for a year. Plan is to replace it with a new service reservoir within the existing embankment.

CCW TD: Why is expenditure not included in the implicit allowance from Ofwat's models?
 BW MJK: £3m spend every 5 years would be usual business. Replacing a service reservoir is unusual. These civil structures typically last ~150 years.

CCW TD: You have run without it for a year. Is it a nice to have?

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BW MJK: Useful to cover peak demand when we have a shortfall in current storage. We have 12 hours operational and 12 hours emergency storage. The optimizer picked it as being a required scheme, need is implicit in service.

UWE: Will a new service reservoir help offset BW energy costs? BW MJK: No energy savings but provides spare capacity.

MM AH: 12 hours storage seems reasonable figure to provide operational reserve for 2 hot weeks in July. Dealt with by Ofwat last AMP as "lumpy" expenditure. CCW TD: Was there a problem this summer, or summer 2013 with supplies? BW MJK: Yes in 2013.

CCW Question: Cheddar Treatment Works – no link to Bedminster Reservoir. See document *CC Water queries for LEF Meeting 110914.xlsx* for full answer (CTW1)

CCW Question: Stranded Assets See document *CC Water queries for LEF Meeting 110914.xlsx* for full answer (RWD2)

CCW Question: Sample of Costs See document *CC Water queries for LEF Meeting 110914.xlsx* for full answer (RWD3)

CCW Question: Upper Quartile What is it going to cost to be upper quartile?
 BW MJK: Difficult to address unless you have ranges of costs from lots of companies.
 CCW TD: Has this point been taken up by industry?
 BW MJK: No.

CCW Question: Efficiency targets You upped efficiency targets in June submission, are you intending to change/look at that? BW MJK: Yes, in response to reports by third parties.

CCW Question: DWI views
 BW MJK: Cannot answer, we are meeting with the DWI on Monday 15th September 2014.

CH: The CCWater Board have asked why targets set at 100% If you do this, and 100% becomes accepted, it will then be turned into regulatory requirement. Industry knows that you can not do 100%. DWI are highly intelligent scientists, doesn't sit comfortably with the DWI, impractical and it will lose good will.

CCW Question: Southern Resilience
 BW MJK: To make RORE figures work, not a big concern. BW not planning to challenge.

CCW Question: National Environment Programme
 EA: We have our own challenge, meetings arranged with BW.
 CW TD: Have there been any changes to Eel requirements?
 EA: No.

CCW Question: Outcome Delivery Incentives (ODIs)
 BW gave briefing sheet to CCW members at the meeting. Available to anyone else by email. (Supporting document to these minutes *140910 Note V1 CCWater queries on ODIs.docx*)

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	<p>Action Point: Email Jeremy Hawkins the ODIs document .</p> <p>CCW Question: <u>Gainshare</u> CCW: Has 11% return been triggered in last 2 AMPs for BW? BW MJK: Not for us but has been achieved by other companies. If the company is outperforming there will be pressure to share with customers and the role of CCWater will be challenging us to do that. We will modify timescales and tweak to address Ofwat's comments.</p> <p>Action Point: BW will complete document so all questions are answered in writing, and emailed on to CCWater members.</p> <p>CH: Now we are all done with questions at 12.10pm I will ask for an adjournment of the meeting so that I can independently ask those present from the Consumer Council for Water where they stand in terms of the CCG and the Draft Determination from Ofwat. I have already asked the EA and Natural England.</p> <p>12.11pm – Chairman Charles Howeson, Tony Denham, Jenny Suggate and Caroline Coleman of CC Water left the meeting.</p> <p>12.19pm – Chairman Charles Howeson and CC Water members rejoined the LEF meeting.</p> <p>CH: CC Water has confirmed to me that they have the same view as the EA and Natural England and continue to support Bristol Water's Business plan. I have written an email that I wish to send as your chairman to Ofwat now. On agreement that you are happy with its content I will send and print everyone at the meeting a hard copy. LEF as a group: All happy with the email once a few minor adjustments made. CH: Email sent to Ofwat [REDACTED] and Sonia Brown at 12.30pm.</p> <p>CH: At this stage of the process are either side able to manoeuvre, are we comfortable with that? And if we move, it will impact on customers and therefore their approval of the business plan. CCW TD: Bristol Water and the LEF have considered the business plan over 2 ½ years, 92% approval from customers. If we change deliverables then we would need to go back and consult customers again. CH: Integrity, consultation, evidence based – who are we now to simply change the plan after following those processes. I will have a phone conversation with Ofwat straight after this meeting, then report back to Bristol Water.</p>
6	<p>Non-household customer engagement – length of price review process (slide 35) BW PEJM: We have to cover one more thing before the meeting ends today. Ofwat has said that companies need to engage with non-household customers regarding the length of the price control period. Some companies have directly asked customers, but this is difficult with level of detailed information and a small window of opportunity due to timeline. BW would like the LEF to consider on behalf of non-household customers. We are minded to suggest price control for retail non-household of 2 years, which is before the market opens. We are asking the LEF to give a view, aware that the timescale is very tight. Ofwat expectation is that we do engage, so our proposal is to share information for the LEF to consider. We welcome your views now CCW TD: As background information, two companies are doing formal research; a third is adding it to existing research. Other companies are doing what BW has proposed. Information note 14/14 published by Ofwat. Strange questions – price rise style of tariff, it's a big exercise to put in place and customers are not engaged at the moment. They will be in 2 years time. I am happy with the BW proposal, ability to reopen process in 2 years.</p>

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Action Point – BW to share information for the LEF to consider	
7	<p>Any other business</p> <p>CCW TD: Ofwat in draft determination recommend engaging with customers on bill profile and PAYG. What are your intentions? CH: PAYG element – number of options, fiddle with WACC, PAYG etc., common practice for regulators to impose cost of capital, WACC then alter PAYG. Worry about consulting customers about these things. Would not want the company to keep tweaking PAYG to make WACC work. No customers would understand the technicalities and dynamics, so therefore I do not want to put it to customers. CCW TD: “Engage” – do this via the CCGs. There have to be specific questions for specific responses to get to the point. CH: Keep contained in the LEF, BW will ask questions and give notice to the LEF.</p>
Action points arising	
	Due date
Provide CC Water and LEF with a list of third parties carrying out reports and assurance, timeline for that work to be completed by, and a summary of third party findings.	23/09
Email Jeremy Hawkins the ODIs document.	12/09
BW will complete document so all questions are answered in writing, and emailed on to CCWater members.	12/09
BW to share information for the LEF to consider on non-household price control	19/09
Specific questions on non-household price control & bill profiles to the LEF.	19/09
Key	
Chairman	Charles Howeson
BW	Bristol Water
BW MJK	Bristol Water Mike King
BW WJS	Bristol Water Wendy Staden
BW PEJM	Bristol Water Phil Marshall
BW SEAB	Bristol Water Sally Birse
CCW JS	Consumer Council for Water, Jenny Suggate
CCW TD	Consumer Council for Water Tony Denham
EA	Environment Agency, Paul Hardy
NE	Natural England Mark Taylor
UWE	Chad Staddon
JH	Jeremy Hawkins Report Writer (creoda Consulting)
MM AH	Mott Macdonald, Andrew Heather
Signed	
Chairman.....	Date..... <i>25 Sept 2014</i>

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Item Number	Item
1	<p>In Attendance In accordance with the Attendance Register for 11.9.2014</p> <p>Apologies Apologies were received in accordance with the Attendance Register for 11.9.2014</p>
2	<p><u>Welcome and Chairman's Business</u></p> <p>Meeting started at 9.33am</p> <p>Tony Denham (Chair) welcomed everyone to the meeting and noted the change from a full LEF meeting to a Customer Survey Sub Committee. At present CCWater were the only LEF members present. The Environment Agency (EA) joined the meeting at 9.39am. The Chair had received no update from the LEF Chairman following the email to Ofwat at the LEF meeting on the 11th of September 2014.</p>
3	<p><u>LEF response to Chairman's opening comments</u></p> <p>BW said it had some feedback from the LEF Chairman following his phone calls with Sonia Brown at Ofwat. Ofwat had declined his offer to act as a go between the company and Ofwat. BW has subsequently had a constructive meeting with Sonia Brown.</p> <p>Jeremy Hawkins (Report Writer) asked about the expectations around the LEF report. CCWater, EA and Natural England (NE) would be sending their own responses to Ofwat's draft determination but a response from the LEF was not a requirement. Jenny Suggate (CCWater) said the LEF report would be a statement on behalf of Bristol Water (BW)'s customers for both BW and Ofwat. The EA agreed to supply specific comments for this LEF which would be different to the national response on the draft determination. The Chair said it would be a resume of the position as per June with the new items around non-household customer engagement to be covered at today's meeting.</p>
4	<p><u>Bristol Water LEF Meeting Presentation</u> (Hardcopy available to all at meeting, supporting document to these minutes <i>CSSC Meeting presentation250914.pptx</i>)</p> <p><u>Slide 4 – Financial parameters</u></p> <p>BW had commissioned Oxera to review the PwC report for Ofwat on cost of capital assumptions. Only differences to Ofwat's view were on cost of debt (company specific value) and asset beta (Competition Commission value). The PwC report had suggested a higher cost of debt for water only companies. Oxera had identified three issues with the PwC report</p> <ol style="list-style-type: none"> 1) Cost of debt lower than reasonable 2) History of when debt taken 3) Misunderstood what Competition Commission had done for PR09.

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Chair: Is size of debt an important factor in AMP6? BW MJK: Use existing debt and new debt to get cost of debt at start and end of AMP and take average.

CCW JS: In draft determination, Ofwat said BW had passed first test on small company premium (SCP) but not on the customer benefits test. Is BW proposing anything new? BW MJK: The cost of debt is not an inefficient cost and Ofwat is asking us justify what is beyond reasonable management control. BW has three quarters the bill levels and better service for interruptions, leakage and discoloured water compared to Wessex Water.

Action: Provide LEF with Executive Summaries of third party reviews including Oxera report.

Slides 5 – Proposal to shortfall 2010-15 serviceability performance

BW MJK: The failures in iron compliance are being addressed through s19 enforcement order. Works due to be complete by March 2015. CCWater JS: Has performance deteriorated? BW MJK: No, dealing with known issues.

Slide 6 – DG3>12 hours performance graph

BW MJK: DG3> 12 hour interruptions is a very volatile indicator susceptible to on-off events outside of management control as shown on graph. Chair: Will this still be used as a performance measure? BW MJK: No, we will use trunk mains bursts. At an Ofwat workshop in 2010, it said trunk mains burst was the lead indicator and DG3>12 hours was a sub-indicator. Trunk mains burst is stable for BW and we feel the £6m penalty for two events outside our control to be disproportionate.

EA: Does Ofwat take into account how you dealt with the incidents? BW MJK: The time to get system back online is within management control. We undertake systematic flushing to avoid issues with discoloured which delays reconnection.

Chair: Are other companies affected and, if so, by how much? BW James Holman: 7 or 8 other companies [*post-meeting note: 5 companies for water, 4 companies for sewerage*]. BW MJK: 3% of RCV is second highest.

CCWater JS: Has any research been done to ask what customers want – water sooner or off longer but no discolouration? BW PEJM: Customer response to CCWater’s question may depend on overall length of interruption. Research following the Burnham incident this year showed it was not much of an inconvenience to those customers affected.

Chair: When did BW know this would be a KPI to perform? BW MJK: In 2009 but we argued against it as part of representations to the Competition Commission. The approach set out in 2010 by Ofwat indicated trunk mains burst was the lead indicator and we were happy with this. The shortfall in the draft determination is not what Ofwat has previously done.

Slides 7 – Third party reviews – capital costs

BW MJK: Three third party reviews

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- 1) CH2M Hill – approach to estimating capital maintenance investment. Confirmed approach was good practice.
- 2) Chandlers – benchmarking costs and Cheddar Reservoir Two. BW had already lowered costs in response to Chandlers (5% efficiency applied) in June submission. Cost on Cheddar Reservoir Two to reduce by £7m but in AMP7 expenditure.
- 3) Mott MacDonald – overall level of project costs. Non-infrastructure costs inline but infrastructure costs high although work ongoing. Expecting BW to below Mott MacDonald review with the applied 5% efficiency.

Chair: Will results be incorporated in response to Ofwat? BW MJK: Yes, if costs are lower. Otherwise no as package of service levels and bill optimised through customer research.

CCWater JS: Will the LEF be able to take a view? Chair: Can refer to previous research.

Slide 8 – Third party review – operating costs

BW MJK: Work by ICS is trying to improve explanation and justification around the four operating expenditure cost exclusion cases.

Chair: Will same principle apply, ie, only to reduce operating costs? BW MJK: No, the work by ICS is looking at how much of the operating costs we can claim through a cost exclusion case due to differences from the Ofwat models of average operating cost. The total operating expenditure is calculated from actual costs for 2013/14 with an estimated uplift for things like power costs.

Slide 9 – Third party review – Ofwat modelling

Chair: This is not an area for the LEF to comment on. BW MJK: This is just to show that we've looked at this area and have further evidence.

CCWater JS: But Ofwat will not change model applied to BW. BW PEJM: No but Ofwat will make company specific adjustments.

Slide 10 – Wholesale plan – outcome interventions

This slide detailed Ofwat's interventions on wholesale outcomes and the company response.

- Population at risk from asset failure – changed range over which penalties apply
- Delivery of Cheddar Reservoir Two – removed

Chair: For customer minutes without supply, I understand that BW will be getting a reward for operating at a level other companies are already at? BW MJK: The performance measure for BW is minutes lost of any duration. The industry comparison removes interruptions below 3 hours. Our performance is in the upper quartile of the industry range on this measure at ~8 minutes (see technical appendix 2 – outcomes, annex 3, graph AA2.2) but our business plan targets (p72 of company specific draft determination) are higher

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(13.4 minutes to 12.2 minutes).

Slide 11 – Asset Reliability Outcome Delivery Incentive (ODI)

BW SEAB: In the draft determination Ofwat completed a horizontal comparison of companies' asset health measures. Ofwat did not intervene but suggested BW review its penalty in light of this comparison as we were an outlier. BW asked ICS to propose an alternative to the ODI penalty we had in our June submission. The alternative considers components assessed in the asset reliability measure and any overlap with the other ODIs. The likely revised penalty will be ~half the existing one.

Report Writer: Is there an increased risk to customers? BW MJK: A smaller penalty is less pressure on the company to deliver but the revised proposal still has a penalty bigger than the other water only companies and of a similar magnitude to the water and sewerage companies.

Chair: LEF needs to see more details before commenting.

Action: Provide ICS report on alternative ODI for asset reliability

Slide 12 – Cheddar Reservoir Two

Chair: Have there been any changes to approach? BW MJK: Costs are slightly different. Argument is around service to customers, including the reservoir mitigates risk of power station coming online and a single season drought in the Cheddar water resource zone.

EA: Will BW be challenging Ofwat around the Water Industry Act need to supply? BW MJK: The Act says not to supply non-household if it puts everyone else at risk.

The EA confirmed that a separate meeting had taken place between BW and the EA on the existing Water Resources Management Plan and the scenarios within this.

Slide 13 – Wholesale plan – outcome interventions

This slide detailed Ofwat's interventions on wholesale outcomes and the company response.

- Mean zonal compliance – penalty added
- Delivery of Cheddar Reservoir Tw – penalty changed to reflect cost allowance
- Negative water quality contacts – targets changed to upper quartile

Chair asked for an update on the meeting between BW and the DWI on the 15th of September 2014. BW MJK: Provided.

CCWater JS: From a customer perspective cannot support lowering the deadband on mean zonal compliance. BW MJK: Deadband is based on past compliance and does not take account of tighter lead standard. The current performance of 99.97% is based on old standards.

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	<p>Chair: Difficult for LEF to argue against an incentive imposed on all companies by Ofwat with DWI's agreement. BW MJK: DWI has written to Ofwat with concerns. BW PEJM: As a member of the LEF can ask DWI for its views.</p> <p>Action: BW to write on behalf of LEF to DWI for its view on mean zonal compliance</p> <p>BW MJK: In BW business plan we are already proposing a 10% improvement in negative water quality contacts. Further improvement was not supported by customers in the acceptability research. The measure is made up of complaints on taste and odour, aeration and discoloured water. Our ability to improve performance on this measure is limited to reducing contacts for discoloured water. Increasing the amount of trunk mains relining to the 147km previously identified would increase the capital expenditure by ~£60m (29km at a cost of £11.9m currently in plan). Some companies use chloramination to reduce taste and odour complaints so performance is not being assessed on a like for like basis. We are not proposing to take this approach.</p> <p>CCWater: In LEF report need to put customers not willing to pay for further improvements. Also capture CWater's view that performance below upper quartile is not rewarded. BW MJK: The way the incentive was designed for this measure was to recompense company for going further at lower cost and not rewarding poor performance.</p> <p>Report Writer: Worth getting the DWI view?</p> <p>Action: BW to write on behalf of LEF to DWI for its view on negative water quality contacts</p> <p><u>Slide 14 – Wholesale plan – National Environment Programme (NEP)</u></p> <p>Chair: Has BW view changed? EA: We have met with BW. When final figure agreed by Ofwat in December need to understand what this means for the NEP. Our concerns will be shared with Ofwat and also add local EA response to the LEF report.</p>
5	<p><u>Customer engagement</u></p> <p><u>Slide 16 – Customer engagement: non household retail price control</u></p> <p>This slide sets out Ofwat's expectation that companies consider engaging on the following aspects of the non-household retail price control in preparing their draft determination responses.</p> <ul style="list-style-type: none"> • Length or form of price control • Default tariffs • Revenue (bill) levels <p>BW had provided the LEF with a briefing paper in advance of the meeting (<i>NHH engagement.pdf</i>). BW had also received an email (at end of minutes) from John Savage setting out views on behalf of businesses (from large hospital to small SME).</p> <p><u>Slide 17 – Length of form of price control</u></p> <p>BW PEJM: BW's preferred approach is a 2 year/3 year price control, with a comment on how a delay in</p>

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market opening in 2017 is reflected in the price control. John Savage had said “a five year control with a re-opener might be better as long as there can be appropriate short cuts for essential approvals. However, the two year control seems like a reasonable compromise.”

CCWater JS: CCWater are supportive of a 2 year/3 year control. Chair: This enables market opening costs to be clarified.

Slide 18 – Default tariffs

BW JAH: The structure of the non-household tariffs reflects the existing BWBSL tariffs for 5Ml/d and above users with two additional bands for >1000m³ (band F) and <1000m³ (band G). BW believes the existing structure is meeting customer requirements. BW PEJM: John Savage’s comments were this is complicated but BW offer is clear enough.

Chair: Discrimination on debt between bands F and G? CCWater JS: Lower use users tend to be higher debtors. BW PEJM: Your understanding of where debt risk is placed is correct (mixed use properties). Chair: Any other measures of charge apart from volume? BW MJK: No.

Slide 19 – Default tariffs – bill impacts

Graph showed bill changes from 2014/15 for each band of non-household customers based on June business plan figures.

Chair: Why are unmeasured customers’ bills increasing? BW JAH: This is due to the tariff differential where the cost to serve a measured customer for average unmeasured consumption must be the same plus the additional cost to serve a metered customer. <10% of non-household customers are unmeasured.

CCWater JS: Are these customers unable to switch? BW MJK: Includes some unmeasured troughs and some customers unable to meter. Unmeasured customers can be put on an assessed charge based on the number of employees. CCWater JS: Is that reasonable for these customers to face higher charges? BW MJK: Wholesale charges same for both household and non-household customers only the retail cost is different.

CCWater JS: Will the tariff differential no longer apply with competition? BW MJK: It will apply to the wholesale charges. BW has tried to limit the incident effects for customers for market opening. CCWater JS: It doesn’t feel right to that the costs for band A to G customers decrease but U increases.

Chair: Need to take this issue away with more explanation from BW in order to resolve. CCWater JS: The LEF need more information on the measured/unmeasured customer charges under different scenarios.

Action: Provide impact on measured/unmeasured charges under different assumptions

Slide 20 Revenue (bill) level

BW PEJM: Explained BW sought clarification from Ofwat on this and it confirmed it meant bill levels. BW believes it has tested non-household customers’ views on bill levels in both stages of acceptability research. John Savage’s comment was that “you appear to have met Ofwat’s requirement for engagement”.

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	<p>Chair: LEF is happy. Use the existing research.</p> <p><u>Slide 21 Customer engagement – bill profile and PAYG ratio</u> BW PEJM: In its draft determination, Ofwat set out two other potential areas for engagement; bill profile and PAYG ratio. BW believes it obtained customers’ view in the research conducted in May 2014, which found a preference for a flat bill profile. This research had been shared with CCWater. CCWater JS confirmed this.</p> <p>BW MJK: BW intention is not to alter the PAYG ratio as not changing business plan from June position. Chair: Once set the PAYG ratio can’t change for rest of the AMP? BW MJK: The final PAYG ratio will need to reflect totex allowed by Ofwat. BW PEJM: BW firmly of the view this is not a topic that is suitable for direct customer engagement.</p> <p><u>Slide 22 – Retail household plan – adjustments</u> BW PEJM: Ofwat did not allow inflationary pressure for the retail household plan. We have commissioned Economic Insight, who previously did the work for Yorkshire Water, to put together their recommendation for BW. The result of their work is that it is appropriate to propose the adjustment but the level is different to what we used in the June business plan.</p> <p>Chair: What figure are you going to Ofwat with? BW MJK: 1.83% instead of 2.5%.</p> <p><u>Slide 23 – Retail non-household plan – adjustments</u> BW PEJM: The costs relating to the interface with the market operator and notified item can be removed with a 2 year price control. The arguments for input price pressure for the retail non-household plan will be the same as slide 22.</p> <p>Chair: BW still needs to set tariffs for non-household customers for two years. Will it use the same figure - 1.83%? BW PEJM: Yes.</p>
6	<p>Any Other Business</p> <p>Chair was concerned about when documents will be ready. BW to send as soon as received.</p> <p>Report Writer: LEF report is started. Aim to send draft report with gaps by cop 28th. All to send comments.</p> <p>Chair asked when BW’s response to Ofwat will be shared. BW MJK: draft available by cop 29th.</p> <p>Action– BW to provide draft determination response</p> <p>EA: Will provide words for LEF report and liaise with Natural England for their input.</p> <p>Report Writer: BW response to CCWater query (C2R4) needs updating. Chair: Also queries RWD1, NEP1, DWC2, MO1, PC4 and GS1.</p> <p>Action– BW to update challenge log where required</p>



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Action points arising		Due date
BW to provide draft determination response		29/9
BW to provide LEF with Executive Summaries of third party reviews including Oxera report.		As soon as each available
BW to provide ICS report on alternative ODI for asset reliability		30/9
BW to write on behalf of LEF to DWI for its view on mean zonal compliance		28/9
BW to write on behalf of LEF to DWI for its view on negative water quality contacts		28/9
BW to provide impact on measured/unmeasured charges under different assumptions		29/9
BW to update challenge log where required		1/10
Key		
Chair	Tony Denham	
BW MJK	Bristol Water Mike King	
BW PEJM	Bristol Water Phil Marshall	
BW SEAB	Bristol Water Sally Birse	
BW JAH	Bristol Water James Holman	
CCW JS	Consumer Council for Water, Jenny Suggate	
EA	Environment Agency, Paul Hardy	
Report Writer	Jeremy Hawkins, Creoda Consulting	
Mott Macdonald	Mott Macdonald, Andrew Heather	
Signed		
Chairman.....	Date <i>7 Oct 2014</i>	



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From: John Savage [<mailto:john.savage@businesswest.co.uk>]
Sent: 22 September 2014 17:30
To: Philip Marshall
Subject: RE: 25th September LEF: Bristol Water & Wessex Water

Dear Phil

I have tried to consider this paper from as wide a business view as possible (large hospital to small SME). Of course no business wishes to be overcharged for the supply of essential services but most would recognise the inherent danger of inadequate resource for emergency or necessary change. We also appreciate the tight control that Ofwat places on your plans and indeed the enormous amount of work required to achieve approval.

[My personal view on this is that it is excessive and less than optimally productive].

Taking the paper in question by point:

Length/form of control.

This is certainly in danger of being over complicated; I revert to Winston Churchill's impassioned plea for a one armed advisor, "on the one hand.....etc. I think a five year control with a re-opener might be better as long as there can be appropriate short cuts for essential approvals. However, the two year control seems like a reasonable compromise.

Default tariffs:

Again this could look complicated and I would want to see detailed scenario calculations for my own businesses, but your refined position and offer is clear enough.

Revenue levels:

I agree that you appear to have met Ofwat's requirement for engagement.

I hope this helps but I don't seem to have been inspired in my comments, sorry!

Best wishes

John

Canon Doctor John Savage CBE

Bristol Chamber of Commerce and Initiative

Chairman

