



Bristol Water For All

Our plan to deliver
excellent water
experiences

Executive Summary
Revised April 2019

Raw water quality of sources
2025 target: 531 kg of Phosphorous loss reduction

Abstraction Incentive Mechanism (AIM)
2025 target: 2843.3 MI reduced abstraction

Void properties
2025 target: 1.8%

Per Capita Consumption (PCC)
2025 target (annual): 135 litres/head/ day

Developer services measure of experience (D-Mex)
2025 target: measure TBC by Ofwat

Waste disposal compliance
2025 target: 100%

Meter penetration
2025 target: 75%

Water industry national environment programme (WINEP) compliance
2025 target: 100%

Biodiversity Index (BI)
2025 target: 17711 BI score

Percentage of satisfied vulnerable customers
2025 target: 85%

Retailer measure of experience (R-Mex)
2025 target: 93%

Mains bursts
2025 target: 133 bursts per 1,000km

Properties at risk of receiving low pressure
2025 target: 60 properties

Population at risk from asset failure
2025 target: 290,000 people

Turbidity performance at treatment works
2025 target: 0 failures

Customer measure of experience (C-Mex)
2025 target: measure TBC by Ofwat

Water quality compliance
2025 target: 0 compliance risk index score (full compliance)

Leakage (annual) (MI/d)
2025 target (annual): 36.5 MI/d

Supply interruptions
2025 target: 03:00 mins/property/ year

Unplanned maintenance - non-infrastructure
2025 target: 3272 maintenance jobs

Value for money
2025 target: 83%

Unplanned Outage
2025 target: 1.5%

Priority services register (PSR)
2025 target: 7%

Customer contacts about water quality - appearance
2025 target: 0.43 contacts per 1,000 people

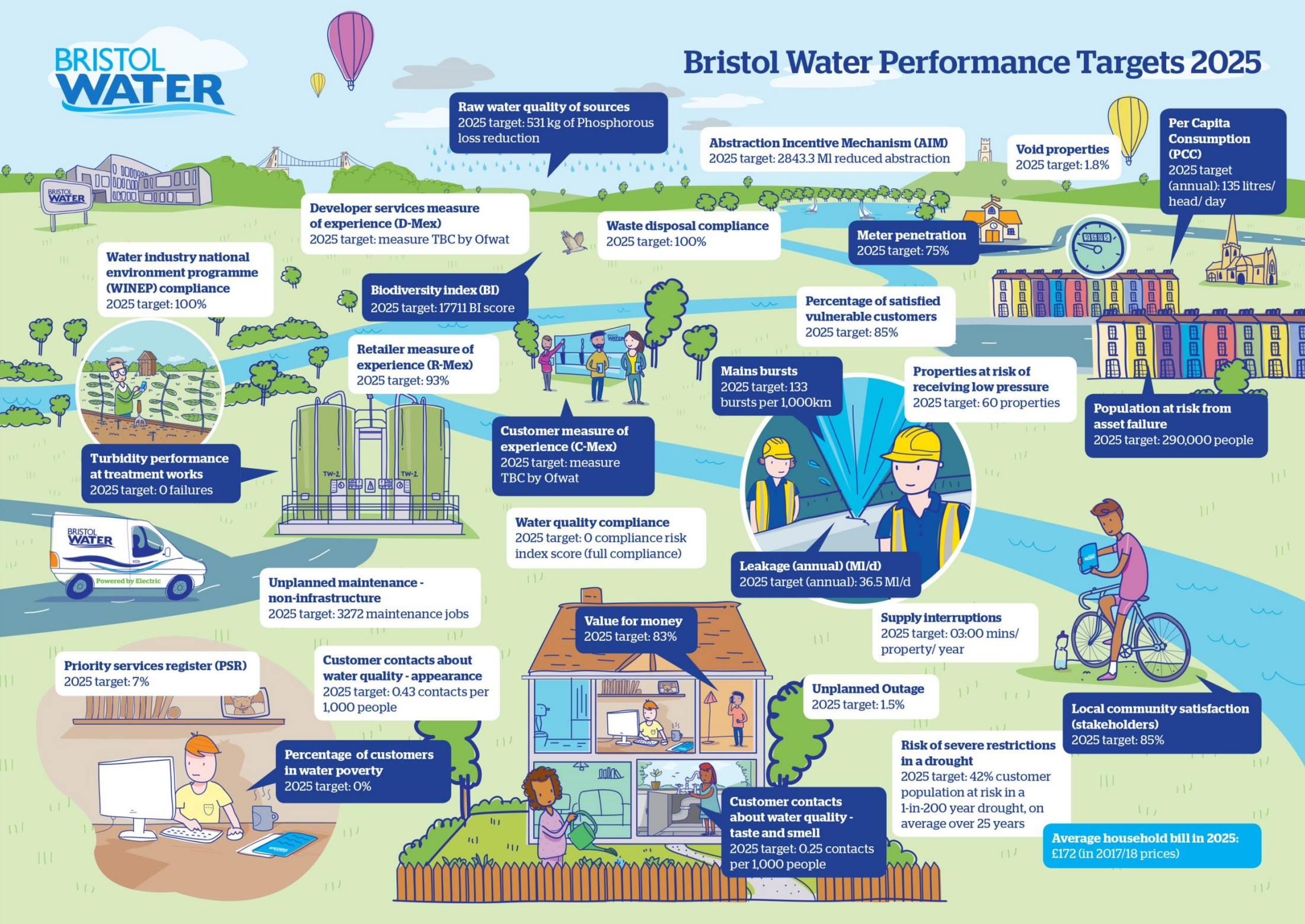
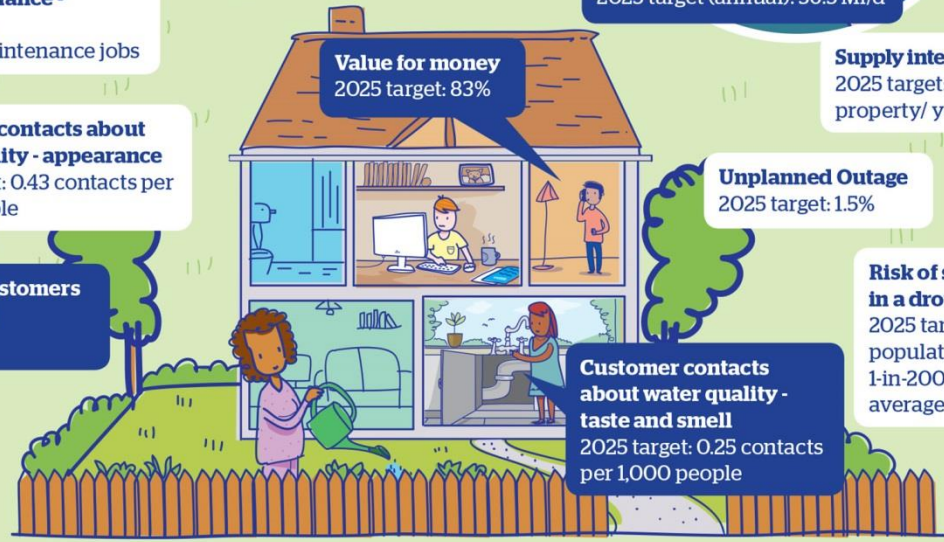
Local community satisfaction (stakeholders)
2025 target: 85%

Percentage of customers in water poverty
2025 target: 0%

Risk of severe restrictions in a drought
2025 target: 42% customer population at risk in a 1-in-200 year drought, on average over 25 years

Average household bill in 2025:
£172 (in 2017/18 prices)

Customer contacts about water quality - taste and smell
2025 target: 0.25 contacts per 1,000 people



1 Introduction to our revised plan

This document sets out our revised plan and response to Ofwat’s initial assessment of our September 2018 plan (IAP).

The Board of Bristol Water has carefully considered all the points of feedback from Ofwat and sought to understand best practice from across the industry to inform our response.

Our revised plan is captured in a number of documents, including updates to sections of our original submission with supporting evidence. We have responded to both Ofwat’s IAP feedback and its specific list of actions. We have provided a detailed mapping from these comments and actions to our response within our revised plan. These documents do not seek to entirely replace our original submission, but provide a summary of changes to our plan and additional evidence in a way which we hope is helpful to Ofwat and other stakeholders.

Our original submission in September was ambitious and challenging and was deeply rooted in customer research and engagement. We have listened to Ofwat’s and others feedback and made changes to our plan where additional evidence has led us to refine our approach. Remaining at the heart of our plan, are excellent experiences in everything that we do, whether for customers in the services they receive, or for the community through the wider benefits for society and the environment that our

activities deliver. Our plan remains true to our journey of development with our customers and stakeholders, informed by high quality and far-reaching engagement.

Since our original submission in September 2018, we have not relented in our drive to transform our business and to find innovative and industry leading ways to build trust with our customers, including the publication of our [social contract](#). Our “[trust beyond water](#)” vision continues to be driven by the Board.

Our improvements to customer service and high levels of overall customer satisfaction have recently been recognised by the Institute of Customer Service through its ServiceMark accreditation and we have also been nominated for water company of the year at the Water Industry Achievement Awards.

The process to transform our business to a resilient, customer focussed, trusted and efficient company with a long term focus has been led by the Bristol Water Board. We are pleased that the IAP recognised there were many high quality elements to our original plan. Our revised plan continues to deliver the things that matter most to our customers.

We understand Ofwat’s concerns about the deliverability of our challenging plan. We are a business that has changed significantly in the past four years and one which continues to change at pace. This change is being driven by a focus on our people and the cultures and values that they bring. As our transformation has continued, we can now provide further evidence of the impact of changes to

date and our plans for the future. We stay true to our original plan and the promises which we have made to our customers. We also stay true to our company roots of having a wider social purpose, delivering a benefit to society beyond our core role, and in doing so fulfilling our vision of ‘trust beyond water’.

1.1 The format of our revised plan

To respond to the challenges within the IAP, we have considered Ofwat’s wider challenges, as well as the specific actions within the IAP. We have submitted evidence in revised versions of the following plan documents:

A1 – Bristol Water for All (main narrative)

C3 – Delivering outcomes for customers

C4 – Bristol Water...Clearly Resilient

C5 – Cost and efficiency

C6 – Financeability, risk and return and affordability

C7 – Track record of delivery

We provide a Board Assurance Statement in support of our revised plan.

In addition, we have updated the data tables which are impacted by our revised plan and provided other supporting evidence files as mapped in ‘**Our guide to our plan**’.

In the revised document ‘**Our guide to our plan**’ we have provided a mapping from both the IAP test area assessment comments and from our IAP actions to our revised plan and have included a summary of how we have responded in each case.

OUR PROMISES TO MEET OUR CUSTOMERS’ PRIORITIES

We will give you a bill which you can afford

Our plan sees average bills reduce by 4.5% and, at least until 2025, stay below the level they were in 2015. Our social tariffs eliminate water poverty today and all customers at risk will get the support they need.

You get the best possible experience every time you need us

We are already the top water company, and we aim to become the top performing utility as measured by the UK Customer Satisfaction Index.

Saving water before developing new supplies

We will reduce leakage by 15% and help customers to reduce water consumption by 5%.

Trust beyond water – helping you to improve your communities and the local environment

We work in partnership with the local community to benefit customers and the environment. If we don’t deliver to the satisfaction of the community and customers, our innovative “*Bristol Water for All*” approach will hold us to account.

Keeping top quality water flowing to your tap

We achieve this already, often even during extreme events. Our plan increases protection further to over 540,000 people through being able to supply their water from multiple routes, and to reduce all supply interruptions by 85%, our forecast of the industry top quartile.

OUR PLAN



Our business plan sets out how we plan to meet the priorities of our customers, through promises and outcomes. It's not just what we deliver that's important to our purpose though but also the way that we deliver, reflecting our role as part of the local communities we serve.

OUR AMBITION

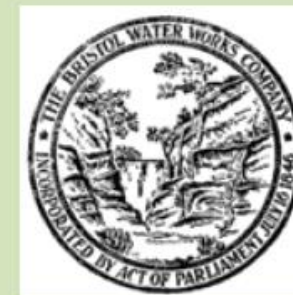


Our vision: 'Trust beyond water – providing excellent customer experiences!'

It reflects our mission: 'To be a company that our communities trust and are proud of. In doing so, we will deliver excellent experiences and create social and economic value.'

Our purpose drives our long-term ambitions for Bristol Water. This is reflected in our vision and mission.

OUR FOUNDING PURPOSE AND HISTORY



We were founded in 1846 with a strong social purpose to improve public health and to supply water to all, not just the wealthy. We stay true to these roots today.



OUR PURPOSE

To have a positive impact on society and the environment – building trust beyond water

OUR SOCIAL CONTRACT



Our social contract sets out how we are accountable for the social promises we make as we deliver our purpose. Our social contract will evolve as society does and we learn from experience, so through a set of mechanisms and initiatives we build partnerships and relationships to make it meaningful to our customers and stakeholders.

OUR PEOPLE, OUR VALUES, OUR CULTURE



Throughout our history, the people at Bristol Water have been proud to go the extra mile to deliver for our customers, our communities and for each other. Our purpose is important to the people who work at Bristol Water and is reflected in our values.

A LOCAL APPROACH



We benefit from close connections to our communities which means that we can provide excellent experiences. Working in partnership with those who share our purpose builds trust in us as a company that is part of the community.

2 Executive summary

Overview

Throughout the process of developing our business plan we started and finished with our customers' priorities, putting our customers at the heart of our plans for the future of their local water company.

Our customer consultation has been thorough, comprehensive and high quality and our planning process included what we believe to be the most visible draft business plan consultation undertaken by any company at PR19. This approach has continued in reviewing Ofwat's Initial Assessment of Plans (IAP) and developing our revised plan. The IAP recognised the quality of our customer research engagement and that a robust, balanced and proportionate evidence base had resulted in a clear line of sight to the outcomes our plan will deliver for customers.

We have carefully reviewed the IAP documents and have sought additional information and clarity from Ofwat where required, to make sure that we have understood the challenge fully. We have also worked to understand best practice from other company plans and to challenge ourselves on our approach.

In many cases we have responded to Ofwat's feedback by providing additional information to support our approach or by providing further clarity on how the elements of our plan are interlinked. In other cases, where the balance of new evidence supports a different approach, we have responded by making carefully considered changes to our plan.

Where appropriate, we have sought additional customer insight to inform our process of challenge and refinement. Our plan continues to have a high level of acceptability at 93% of customers surveyed and therefore we remain confident that we have retained the support of our customers.

Our original plan was clear that we had made a series of hard choices in preparing our plan and it was important to us to consider Ofwat's specific feedback and wider observations carefully. We have responded to all the IAP company actions to provide additional evidence to support our plan, representing links between related components of our plan where appropriate to demonstrate how the elements of our plan fit together to deliver a high quality plan. In other cases, where the balance of new evidence supports a different approach, we have responded by making carefully considered changes to our plan. We are confident that our revised plan is the right one for our customers and our promises to customers remain unaltered. We also retain the view that our plan is resilient, as this is reflected in our key outcomes.

A fundamental part of our corporate and financial resilience is our social contract, which takes a systems-based approach to our long term delivery of excellent experiences to our customers and communities, as part of the social purpose that Bristol Water has always had. We have based our response to the IAP around demonstrating the progress in resetting Bristol Water to deliver this social purpose.

Key changes in our revised plan

Key changes we have made in our revised plan are:

- **Reduced totex:** We have reduced our totex forecast by £9m from £503m in our original plan to £494m in our revised plan. Forecast expenditure is 5% below total expenditure over 2015 to 2020. We have included Traffic Management Act expenditure within our revised plan as this cost risk has now crystallised, together with the impact of the Autumn 2018 budget in increasing tax. These increases are more than offset by further efficiencies.
- **Reduced CSA:** We have reduced our Company Specific Adjustment (CSA) premium from by 7bps from 45 basis points (bps) to 38bps. This reduces appointee cost of capital (real RPI) from 2.7% to 2.6%. There is a high level of customer support for the CSA, at 87% of customers surveyed. With expert support we demonstrate the benefits that Bristol Water provides to Ofwat's ability to make comparisons, a value of c£20m (within a wide range) which exceeds the £6m cost of the uplift. We recognise this is an area of methodology which we will need to discuss further with Ofwat.
- **Additional Performance Commitments:** We have included two new Performance Commitments – percentage of customers on our priority services register and our retailer measure of experience (R-Mex)
- **Rebalanced ODIs:** We have made changes to Outcome Delivery Incentives (ODIs) for a number

of performance commitments in response to Ofwat's challenges, tested through further customer research. We have rebalanced incentives towards water quality Compliance Risk Index performance, as this is the measure most representative of our customers' top priority as well as being an all-encompassing measure of asset health and resilience.

- **Removal of deadbands:** We have removed a significant number of deadbands, exposing us to greater incentives for performance.
- **Reduced penalties:** We have reduced AMP6 penalties due to improved performance, including improved leakage performance despite challenging weather.

Through these changes we have been able to absorb other changes since our original submission which are an upward driver to bills (such as tax changes and the impact of the Traffic Management Act). Bill levels over AMP6 are almost identical to our revised plan, but the level of reduction from AMP6 level is slightly smaller due to a drop in the average bill level in 2019/20. Bills in AMP7 have been smoothed in response to additional customer research.

Average household bills are forecast to reduce by c4% in 2020 from £182 to £175 (CPIH 2017/18 prices), which would be 5% prior to taking into account the early pass back of £1.1m of leakage penalties in 2019-20. By 2025, bills at £172 are c5% below 2019-20 levels before inflation (6.5% before the early leakage penalty return). Bills at the start of 2026-2030 are expected to increase by c2% (without

considering any bill smoothing) due to the ending of revenue adjustments from AMP6 over 2020-25. Broadly, bills are expected to stay stable over 2020-2030 after the initial reduction in 2020. Bill percentage changes from the original plan have been updated to reflect a revised starting point, but propose bills over 2020-25 remain the same.

Our level of ambition

We have stayed true to our mandate from our customers to set ourselves ambitious targets, delivering the service improvements they value, at the same time as reducing their bills. By 2025 we will reduce leakage from our network by a further 15%, reduce interruptions to supply by 85%¹ and improve resilience of water supplies for over 45% of our communities, at the same time as reducing average bills by 5%. Bills will remain below 2015 levels, even after inflation. Our plan will also eliminate water poverty, and will support all customers who may be at risk of it, including through our social tariffs. We have re-tested this plan with customers and our combination of service improvements and bill reduction continues to have the support of our customers and stakeholders, with 93% acceptability.

It is true that delivering our plan will be challenging. Our plan is built on a comprehensive Transformation Programme which responds to the lessons of past performance. These lessons include our response to

¹ By 2025, beyond the upper quartile target Ofwat have asked us to adopt in line with IAP policy decisions.

the challenges to resilience which resulted in us missing significant targets such as supply interruptions and leakage at times during AMP6, and the increase in customer complaints that occurred. Progress in delivering our transformation plans has continued and we can provide Ofwat with confidence that our plan will be delivered, and that customers will be protected as we learn from experience. In particular recent progress to note includes:

- We are likely to perform better than our previous leakage forecasts over 2018/19 and 2019/20. This reduces the forecast AMP6 leakage penalty by £2.4m.
- We provide case studies from recent operational resilience events, such as major bursts, to explain how the stretching supply interruptions target will be delivered. Recent improvements mean that even major bursts in difficult locations are now being resolved without significant supply interruptions.
- We are in the process of implementing an innovative full network control and monitoring upgrade, which takes the learning points from past events to combine a number of innovative projects, such as our "Calm DMA" work with Imperial College and our "NOEM" network energy and supply control approach. This delivers totex efficiencies, together with improved network control and monitoring and enables delivery of the stretching leakage, supply interruptions and water appearance targets, amongst others. Our confidence in this delivery

has allowed us to reshape ODI incentives towards water quality compliance, as this most closely reflects sharper incentives for asset health with customers' top priorities, as well as the existing incentives for leakage and supply interruptions.

- Customer complaints are falling as our operational and service performance improves. This in part reflects operational incidents being avoided, but also reflects the impact of our improved operational response. The key network maintenance contract which modernises our approach is on track to be in place in Autumn 2019.

We continue to improve our operational performance, our asset management capability, use of technology, and the way we collaborate with our supply chain and other partners. We are confident that this transformation will deliver our promises to our customers. It is inevitable with an ambitious plan that we will not always hit every target – but our plan includes effective performance measurement and correction mechanisms and commitments to transparency that will protect customers as we improve. Our Board is focused on ensuring that Bristol Water meets the promises our plan sets out for our customers.

We continue to improve the level of transparency and confidence in the information that we produce, which was recently recognised through a move from 'prescribed' to 'targeted' status in Ofwat's company monitoring framework.

Trust beyond water

We have continued to work to deliver our vision of providing a benefit to our communities beyond the provision of a safe and reliable water supply. Our roots and our history remain important to us. We are very conscious that Bristol Water was established 173 years ago with a clear social purpose – to improve public health by providing water to the whole city of Bristol, rather than the wealthy few. Our founders were ahead of their time in recognising the link between clean water and social wellbeing, not only in terms of public health but also the ability to work and financial wellbeing.

In February 2018, we set out our ambition to stay true to these roots,² recognising our continued privileged position as a trusted monopoly provider of an essential service and the opportunity that this provides to have a positive impact on the wellbeing of society. Our customers and stakeholders continue to tell us that they expect our actions to go beyond those of a responsible private company and we understand that accountability for this positive impact is a key issue aligned to the level of trust which our customers and stakeholders place in us.

Our vision is: *Trust beyond water – providing excellent customer experiences.*

² [Bristol Water...Clearly, our Long Term Ambition for Excellent Water Experiences](#), February 2018.

In our original plan, we pledged to develop a social contract as a framework to formalise the delivery of our wider social purpose. We made a commitment to deliver demonstrable community benefit with high levels of customer satisfaction, transparent engagement and financial consequences should we fail to meet these expectations. It is the Bristol Water Board who own the purpose, culture and values that we espouse in our social contract, and it is through this foundation that we will deliver our plan.

Our purpose is: *To have a positive impact on the lives of our customers, our communities, our colleagues and the environment, beyond the delivery of pure and reliable water.*

We have continued to develop our social contract in collaboration with our customers and stakeholders. In January 2019 we set out our [social purpose and our social contract](#) and we have also worked with ICS Consulting to produce a [thought provoking document](#) on the ideology of a social contract and questions of implementation. Our objective is to work with our customers and our local and national stakeholders to continue to refine our social contract and the programme of initiatives which sit beneath it. We also welcome the opportunity to contribute to the emerging national debate on the role of a social contract for essential service providers such as the water industry. It is our view that a social contract is something which a company should undertake willingly and which is founded on

a shared local connection to the customers and communities which a company serves.

The aims of our social contract go beyond the delivery of wider societal benefits, to include a framework for customer, stakeholder and employee engagement and participation, as well as a framework for fairness, transparency and accountability for delivering our social purpose. Our Bristol Water Challenge Panel (BWCP) will play a key role in overseeing the social contract programme and for ensuring that the viewpoints of our customers and stakeholders are understood and represented. Jim McAuliffe, one of our independent non-executive directors (INEDs) with close community links, will engage directly with the BWCP in relation to our social contract and ensure its appropriate representation with our full Board.

Our social contract will contribute to social wellbeing and local community resilience. It will also contribute to the continued high level of trust which our customers place in us.

Our social contract approach and local stakeholder engagement, together with delivery of the innovative outcome benefits that arise, allows us to innovate in the way we deliver and are accountable for national policy requirements, whilst also reflecting the local needs of those we serve.

We describe the link between our social contract and our strategy for resilience in our [revised C4 document](#) of our detailed response.

A plan which continues to be driven by our customers

We have continued to engage with our customers since our original submission and have undertaken specific additional engagement to inform our response to the IAP.

Our latest research has:

- Confirmed that our customers support the design of our outcome incentives, both individually and the overall magnitude of the proposals (including our £2.5m annual bill impact cap)
- Confirmed the strong acceptability of the plan, and very strong support for the small company uplift to the cost of debt
- Confirmed that our resilience, community and environmental ODIs, including the outperformance incentives, fully reflect customer and local stakeholder views
- Confirmed that a social contract that builds on the basic requirements of water delivery and its regulation, and which reflects a local shared connection to society which is part of systems-based resilience, is what is needed for customers to distinguish between a good company and an excellent one.

We have clarified our intention that the voluntary sharing mechanism within our social contract, although it was linked to the additional cost of debt, is not dependent on Ofwat's PR19 decisions on this element of our plan.

Our priorities to customers remain unchanged

Our priorities and promises to customers remain unaltered, with our customer engagement and line of sight to plan outcomes recognised as high quality within the IAP. Our five priorities are:

A bill you can afford – Our customers want us to reduce their bills and make them affordable, at the same time as improving our services. They support a plan that reduces bills by 5% and provides support to all eligible customers so that no customers remain in, or fall into water poverty.

Top quality water supplies – Our customers want us to reduce the number of times they have to contact us about the taste and appearance of water at their tap. They want our network to be more resilient to failures. When things go wrong, they want rapid and personal response from us to reduce the duration and frequency of interruptions to their supplies.

Trust beyond water – Our customers want us to go beyond clean and reliable water supplies, and make a positive impact on their environment and their lives. They want us to increase recreational access to the sites we manage, and lead projects which are beneficial to local communities. They want us to go beyond the minimum quality expectations of our regulators.

Saving water – Our customers want us to tackle leakage, and help reduce water wastage. They have chosen a plan which meets the long-term population increase demand for water, primarily through demand management; a 15% reduction in

leakage, and a 5% reduction in water use per population. They support further reductions in the long-term, as long as their bills are reduced.

Best experience – Our customers have chosen a plan which gives all of them, whatever their circumstances, the best experience provided by any utility company when they contact us. They also want inclusive services that meet their individual needs.

An ambitious plan for delivering our customers' priorities

The ambition in our plan was identified by the IAP. Our plan continues to deliver industry upper quartile performance, or better where mandated by customers. In some cases, for example leakage and customer satisfaction, we aim to push the frontier of the industry forward.

We were pleased that the high quality of our customer engagement was recognised in the IAP. We have re-presented our initial evidence to demonstrate the clear line of sight between our customers' priorities and the outcomes of our plan, and provided an update on our progress on transforming our business to deliver our plan.

We have retained the four outcomes of our plans.

Outcome 1: Excellent Customer Experiences

Our plans for delivering excellent customer experiences are progressing through our ongoing improvement plans and Transformation Programme. Building on our successful partnership with Wessex Water through our joint venture

“Pelican”, we will maintain high service standards and a low retail cost to serve. We will bring back in-house the control of operations which connect with our customers, we will improve responsiveness and reduce costs in our wholesale business. Our plan also responds to the needs of our business customers and their retailers, as well as developers, by making the improvements they have told us they would like to see. These changes are underpinned by system improvements which provide a ‘single view’ of our customers.

We plan to expand the reach of existing care for vulnerable customers by increasing the number of customers on our Priority Services Register from 4,000 to 37,000, as we adopt Ofwat’s standard challenge to the water sector. We will offer social tariffs to all those eligible (potentially an additional 12,000 customers) to eliminate water poverty, whilst maintaining customer support for the cost.

In February 2019 we achieved ServiceMark accreditation from the Institute of Customer Service which recognises the high level of customer satisfaction in the services we provide to our customers. We recognise that at the same time, we have more recently had a relatively high number of complaints from our customers when compared on a normalised basis to the rest of the industry. We understand the root causes of these complaints and we have implemented a number of improvements which have seen numbers of complaints fall. We also continue with our Transformation Programme, delivering significant changes to our service

contracts and also to our IT to give a ‘single view of the customer’.

Outcome 2: Local Community and Environmental Resilience

We maintain our plans to reduce leakage by 15% through improving leakage detection and repair activities, and using new technologies for leak detection. We have seen improvements in leakage performance over the past 12 months (we are likely to outperform our target for 2019/20) which sets the trajectory for achieving our ambitious future target. Reductions in demand will be achieved by increasing the proportion of metered properties from 64% to 75% of our customers. A slowdown in the housing market has meant that metering will only reach 64% in 2020 rather than 66% as we had planned, but we expect this timing difference to catch up by 2021.

We will also build further operational resilience by looking to the market and our community partners to help our customers reduce water wastage in their own properties. We have started initiatives to drive water efficiency and behaviour change by working with local energy and service providers in the Resource West partnership. This regional collaboration will provide our customers with integrated information on how to reduce water, energy and household costs.

These reductions in water demand will more than offset the projections for population growth, meaning that no new water resources are required until at least 2045.

Our contribution to society goes beyond providing an essential service. Through our partnerships, we will provide our communities with free public access to drinking water, improved access to our recreational facilities and closer links with local schools and universities. If we don't deliver to the satisfaction of our customers and their communities, our innovative **"Bristol Water for All"** approach will hold us to account.

Outcome 3: Safe and Reliable Water Supply

Our plan remains to reduce customer contacts about their tap water by 50% and aims to improve on our drinking water Compliance Risk Index which is already one of the lowest in the industry. In our revised plan we have placed greater focus on asset health incentives on our Compliance Risk Index performance, to emphasise its importance to customers.

We completed one of our largest investment projects in 2017-18 which has made our network resilient to system failures for communities with a population of over 25,000. We remain committed to increasing the scope and reach of this resilience further to protect communities of over 10,000 population from low probability, high consequence failures. We provide evidence of how this enhances long-term services to customers and we were pleased that Ofwat recognised our ambition in the IAP.

Our plan uses an optimised combination of operational strategies and capital investment to improve the resilience of our supply network by

preventative, as well as response and recovery measures. This means we will reduce interruptions to water supplies by 85%.

Outcome 4: Corporate and Financial Resilience

Our corporate and financial resilience underpins the delivery of our other three customer-facing outcomes; together with operational and service resilience, they deliver 'resilience in the round'. Since the last price review, and the Prescribed status of the company under Ofwat's monitoring framework, we have substantially improved our corporate resilience, now founded on strong governance and assurance, as demonstrated by the comments of our Assurance Partners on the strength of our Assurance Plan. This has been recognised by the move to 'targeted' status under Ofwat's monitoring framework.

The customer excellence culture of our employees is vital and this stems from their connection to the communities we serve. Since our business plan submission we have worked with our colleagues to develop and launch our new employee values. These set our expectations of our colleagues and challenge ourselves and others to be ambitious, accountable and professional whilst maintaining our special pride in our organisation, support and respect for each other and our customers. At the centre of our values and culture is being trustworthy, with clear links to both our vision and our purpose.

As part of transformation plans we have continued to develop our people strategy which has a focus on how we work, including with our suppliers, to deliver the best levels of service. In addition, we have created a plan which will provide Bristol Water with the right organisational structure to enhance the customer experience, support investment in skills and personal development and provide a focus on employee engagement to ensure our people are motivated to deliver high levels of personal performance. Our people strategy is fully aligned to our business plan and targets and measures have been set to ensure year on year improvements.

Our financial resilience continues to be founded on transparency and long-term viability. In response to the IAP, we have undertaken additional stress testing of our financial plan. We demonstrate that we are financially resilient in the long-term to a relevant range of risks. This resilience is founded on our financial prudence, with gearing close to Ofwat's assumed level. This testing demonstrates that our financial ratio and target credit ratings are appropriate, given the low financial risk that our prudence provides. We set out our financial resilience with and without the CSA allowance, although the CSA relates to efficiently incurred debt so our assumptions in our view are part of an appropriate level of financial headroom for a company such as Bristol Water.

Our outcome delivery incentives

We have responded to the IAP challenges in relation to outcome delivery incentives for individual performance commitments by making some

changes to these. In the case of over or underperformance against our outcomes, the resulting annual incentive or penalty payments will be between -£5.2m for underperformance and +£1.9m for outperformance. The central estimate of the impact of these payments on our Return on Retained Earnings (RORE) is likely to be in the range of -2.5% to +0.9%. Together with 'C-MeX' and 'D-MeX', the full possible range for outcome incentives is -£11.2m to +£6.2m each year (all figures 2017-18 CPIH prices). A comparison to our September submission is given in Table 1.

Table 1: Comparison of Incentives in original and revised plan

		Revised plan	Original plan
Annual incentive range	central	-£5.2m to +£1.9m	-£4.9m to +£2.3m
RORE estimate	central	-2.5% to +0.9%	-2.3% to +1.1%
Annual full range including 'C-MeX' and 'D-MeX'	incentive	-£11.2m to +£6.2m	-£10.8m to +£6.7m

It has been a difficult task to maintain an overall balanced risk and return for ODIs given the range of Ofwat challenges. High service levels and a stretching plan mean there is less scope for outperformance than would otherwise be the case, and customers are clear that they do not feel that strong financial incentives are necessarily the best approach, particularly for asset health measures that are not customers' main priority for performance, such as mains bursts. The incentive valuation approach in our plan remains robust. Many incentive rates are below unit rates based on

cross-company comparisons, but this reflects our service levels and customer's priority to see bills fall whilst improving services. Other than technical changes, we maintain the incentive rates from our original plan as these were subject to substantial assurance via our assurance framework.

For financial resilience, and to reflect customer views on incentives and bill volatility, we maintain our proposed cap on the annual reward or penalty at £2.5m (£4 average household bill) in any one year, with the remainder rolling forward to the following year. In addition, for industry consistency, we also adopt Ofwat's 50% sharing proposal should our ODI outperformance exceed 3% RoRE in any one year (this would not in practice apply to either our original or our revised plan).

Maintaining bill reductions from 2015 and keeping bills low in the long term

We set out a range of evidence in our plan as to how we have responded to the IAP cost position. In most cases, we believe the IAP efficiency gap of c13% will be closed by presenting information on our enhancement investment proposals, as well as areas where the IAP cost allowance was not applied as we believe Ofwat intended. We have a range of areas where we are continuing to explore the efficiency models Ofwat published with the IAP, as the choice of model or assumption makes a large difference to whether our plan costs are viewed as efficient.

It continues to be our view that our continued transformation will deliver £52m of new cost

efficiencies by 2025 (around 9%), with c80% delivered from 2020. We have considered the wider evidence on future labour cost and industry frontier efficiency. This results in a further 0.8% p.a. (£13m) base wholesale and retail totex efficiency from 2020, which offsets other changes such as tax that would otherwise increase bills from our original proposals. We provide supporting analysis from consultants on the efficiency models and future efficiency assumptions, and retain the view that our revised plan represents at least industry upper quartile efficient costs.

With forecast inflation, bills in 2025 will remain £8 below the level that they were in March 2015. The long-term picture for our bills suggests a small increase in 2025, reflecting the end of adjustments for 2015-20 performance which reduce bills to 2025, see Figure 1. Bills thereafter reduce to 2030, see Figure 2. We have made minor adjustments to smooth the bill profile to best reflect customer preferences.

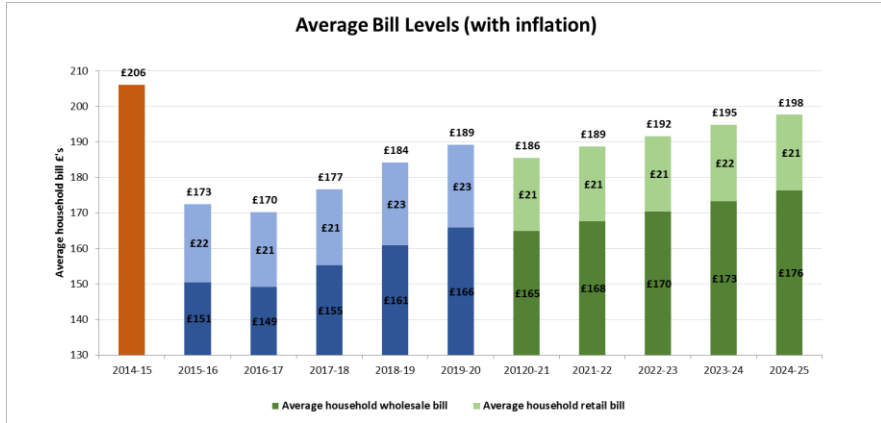


Figure 1: Average household bills including inflation

We continue to have a significant cost uncertainty relating to the Canal & River Trust (CRT), supplying half of our raw water via the Gloucester & Sharpness Canal. The Trust is proposing a substantial price increase of up to £8m per annum, which in our view is not justified and is not in the long-term interests of our customers or the environment. This issue remains unlikely to be resolved before PR19 determinations, as arbitration has yet to commence and no details of the case being made by CRT has been received. We have not included any reduction or increases in our plan and intend to resolve the matter through arbitration.

We continue to propose a notified item that shares 75% of any reductions or increases with customers through adjustment to bills. This is the most appropriate mechanism, allowing Ofwat to fully assess our efforts to reach the best outcome for our

customers, while protecting long-term financial and service viability.

The total cost of delivering this plan in the period 2020-25 is £494m, 5% below our expenditure over 2015-20. In order to deliver better outcomes at lower cost, we have taken a Total Expenditure (Totex) approach to planning our activities, resulting in a shift from capital intensive solutions to operational interventions. Since our original

business plan, additional efficiencies of c£4m over 2015-20 have been targeted, emphasising the progress we have already achieved with our transformation programme.

Our transformation plans and other day-to-day initiatives are planned to deliver efficiencies in our wholesale business so that Capital Expenditure (Capex) efficiency will exceed input price increases

(such as labour and material costs). We have included an initial efficiency gain of 9%, and an ongoing 1.3% per annum. Operational Expenditure (Opex) includes an ongoing efficiency of 1.1% per annum, offset by input price increases of 1.4%, reflecting the cost of resources (labour, material, energy, etc.). This also reflects that there are no major one-off capital interventions in our plan where potential for one-off efficiencies are readily available.

The nature of our investment (fully integrated in existing operations with no separable investment project above £3m totex), means that we have not proposed to use Direct Procurement for Customers (DPC) within our plan. The potential for major schemes for water trading export remains the most likely area for DPC in the future, and we will work as part of West Country Water Resources to explore this potential.

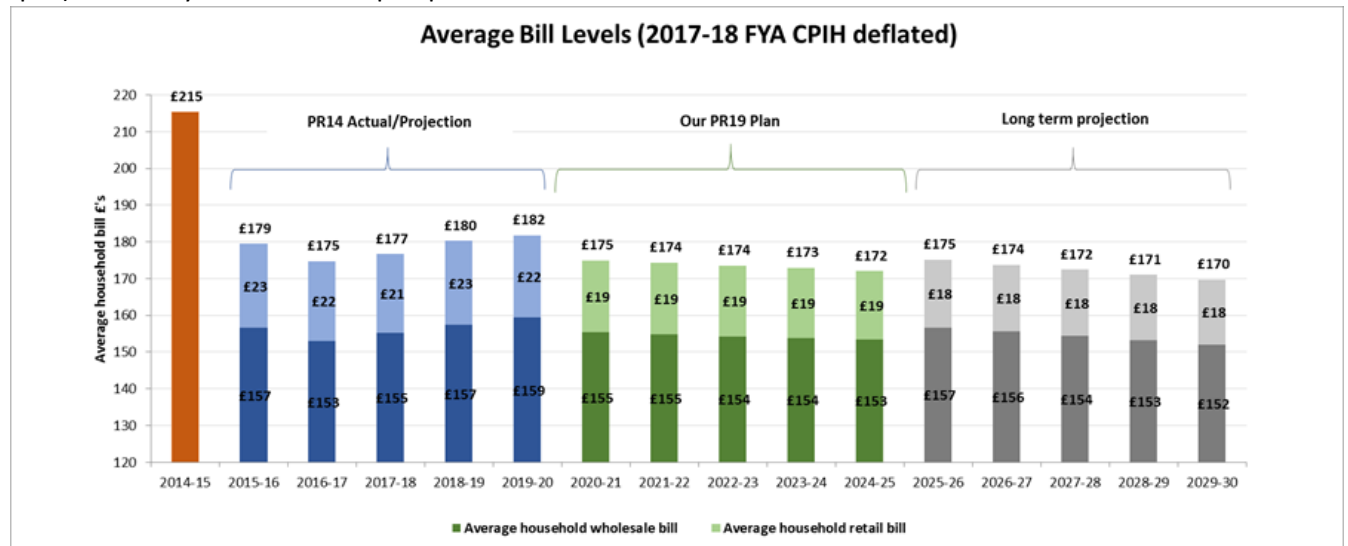


Figure 2: Average household bills in 2017/18 prices excluding inflation

We expect residential retail costs to decrease by 0.4% per annum, with initial efficiencies of 7.4% targeted at bad debt, and c1.2% per annum targeted at ongoing improvements. We have not reflected Ofwat's IAP retail efficiency models, as the bad debt model does not, in our opinion, appear to provide a suitable explanation of relative efficiency between companies. We will explore this further outside of the time constraints of the IAP response.

A balanced and high quality plan, acceptable to our customers

We have carefully reviewed the additional evidence provided as part of the IAP, as well as best practice across the industry. Our Board has again used the extensive views of our customers (including new research), to agree our response to the IAP, balancing the trade-offs on risk and reward, service improvements and bill levels. Our plan continues to be well-considered and protects the long-term interests of our customers.

We have tested the acceptability of our revised plan. At a bill level of £172, acceptability is 93%. With inflation added, the acceptability is 82%. This compares to 93% and 83% respectively for our original plan. All proposed service levels continue to be supported. Acceptability ranged from 89% for the most service and price vulnerable customer segments, to 100% for the "Thirsty empty nesters" segment.

We have undertaken additional research to confirm that our customers support the additional cost of financing (associated with the efficient historical

debt of Bristol Water). At the lower cost of £1.80 (actual £1.74) within our revised plan, 87% of customers supported the additional cost in exchange for a small local water supplier providing trusted local services to them. Only 9% disagreed with paying this cost. We have reviewed our commitments to hold us to account for this additional cost through "***Bristol Water for All***" - an additional sharing mechanism that puts transparency at the heart of delivering for customers. In our revised plan, we have increased the level of reinvestment of our view of the additional local financing cost to customers, if we are not one of the top three England & Wales water companies under UKCSI, or if community stakeholder satisfaction falls. This voluntary sharing mechanism is not dependent on PR19 decisions – it reflects our social contract by linking to what makes Bristol Water an exceptional company in the view of our customers, staff and local community. This is the challenge that the Bristol Water Board and executive team have committed to delivering on.

Our package of proposals continues to deliver affordable bills with significant and challenging service improvements. Our plan remains realistic and ambitious, it balances key trade-offs between improving services, customer experience and maintaining financial viability, while reducing costs.

We are confident that our stretching targets are deliverable and in the long-term interests of our current and future customers. Since our original business plan submission we have continued with our business transformation, focussing on

reinvigorating the purpose of the company and empowering our staff to deliver excellent experiences to our customers through our culture and values. At a detailed level, we have developed our Outcome Delivery Strategies, which document how we will achieve the commitments which we have made to our customers.

Our plan provides fair returns for shareholders while delivering for our customers and communities. In addition, we continue to adopt Ofwat's benefit sharing proposal should gearing increase beyond 70%, existing preference shares are excluded from this definition of gearing to maintain financial viability.

Our plan retains our local community delivery model, innovating for the wellbeing of society by linking customers and stakeholder experiences for the benefit of all. Through our social contract we have established a framework to deliver demonstrable community benefit with high levels of customer satisfaction, transparent engagement, policies and governance; together with financial consequences should we fail to meet expectations. Given the recent resonance our approach has had within the water sector and beyond, we are aware that this increases the importance that Bristol Water delivers our transformation and our social purpose. We are happy to engage with Ofwat on any further steps that we can take to provide confidence on our commitment and accountability for both what this plan delivers, and how we deliver it.

We anticipate there will be some areas of IAP challenge we will need to discuss further with Ofwat

before draft determinations. These include progress on Canal and River Trust arbitration and final performance for 2018/19, including our expectation that we will meet our leakage target which provides confidence in the trajectory of our forecasts. We recognise that efficiency and the cost of capital are areas we will need to provide further review and evidence as Ofwat receive responses to the IAP.

Bristol Water Board confidence and assurance of our plan

The Board of Bristol Water has been changing and strengthening since 2015. The Board of Bristol Water now has four Independent Non-Executive Directors, in addition to the Independent Chairman, who form the largest group of directors on the Board. The current structure and membership reflects the increased emphasis on governance, assurance, and Board strategic leadership required to gain and maintain the trust of our customers, stakeholders, employees and the communities we serve.

The Board of the company has continued to lead the development and delivery of our plans and has reviewed the IAP assessment in detail, together with summaries of additional evidence, best practice and the output of additional customer research. Rigorous assurance processes have been applied to the data and analysis which has supported our response to the IAP.

Board decisions continue to be based on high quality data, developed and checked in line with robust governance and assurance processes. Third

party assurance has again been used to augment our own internal review and provide challenge. As we continue to modernise our approach to corporate governance, and customer trust, we also continue with our ambitious transformation, which is integrated with our steps to improve the maturity of our resilience.

The Bristol Water Challenge Panel, chaired by Peaches Golding OBE, has continued to provide challenge on the quality of our customer engagement and the extent to which the results have driven the decisions that underpin our plan. The link between the BWCP and the Board has been further strengthened through the community focus of Jim McAuliffe, an INED who joined the Board in November 2018. The BWCP also has continued to provide scrutiny of our outcome performance.

Summary from the Bristol Water Challenge Panel's report on our revised plan

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

“The Challenge Panel considers that the additional customer engagement carried out by Bristol Water is appropriate and robust and that it meets the Panel’s tests of best practice. The results of the engagement have been used appropriately, in conjunction with previous engagement outcomes in

some cases, to reshape the PR19 Business Plan where necessary. Bristol Water has decided that further research into its social tariff cross subsidy should be undertaken over a longer timeframe in order to provide robust findings. The Challenge Panel agrees this is the best course of action.”