

## Minutes of Meeting 12 – 25<sup>th</sup> May 2018

### Attendees

Tony Denham	BWCP Deputy Chair	Ian McGuffog	Bristol Water (BW)
Jeremy Hawkins	Report Writer	Ben Newby	Bristol Water
Dr Tabinda Rashid-Fadel	NHS	Sue Clarke	Bristol Water
Dr Mark Taylor	Natural England (NE)	Lucy Farrow	Dialogue by Design
Michael Barnes	Consumer Council for Water (CCW)	James Holman part	Bristol Water
		Dani Emerson	Bristol Water
Jeremy Bailey	Environment Agency (EA)		
Cllr Robert Cleland	North Somerset DC (NSC)		
Daniel Woodhead (by phone)	Step Change		
Danielle Wain	UWE		
Luke Hasell	The Story Group		

### Apologies

Peaches Golding OBE	BWCP Chair	Cllr Terry Napper	Mendip District Council (MDC)
Mike Bell	Consumer Council for Water (CCW)	Prof. Chad Staddon	University of the West of England (UWE)

### Minutes

<b>1. In camera session before main meeting</b>	
Minutes are confidential and not published.	
<b>2. Chair update</b>	
The Deputy Chair chaired the meeting in the Chair's absence.	
The Deputy Chair referred to the recent Ofwat consultation on financial resilience including the possible sharing of financial outperformance with customers. He said the	

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<p>Chair had responded to the consultation on behalf of the Panel. She had broadly welcomed Ofwat’s proposals but would need to see what if any impact there would be on BW’s customers. BW replied that Ofwat’s proposals represented a fundamental change in the regulatory framework. BW’s supports Ofwat’s direction of travel but it has highlighted possible unwanted consequences such as reduction in credit rating and associated increased financing costs. BW’s shareholders have not taken any dividends this control period so as to allow the business to restructure. Gearing is currently 64%. BW had already started to give consideration to sharing financial outperformance on cost of capital with customers. It is not known when Ofwat will report back on the outcomes of the consultation. There is an industry workshop at Ofwat in the coming week on the issue.</p> <p>The Deputy Chair said the Panel is interested in this issue and would like to understand the company’s proposals. EA said if BW is designing a sharing mechanism then it would have to be tested with customers. BW agreed but would await the final methodology from Ofwat before proceeding. BW will update the Panel accordingly.</p> <p>The Deputy Chair alerted Panel members to BW’s latest Watertalk publication which included the company’s Draft Business Plan consultation</p> <p>The Deputy Chair remarked that he had expected the agenda for today’s meeting would be primarily focused on the detail of PCs, service targets and ODIs. BW replied that it wanted to present the initial findings from the Draft Business Plan consultation and that today’s meeting would provide an overview of the target and incentive setting mechanisms plus a couple of worked examples. A second meeting on 7<sup>th</sup> June would be the opportunity to go through each PC and ODI in detail.</p>	<p><b>Action: BW</b></p>
<p><b>3. Minutes, actions and challenge log</b></p>	
<p>The Deputy Chair provided a Challenge Log update and highlighted a new challenge category to cover issues that did not have to be addressed before the Panel’s PR19 report is submitted to Ofwat. He said that outstanding actions from previous meetings plus outstanding challenges would be discussed with BW at a separate meeting. This meeting was later arranged for 14<sup>th</sup> June. The Deputy Chair and Report Writer will attend this.</p> <p>BW reported that Sue Clarke now owns the relationship with the Panel and that members should liaise with her the first instance.</p>	
<p><b>4. Consultation responses</b></p>	
<p>BW presented a series of slides entitled ‘Customer Feedback on our draft plans for 2020-2025’ which summarised its early assessment of the responses it has received on its Draft Business Plan.</p> <p>The formal consultation on the Draft Business Plan closed last Thursday. BW still has to do a full analysis on the results.</p>	

<p>NE ask if BW was doing any bespoke consultation on the environment. BW said that general environmental issues are included in its community satisfaction outcome which is part of the Draft Plan. NE commented that this needs to be made absolutely clear in the Plan. BW said it will be made clear.</p>	<p><b>Action: BW</b></p>
<p>The Deputy Chair asked how BW will assess the results where certain customer groups express a high preference for a particular approach or outcome and others don't, eg there appears to be polarisation on the proposed vulnerability strategy. Does BW's process allow it to adjust individual outcomes within the overall plan? BW said it does but this depends on the significance of the outcome. It will have to analyse and triangulate by looking across all constraints and consider the whole package. This is not the last piece of research and it will have to decide on a plan based on all its research in the round. It will share its decision-making process and results with the Panel.</p>	<p><b>Action: BW</b></p>
<p>BW commented that it was surprised about the numbers of respondents that favoured the slower plan for safe and reliable supply. It needs to interpret what this might mean.</p>	
<p>The Deputy Chair remarked that it was encouraging that BW has consulted hard-to-reach groups.</p>	
<p>The Deputy Chair said that the Panel would be particularly interested where customers are supporting plans that mixed and matched plan levels for different service. BW said that it will be preparing a paper for its Board to summarise the outcomes from the research and their translation into the Final Plan. It was suggested there could be a conference call with the Panel once this had happened and the Board feedback had been obtained.</p>	<p><b>Action: BW</b></p>
<p>NSC noted the recent EA report on water usage and companies' ambition for water efficiency.</p>	
<p>EA said it considers that the company is doing a very good job so far on identifying the linkage between customers' needs and preferences and its future plans. However, it notes that customers appear to want a slower plan for leakage reduction than Ofwat and government is expecting. BW accepted this but said that its preferred plan is based upon its statutory and regulatory requirements and that these would override customers wishes if the Board was comfortable with this. BW to inform the Panel once it has decided the rate of leakage reduction.</p>	<p><b>Action: BW</b></p>
<p><b>5. Vulnerability and Affordability</b></p>	
<p>BW handed out a draft report on its Affordability and Vulnerability plans and a summary slide outlining its targets, the outcomes of its research and how it intends to go further in future.</p>	

<p>The Deputy Chair noted that company is planning to do much more to address affordability and the needs of vulnerable customers than in the past. The Panel welcomes this.</p> <p>The company asked the following questions of the Panel:</p> <p><i>Have we provided robust evidence in our business plan on how our approaches have, and will, deliver affordability for current customers, future customers and those struggling, or at risk of struggling to pay?</i></p> <p>The Deputy Chair said that the company had provided robust evidence on these issues. The company appears to be making good use of the data it has.</p> <p><i>Is our approach to vulnerability targeted, efficient and effective?</i></p> <p>The Deputy Chair said that the approach is targeted and has the potential to be efficient and effective. Actual efficiency and effectiveness can only be assessed once the plans are implemented.</p> <p><i>Is our bespoke performance commitment a suitable measure for addressing vulnerability?</i></p> <p>The Deputy Chair noted that the consultation on the draft plan had resulted in further comments from customers on vulnerability and affordability and that he wished to see the company’s assessment and response to these before concluding whether the proposed PC is suitable.</p> <p>CCW asked if increasing the numbers on the Priority Services Register will be a KPI rather than a PC. BW replied it would be a KPI.</p> <p>BW asked the Panel to feedback any other comments they had on the company’s plans for affordability and vulnerability.</p>	<p><b>Action:</b> BW</p> <p><b>Action:</b> Panel members</p>
<p><b>6. Performance commitment choices, targets, penalties and rewards</b></p>	
<p>BW handed out an ‘Evidence File’ document entitled ‘Delivering outcomes for customers – evidence for setting outcomes, performance commitments, targets and incentive levels’ Version 2.0 18 May 2018 and presented a number of slides to accompany this.</p> <p>The Report Writer asked if the document is intended for Ofwat as well as the Panel. BW said it is.</p> <p>The Deputy Chair asked if the ‘Evidence File’ has been approved by the BW Board. BW said all incentives are draft at present. The Board will be considering them at its meetings in June and July.</p>	

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<p>The Deputy Chair asked if BW had held discussions individually with DWI, EA and NE. BW said it had done.</p> <p>DWI letters of support were expected by the end of May.</p> <p>EA reported that it had made representations to Defra on BW’s WRMP but that these are confidential at present.</p> <p>NE said it had had a useful telephone meeting with BW on environmental PCs. It is supportive of the proposed PCs but requires more evidence to assess how challenging they are.</p> <p>BW said the Panel’s support or otherwise for the Local Community satisfaction ODI will be important for the Business Plan.</p>	<p><b>Action: BW</b></p>
<p>The Deputy Chair remarked that the Panel has yet to review the marginal costs used in the calculation of incentives. Some worked examples will be of assistance. BW said these will be available on 7<sup>th</sup> June.</p> <p>The Deputy Chair noted that Ofwat does not favour glidepaths for future service levels. BW agreed but believes that companies can include glidepaths if they can justify them.</p>	<p><b>Action: BW</b></p>
<p>BW outlined its methodology for WTP/acceptability triangulation and ODIs (p34 of the slide pack) and that the Panel’s challenges can be seen in prompting this research by NERA and Traverse. The Panel agreed this would form a good case study for inclusion in its report to Ofwat.</p>	<p><b>Action: Report Writer</b></p>
<p>The Deputy Chair asked where BW sets out how it will deliver its future service targets. BW said this will be described in the Business Plan.</p> <p>The Report Writer asked what external assurance BW is obtaining on its targets and incentive calculations. BW said it will have assurance on its calculations but any use of judgment will be down to the Board to assess.</p>	
<p>BW had summarised the range of rewards and penalties in monetary terms. EA suggested the impact on bills would also be helpful. BW agreed to do this.</p>	<p><b>Action: BW</b></p>
<p>The Deputy Chair asked if incentives were in period (annual) or end of period. BW replied all are assumed to be in period. EA suggested the summary tables on pages 8 to 11 are very useful and could be expanded to include information such as this. BW agreed.</p>	<p><b>Action: BW</b></p>
<p>It was agreed that the Panel would review each PC, service target and incentive in detail at a meeting on 7<sup>th</sup> June. This would be a sub-group meeting, not a full Panel meeting, but all Panel members would be invited. The Deputy Chair agreed to let BW know the Panel’s requirements for this meeting.</p>	<p><b>Action: Deputy Chair</b></p>



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<b>7. In camera session after main meeting</b>	
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