BRISTOL WATER plc

ANNUAL PERFORMANCE REPORT

YEAR ENDED 31 MARCH 2017

BRISTOL WATER plc

ANNUAL PERFORMANCE REPORT
for the year ended 31 March 2017

The Company was appointed by the Secretary of State for the Environment as a Water Undertaker under the Water Act 1989 and is required to comply with Conditions set out in its Instrument of Appointment ("the Licence").

The regulatory information that follows has been prepared in accordance with Condition F of the Licence and Regulatory Accounting Guidelines (RAGs) issued by the Water Services Regulation Authority (Ofwat). This annual performance report has been prepared for use by Ofwat. It may not be appropriate for any other purpose. As required by Ofwat, the accounting statements do not correspond with the statutory annual report, the differences to the statutory accounts are shown.

The statutory annual report contains a suite of reports including a strategic report, which provide comprehensive commentary on the company's activities during the year.

The accompanying Historical Cost and Current Cost Accounting Statements were approved by a Committee of the Board on 13th July 2017.

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Regulatory Accounting Statements

Section 1 Regulatory Financial Reporting.

1A Income Statement for the year ended 31 March 2017

	Statutory £m	Differences between statutory and RAG definitions £m	Non-appointed £m	**Total adjustments £m**	**Total appointed activities £m**
Revenue	**111.0**	(0.4)	(1.1)	**(1.5)**	**109.5**
Operating costs	**(79.4)**	(1.8)	0.7	**(1.1)**	**(80.5)**
Other operating income	**(0.3)**	-	-	**-**	**(0.3)**
Operating profit	**31.3**	(2.2)	(0.4)	**(2.6)**	**28.7**
Other income	**-**	2.1	-	**2.1**	**2.1**
Interest income	**4.1**	-	-	**-**	**4.1**
Interest expense	**(16.1)**	(0.4)	-	**(0.4)**	**(16.5)**
Other interest expense	**1.6**	-	-	**-**	**1.6**
Profit before tax	**20.9**	(0.5)	(0.4)	**(0.9)**	**20.0**
UK Corporation tax	**(3.5)**	0.1	0.1	**0.2**	**(3.3)**
Deferred tax	**2.6**	-	-	**-**	**2.6**
Profit for the year	**20.0**	(0.4)	(0.3)	**(0.7)**	**19.3**
Dividends	**(9.2)**	**-**	**(0.5)**	**(0.5)**	**(8.7)**

All of the turnover and operating costs above relate to continuing operations.

Differences between Statutory and RAGs Definitions
Adjustments are made to the statutory numbers to ensure compliance with the Ofwat guidance reflected in RAG 3.09. The most significant of these are:

- Income from rents on properties of £0.4m are shown in “Other income”, net of expenses, rather than in revenue.
- Grants and contributions of £1.7m amortised to the p&l within operating costs in the statutory accounts are recognised as other income.
- The cost of administering new supplies being capitalised with associated fixed assets in the statutory accounts are expensed in the regulatory accounts. Operating expenses are increased by £0.3m.
- £0.4m of borrowing costs capitalised under IAS23 in the statutory accounts are derecognised and shown in interest expense. Depreciation of capitalised borrowing costs of £0.1m is derecognised from operating costs.
- The associated deferred tax relating to the differences occurring in the profit before tax is also removed.

1B Statement of comprehensive income for the year ended 31 March 2017

	Statutory £m	Differences between statutory and RAG definitions £m	Non-appointed £m	**Total adjustments £m**	**Total appointed activities £m**
Profit for the year	**20.0**	(0.4)	(0.3)	**(0.7)**	**19.3**
Actuarial losses on post employment plans	**(0.6)**	-	-	**-**	**(0.6)**
Other comprehensive income	**(0.1)**	-	-	**-**	**(0.1)**
Total Comprehensive income for the year	**19.3**	(0.4)	(0.3)	**(0.7)**	**18.6**

Differences between Statutory and RAGs Definitions
The difference has occurred in the income statement, and relates to dis-applied capitalisation net of the tax effect.

1C Statement of Financial Position at 31 March 2017

	Statutory £m	Differences between statutory and RAG definitions £m	Non-appointed £m	**Total adjustments** £m	**Total appointed activities** £m
Non-current assets					
Fixed assets	**573.4**	(5.5)	(1.2)	**(6.7)**	**566.7**
Intangible assets	**5.1**	-	-	**-**	**5.1**
Investments - loans to group companies	**68.5**	-	-	**-**	**68.5**
Retirement benefit assets	**32.3**	-	-	**-**	**32.3**
Total	**679.3**	(5.5)	(1.2)	**(6.7)**	**672.6**
Current assets					
Inventories	**1.1**	-	-	**-**	**1.1**
Trade & other receivables	**30.4**	(1.0)	-	**(1.0)**	**29.4**
Cash & cash equivalents	**16.1**	-	-	**-**	**16.1**
Total	**47.6**	(1.0)	-	**(1.0)**	**46.6**
Current liabilities					
Trade & other payables	**(24.5)**	1.0	1.2	**2.2**	**(22.3)**
Capex creditor	**(9.7)**	-	-	**-**	**(9.7)**
Borrowings	**(20.5)**	-	-	**-**	**(20.5)**
Financial instruments	**(0.3)**	-	-	**-**	**(0.3)**
Current tax liabilities	**(1.4)**	-	-	**-**	**(1.4)**
Provisions	**(1.7)**	-	-	**-**	**(1.7)**
Total	**(58.1)**	1.0	1.2	**2.2**	**(55.9)**
Net current liabilities	**(10.5)**	-	1.2	**1.2**	**(9.3)**
Non-Current liabilities					
Borrowings	**(289.4)**	-	-	**-**	**(289.4)**
Financial instruments	**(1.5)**	-	-	**-**	**(1.5)**
Deferred income - G&C's	**(72.1)**	-	-	**-**	**(72.1)**
Preference share capital	**(12.5)**	-	-	**-**	**(12.5)**
Deferred tax	**(56.3)**	1.1	-	**1.1**	**(55.2)**
Total	**(431.8)**	1.1	-	**1.1**	**(430.7)**
Net assets	**237.0**	(4.4)	-	**(4.4)**	**232.6**
Equity					
Called up share capital	**6.0**	-	-	**-**	**6.0**
Retained earnings & other reserves	**231.0**	(4.4)	-	**(4.4)**	**226.6**
Total Equity	**237.0**	(4.4)	-	**(4.4)**	**232.6**

The accounts were approved by an authorised Committee of the Board on 13 July 2017 and signed on its behalf by

M Karam, Chief Executive Officer

M Axtell, Chief Financial Officer

Differences between Statutory and RAGs Definitions

The difference is the dis-application of capitalisation of both interest and the administration of new supplies and related deferred tax, and the movement of liabilities held for sale to trade and other receivables in accordance with the regulatory accounting guidelines. The Company also has assets held for sale which are already recognized in trade and other receivables per Ofwat guidelines.

1D Statement of cash flows for the year ended 31 March 2017

	Statutory £m	Differences between statutory and RAG definitions £m	Non-appointed £m	**Total adjustments £m**	**Total appointed activities £m**
Operating profit	**31.3**	(2.2)	(0.4)	**(2.6)**	**28.7**
Other income	**-**	0.4	-	**0.4**	**0.4**
Depreciation	**20.9**	(0.1)	-	**(0.1)**	**20.8**
Amortisation - G&C's	**(1.7)**	1.7	-	**1.7**	**-**
Changes in working capital	**(1.2)**	-	(0.2)	**(0.2)**	**(1.4)**
Pension contributions	**0.5**	-	-	**-**	**0.5**
Movement in provisions	**(0.2)**	-	-	**-**	**(0.2)**
Profit on sale of fixed assets	**0.3**	-	-	**-**	**0.3**
Cash generated from operations	**49.9**	**(0.2)**	(0.6)	**(0.8)**	**49.1**
Net interest paid	**(8.8)**	-	-	**-**	**(8.8)**
Tax paid	**(1.4)**	-	0.1	**0.1**	**(1.3)**
Net cash generated from operating activities	**39.7**	(0.2)	(0.5)	**(0.7)**	**39.0**
Investing activities					
Capital expenditure	**(35.7)**	0.2	-	**0.2**	**(35.5)**
Grants & Contributions	**3.8**	-	-	**-**	**3.8**
Disposal of fixed assets	**0.1**	-	-	**-**	**0.1**
Other	**-**	-	-	**-**	**-**
Net cash used in investing activities	**(31.8)**	0.2	-	**0.2**	**(31.6)**
Net cash generated before financing activities	**7.9**	-	(0.5)	(0.5)	**7.4**
Cashflows from financing activities					
Equity dividends paid	**(9.2)**	-	-	**0.5**	**(8.7)**
Net loans received	**(0.6)**	-	-	**-**	**(0.6)**
Net cash used in financing activities	**(9.8)**	-	-	**0.5**	**(9.3)**
Decrease in net cash	**(1.9)**	-	-	-	**(1.9)**

Differences between Statutory and RAGs Definitions
The difference is the dis-application of capitalisation of interest and the administration of new supplies (movements between operating profit, interest paid and capital expenditure), the difference in treatment of net rental income, and depreciation on the capitalised interest which has been dis-applied.

1E Net debt analysis at 31 March 2017

	Interest rate risk profile			
	Fixed rate £m	Floating rate £m	Index linked £m	**Total £m**
Borrowings (excluding preference shares)	119.1	12.0	176.7	**307.8**
Preference share capital				**12.5**
Total borrowings				**320.3**
Cash				**(16.1)**
Short term deposits				**-**
Net Debt				**304.2**
Gearing				**64.61%**
Adjusted gearing				**64.08%**
Full year equivalent nominal interest cost[1]	5.3	0.1	9.5	**14.9**
Full year equivalent cash interest payment	5.3	0.1	6.0	**11.4**
Indicative interest rates				
Indicative weighted average nominal interest rate	4.5%	1.2%	5.4%	**4.9%**
Indicative weighted average cash interest rate	4.5%	1.2%	3.4%	**3.7%**
Weighted average years to maturity	8.9	0.5	17.4	**13.4**

Gearing is calculated as net debt above (£304.2m) divided by Regulatory Capital Value (RCV) (£470.7m) as at 31 March 2017.

The adjusted gearing is calculated in line with Moody's definition, which excludes preference shares from net debt and is expressed as a percentage of RCV.

£2.1m of unamortised net premia included within total borrowings in table 1C has been excluded from the total borrowings above in accordance with the Ofwat guidance.

The allowance included in the determination for the real cost of debt was 2.61%. The indexed linked cash interest cost is 0.75% higher than the determination at 3.36%. To compare the fixed and floating interest rates with the indicative cash interest rates, they need to be adjusted for the year average inflation 2.16% which gives a combined rate in real terms of 2.00% (0.61% lower). The total difference between the allowed interest rates and the actual interest rates incurred, equates to £0.8m lower allowed revenues.

In addition to the interest shown above, we also pay preference dividends.

[1] Interest costs and interest rates in table 1E exclude preference dividends.

1Ai Taxation

The statutory current tax charge for 2016/17 of £3.5m includes £0.2m adjustment for prior years. A deferred tax credit of £2.6m resulted in a total net tax charge of £0.9m for the year.

The regulatory appointed business current tax charge of £3.3m is lower than the standard corporation tax rate and is reconciled in the table below; the main contributing factor to this is that capital allowances claimed in the year are higher than depreciation charged in the accounts. This is due to the difference in speed of capital expenditure write off under corporate tax law compared with accounting rates. No capital allowances have been waived in the year. The revenue set under the Business Plan reflects that the tax charges would lag the accounting results.

The provision adjustment is in relation to the general element of the bad debt provision which is not allowable from a corporation tax perspective.

Deferred income relates to the write off of contributions in relation to capital assets which for tax are written off in line with the capital allowance rates not the accounting lives.

The pension adjustment reflects the tax treatment of a defined benefit scheme which treats the actual contributions paid as receiving tax relief and all other adjustments as non taxable adjustments.

The capital allowance prior year adjustment reflects the difference in capital allowance treatment from the Statutory 2016 Financial Statements and the submitted tax computation to HMRC; the changes to the tax treatment are identified following a review of the capital expenditure for the year. The pension adjustment reflects the amount of tax on the pension curtailment gain which should have been reflected in Other Comprehensive Income.

The overall current tax charge includes a tax charge of £0.8m in relation to group relief. Group relief is surrendered to Bristol Water plc by Bristol Water Holdings UK Limited. Bristol Water pays for the use of the Group Relief at the prevailing corporation tax rate, which is currently 20%. Full details can be found under the related party transactions note.

Reconciliation of current tax charge

	£m	Effective tax rate
Profit on ordinary activities before tax	**20.0**	
Profit on ordinary activities multiplied by standard rate of Corporation Tax in the United Kingdom at 20%	**4.0**	
Effects of:		
Expenses not deductible for tax purposes - 8.75% irredeemable cumulative preference share dividends	**0.3**	
Capital allowances	**(4.4)**	
Depreciation for the year	**3.1**	
Provisions	**0.1**	
Deferred income	**0.2**	
Pension adjustment	**(0.2)**	
Current tax charge before prior year adjustments	**3.1**	**15.5%**
Prior year adjustments:		
Capital allowances	**0.3**	
Pension	**(0.1)**	
Total current tax charge in the income statement	**3.3**	**16.5%**

Reconciliation of current tax to price limit

	£m
Final Determination current tax allowance at outturn prices	**2.4**
Key differences	
Impact of prior year adjustments	**0.2**
Difference in profits	**1.6**
Capital allowances in excess of depreciation charge	**(1.0)**
Other adjustments	**0.1**
Total Appointed current tax charge	**3.3**
Non Appointed Business tax adjustments	**0.2**
Total Statutory Current Tax Charge	**3.5**

Deferred tax

The deferred tax credit of £2.6m includes £3.3m credit relating to the change in corporation tax rate from 18% to 17%. The deferred tax will continue to change in line with relevant legislation. The Company applies relevant tax laws in an appropriate manner and does not seek to enter into non commercial transactions to reduce tax.

Tax Strategy

The Finance Bill 2016 introduces the requirement for large companies to publish their tax strategy annually; although Bristol Water are not deemed a large Company by HMRC, Ofwat require us to publish our tax strategy which can be found on the Company Website.

Comparison of current tax charge to Final Determination allowed tax

The Final Determination allowed tax figure is in 2012/13 prices therefore this has been indexed to reflect the RPI increase between 2012/13 prices and current 2016/17 prices. Our allowed tax for the year in 2012/13 prices was £2.2m which once indexed to nominal prices increases to £2.4m. Capital allowances for the year are higher than the Final Determination due to the changes in capital expenditure profiling.

The allowed tax per the Final Determination for the cumulative period of this AMP so far, is £4.7m. Currently, our total tax for the two years as reported is £4.2m; although the tax for the current year is higher than our allowed tax, it is slightly lower than the overall allowed tax.

Section 2 Price Control and additional segmental reporting

Price Control Segments-Basis of allocation and apportionment of costs and assets

Allocation and apportionment of costs and assets between Bristol Water plc and its associated companies is at arm's length and no cross subsidy is occurring.

Appointed business for the purpose of these accounts is defined as the activities necessary for the company to fulfil its duties and functions as a Water Undertaker under its licence issued by the Department for Environment, Food and Rural Affairs. All other activities are classified as non-appointed business.

Allocation and apportionment of costs and assets between appointed and non-appointed businesses is maintained in the company's accounting system. Costs are attributed to the appropriate cost centres which are identified as appointed or non-appointed. The majority of non-appointed costs are incurred directly with the remainder allocated on a time apportionment basis. Assets are specifically identified as appointed or non-appointed.

Operational costs include the costs of day to day collection, storage, treatment and supply of water and any associated technical and administrative support. Allocation of operational costs between price controls (wholesale, retail household and retail non-household) are made by analysing the cost centres and type of expenditure in accordance with RAG 2.06 (Guideline for classification of costs across the price controls).

Manpower costs include overheads in their allocation to cover national insurance and pension contributions.

Capital costs are defined as those costs which are incurred in providing an additional or a replacement asset. Where assets have been replaced, their cost is removed from the Balance Sheet. There is no rule which requires capitalisation of any costs in excess of a specific value. However, it is unlikely that items with a value less than £1,000 in total would be capitalised unless they were part of a capital scheme. As capital costs are incurred, they are analysed and assigned to the appropriate price control, and the business unit within that price control, in accordance with RAG 2.06.

RAG 2.06 changed methods of allocating costs from the previous guidelines applicable in 2015/16. The main changes are

- Full Time Equivalents (FTEs) now exclude the staff working at the joint billing company BWBSL. The effect has been to decrease the allocation of costs to retail based on FTEs.
- Allocation of operating costs for imported potable bulk water supplies are allocated in line with the allocation data provided by the exporting company.
- Highlift pumping costs are allocated to treated water distribution rather than water treatment.
- Where pre-treatment is downstream of raw water storage it is included in raw water abstraction or raw water storage as appropriate.
- "Pumping head" is the driver used where a borehole pump provides a joint function for both Water Resources and Network+ activities.

The accounting separation analyses have been drawn up in accordance with the company's accounting separation methodology statement which has been published separately on its website. This also provides commentary comparing this year's expenditure and capital maintenance costs with last year's.

2A Segmental income statement for the 12 months ended 31 March 2017

	Retail		Wholesale			
	Household £m	Non-household £m	Water £m	Water network + £m	Water total £m	**Total £m**
Revenue - price control	10.6	1.6	-	95.5	95.5	**107.7**
Revenue - non price control	-	-	-	1.8	1.8	**1.8**
Operating expenditure	(8.1)	(1.9)	(11.2)	(38.5)	(49.7)	**(59.7)**
Depreciation – tangible fixed assets	(0.1)	-	(1.1)	(17.5)	(18.6)	**(18.7)**
Amortisation – intangible fixed assets	(0.2)	-	(0.2)	(1.7)	(1.9)	**(2.1)**
Other operating income	-		-	(0.3)	(0.3)	**(0.3)**
Operating profit before recharges	2.2	(0.3)			26.8	**28.7**
Recharges from other segments	(0.5)	(0.1)	-	-	-	**(0.6)**
Recharges to other segments	-	-	-	0.6	0.6	**0.6**
Operating profit	1.7	(0.4)			27.4	**28.7**

[1] The total appointed revenue reported by Bristol Water in respect of the provision of services to the non-household sector is £25.1m. The revenue for this sector is allocated between segments in line with the allowed level of wholesale revenue and retail costs and margins for 2016/17, as set out in the PR14 determinations. The costs are allocated between segments in table 2C using the cost allocation methodology.

2B Totex analysis for the 12 months ended 31 March 2017 - wholesale water

	Water Resources £m	Water Network +	Total £m
Operating expenditure			
Power	2.0	6.4	**8.4**
Income treated as negative expenditure	-	-	**-**
Service charges/discharge consents	2.8	0.1	**2.9**
Bulk supply/Bulk discharge	-	0.1	**0.1**
Other operating expenditure	4.9	27.3	**32.2**
Local authority and Cumulo rates	1.3	3.6	**4.9**
Total operating expenditure excluding third party services	11.0	37.5	**48.5**
Third party services	0.2	1.0	**1.2**
Total operating expenditure	11.2	38.5	**49.7**
Capital expenditure			
Maintaining the long term capability of the assets - infra	0.2	9.3	**9.5**
Maintaining the long term capability of the assets - non-infra	1.0	7.6	**8.6**
Other capital expenditure - infra	-	13.8	**13.8**
Other capital expenditure - non-infra	0.2	4.8	**5.0**
Total gross capital expenditure (excluding third party)	1.4	35.5	**36.9**
Third party services	-	-	**-**
Total gross capital expenditure	1.4	35.5	**36.9**
Grants and contributions	-	(3.8)	**(3.8)**
Totex	12.6	70.2	**82.8**
Cash expenditure			
Pension deficit recovery payments	-	0.1	**0.1**
Other cash items	-	-	**-**
Totex including cash items	12.6	70.3	**82.9**

2C Operating cost analysis for the 12 months ended 31 March 2017 – retail

	Household £m	Non-household £m	Total £m
Operating expenditure			
Customer Services	2.0	0.4	**2.4**
Debt management	0.5	0.1	**0.6**
Doubtful debts	2.8	0.2	**3.0**
Meter reading	0.3	0.1	**0.4**
Services to developers	-	0.3	**0.3**
Other operating expenditure	2.5	0.8	**3.3**
Total operating expenditure excluding third party services	8.1	1.9	**10.0**
Third party services operating expenditure	-	-	**-**
Total operating expenditure	8.1	1.9	**10.0**
Depreciation – tangible fixed assets	0.1	-	**0.1**
Amortisation – intangible fixed assets	0.2	-	**0.2**
Total operating costs	8.4	1.9	**10.3**
Debt written off	4.4	0.3	**4.7**

2Ci Bad debt policy

The company has a policy to make a full bad debt provision for debt which remains uncollected until after five years of billing, for example uncollected debt in relation to financial year 2011/12 and before is fully provided for by the end of financial year 2016/17. A general provision is made for debt outstanding in relation to current and last four financial years. The general provision is primarily based on historic collection rates and further adjusted by judgemental factors to reflect the current economic environment. The judgemental factors are applied only if it is believed that the historic collection rates do not reflect future expected collection rates.

Water debt is written off for one of following four reasons:

1. It is considered or known to be uncollectable.
2. It is considered uneconomic to collect.
3. Older debt is written off by agreement with the customer in return for the receipt of regular monthly payments to pay-off current year debt as part of our “Restart” and “Assist” policies.
4. Write-off is ordered by the County Court. In these cases the court may set payment at a proportion of the outstanding debt. When the required level of payment is reached the court would instruct the rest of the debt to be written-off.

The company’s bad debt write off policy has remained unchanged and has been consistently applied in the current and prior years. During the year a programme of bulk write-offs of debt over four years old was processed, as part of the joint billing company’s credit team’s housekeeping. This exercise reduced the net debt older than four years, which had grown since March 2015, and therefore reduced the overall bad debt provision. The provision at 31 March 2017 was £15.0m (31 March 2016: £16.8m).

The decrease in the provision reflects the debt written off as uncollectable.

Net trade debtor balance at 31 March 2017 was £13.9m (31 March 2016: £13.0m). The increase is mainly transient as it is due to initial system incompatibility issues in applying our debt recovery tool to the NHH environment in the shadow market.

2Cii Retail costs compared to the allowance

The allowed household retail costs were £9.6m and actual costs were £1.2m lower than the allowance. £0.8m was due to a reduced bad debt charge following the improvement we have seen in collection rates and lower bills. Debt management costs were also reduced by £0.1m. The time spent dealing with Network customer enquiries and complaints was reduced by £0.3m and the element of the management fee allocated to billing was also reduced by £0.4m, offset by a corresponding increase in general and support costs of £0.4m.

Retail Non-household costs exceeded the allowance by £1.1m. £0.3m relates to recognising capitalisation of Services to developers' costs as operating costs (in accordance with the new guidance). Bad debts increased by £0.1m due to the rebasing of allocations between household and non-household.

In other operating expenditure, general and support costs increased by £0.7m. This was due to a more detailed analysis of the billing company charge resulting in an increased allocation of non-household general and support costs of £0.2m. Additionally the change of allocation for general management from customer numbers to management estimate resulted in an increased charge of £0.5m to non-household general and support.

Both Non-household and Household property numbers did not increase as quickly as anticipated, with 483,868 Household properties compared to the expected numbers of 488,139, and 32,500 non household properties compared to an expected 33,554. These changes did not result in any material variances in costs.

Variances in costs relating to changes in metering levels were also immaterial.

2D Historic cost analysis of tangible fixed assets - wholesale and retail

	Wholesale		Retail		
	Water Resources	Water Network +	Household	Non-Household	**Total**
	£m	£m	£m	£m	**£m**
Cost					
At 1 April 2016	60.1	709.5	1.5	0.2	**771.3**
Disposals	(0.5)	(4.8)	(0.1)	-	**(5.4)**
Additions	1.2	34.4	0.1	-	**35.7**
Transferred to assets classified as held for sale	-	(0.6)	-	(0.1)	**(0.7)**
At 31 March 2017	**60.8**	**738.5**	**1.5**	**0.1**	**800.9**
Depreciation					
At 1 April 2016	(15.1)	(204.7)	(1.1)	-	**(220.9)**
Disposals	0.5	4.4	0.1	-	**5.0**
Charge for the year	(1.3)	(17.3)	(0.1)	-	**(18.7)**
Transferred to assets classified as held for sale	-	0.4	-	-	**0.4**
At 31 March 2017	**(15.9)**	**(217.2)**	**(1.1)**	**-**	**(234.2)**
Net book amount at 31 March 2017	**44.9**	**521.3**	**0.4**	**0.1**	**566.7**
Net book amount at 1 April 2016	**45.0**	**504.8**	**0.4**	**0.2**	**550.4**
Depreciation charge for the year					
Principal services	(1.3)	(17.2)	(0.1)	-	(18.6)
Third party services	-	(0.1)	-	-	(0.1)
	(1.3)	(17.3)	(0.1)	-	(18.7)

The net book value includes £25.7m in respect of tangible assets in the course of construction.

Allocations of opening balances have been restated to align to Ofwat's latest guidance in respect of business unit boundary points. £0.4m of non-household assets and £5.1m of wholesale water assets have been reallocated to wholesale water network+ and the opening balances at 1 April 2016 have been restated accordingly. There was no accumulated depreciation on these assets as at 1 April 2016.

2Di. Capitalisation policy

Definition of a fixed asset

An asset is an item that Bristol Water owns and uses in the course of its business having some long-term economic benefit for the company. A fixed asset is an asset that we retain for more than a year. Capital costs are defined as those costs, which are incurred in providing an additional, or a replacement asset. These costs are incorporated in the Statement of Financial Position as additions to fixed assets. Where non-infrastructure assets have been replaced their cost is removed from the Statement of Financial Position. There is no rule which requires capitalisation of any costs in excess of a specific value however it is unlikely that items with a value less than £1000 in total would be capitalised.

Assets are either infrastructure assets or non-infrastructure assets.

Infrastructure assets

Infrastructure expenditure falls into two categories. Costs in respect of the provision of additional infrastructure capacity or enhancement of the network are capitalised (these include projects such as new water mains, new connections and work on impounding reservoirs) and are depreciated. Other infrastructure expenditure to do with repair and replacement such as boundary mains replacement, network analyses, lead replacements and high-risk crossings are analysed between capital and operating expenditure, the operating expenditure is charged to the income statement.

Types of infrastructure assets

Infrastructure assets comprise the integrated network of impounding and pumped raw water storage reservoirs and water mains and associated underground pipework. Expenditure on such assets relating to increases in capacity and enhancements are included at cost.

Other assets include land and buildings, operational structures, fixed and mobile plant, equipment and motor vehicles. These are generally categorised as non-infrastructure assets and are included at cost.

The cost of assets is their purchase cost together with incidental expenses of acquisition and commissioning and any directly attributable labour costs, which are incremental to the company.

2E Analysis of capital contributions and land sales for the 12 months ended 31 March 2017 – wholesale

	Fully recognised in income statement £m	Capitalised and amortised against depreciation £m	Fully netted off capex £m	**Total £m**
Grants and contributions - water				
Connection charges (s45)	-	2.0	-	**2.0**
Infrastructure charge receipts (s146)	-	1.5	-	**1.5**
Requisitioned mains (s43, s55 & s56)	-	0.3	-	**0.3**
Diversions (s185)	-	-	-	**-**
Other Contributions	-	-	-	**-**
Total	-	3.8	-	**3.8**

	Water Total £m
Statement of Financial Position	
B/f	**71.7**
Capitalised in year	**3.8**
Amortisation (in income statement)	**(1.7)**
c/f	**73.8**

2F Household - revenues by customer type

	Wholesale charges revenue £m	Retail revenue £m	Total revenue £m	Number of customers 000s	Average household retail revenue per customer £
Unmeasured water only customer	43.6	4.6	48.2	249.9	18.6
Measured water only customer	28.4	6.0	34.4	234.7	25.5
Total	72.0	10.6	82.6	484.6	21.9

2G Non-household water - revenues by customer type

	Wholesale charges revenue £m	Retail revenue £m	Total revenue £m	Number of customers	Average non-household retail revenue per customer £
Non-Default tariffs					
Total non-default tariffs	-	-	-	28	36
Default tariffs					
Band A - 250Ml+	0.9	-	0.9	3	8,000
Band B - 100-250Ml	1.9	0.1	2.0	13	3,769
Band C - 50-100 Ml	1.9	0.1	2.0	24	2,292
Band D - 15-50 Ml	1.4	-	1.4	56	1,000
Band E 5-15Ml	2.0	0.1	2.1	338	322
Band F - 1-5Ml	4.5	0.2	4.7	2,579	78
Band G - 0-1Ml	10.6	1.1	11.7	28,343	39
Band U	0.2	-	0.2	1,151	17
Total default tariffs	23.4	1.6	25.0	32,507	50
Total	23.4	1.6	25.0	32,535	50

2I Revenue analysis for the 12 months ended 31 March 2017

	Household £m	Non-household £m	**Total £m**
Wholesale charge - water			
Unmeasured	43.6	0.2	**43.8**
Measured	28.4	23.2	**51.6**
Third party revenue	-	0.1	**0.1**
Wholesale Total	72.0	23.5	**95.5**
Retail revenue			
Unmeasured	4.6	-	**4.6**
Measured	6.0	1.6	**7.6**
Retail third party revenue	-	-	**-**
Retail total	10.6	1.6	**12.2**
Third party revenue - non-price control			
Bulk Supplies			**0.8**
Other third party revenue			**1.0**
Other appointed revenue			**-**
Total appointed revenue			**109.5**

2I Revenue analysis for the 12 months ended 31 March 2017 (continued)

	Water Total £m
Wholesale revenue governed by price control	**95.5**
Grants & contributions	**3.8**
Total revenue governed by wholesale price control	**99.3**
Amount assumed in wholesale determination	**101.5**
Difference	**(2.2)**

2Ii Comparison with determination

The total revenue assumed in the wholesale determination for 2015/16 was £100.2m in 2014/15 prices. Inflating this figure by November 2014 RPI of 2.0% produced a calculated revenue expectation of £102.2m. This figure was then adjusted by a K Factor for -1.8% and November 2015 RPI of 1.1% to set a revenue allowance of £101.5m for 2016/17. No adjustment for previous revenue under-recovery was applied to this calculation. Revenue adjustments in relation to the 2014/15 blind year and 2015/16 will be applied to 2017/18 tariffs.

Wholesale Revenue received in 2016/17 as per table 2I is £99.3m, a difference of £2.2m (2.2%) against the allowed revenue from the FD. This difference is slightly above the threshold of 2% allowed by the Wholesale Revenue Forecasting Incentive Mechanism, and therefore whilst we anticipate most of this difference to be fully recoverable in 2018/19 tariffs, in line with the calculation model provided with the PR14 reconciliation rulebook we recognise that a £16k penalty adjustment will apply.

The principal reasons for outturn revenue being lower than the allowance are:

a) The apportionment of revenues to non-household tariffs was set too low when setting tariffs for 2016/17, meaning that the wholesale revenue allowance was not utilised in this year
b) The unmeasured charging base being lower than anticipated due to lower rateable values
c) Contributions from developers being lower than forecast, due to lower activity levels
d) Revenue received from the Inset appointment is recognised as a bulk supply, rather than as non-household as assumed when setting tariffs

The number of household customers increased by 1% due to new connections, in line with expectations. The number of non-household customers decreased by 1%, principally as a result of data cleansing ahead of non-household retail market opening.

Meter optants were again significantly lower than expected. This is mainly attributable to the 16% reduction on average bills from 2014/15 to 2015/16 and subsequent 1% reduction to 2016/17, which reduced the level of billing contacts from unmeasured customers which lead to meter optant requests. We commenced our selective change of occupier metering programme in October 2016.

Void properties reduced by 10% in the year.

2Iii Revenue recognition policy

The regulatory accounts apply the same policy for revenue recognition as the statutory accounts.

All turnover is recognised in the regulatory accounts with the exception of rental income, which is included below operating profit in “other net income” in accordance with the regulatory accounting guidelines.

Turnover comprises charges to and accrued income from customers for water and other services, exclusive of VAT. Turnover is recognised upon delivery of water or completion of other services.

Income from unmetered supplies is based on either the rateable value of the property or on an assessed volume of water supplied. Income from metered supplies is based on actual or estimated water consumption.

Measured consumption that has not yet been billed is estimated using a defined and consistently applied methodology based on historic weighted average water consumption by tariff. The difference between closing and opening measured income accrual for the year is recognised within turnover.

Where an invoice has been raised or payment made but water or other services have not been provided, it is treated as billing or payment in advance accordingly and is not recognised as turnover during the year.

Receipts from customers in relation to court costs, solicitors’ and debt recovery agency fees are credited to operating costs to offset the charges incurred. They are not recognised within turnover during the year.

2Iiii Charging policy

Revenue is recognised from chargeable properties in accordance with the policy above.

Charges are payable in full in the following circumstances.

a) Occupied and furnished
Charges are payable in full from the date of connection or change of customer on all properties which are recorded as occupied and furnished.

b) Unoccupied and furnished
Water charges are payable in full on unoccupied, furnished premises. In exceptional circumstances, where it is certain that the customer does not need access to water supply at the property, water charges are not payable. Such exceptions include where the customer is:
   - in a care home;
   - in long-term hospitalisation;
   - in prison;
   - overseas long-term; or
   - deceased.

c) Unoccupied and unfurnished
If any consumption for metered vacant properties is recorded normal charges apply once the occupier details have been established. Normal charges apply to vacant metered non-household agricultural properties.

   Properties which are unoccupied and unfurnished, or are disconnected are not chargeable therefore no billing is raised and no turnover recognised in respect of these properties.

Only metered standing charges are payable on unoccupied, metered properties which are still connected.

The occupier is any person who owns a premises or who has agreed to pay for water in respect of the premises. No bills are raised in the name of "the occupier". The property management process is followed to identify whether the property is occupied or not, and if occupied, to identify the chargeable person and raise a bill.

The property management process may comprise some or all of the following:

- physical inspection,
- mailings,
- customer contacts,
- meter readings for metered properties; and
- land registry checks.

During the year a policy to meter properties on change of occupier was implemented.

3A Outcome performance table

	Unique ID	Performance commitment	2015-16 performance level - actual	2016-17 performance level - actual	2016-17 CPL met?	2016-17 reward or penalty (in-period ODIs)	2016-17 notional reward or penalty accrued	2016-17 notional reward or penalty accrued (£m)	Total AMP6 reward or penalty 31 March 2020 forecast	Total AMP6 reward or penalty 31 March 2020 forecast (£m)
1	PR14BRLW SW_A1	A1: Unplanned customer minutes lost	15.49	13.12	Yes	-	Penalty deadband		Penalty	(0.7389)
2	PR14BRLW SW_A2	A2: Asset reliability - infrastructure	Stable	Stable	Yes	-	Reward deadband		-	
3	PR14BRLW SW_A3	A3: Asset reliability - non-infrastructure	Stable	Stable	Yes	-	Reward deadband		-	
4	PR14BRLW SW_B1	B1: Population in centres >25,000 at risk from asset failure	288,589.0	288,589.0	Yes	-	Reward deadband			
5	PR14BRLW SW_C1	C1: Security of supply index (SOSI)	100.0	100.0	Yes					
6	PR14BRLW SW_C2	C2: Hosepipe ban frequency	1.5	3.1	Yes	-	Reward deadband		-	
7	PR14BRLW SW_D1	D1: Mean zonal compliance (MZC)	99.93%	99.97%	Yes	-	Reward deadband		Penalty	(0.2840)
8	PR14BRLW SW_E1	E1: Negative water quality contacts	2,329.0	2,162	Yes	-	Reward deadband		-	
9	PR14BRLW SW_F1	F1: Leakage	44	46	Yes	-	Reward deadband		-	-
10	PR14BRLW SW_G1	G1: Meter penetration	47.3%	49.6%	No	-	Penalty	(0.1520)	Penalty	(0.2700)

3A Outcome performance table (continued)

	Unique ID	Performance commitment	2015-16 performance level - actual	2016-17 performance level - actual	2016-17 CPL met?	2016-17 reward or penalty (in-period ODIs)	2016-17 notional reward or penalty accrued	2016-17 notional reward or penalty accrued (£m)	Total AMP6 reward or penalty 31 March 2020 forecast	Total AMP6 reward or penalty 31 March 2020 forecast (£m)
11	PR14BRLWSW_H1	H1: Total carbon emissions	35	32	No					
12	PR14BRLWSW_H2	H2: Raw water quality of sources	Deteriorating	Deteriorating	Yes					
13	PR14BRLWSW_H3	H3: Biodiversity index	Improving	Improving	Yes					
14	PR14BRLWSW_H4	H4: Waste disposal compliance	96%	96%	No					
15	PR14BRLHHR_G2	G2: Per capita consumption (PCC), measured as litres per head per day (l/h/d)	141.1	144.1	Yes					
16	PR14BRLHHR_I1	I1: Percentage of customers in water poverty	0.4%	0.9%	Yes					
17	PR14BRLHHR_J1	J1: Service incentive mechanism (SIM)	85.1	85.9	Yes	-	-		-	
18	PR14BRLHHR_J2	J2: General satisfaction from surveys	83.0%	86.0%	No					
19	PR14BRLHHR_J3	J3: Value for money	78.0%*	72.0%	Yes					
20	PR14BRLHHR_K1	K1: Ease of contact from surveys	93.1%*	94.4%	No					
21	PR14BRLHHR_L1	L1: Negative billing contacts	2301.0	3096.0	No					

*The 2015-16 figures in the above table are as reported to Ofwat however subsequently these figures have been restated. See notes below for further details.

3Ai Outcome performance table

The information provided in table 3A provides details of the Company's performance against each of the outcome performance measures set in the PR14 Final Determination (other than for A1 and E1, as the CMA Determination softened the targets for these performance commitments).

Details of our performance and explanatory commentary are provided in the Company Annual Report, which is published on our website and available to all customers and stakeholders.

We presented details of our 2016/17 performance against these measures, including the resulting incentive adjustments and assurance process followed, to a meeting of our customer challenge group on Wednesday 12th July 2017.

Information on our 2016-17 actual performance level and committed performance level demonstrate that we have met or exceeded our committed performance levels for 15 of our performance commitments (out of a total of 21).

In-period ODIs only apply to three companies during this price review period: Anglian Water; Severn Trent Water and South West Water. In-period ODIs do not currently apply to Bristol Water. These values have therefore been left intentionally blank.

For 2016-17 notional reward or penalty accrued, we have accrued a penalty for one measure for 2016-17 – for Meter Penetration.

For total AMP6 forecast we have forecast penalties for the three measures where we have accrued a penalty in 2015/16 – Unplanned Customer Minutes Lost, Mean Zonal Compliance and Meter Penetration. For the first two of these measures we forecast that we will achieve our performance commitment for the remaining three years of the AMP, and so the forecast penalty for the AMP is equal to the 2015/16 penalty. For meter penetration, achieving the annual targets for meter optants and selective metering assumed in our business plan is likely to result in the level of meter penetration remaining in the penalty range for some of the years of the rest of the AMP. However, we do not consider it appropriate to provide a forecast value of the penalty, and so the forecast penalty for the AMP is equal to the sum of the 2015/16 and 2016/17 penalty accrued to date.

We do not consider it appropriate to provide a forecast value of reward or penalty for SIM performance as this value will be calculated by Ofwat and is dependent on comparative performance against other companies, whose performance against the quantitative measures is not yet known. However, we are pleased to report a position of 4th in the industry ranking for the qualitative survey in 2016/17.

Further information on our performance commitments in AMP6 is provided below.

Performance Commitment A1: Unplanned Customer Minutes Lost (Line 1)

This performance commitment is measured as the total number of minutes that customers have been without a supply of water in the year, through unplanned interruptions, divided by the total number of properties served by the company in the year.

Our score of 13.12 minutes/property/year represents an improved performance from 2015/16. The forecast figure to the end of AMP6 assumes Bristol Water's year end figures for the rest of AMP6 either meet our target performance level or achieve a level that exceeds the penalty deadband. This figure also takes into account the penalty accrued in 2015/16. The reason for the performance being above the penalty threshold for 2015-16 was primarily attributable to six significant customer interruption events during the year. 60% of the total minutes lost were attributable to those incidents.

Performance against this measure for 2016/17 is within the range of the penalty deadband threshold of 14.1 minutes. The total AMP6 forecast penalty calculation rate is £0.7389m, equal to the penalty accrued in 2015/16. We forecast that performance for the remainder of AMP will remain within the deadband.

Performance Commitment A2: Asset Reliability Infrastructure (Line 2)

This measure is broadly based on Ofwat's historic serviceability assessment; it relates to the total number of bursts in each year and the number of properties assessed to be at risk of low pressure.

This measure has been assessed as stable. Supporting data for this measure is provided in table 3b.

The sub-indicator performance for both Bursts and DG2 Low pressure falls into the range between the reference level and upper control limit. Accordingly, the overall measure has been assessed as stable.

Performance Commitment A3: Asset Reliability Non-Infrastructure (Line 3)

This measure is broadly based on Ofwat's historic serviceability assessment; it relates to unplanned maintenance events and turbidity.

This measure has been assessed as stable. Supporting data for this measure is provided in table 3b.

The sub-indicator performance for both Turbidity and Unplanned Maintenance Events is below the reference level. Accordingly, the overall measure has been assessed as stable.

Performance Commitment B1: Population in centres>25,000 at risk from asset failure (Line 4)

This measures the total number of consumers in areas of population of greater than 25,000 who are at risk of interruption to their water supply in the event that a critical asset such as a treatment works is unable to operate. The successful delivery of the Southern Resilience Scheme before 2017/18 should significantly reduce the number of customers at risk.

Performance against this measure is unchanged from the previous year. We anticipate that this performance commitment will be achieved by the delivery of the Southern Resilience Scheme in 2017/18.

Performance Commitment C1: Security of Supply Index (Line 5)

This measure is the Ofwat measure used to assess the security of companies' supplies. It takes into account the supply of water that the Company has available and demand from customers. Security of supply is calculated as an index out of 100.

Performance against this measure is unchanged from the previous year. We achieved a maximum score of 100 against this index.

Performance Commitment C2: Hosepipe ban frequency (Line 6)

This measures the likelihood in any one year that temporary usage restrictions, such as on the use of hosepipes, will be implemented.

Performance against this measure is unchanged from the previous year and we have outperformed our committed performance level. The level of frequency of a hosepipe ban was equivalent to two in 99 years, which equates to 3.1 expected days per year.

Performance Commitment D1: Mean Zonal Compliance (Line 7)

The MZC performance commitment is a water quality compliance measure based on a series of 39 parameters determined by DWI (e.g. levels of lead, nitrate levels etc). It is calculated based on sampling each parameter at supply points and customer taps in a number of specified zones.

Our score of 99.97% represents an improved performance from 2015/16. The forecast figure assumes Bristol Water's year end figures for the rest of AMP6 between our target performance level and the penalty deadband. This figure also takes into account the penalty for 2015-16. During 2015 our random compliance sampling at customers' properties identified two nickel failures (due to nickel leaching from chrome plating) and three taste and odour failures associated with deficiencies in the internal plumbing systems. Although these failures were solely attributable to internal plumbing issues, they had the effect of reducing our MZC figure from 99.97% down to 99.93%, which caused the Company's performance to slip into a penalty.

Performance against this measure for 2016/17 is above the level of the penalty threshold. The total AMP6 forecast penalty calculation rate is £0.284m – this is a penalty accrued from 2015/16. We do not forecast to move out of penalty/ reward deadband for the rest of the AMP. There is no reward available for outperformance for this measure.

Performance Commitment E1: Negative Water Quality Contacts (Line 8)

This measures the total number of consumer contacts (telephone, letter and email) about the appearance, taste and odour of the water for the previous calendar year.

Performance against this measure showed improvement from the previous year, with a 7% reduction in the number of contacts received. We have outperformed our committed performance level.

Performance Commitment F1: Leakage (Line 9)

The leakage performance commitment is defined as the amount of water that enters the distribution system but is not delivered to customers because it is lost from either the company's or customers' pipes. Leakage is measured in megalitres per day (Ml/d).

Performance against this measure for 2016/17 has met our committed performance level. We forecast that the Company will continue to achieve its committed performance levels during the AMP.

1. As part of our ongoing improvement process for data reporting during 2016/17 we reviewed the key assumptions used in calculating our ODI measures. This process included a thorough review of our leakage calculation. Leakage is a complex measurement, which involves analysis of the amount of water we supply into the network, the amount that is recorded through customer meters, and assumptions on the level of usage by customers who don't have a meter fitted. The amount of water which we can't account for as customer consumption is reported as leakage.
2. Our review of the assumptions in our leakage calculation identified that the assumption for one component, 'non-household night use' (NHHNU) was last updated in 2007. As a result, we carried out an updated assessment of this figure in 2017.

3. This updated assessment showed that the current NHHNU figure is 22.6 litres per connection

per hour (l/c/h), an increase of 5.1 l/c/h on the previous assumption of 17.5 l/c/h. The updated assumptions are based on 1,001 night use sample data with older sample data removed. The new sample data represents 3% of the NHH accounts and the night use model is fully compliant with the UKWIR guidance and is therefore reliable.

4. Applying the updated assumption to our leakage calculation results in a figure of 44.9 Ml/d and represents our best view of leakage in 2016/17. Not applying the updated assumption would result in a figure of 47.4 Ml/d, a difference of 2.5 Ml/d.
5. Our assurance review of this figure identified that applying this updated assumption to the calculation of performance may cause the reported figure to be seen to not be directly comparable with the assumptions on which the targets for this ODI were set at PR14.
6. The targets for our leakage ODI were proposed in our PR14 business plan of December 2013. These targets were based on achieving a 6 Ml/d (12%) improvement in leakage starting from the target for 2014/15, which had been set as part of the 2009 Price Review and Water Resources Management Plan. It is important to note that the targets proposed at PR14 were not directly based on actual performance levels achieved in the period preceding the submission.
7. In order to attempt to provide consistency between the figure reported for 2016/17 and the basis of the ODI target, we have estimated the annual effect of the movement between the previous and updated assumptions for NHHNU. We have assumed that the 5.1 l/c/h increase from 17.5 to 22.6 l/c/h occurred on a linear basis between 2007 and 2017, and that six years of that ten year effect would have occurred by the point at which PR14 targets were set in 2013. To recognise this, and in an attempt to be seen to be consistent between our reported leakage and the PR14 target , our leakage figure for 2016/17 reflects the effect of adding back 6/10ths of the effect of the change in the NHHNU assumption to the leakage figure as set out in the table below:

Before updated NHHNU assumption	47.4 Ml/d
Effect of updated NHHNU assumption	-2.5 Ml/d
After updated NHHNU assumptions	44.9 Ml/d
Effect of adding back 6/10ths of updated NHHNU assumption	+1.5Ml/d
Reported figure for 2016/17	46.4 Ml/d

8. It is important to note that no financial reward or penalty would be applicable within the financial year by either applying the assumptions in full or our proposed adjustment to our reported leakage figure for 2016/17.The incentive mechanism for this ODI is based on an average of performance over five years. Therefore there may be implications for the incentive calculation when leakage is reviewed over the price control period, depending on the level of outturn performance in future years.
9. We have not proposed to restate our reported 15/16 performance, however, we note that retrospectively applying the updated assumptions would result in an improvement in performance for that year.
10. The value of reported leakage also impacts another of our outcome performance measures, Per Capita Consumption (PCC). A higher leakage number results in a lower amount of water assumed to be consumed by customers. We have applied the adjustments detailed above to the reported leakage figure results in our reported PCC for 2016/17 of 144.1 litres/head/day. If the +1.5 Ml/d adjustment was not applied this would result in calculated PCC of 145 l/h/d, slightly above the target level of 144.5 l/h/d. No financial incentive is applicable to this ODI, however, we report it to customers and stakeholders as a reputational incentive measure.

Performance Commitment G1: Meter Penetration (Line 10)

This performance commitment is defined as the proportion of total properties of billed household customers that are charged for water on a measured basis.

Our score of 49.6% metered supplies represents an improved performance from 2015/16. The forecast figure assumes Bristol Water's year end figures for the rest of AMP6 will exceed the penalty collar. This figure also takes into account the penalty for 2015-16. We expect to significantly increase our level of meter penetration during AMP6, however, we recognise that the low activity level in 2015/16 and the delayed start to the selective metering household change of occupier strategy is likely to impact our ability to move out of the penalty range in future years.

Performance against this measure for 2016/17 has exceeded the penalty collar. The penalty for this year is £0.152m. The forecast for the total AMP6 is to be in penalty. The total AMP6 forecast penalty calculation rate is £0.270m. We do not consider it appropriate to provide a forecast value of the penalty other than the sum of the 2015/16 and 2016/17 penalty accrued to date.

Performance Commitment H1: Total Carbon Emissions (Line 11)

This measures the company's total carbon emission figure, divided by the population supplied; measured as kgCO2e/person.

Performance against this measure has improved compared to 2015/16, however we have not met our committed performance level. There is no financial penalty or reward for this measure.

Our approach to improving our performance is aligned with our work towards achieving our ISO 50001:2001 accreditation. To achieve this we need to be showing "continual improvement" on the reduction of our kWh, which reduces our carbon emissions. The ways in which we are implementing energy savings include:

- Increasing Pumping Efficiency
- Power Save during peak periods and TRIADs
- Site surveys to reduce power consumption
- PV at Purton Treatment Works (and additional PV planned in the future)
- Optimisation & Development Programme – power and chemicals
- Brainwaves (the Company's staff suggestion scheme) – encourages staff to submit energy saving ideas
- Refurbishment of our Head Office to incorporate more energy efficiency technology

Performance Commitment H2: Raw Water Quality of Sources (Line 12)

This measure is defined as an assessment of the quality of the company's raw water. Performance against this measure is unchanged from the previous year.

We have developed an approach that enables changes in raw water quality of sources to be assessed each year with reference to previous rolling averages. We anticipate through catchment management work we will be able to report an improved performance in future years.

Performance against this measure has been assessed as 'deteriorating' and as such we have met our committed performance level.

Performance Commitment H3: Biodiversity Index (Line 13)

This measure is used to assess increases in biodiversity at sites the Company owns.

Performance against this measure has been assessed as 'improving' and we have met our committed performance level. This has been achieved by an ongoing programme of improvements at a number of our sites, including:

- Increasing the diversity of the species of trees
- Planting wildflowers, hedgerows and diverse grasses
- Wildflower seeding
- Trans-locating pignut plants

Performance Commitment H4: Waste Disposal Compliance (Line 14)

Performance against this measure has improved compared to 2015/16, however we have not met our committed performance level of 100%. This was principally due to operational difficulties in obtaining the required number of samples at some sites.

Performance Commitment G2: Per Capita Consumption (Line 15)
Per Capita Consumption is defined as the average amount of water used by each of the company's household consumers each day, measured as litres per head per day (l/h/d).

PCC increased from 141.1 in the previous year to 144.1 in 2016/17. This is attributable to the relatively dry conditions in 2016/17, causing an increase in customer demand for example for garden watering. Data from the Environment Agency shows that nine of the twelve months April 2016 to March 2017 inclusive had rainfall below the long-term average, while in 2015-2016 eight of twelve months experienced above-average rainfall. However, we have outperformed our committed performance level for 2016/17.

Performance Commitment I1: Percentage of Customers in Water Poverty (Line 16)

The Company has defined water poverty as the percentage of households within its supply area for whom their water charges represent more than 2% of their disposable income, defined as gross income less income tax.

This measure shows an increase in the level of customers in water poverty compared to the previous year. This is despite a reduction in the level of customer bills and an increase in the number of customers supported through our social tariffs, including our new Pension Credit tariff introduced in April 2016. The reason for the reported increase in the level of water poverty is attributable to a revised definition of disposable income used by our external data provider for calculation of this measure. Performance remains well within the level allowed by our performance commitment.

Performance Commitment J1: Service Incentive Mechanism (Line 17)

This is Ofwat's measure for comparing the customer service performance of water companies in England and Wales.

Performance against this measure has improved compared to 2015/16. Our overall score of 85.9 places the Company in a position of 4th in the industry ranking for the qualitative survey in 2016/17. Supporting data for this measure is provided in table 3d.

Performance Commitment J2: General Satisfaction from surveys (Line 18)

This measure relates to the percentage of customers responding to the company's annual household customer tracking survey who rate their satisfaction in respect of the company's service as excellent, very good or good.

Performance against this measure is 86% for 2016/17, a 3% improvement on the previous year. However this is against a target of 93% and we have not therefore met our committed performance level.

It is the Company's aspiration to make continuous improvements to ensure we can adapt to our customers' changing needs. We are engaged in a number of customer service initiatives that run company wide. We have, for example in customer services, designed a governance structure to ensure that we are constantly putting the customer at the heart of decision making.

Performance Commitment J3: Value for money (Line 19)

This measure is calculated as the percentage of respondents to our monthly customer survey who consider the value for money we provide to be 'very good' or 'good'. Our performance for 2016/17 for this measure is 72%, meeting our performance commitment of 71%.

A review of our reporting methodology during the year as part of our assurance process has identified that the value reported for this measure in 2015/16 was incorrect, in that it had been calculated as the mean average score of responses to the survey rather than through the definition set out in the PR14 Final Determination, which was consistent with the basis on which the targets were set. We also note that the target for this measure was set by inclusion of all respondents to our survey, rather than just operational contacts as indicated in the FD, and have adjusted our reporting methodology in line with this approach.

Correction of this method results in a reduction in the 2015/16 performance from 78% as previously reported to 70%, slightly below the performance commitment for that year.

Performance Commitment K1: Ease of contact (Line 20)

This measure is calculated as the percentage of respondents to our monthly customer survey who consider the ease of contact to our operational contact centre to be 'very good' or 'good'. Our performance for 2016/17 for this measure is 94.4%, below our performance commitment of 96%. Although the Company has not met our committed performance level, we are continuing to embrace technology to provide the right information for customers through their preferred channels.

A review of our reporting methodology during the year as part of our assurance process has identified that the value reported for this measure in 2015/16 was incorrect, in that it had been calculated as the mean average score of responses to the survey rather than through the definition set out in the PR14 Final Determination, which was consistent with the basis on which the targets were set. Correction of the methodology results in a change to our reported figure for 2015/16 to 95%, rather than 93% as previously reported.

Performance Commitment L1: Negative Billing Contacts (Line 21)

This measures the number of 'unwanted' calls received. An 'unwanted' customer contact is defined by Ofwat within the SIM.

Performance against this measure has deteriorated compared to 2015/16 and we have not met our committed performance level. There is no financial penalty or reward for this measure.

We are committed to making continuous improvements to ensure we can adapt to the needs of our customers in a changing market, to become a customer centric organisation and to ensure we meet our committed performance levels. Our focus is to improve the culture of the organisation by putting the customer at the heart of every decision. For example, we have introduced proactive text messaging of which nearly 50,000 were sent in 2016/17.

3B – Sub-measure performance table – for 12 months ended 31 March 2017

	Unique ID	PC/sub-measure ID	PC / sub-measure	2015-16 performance level - actual	2016-17 performance level - actual	2016-17 CPL met?
1	PR14BRL WSW_A2	00	A2: Asset reliability - infrastructure	Stable	Stable	Yes
2	PR14BRL WSW_A2	01	Total bursts (number)	764	1,034	No
3	PR14BRL WSW_A2	02	DG2: low pressure (number of properties)	71	94	No
4	PR14BRL WSW_A3	00	A3: Asset reliability - non-infrastructure	Stable	Stable	Yes
5	PR14BRL WSW_A3	01	Turbidity performance at treatment works (number)	0	0	Yes
6	PR14BRL WSW_A3	02	Unplanned maintenance events (number)	3,353	2,870	Yes

3Bi – Sub-measure performance table

The information provided in table 3B provides details of the Company's performance against each sub-indicator of the asset reliability (infrastructure and non-infrastructure) outcome performance measures set in the PR14 Final Determination.

Performance Commitment A2: Asset reliability – infrastructure (Lines 1-3)

Although both of the measures are above the reference level, neither have moved outside the upper performance limit and therefore both are stable (this is consistent with the definition of the outcome performance measure as set in the PR14 Final Determination).

Performance Commitment A3: Asset reliability -non-infrastructure (Lines 4-6)
Both of the sub-measures are better than the reference level and therefore both are stable (this is consistent with the definition of the outcome performance measure as set in the PR14 Final Determination).

3Ci AIM

Bristol Water has no sites currently subject to the AIM. This table is not applicable to the Company for 2016-17.

3D – SIM table – for 12 months ended 31 March 2017

Qualitative performance	
1st survey score	4.49
2nd survey score	4.46
3rd survey score	4.40
4th survey score	4.49
Qualitative SIM score (out of 75)	64.88
Quantitative performance	
Quantitative composite score	79.45
Quantitative SIM score (out of 25)	21.03
Total annual SIM score (out of 100)	86

The information provided in table 3D provides details of the Company's SIM performance against the quantitative and qualitative elements.

Section 4 Additional regulatory information

4A Non-financial information for the 12 months ended 31 March 2017

Retail - Household	Unmeasured	Measured
Number of void households (‘000s)	6.4	3.3
Per capita consumption (excluding supply pipe leakage) l/h/d	158.5	125.4

Wholesale	
	Water
Volume (Ml/d)	
Bulk supply export	5.6
Bulk supply import	0.7
Distribution input	272.8

4B Totex Analysis

	Current Year Water £m	Cumulative Water £m
Actual totex	82.9	152.8
Items excluded from the menu		
Third party costs	(1.2)	(2.5)
Pension deficit recovery payments	(0.1)	(0.4)
Other adjustments	-	-
Total costs excluded from the menu	(1.3)	(2.9)
Transition expenditure	-	0.8
Adjusted Actual totex	81.6	150.7
Adjusted Actual totex - base year prices	75.3	140.5
Allowed totex based on final menu choice - base year prices	83.9	170.6

Allowed totex exceeds actual totex in base year prices by £8.6m in 2016/17.

Actual totex for the year includes an additional £2.2m of expenditure that was not in the PR14 baseline. This includes £1.0m on replacing lead communication pipes and £1.2m on preparing the wholesale business for retail separation.

Our planned profile of expenditure during AMP6 has a different yearly profile to the flat yearly profile in the determination. This is due to the implementation of a new risk-based decision making process to ensure our expenditure during the period is appropriately targeted and solutions are optimised; delays to certain schemes (most notably the Southern Resilience Scheme, for which we had to obtain planning approval), and the natural profile of some expenditure through the AMP (e.g. costs associated with our PR19 business plan). We expect to spend in line with the allowance overall for the AMP, and so these timing effects account for the remaining £10.8m variance observed in the year.

Our efficiency programme (Project Channel) has delivered savings of £13.1m in the year (compared to our PR19 business plan pre-efficiency), contributing to our expectation of spending in line with the CMA allowance over the AMP.

4B Totex Analysis (continued)

On a cumulative basis allowed totex exceeds actual totex in base year prices by £30.1m. The £21.5 variance relating to prior years is due to capex underspend of £18.5m and a curtailment gain of £3.1m on the closure of the defined benefit scheme.

Expenditure to deliver our outcomes included significant amounts for mains (including trunk mains relining), Cheddar Algae investigations, Southern Resilience Scheme, and metering, collectively amounting to £17.9m in the year. We continue to focus expenditure on providing a resilient supply of high quality water, increased spending on leakage detection and control, and improving our processes to enable bursts to be fixed with less disruption to customers.

4C Forecast impact of performance on RCV

	2016 £m
RCV determined at FD	470.7
RCV element of cumulative totex over/underspend so far in the price control period	(14.5)
Adjustment for ODI rewards or penalties	-
Projected 'shadow' RCV	456.2

We expect the totex underspend to reverse in future periods due to timing of expenditure.

The projected ‘shadow’ RCV does not include any effects of the totex cost sharing mechanism as a result of cumulative over/underspend as at the end of the asset maintenance period (March 2020).

4D Totex analysis - for the 12 months ended 31 March 2017 – wholesale water

	Water resources		Network +				
	Abstraction licences £m	Raw water abstraction £m	Raw water transport £m	Raw water storage £m	Water treatment £m	Treated water distribution £m	Total £m
Operating expenditure							
Power	-	2.0	-	-	2.5	3.9	8.4
Income treated as negative expenditure	-	-	-	-	-	-	-
Abstraction charges/ discharge consents	2.8	-	-	-	0.1	-	2.9
Bulk supply/Bulk discharge	-	-	-	-	-	0.1	0.1
Other operating expenditure	-	4.9	0.9	-	10.7	15.7	32.2
Local authority and Cumulo rates	-	1.3	0.1	-	0.4	3.1	4.9
Total operating expenditure excluding third party services	2.8	8.2	1.0	-	13.7	22.8	48.5
Third party services	0.1	0.1	-	-	0.3	0.7	1.2
Total operating expenditure	2.9	8.3	1.0	-	14.0	23.5	49.7
Capital expenditure				-			
Maintaining the long term capability of the assets - infra	-	0.2	-	-	-	9.3	9.5
Maintaining the long term capability of the assets - non-infra	-	1.0	0.1	0.1	3.4	4.0	8.6
Other capital expenditure - infra	-	-	-	-	-	13.8	13.8
Other capital expenditure - non-infra	-	0.2	-	-	1.8	3.0	5.0
Total gross capital expenditure (excluding third party)	**-**	**1.4**	**0.1**	**0.1**	**5.2**	**30.1**	**36.9**
Third party services	-	-	-	-	-	-	-
Total gross capital expenditure	**-**	**1.4**	**0.1**	**0.1**	**5.2**	**30.1**	**36.9**
Grants and contributions	-	-	-		-	(3.8)	(3.8)
Totex	**2.9**	**9.7**	**1.1**	**0.1**	**19.2**	**49.8**	**82.8**
Cash expenditure							
Pension deficit recovery payments	-	-	-		-	0.1	**0.1**
Other cash items	-	-	-		-	-	**-**
Totex including cash items	**2.9**	**9.7**	**1.1**	**0.1**	**19.2**	**49.9**	**82.9**

4D Totex analysis - for the 12 months ended 31 March 2017 – wholesale water (continued)

Unit cost information (operating expenditure)

	Water resources		Network+			
	Abstraction licences	Raw water abstraction	Raw water transport	Raw water storage	Water treatment	Treated water distribution
Licenced volume available (ml)	176,692					
Volume abstracted (ml)		106,244				
Volume transported (ml)			102,030			
Average volume stored (ml)				29,914		
Distribution input from water Treatment (ml)					99,195	
Distribution input treated water (ml)						99,195
Unit cost (£/ml)	16.3	78.7	10.6	-	140.7	236.3
Population	1,194,768	1,194,768	1,194,768	1,194,768	1,194,768	1,194,768
Unit cost (£/pop)	2.4	7.0	0.9	-	11.7	19.6

4Di. Accounting separation policy

The Ofwat business unit definitions for resources, raw water distribution, treatment and treated water distribution, as given in Regulatory Accounting Guideline 4.06, have been applied to the fixed assets and operating cost elements of the company accounts to provide the accounting separation analyses.

The historic cost fixed asset register is held in the company accounting system at a very detailed level. Each asset on it has been reviewed and over 94% of the net book value has been attributed directly to a business unit. 5% of assets are allocated to general and support, a category which is then reallocated over the business units. Less than 1% are assets other than General and Support assets allocated over the business units. These are operational assets that cannot be directly attributed to one business unit. Internal guidelines have been established mapping account classes into which all assets are grouped to the business units. All the company sites have been reviewed and the relevant appropriate business units recorded to ensure consistency when applying business units to new fixed assets. This has been at a granular level, which has minimised the need for recharges between business units. All assets are allocated to business units as they are created.

The operating cost analysis is based on the company's management accounts which are used to monitor the financial performance of the company by the Board and managers. These are not structured under the business unit headings. They reflect the operational structure of the company. A review of these produced a mapping between the company cost centres and the business units, with 67% of costs being directly allocated to business units, and 33% requiring a method of allocation to be applied. Any operating cost which relates to sites or assets, follows the same business unit as applied to the associated current cost fixed assets, ensuring consistency between the treatment of costs and assets.

4Di. Accounting separation policy (continued)

During the year there were changes to the methodology to reflect the new RAGs issued in October 2016. Details of the main changes are provided in the accounting separation methodology statements.

The accounting separation analyses have been drawn up in accordance with the company's accounting separation methodology statement which has been published separately on its website. This also provides commentary comparing this year's expenditure and capital maintenance costs with last years.

4F Operating cost analysis for the 12 months ended 31 March 2016 - household retail

	Household unmeasured Water only £m	Household measured Water only £m	Total £m
Operating expenditure			
Customer Services	0.9	1.1	2.0
Debt management	0.2	0.3	0.5
Doubtful debts	1.5	1.3	2.8
Meter reading	-	0.3	0.3
Other operating expenditure	1.3	1.2	2.5
Total operating expenditure excluding third party services	3.9	4.2	8.1
Third party operating expenditure	-	-	-
Total operating costs excluding third party services	3.9	4.2	8.1
Depreciation – tangible fixed assets	-	0.1	0.1
Amortisation – intangible fixed assets	-	0.1	0.1
Total operating costs	3.9	4.4	8.3

Other operating expenditure includes the net retail expenditure for the following retail activities which are part funded by wholesale

Household	£m
Demand-side water efficiency - gross expenditure	0.1
Demand-side water efficiency - expenditure funded by wholesale	0.1
Demand-side water efficiency - net retail expenditure	-
Customer-side leak repairs - gross expenditure	0.1
Customer-side leak repair - expenditure funded by wholesale	0.1
Customer-side leak repair - net retail expenditure	-

4G Wholesale current cost performance

Income statement	Water Total £m
Revenue	97.3
Operating expenditure	(49.7)
Capital maintenance charges	(43.6)
Other operating income	(0.3)
Current cost operating profit	3.7
Other income	2.1
Interest income	4.1
Interest expense	(16.5)
Interest expense related to the unwinding of discounted liabilities	1.6
Current Loss before tax and fair value movements	(5.0)
Fair value gains/(losses) on financial instruments	-
Current Loss before tax	(5.0)

NOTES TO THE CURRENT COST ACCOUNTS FOR THE BUSINESS

4Gi. Current cost accounting policies

This income statement has been prepared for the wholesale control of Bristol Water plc in accordance with CCA guidance issued by Ofwat for modified real terms financial statements suitable for regulation in the water industry, in RAG 1.07. They measure profitability on the basis of real financial capital maintenance in the context of assets which are valued at their current cost value to the business.

From 1 April 2015 companies were required to adopt a new accounting standard and the Company has adopted Financial Reporting Standard (FRS) 101 'Reduced Disclosure Framework' (under EU IFRS).

The accounting policies used are the same as those adopted in the statutory historical cost accounts, except for the capital maintenance charge which is current cost depreciation on non-infrastructure assets, and an infrastructure renewals charge for infrastructure assets. The current cost depreciation is derived from the current cost fixed asset register, details of which are set out below:

(a) **Tangible and intangible fixed assets**

The valuation of all assets is based on the modern equivalent asset valuation produced by the Asset Management Plan (AMP) valuation at 31 March 2008, as amended for additions, disposals, and retail price index adjustments after this date to the period ended 31 March 2017. This equates to a proxy for depreciated replacement cost of their operating capability.

To the extent that the regulatory regime does not allow such assets to earn a return high enough to justify that value, this represents a modification of the value to the business principle. Also, no provision is made for the possible funding of future replacements of pre-31 March 1990 assets by contributions from third parties and to the extent that some of those assets would on replacement be so funded, replacement cost again differs from value to the business. Redundant assets are valued at their recoverable amounts.

4Gi Current cost accounting policies (continued)

Land and buildings

Non-specialised operational properties were valued on the basis of open market value for existing use at 31 March 2008 and have been expressed in real terms by indexing using the Retail Price Index ("RPI") since that date.

Specialised operational properties at 31 March 2008 were valued at the lower of depreciated replacement cost and recoverable amount and have been restated by adjusting for inflation as measured by changes in the RPI and amended for additions and disposals.

The valuation of land and buildings for both specialised and non-specialised properties is undertaken by a Chartered Surveyor employed by the company.

Infrastructure assets

Mains, impounding and pumped raw water storage reservoirs and dams are valued at a proxy replacement cost determined principally on the basis of data provided by the AMP. A continuing process of refinement of asset records is expected to produce adjustments to existing values when periodic reviews of the AMP take place. This is in conjunction with the determination of price limits by Ofwat at 5 yearly intervals. In the intervening years, values are restated to take account of changes in the general level of inflation as measured by changes in the RPI over the year and amended for additions and disposals. Infrastructure additions are enhancement expenditure.

Other fixed assets

All other fixed assets are valued periodically at depreciated replacement cost. The last valuation included was at 31 March 2008. Between periodic reviews, values are restated for inflation as measured by changes in the RPI, and amended for additions and disposals.

Surplus land

Surplus land is valued at recoverable amounts taking into account the part of any proceeds which are required to be passed onto customers under Condition B of the Licence of Appointment.

(b) **Infrastructure renewals charge**

Costs in respect of the pro-active maintenance of the network of pipes and pumped raw water storage reservoirs are treated as infrastructure maintenance and are charged as infrastructure renewals expenditure. Until 2014/15 a long term view of infrastructure renewals expenditure, covering the current AMP and ten years beyond, was used to produce an annual infrastructure renewals charge (IRC). The IRC was a proxy for depreciation of infrastructure assets in the statutory accounts. The 2014/15 IRC has been inflated by year average RPI to 2016/17 prices, and is included in the capital maintenance charge.

4H Financial Metrics

Net debt	£304.1m
Regulated equity	£166.6m
Regulated gearing	64.61%
Post tax return on regulated equity	10.80%
RORE (return on regulated equity)	4.59%
Dividend yield	3.30%
Retail profit margin - Household	2.72%
Retail profit margin - Non household	(1.36)%
Credit rating	Baa1
Return on RCV	6.02%
Dividend cover	3.52
Funds from operations (FFO)	£40.3m
Interest cover (cash)	4.12
Adjusted interest cover (cash)	2.01
FFO/Debt	0.13
Effective tax rate	15.66%
Free cash flow (RCF)	£31.6m
RCF/capex	0.89

Revenue (actual)	£107.7m
EBITDA (actual)	£47.9m

	%
Proportion of borrowings which are fixed rate[1]	41.10
Proportion of borrowings which are floating rate	3.72
Proportion of borrowings which are index linked	55.18
Proportion of borrowings due within 1 year or less	6.39
Proportion of borrowings due in more than 1 year but no more than 2 years	0.14
Proportion of borrowings due in more than 2 years but no more than 5 years	15.94
Proportion of borrowings due in more than 5 years but no more than 20 years	58.62
Proportion of borrowings due in more than 20 years	18.91

[1] Preference shares are not included in the calculations of proportion of borrowings rows in table 4H.

The return on regulated equity (RORE) calculates the returns on a regulatory basis by reference to the notional gearing level of 62.5% and average RCV for the year. It is calculated in accordance with the methodology set out in the RAGs, which is the base RORE set at the final determination should be adjusted for the following factors net of any tax impact:

2016/17	**£m**		
RORE in final determination		**5.80%**	
The company share of totex out or under performance	0.0		This is nil reflecting the forecast position at the end of the AMP.
The company share of any out or underperformance on retail costs.	0.1		This is the outperformance on retail in the year.
The impact on the RCV run off of the out or under performance of totex	0.0		This is zero for Bristol Water
The impact of any ODI or SIM penalties or rewards earned in the year, even if they are not payable/receivable until the following AMP	-0.1		The penalty is for Meter Penetration
The difference between the actual interest charge (in real terms) and the allowed interest (real) on notional debt.	-1.1		Applying actual interest rates to notional debt
Tax impact	0.2		Tax calculated at 20%
Total	-0.9	-0.55%	Total adjustment expressed as a % of the regulatory equity
RORE		**5.25%**	

The RORE shown in table 4H, 4.59% is the average for 2016/17 and 2015/16 as the table guidelines defines it as the average to date for the AMP.Clarification from Ofwat identified the methodology should include preference shares in the calculation of the difference between the actual interest charge and the allowed interest. Applying this update, last year's RORE reduced to 3.94% from 4.15%

The dividend yield is calculated excluding dividends paid in respect of interest on inter-company loans as the guidance specifically states these are to be excluded from this line.

4I Financial derivatives

	Nominal value by maturity (net)			Total value			Interest rate (weighted average)	
	1 to 2 years £m	2 to 5 years £m	Over 5 years £m	Nominal value (net) £m	Mark to Market £m	Total accretion £m	Payable %	Receivable %
Derivative type								
Interest rate swap (sterling) Floating to fixed rate	10.0	117.5	-	127.5	1.8	(0.2)	1.48	0.32
Total	10.0	117.5	-	127.5	1.8	(0.2)		

RELATED PARTY TRANSACTIONS

Throughout the year, related parties include members and joint ventures of the CSE Water UK Limited group of companies, members of the iCON Infrastructure members of Capstone Infrastructure Corporation Group (Capstone), members of the Agbar Suez Environnement Company S.A group of companies, members of the Itochu Corporation group of companies and key management personnel.

The principal related parties are:

CSE Water UK Limited, registered in England and Wales, whose year-end is 31 March, and is the ultimate UK holding company of Bristol Water plc.

Bristol Water Holdings UK Limited (BWHUK), registered in England and Wales, whose year-end is 31 March. BWHUK is a subsidiary of CSE Water UK Limited.

Bristol Wessex Billing Services Limited (BWBSL), registered in England and Wales, whose year-end is 31 March. The joint venture interest is held by Bristol Water Holdings Limited, an intermediate holding company within the BWHUK group, which owns 100 class ‘B’ shares in the company, representing a holding of 50% of the voting and equity rights of the company. BWBSL is a joint venture undertaking between Bristol Water Holdings Limited and Wessex Water Services Limited, and provides meter reading, billing, debt recovery and customer contact management services to this company and Wessex Water Services Limited, under a cost sharing arrangement.

Water2Business Limited (W2B), registered in England and Wales, whose year-end is 30 June. The interest is held by Bristol Water Holdings Limited, an intermediate holding company within the BWHUK group which owns 30 class ‘B’ shares in the company representing a holding of 30% of equity rights and 40% of voting rights of the company. W2B is a joint operation undertaking between Bristol Water Holdings Limited and Wessex Water Services Limited, and provides meter reading, billing, debt recovery and customer contact management services.

Agbar Serco Technology Solutions Limited (ASTS), registered in England and Wales, whose year-end is 31 December. The joint venture company is owned 50% by Aqualogy Solutions Limited, a subsidiary and intermediate holding company within the Agbar group, and 50% by Serco UK Limited. ASTS provides IT consultancy services, and security asset management services. Following a competitive tendering process, ASTS is contracted to provide IT maintenance and development services to the company.

Suez Advanced Solutions UK Limited (SAS) (previously Aqualogy Environment Limited), registered in England and Wales, whose year-end is 31 December. This company is a subsidiary within the Agbar group and is engaged in providing infrastructure asset management services to the water industry. The principal activities include a patented process called “Ice Pigging” which uses ice to clean pipes. SAS also provides sub-licences to customers for the use of Ice Pigging technology in other countries.

Basis of cost allocations used for management charges and allocations between the appointed and non-appointed businesses of Bristol Water plc

Costs are attributed to the appropriate cost centres in the company’s accounting system, which are identified as appointed or non-appointed. The majority of non-appointed costs are incurred directly with the remainder allocated on a time apportionment basis. Apportionments and recharges between appointed and non-appointed elements are approved and agreed at Board level annually.

RELATED PARTY TRANSACTIONS (continued)

Nature of service	Associate	Turnover of associate £m	Terms of supply	Value of service received £m
Management charge	Bristol Water Holdings UK	-	No market	-
Mains refurbishment patented process	Suez Advanced Solutions UK (formerly Aqualogy Environment Limited)	4.857	Monopoly provider	-
Water Hygiene Monitoring and other services	Suez Advanced Solutions UK (formerly Aqualogy Environment Limited)	4.857	Benchmarking	0.153
Consultancy services	Suez Advanced Solutions Holdings UK Limited (formally Aqualogy Solutions and Technologies Limited)	3.966	No market	0.074
Managed billing service	Bristol Wessex Billing Services Limited	15.961	Competitive Tender	2.535
Recharges for costs	Bristol Wessex Billing Services Limited	15.961	Cost pass through	0.300
Capital expenditure	Bristol Wessex Billing Services Limited	15.961	Cost pass through	0.093
Management charge	Water2Business Limited	4.188	Cost pass through	0.723

Group tax relief

Bristol Water plc claims group tax relief from the non-regulated companies in the Bristol Water Group. Historically these companies have had a December year-end; however the year-end has been extended to a 15 month 31 March 2017 period end. The amount of the group relief claimed for 2016/17 is £4.098m. Bristol Water plc pays the standard tax rate for the period multiplied by the surrendered losses to each surrendering company. This group relief payment policy ensures that relieving losses around the group has no effect on the current tax charge of Bristol Water plc. The payment for loss relief surrendered for the period ended 31 March 2017 was settled in quarterly payments in line with the dates that that corporation tax would normally be paid.

RELATED PARTY TRANSACTIONS (continued)

Borrowing/lending with associated companies and related facilities

A loan of £47.000m was made to Bristol Water Holdings UK Limited (formerly Bristol Water Group Limited, ultimate parent company until June 2006) in 2003/04. The unsecured loan was advanced on 12 February 2004, under an agreement dated 4 December 2003, out of the proceeds of the Artesian loans entered into during that year. The loan is due for repayment on 30 September 2033 and bears a fixed interest rate of 6.042%. Interest income of £2.840m (2015/16: £2.840m) was received in relation to the loan during 2016/17.

A further loan of £21.500m was made to Bristol Water Holdings UK Limited (formerly Bristol Water Group Limited) in 2005/06. The unsecured loan was advanced on 13 July 2005, under an agreement dated 10 June 2005, out of proceeds of the Artesian loan entered into in that year. The loan is due for repayment on 30 September 2032 and bears a fixed interest rate of 5.550%. Interest income of £1.193m (£1.193m: 2015/16) was received in relation to the loan in 2016/17.

There is a provision in both the loans that BWH UK may defer an interest payment. Interest will be payable on deferred interest as if it were a further loan, at 1% higher than the loan interest rate. This facility has never been invoked.

The sum of £0.411m (2015/16: £0.411m) is included within the debtors in respect of amounts advanced to BWBSL, a joint venture company between Bristol Water Holdings Limited, a parent company, and Wessex Water Services Limited, to fund the purchase of tangible assets. This amount has no fixed repayment date.

Dividends paid to parent company

It is the company's practice to pay an annual level of ordinary dividends comprising:

- a base level taking into consideration the revenues allowed by Ofwat in the 5-year determination of price limits, the company's funding requirements and the actual performance of the business; and
- an amount equal to the post-tax interest receivable from Bristol Water Holdings UK Limited, a UK parent company in respect of inter-company loans.

During the year the following dividends have been paid

- in respect of the 2016 financial year:
    - Final base dividend of £1.000m

- in respect of the 2017 financial year:
    - First interim for the inter-company loan interest element of £1.613m
    - Second interim for the inter-company loan interest element of £1.613m
    - Third interim base dividend of £5.000m

Base level dividends included a £4m payment in advance of opening of the non-household retail market in April 2017, due to the structural changes in working capital requirements between retail and wholesale businesses.

In addition, annual dividends of £1.094m (2016: £1.094m) continued to be paid on the irredeemable preference shares. The irredeemable preference shares are shown as debt in the statement of financial position, and the dividend is therefore shown as a finance cost in the income statement.

The Board has proposed a final dividend in respect of the year ended 31 March 2017 of £nil (2016 £1.000m).

DIRECTORS' REMUNERATION

The Annual Report for Bristol Water plc contains a detailed Remuneration Committee report, setting out the basis of Director remuneration including bonuses and standards of performance. The bonus and LTIP arrangements were set on 25 May 2017.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the regulatory accounting statements in accordance with applicable law and regulations.

Company law requires the directors to prepare accounting statements for each financial year. Under that law the directors have prepared the accounting statements in accordance with FRS101. Under company law the directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these accounting statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the accounting statements; and
- prepare the accounting statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the accounting statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The maintenance and integrity of the Company's web site is the responsibility of the directors and the maintenance and integrity of the Regulator's web site is the responsibility of the Regulator; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the Regulatory Accounts since they were initially presented on the web sites.

After making enquiries, the directors are of the opinion that the company has adequate resources or the reasonable expectation of raising further resources as required to continue in operation for the foreseeable future. Therefore they continue to adopt the going concern basis of accounting in preparing these accounts.

In addition, the directors have responsibility for ensuring that the company keeps proper accounting records sufficient to enable the historical cost and current cost information required by Condition F of the licence to be prepared having regard to all Regulatory Accounting Guidelines.

The directors are also required to confirm in the accounting statements that, in their opinion, the company was in compliance with paragraph 3.1 of Condition K of the licence relating to the availability of the rights and assets at the end of the financial year.

AUDITORS AND DISCLOSURE OF INFORMATION TO AUDITORS

Each of the persons who is a director at the date of approval of this report confirms that:

(1) so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and

(2) the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

By order of the Board
M Axtell
Chief Financial Officer
13 July 2017

Independent Auditors' report to the Water Services Regulation Authority (the WSRA) and the Directors of Bristol Water plc

Opinion on Annual Performance Report

In our opinion, Bristol Water plc's Regulatory Accounting Statements within the Annual Performance Report:

- have been properly prepared in accordance with Condition F, the Regulatory Accounting Guidelines issued by the WSRA (RAG1.07, RAG2.06, RAG3.09, RAG4.06 and RAG5.06) and the accounting policies (including the company's published accounting methodology statement(s), as defined in RAG 3.09, appendix 3) set out on pages 12,14,18,19,34 to 37 (including the accounting separation methodology).

Emphasis of matter – basis of preparation

Without modifying our opinion on the Regulatory Accounting Statements within the Annual Performance Report, we draw attention to the fact that the Annual Performance Report has been prepared in accordance with Condition F, the Regulatory Accounting Guidelines, the accounting policies (including the company's published accounting methodology statement(s), as defined in RAG 3.09, appendix 3) set out in the statement of accounting policies and under the historical cost convention. The nature, form and content of the Regulatory Accounting Statements are determined by the WSRA. It is not appropriate for us to assess whether the nature of the information being reported upon is suitable or appropriate for the WSRA's purpose. Accordingly we make no such assessment.

The Annual Performance Report is separate from the statutory financial statements of the Company and has not been prepared under the basis of United Kingdom Generally Accepted Accounting Practice ("UK GAAP"). Financial information other than that prepared on the basis of UK GAAP does not necessarily represent a true and fair view of the financial performance or financial position of a company as shown in statutory financial statements prepared in accordance with the Companies Act 2006.

The Regulatory Accounting Statements on pages 1 to 39 have been drawn up in accordance with Regulatory Accounting Guidelines with a number of departures from UK GAAP. A summary of the effect of these departures from Generally Accepted Accounting Practice in the Company's statutory financial statements is included in the tables within section 1.

What we have audited

The tables within Bristol Water plc's Annual Performance Report that we have audited ("the Regulatory Accounting Statements") comprise:

- the regulatory financial reporting tables comprising the income statement (table 1A), the statement of comprehensive income (table 1B), the statement of financial position (table 1C), the statement of cash flows (table 1D) and the net debt analysis (table 1E) and the related notes; and

- the regulatory price review and other segmental reporting tables comprising the segmental income statement (table 2A), the totex analysis for wholesale water (table 2B), the operating cost analysis for retail (table 2C), the historical cost analysis of fixed assets for wholesale and retail (table 2D), the analysis of capital contributions and land sales for wholesale (table 2E), the household water revenues by customer type (table 2F), the non-household water revenues by customer type (table 2G) and the revenue analysis by customer type (table 2I) and the related notes.

The financial reporting framework that has been applied in their preparation comprises Condition F, the Regulatory Accounting Guidelines issued by the WSRA and the accounting policies (including the company's published accounting methodology statement(s), as defined in RAG 3.09, appendix 3) set out in notes to the Annual Performance Report.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

We have not audited the Outcome performance tables (tables 3A to 3D) and the additional regulatory information in tables 4A to 4I.

This report is made, on terms that have been agreed, solely to the Company and the WSRA in order to meet the requirements of Condition F of the Instrument of Appointment granted by the Secretary of State for the Environment to the Company as a water and sewage undertaker under the Water Industry Act 1991 ("Condition F"). Our audit work has been undertaken so that we might state to the Company and the WSRA those matters that we have agreed to state to them in our report, in order (a) to assist the Company to meet its obligation under Condition F to procure such a report and (b) to facilitate the carrying out by the WSRA of its regulatory functions, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the WRSA, for our audit work, for this report or for the opinions we have formed.

Our audit approach

Context

There has been no significant change in the business during the year that affected our risk assessment and audit planning, so our approach was consistent with last year.

Overview

- Overall Company materiality: £1,045,000 (2016: £1,222,000) which represents approximately 5% of profit before tax.

The company requires an audit to meet the requirements of Condition F of the Instrument of Appointment granted by the Secretary of State for the Environment to the Company as a water and sewage undertaker under the Water Industry Act 1991 ("Condition F")

- Provision for impairment of domestic trade debtors.
- Classification of expenditure on infrastructure assets.
- Valuation of the pension scheme.
- Compliance with Regulatory Accounting Guidelines.

The scope of our audit and our areas of focus

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)").

We designed our audit by determining materiality and assessing the risks of material misstatement in the Regulatory Accounting Statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as "areas of focus" in the table below. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context. This is not a complete list of all risks identified by our audit.

Area of focus	***How our audit addressed the area of focus***
Provision for impairment of domestic trade debtors	
The recoverability of customer debts is always a key issue for water companies. Even though the cash collection rates have shown clear indications of improvement in recent years, the recoverability is very sensitive to changes in economic circumstances.	We evaluated the model used to calculate the provision and confirmed its consistency with prior years. We also tested the underlying data upon which the calculations were based and assessed the appropriateness of the judgements applied in calculating the provision, using historical cash collection trends from prior years and the latest available cash collection data for the current year. We also performed sensitivity analysis on the future cash collection rates by major customer category in order to identify the significance of the collection rates used on the overall value of the provision. We found that, consistent with prior years, the level of provision was within our expected range.
Classification of expenditure on infrastructure assets	
Expenditure on infrastructure assets is either capitalised as an addition to tangible assets or written off to the income statement, depending on the nature of the work done. Given the size and complexity of the capital programme and how it relates to the company's assessed performance for regulatory purposes, the classification of expenditure requires very significant management judgement.	We tested a sample of expenditure on infrastructure items in the year to supporting documentation, such as contract certificates and invoices, and were satisfied that they had been classified in accordance with the company's accounting policies.
Valuation of the pension scheme	
We focused on this area because the defined benefit pension scheme surplus is material to the financial statements and is sensitive to a number of subjective assumptions such as discount rates, inflation and life expectancy.	We formed an independent expectation of the key pension valuation assumptions, including the discount rate, inflation rate and life expectancy, compared them with those adopted by the Company and found them to be in line with our expectations. We checked the accuracy of the data provided to the actuary by the company and used in their valuation, in particular the contributions paid by the company. We obtained third party confirmations of the valuation of the pension assets. We also obtained appropriate evidence for the competency and qualifications of the actuary who performed the valuation, and checked the information provided by the actuary to the financial statements.

Compliance with Regulatory Accounting Guidelines

The Regulatory Accounting Statements need to be prepared in accordance with Condition F, the Regulatory Accounting Guidelines issued by the WSRA (RAG1.07, RAG2.06, RAG3.09, RAG4.06 and RAG5.06) and the accounting policies (including the company's published accounting methodology statement). Given the level of complexity within the Regulatory Accounting Guidelines there is a risk that incorrect classification or allocation of costs could give rise to a significant misstatement.

We have performed substantive testing ensuring that the Regulatory Accounting Statements have been prepared on a basis that is consistent with both the Regulatory Accounting Guidelines issued by the WSRA (RAG1.07, RAG2.06, RAG3.09, RAG4.06 and RAG5.06) and the accounting policies (including the company's published accounting methodology statement). No material inconsistencies were identified.

We have evaluated the adjustments shown as "Differences between statutory and RAG definitions" in tables 1A-1E to ensure that these are appropriately reflected.

For tables 2A to 2I, we have checked the consistency of the Accounting Separation Model to the audited trial balance and verified the mathematical accuracy of the model with no inconsistencies or exceptions noted. Allocation of costs between Wholesale (Water Resources and Water Network+) and Retail (Household and Non-Household) have been audited to appropriate supporting documentation with no material inconsistencies identified.

How we tailored the audit scope

The Company comprises Bristol Water plc operating as the regulated water business, which was subject to a regulatory audit by the Company audit engagement team. In establishing the overall approach to our audit, we assessed the risk of material misstatement, taking into account the nature, likelihood and potential magnitude of any misstatement. Following this assessment, we applied professional judgement to determine the extent of testing required over each balance in the financial statements.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall materiality	£1,045,000 (2016: £1,222,000).
How we determined it	5% of profit before tax
Rationale for benchmark applied	We have applied this benchmark, a generally accepted auditing practice, in the absence of indicators that an alternative benchmark would be appropriate.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £104,000 (2016: £122,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Respective responsibilities of the WSRA, the Directors and Auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 43, the directors are responsible for the preparation of the Annual Performance Report in accordance with Condition F, the Regulatory Accounting Guidelines issued by the WSRA and the Company's accounting policies (including the company's published accounting methodology statement(s), as defined in RAG 3.09, appendix 3).

Our responsibility is to audit and express an opinion on the Regulatory Accounting Statements within the Annual Performance Report in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"), except as stated in the section on 'What an audit of the Annual Performance report involves' below, and having regard to the guidance contained in *ICAEW Technical Release Tech 02/16 AAF 'Reporting to Regulators on Regulatory Accounts'* issued by the Institute of Chartered Accountants in England & Wales. Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

What an audit of the Annual Performance Report involves

An audit involves obtaining evidence about the amounts and disclosures in the Regulatory Accounting Statements sufficient to give reasonable assurance that the Regulatory Accounting Statements within the Annual Performance Report are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; and the reasonableness of significant accounting estimates made by the directors. In addition, we read all the financial and non-financial information in the Annual Performance Report to identify material inconsistencies with the audited tables within the Annual Performance Report and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

We have not assessed whether the accounting policies are appropriate to the circumstances of the Company where these are laid down by Condition F. Where Condition F does not give specific guidance on the accounting policies to be followed, our audit includes an assessment of whether the accounting policies adopted in respect of the transactions and balances required to be included in the Annual Performance Report are consistent with those used in the preparation of the statutory financial statements of the company. Furthermore, as the nature, form and content of Annual Performance Report is determined by the WSRA, we did not evaluate the overall adequacy of the presentation of the information, which would have been required if we were to express an audit opinion under International Standards on Auditing (UK & Ireland).

The Company has presented the allocation of operating costs and assets in accordance with the accounting separation policy set out in note 4Di and its accounting methodology statement published on the Company's website on 14 July 2017. We are not required to assess whether the methods of cost allocation set out in the Methodology Statement are appropriate to the circumstances of the Company or whether they meet the requirements of the WSRA, which would have been required if we were to express an audit opinion under International Standards on Auditing (UK & Ireland).

Opinion on other matters prescribed by Condition F

Under the terms of our contract we have assumed responsibility to provide those additional opinions required by Condition F in relation to the accounting records. In our opinion:

- proper accounting records have been kept by the appointee as required by paragraph 3 of Condition F; and

- the Regulatory Accounting Statements are in agreement with the accounting records and returns retained for the purpose of preparing the Annual Performance Report.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the Annual Performance Report is:

- materially inconsistent with the information in the audited Regulatory Accounting Statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Company acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the Annual Performance Report is fair, balanced and understandable and whether the Annual Performance Report appropriately discloses those matters that we communicated to the Audit Committee which we consider should be disclosed.

Other matters

Our opinion on the Regulatory Accounting Statements within the Annual Performance Report is separate from our opinion on the statutory financial statements of the Company for the year ended 31 March 2017 on which we reported on 13 July 2017, which are prepared for a different purpose. Our audit report in relation to the statutory financial statements of the Company (our "Statutory audit") was made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our Statutory audit work was undertaken so that we might state to the Company's members those matters we are required to state to them in a statutory audit report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume responsibility for any other purpose or to any other person to whom our Statutory audit report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol
13 July 2017

REGULATORY CERTIFICATE OF ADEQUACY OF FINANCIAL RESOURCES BY THE DIRECTORS

As required under condition F6A.2A of its Instrument of Appointment relating to diversification and protection of core business the Directors of Bristol Water plc confirm:

(1) That in the opinion of the Directors the Appointee will have available to it sufficient financial resources and facilities to enable it to carry out, for at least the next 12 months, the Regulated Activities (including the investment programme necessary to fulfil the Appointee's obligations under the Appointment); and

(2) That in the opinion of the Directors the Appointee will, for at least the next 12 months, have available to it:

a) management resources; and
b) systems of planning and internal control

which are sufficient to enable it to carry out those functions; and

(3) That in the opinion of the Directors, any contract entered into with any Associated Company includes all necessary provisions and requirements concerning the standard of service to be supplied to the Appointee to ensure, as appropriate, that it is able to meet its obligations as a water undertaker.

As required by condition F6A.2B(1) the main factors that the Directors have taken into account in giving this certificate:

(1) Financial resources:

- Profit and loss budget, and capital programme, for 2016/17, approved by the Board
- Monthly management accounts prepared for periods prior to the certificate date
- Cash at bank/on deposit held in the Bristol Water Statement of Financial Position of £16m at 31 March 2017
- Unutilised committed term facilities of £50m with HSBC and a further unutilised committed term facility of £20m with the Royal Bank of Scotland as at 31 March 2017.

(2) Management resources:

- Bristol Water plc has an experienced senior management team with good knowledge of the water industry.

(3) Associated company contracts:

- The company currently has very limited contracts with Associates and any of the associated companies do comply with the ring-fencing conditions set out in the Instrument of Appointment.

Approved by the Board and signed on its behalf on 13 July 2017 by

M Karam Chief Executive Officer

M Axtell Chief Financial Officer