

Bristol Water Challenge Panel Annual Report 2018/19



**BRISTOL
WATER**
CHALLENGE PANEL

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FOREWORD

Welcome to the 2019 Annual Report of the Bristol Water Challenge Panel

The importance of water is increasing in the consciousness of the British public. Whether it is the floods and droughts that may be associated with climate change or how much water may be lost through leakage, water users are moving from placid customers to enlightened consumers, keen to steer the future consumption of this most precious and vital natural resource.

The pace of preparations for the Asset Management Period (AMP) from 2020 to 2025 increased substantially for all water companies during the regulatory reporting year from April 2018 to March 2019.

Likewise, the workload of the Bristol Water Challenge Panel similarly increased. The Challenge Panel is independent from Bristol Water and the water regulator, Ofwat. However, Ofwat relies on the scrutiny provided by the Challenge Panel to assure it that

- Bristol Water has taken into account the priorities and preferences of its customers and
- The Challenge Panel itself has carried out in-depth scrutiny of how Bristol Water developed and tested with its customers the proposals in its Business Plan for the period 2020 to 2025.

To this end, Ofwat produced a document setting out its expectations for customer challenge bodies such as the Bristol Water Challenge Panel. While not telling the Challenge Panel how to do its job, it made clear the areas where Ofwat will rely on evidence from the Challenge Panel as assurance of Bristol Water's business plan.

In order for Bristol Water to produce its Business Plan for the upcoming AMP, it needed to complete its customer engagement programme and also

take into account the results of consultations on the Water Resources Management Plan (WRMP) and the Drought Plan.

The customer engagement programme carried out by Bristol Water, built through customer surveys, customer-focused workshops, consultations on the WRMP and Drought Plan, and day-to-day customer contact points, moved from understanding customer priorities to translating this information into issues such as:

- How much customers would be willing to pay for precise services and environmental impacts.
- How soon would customers wish to pay for specific service improvements, now or further into the future, and the fairness of any approach.
- How ambitious should the targets be that Bristol Water is expected to achieve for the provision of its water supply services.
- The ability to finance the Business Plan and the level of risk borne by the customer compared with that of the company and its investors.

As Bristol Water developed its promises to customers in the form of Performance Commitments and Outcome Delivery Incentives, a new programme of customer research was required to ensure customers were in agreement with the company's Business Plan solutions to affordability

and vulnerability, innovation, the management and resilience of its assets and the implementation of its environmental plans. Input setting out regulatory requirements from the Drinking Water Inspectorate, Natural England and the Environment Agency formed part of the scrutiny required of the Challenge Panel.

The Challenge Panel examined in detail the proposals by Bristol Water and challenged weaknesses or areas of incompleteness. 25% of the challenges made by the Challenge Panel during the business planning process resulted in a change in policy, system or process by Bristol Water. Also during this time, the Challenge Panel continued to ensure that Bristol Water maintained its focus on implementing the remainder of the regulatory obligations and the company's promises made to customers in the current AMP. Bristol Water, in common with all English and Welsh water companies, had management systems in place to ensure that it could complete its regulatory requirements in a timely fashion.

The work programme for the Challenge Panel was closely in synch with that of Bristol Water. Key milestones included:

- The publication in September 2018 of the Challenge Panel's Assurance Report regarding the quality of customer engagement carried out by Bristol Water for its 2020 to 2025

Business Plan. The Challenge Panel's report to Ofwat provided evidence to support our assessment that customer priorities and preferences were taken into account by Bristol Water in the production of its Business Plan and that customers accepted the Plan submitted to Ofwat.

- Attendance in November 2018 of two interviews carried out by Ofwat to interrogate both the company (together with the Challenge Panel) and the Challenge Panel itself on the contents of the Bristol Water Business Plan.
- The written response to the Initial Assessment of the business Plan (IAP) in March 2019 as Ofwat requested additional research on the acceptability of the business plan by customers, the impact of the affordability of water bills especially on vulnerable customers and the structure of rewards and penalties Bristol Water could receive for its water supply performance.

During the period, Bristol Water also achieved two important milestones. Firstly, the information assurance rating for Bristol Water assigned by Ofwat improved from the highest level of scrutiny to a lower category. This means that Ofwat has greater trust in the quality and accuracy of the assurance systems in place in Bristol Water and the resulting information. This latter categorisation is a significant improvement on its previous categorisation. It demonstrates that the company has improved the quality of its engagement with, and listening to, its customers. Taken together, Bristol Water is demonstrably in a much stronger position currently than in the previous AMP. Secondly, Ofwat categorised the Bristol Water Business Plan in the 'Slow Track'. This category is a medium level of examination by Ofwat and an improvement on previous business plans the company has submitted for earlier AMPs.



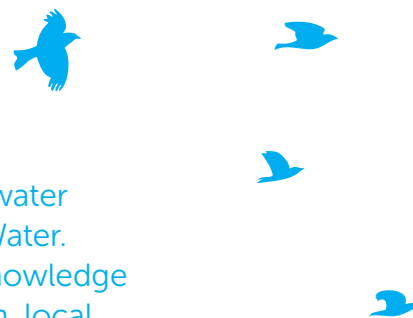
As set out above, the period covered by this report is one of intense focus and action by the Challenge Panel and its members, customers of Bristol Water, the Bristol Water executive and its Board of Directors.

As Independent Chair of the Bristol Water Challenge Panel, I wish to thank all the members of the Challenge Panel, particularly those who give of their time voluntarily to carry out this most important task. Contributions from local councillors and regulatory bodies are also vital for the work of the Challenge Panel as they provide a different channel to Bristol Water customers.

I also thank Bristol Water for the way that its executives and non-executives participate in the work of the Challenge Panel. There are times when the scrutiny of our work must result in increased pressure and extra work. However, the timeliness and the courteousness of response is of great assistance to us and aids us in carrying out our role.

Peaches Golding OBE
Independent Chairman,
Bristol Water Challenge Panel
August 2019

EXECUTIVE SUMMARY



The Bristol Water Challenge Panel is comprised of independent water users, environmental regulators and the Consumer Council for Water. The membership of the Challenge Panel includes people with knowledge and experience in farming, debt, education, marketing, regulation, local government and more. Some members represent the environmental regulators while others are totally independent.

The Challenge Panel held nineteen meetings, either as full Challenge Panel meetings or as meetings of its sub-groups which provide more in-depth scrutiny in the areas of assurance and performance, customer engagement and the environment.

The Challenge Panel receives reports from Bristol Water on its customer engagement programme as well as areas where customers have an interest or are impacted such as the Drought Plan, Water Resource Management Plan or assurance and performance reports. The issues influencing the Bristol Water Business Plan for the next five-year period are ones of climate change, increasing population and scarce natural resources.

The reporting year of April 2018 to March 2019 saw the culmination of customer engagement work for the Bristol Water Business Plan for the Asset Management Period (AMP) 2020 to 2025. During this period customer feedback was obtained through structured face-to-face interviews, seminars or workshops, surveys and day-to-day feedback on Bristol Water's service to its customers. Responses to consultations on the company's Water Resources Management Plan and Drought Plan came together. The conclusions reached through this broad programme of customer engagement fed directly into the development of the company's Business Plan for 2020 to 2025.

Since the beginning of the current AMP in 2015, the Challenge Panel has raised over 630 challenges, 25% of

which resulted in a change by Bristol Water of its policies, systems or processes. The challenges originated in Challenge Panel meetings, its sub-groups on customer engagement or the environment and through emails and other correspondence. The key focus of challenges was on customer engagement, its interpretation and its impact on the shape and content of Bristol Water's Business Plan as well as the composition and weighting of performance indicators, known as Outcome Delivery Incentives.

During the first months of this reporting period, Bristol Water executives tested the shape of the Business Plan with the Challenge Panel to ensure their interpretation of customer preferences was clearly influencing the choices that were being made in the Plan. Twenty-five separate pieces of customer research fed into the company's Business Plan. On balance, the Challenge Panel is pleased with the high quality of customer engagement carried out and the way this is reflected in the Business Plan. The Challenge Panel scrutinised the developing Business Plan to assess

- Whether the performance targets Bristol Water is setting itself are ambitious and demanding
- How it would meet the regulatory Performance Commitments

common to all water companies

- How innovation, resilience and attention to affordability and vulnerability were included in the proposals and plans
- Where Bristol Water was unable to meet the upper quartile performance stipulated by Ofwat, the ability to finance the Business Plan and the level of risk borne by the customer compared with that of the company and its investors.

In addition to the scrutiny of Bristol Water's customer engagement, the Challenge Panel continued to monitor and evaluate Bristol Water's performance against the promises it made for the 2015 to 2020 AMP and to receive and question the assurance reports carried out by its external technical assurer Atkins. Data on matters such as service performance, customer billing, the Service Incentive Mechanism (SIM) and customer service, complaints and more were considered and scrutinised by the Challenge Panel. The Challenge Panel also reviewed technical assurer's assessment of the company's information assurance systems and the resulting information quality.

During the 2018/19 reporting period, the Challenge Panel probed the performance of Bristol Water on its performance targets and identified where the company made progress

against its targets, remained static or had a poor performance. Such detailed challenge covered the twelve Performance Commitments where Bristol Water did not achieve its regulatory targets as well as the nine Performance Commitments where Bristol Water achieved them. The Challenge Panel understands the reasons why the company is successful in meeting some targets but is less successful in others. It welcomes the company's ongoing investment in new management processes and systems and will continue to encourage it to strive to improve performance wherever possible.

The Challenge Panel was particularly pleased to receive notification from Ofwat that the quality of information gathered, controlled, checked and reported to it meant that the company was no longer in Ofwat's 'Prescribed' assurance category. By now being in the 'Targeted' category assigned by Ofwat indicates that the regulator has greater confidence in data reported by Bristol Water and some of Ofwat's additional requirements to assure accuracy and reliability were to be removed from Bristol Water in the next AMP.

The Challenge Panel obtain reassurance from the Bristol Water Board on the obligations on the company regarding the transparency and fairness of its executive and shareholder payments. It noted that the major shareholder continues to withhold dividends, instead investing the money back into the business.

In September 2018, the Challenge Panel produced its Assurance Report for Ofwat setting out how it carried out its work over the past three years on the evaluation of the customer engagement programme by Bristol Water. This report fulfilled the obligation on customer challenge panels in England and Wales to

assure Ofwat of the quality of the customer engagement carried out by the company and the use and reflection of the results in the 2020 to 2025 Business Plan. As such, the Challenge Panel's Assurance Report described the evidence that the Challenge Panel received from Bristol Water, the manner by which the Challenge Panel conducted its business and how the voice of the customer is demonstrated in the Bristol Water Business Plan submission. The Challenge Panel supported the final version of the Business Plan set out by Bristol Water and welcomed the reduction in water bills across the period 2020 to 2025. The Challenge Panel presented its report to the Bristol Water Board for their information prior to its submission to Ofwat.

In November 2018, in line with all water companies in England and Wales, the Chair of the Challenge Panel attended two interviews with Ofwat, one with the Board and Executive team from Bristol Water and one in camera with Ofwat. This provided an opportunity for the Chair to present the views of the Challenge Panel to Ofwat and to hear Ofwat's questions on and preliminary views of the Bristol Water Business Plan.

In January 2019, Bristol Water received from Ofwat its Initial Assessment of its Business Plan (IAP). The assessment placed Bristol Water in the 'Slow Track' of water companies, a medium level rating that indicates a better crafted business plan than in the previous AMP. The assessment set out areas where Ofwat either needed additional information or challenged the basis for choices and decisions made by Bristol Water. The Challenge Panel was commended on the quality and thoroughness of its work and only six of over 80 issues raised by Ofwat on the Business Plan pertained to the work of the Challenge Panel.

However, several additional pieces of research by Bristol Water were required to fulfil the issues raised by Ofwat. These were:

- The acceptability of the Business Plan, including future bill profiles.
- The performance incentives and penalties set out in the Business Plan.
- The support by customers of a small company premium and whether customers are content to receive higher bills in exchange for the water supply being provided by a small, local business.

The Challenge Panel presented its response to the IAP to the Board of Bristol Water prior to its submission to Ofwat in March 2019.

Throughout the year, Bristol Water has been developing the concept of a Social Contract between the company and the population it serves. This strategic platform will inform how the company invests in projects in various communities in the future and how it forms partnerships with other bodies and institutions. The programme has been welcomed by Bristol Water's customers, the Challenge Panel, community partners and by members of staff. Consultations with the Challenge Panel are helping to shape this significant programme and will monitor the delivery of the Social Contract during this AMP.

INTRODUCTION

The role of the Bristol Water Challenge Panel is to provide Ofwat, the water sector regulator, with the assurance that Bristol Water has carried out a high-quality customer engagement programme and that the preferences and priorities of customers is reflected and evidenced in its Business Plan for the upcoming 2020 to 2025 Asset Management Period (AMP). It also has a responsibility to review the company's half-yearly and yearly performance in the current AMP and to review the report of the technical assurer, Atkins. Such past performance is seen by Ofwat as an indicator of Bristol Water's ability to make the necessary changes and improvements required during the upcoming AMP.

The Challenge Panel is independent from both Ofwat and Bristol Water.

It is comprised of members with a wide range of expertise, from debt management, farming and public health to regulatory environments and local government. The Challenge Panel uses its expertise to scrutinise and challenge Bristol Water on its policies, plans and proposals and interrogates both the customer engagement framework and how results from the customer engagement programme are interpreted by Bristol Water as it develops its Business Plan for the upcoming AMP.

The Challenge Panel is not an executive arm of Bristol Water and, as such, there is a limit to its role and to the information that it may receive. There are times when the Independent Chair of the Challenge Panel has private sessions with either Ofwat or the company, without the other members being present.

Ofwat highlighted four areas where it wished to see proposals in the business plans produced by water companies. These are:

- The affordability to customers of their water bills.
- The treatment of people in vulnerable circumstances.
- The opportunity to innovate in the way it delivers its services.
- The resilience of the water system.

It should be noted that changes in membership of Bristol Water Board during this AMP resulted in the absence of a board director from Bristol Water attending meetings of the Challenge Panel. In response to a direct request from the Challenge Panel in 2017, Bristol Water undertook to appoint a non-executive director responsible for attending the Challenge Panel. As an interim solution, there have been opportunities for the major shareholder director to attend

Challenge Panel meetings. In November 2018 Bristol Water appointed a non-executive director with direct responsibilities for relationships with the Challenge Panel and the wider customer community. The Independent Chair of the Challenge Panel has presented to the Bristol Water Board and held private meetings with its Chief Executive.

The 2018/19 reporting year has been one of intense activity, with nineteen meetings involving Challenge Panel members and the submission of two significant reports to Ofwat. The reports to Ofwat were based on the evidence assessed, reviewed and scrutinised by the Challenge Panel. The reports to Ofwat were

- The Assurance Report by the Bristol Water Challenge Panel in September 2018 on Bristol Water's Business Plan 2020-2025 and
- The response by the Challenge Panel in March 2019 to Ofwat's Initial Assessment of the Business Plan (IAP).

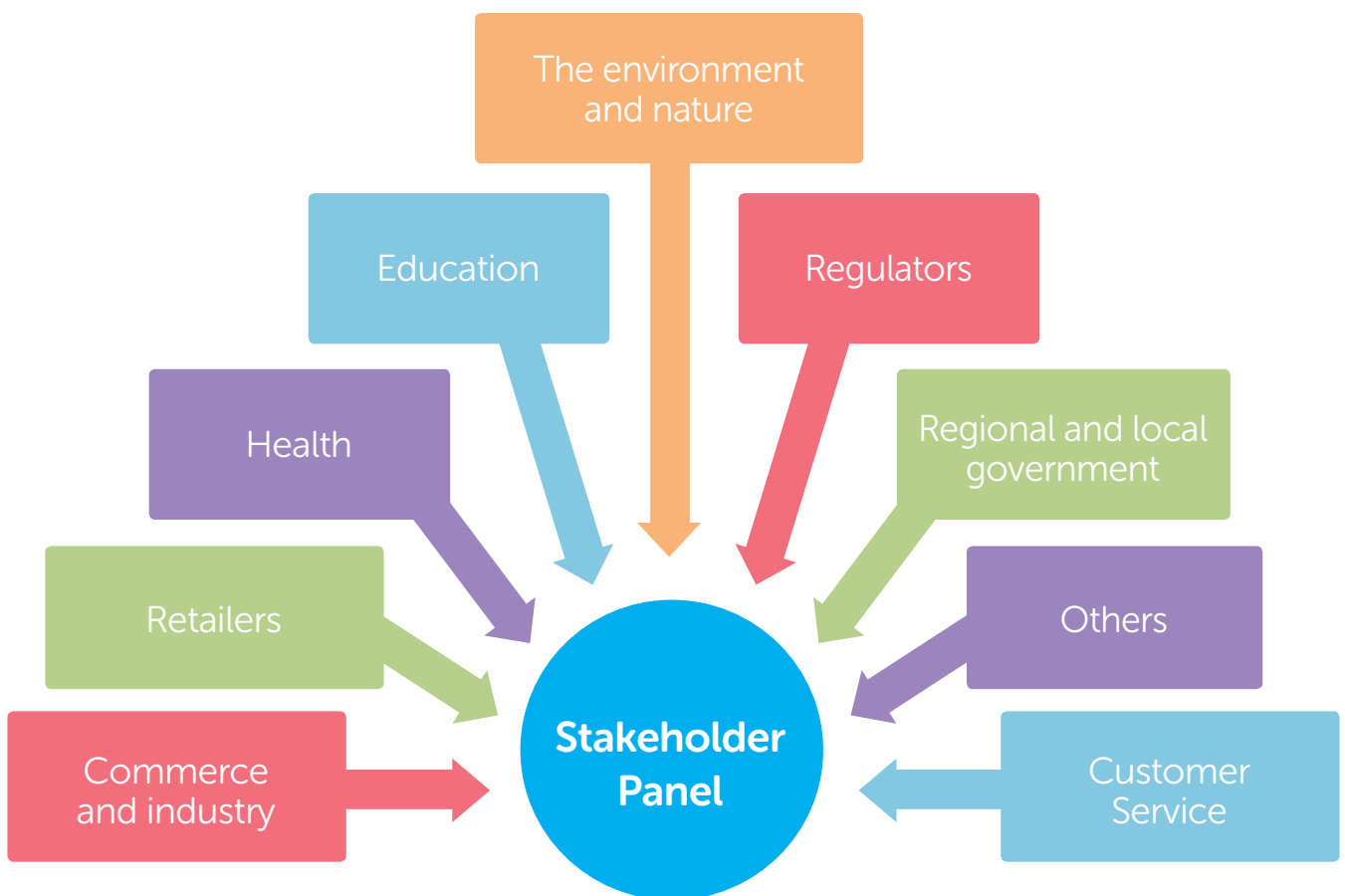
Based on these reports, Ofwat was able to assess the quality of work carried out by the Challenge Panel, on which it relies for some aspects of regulation.



CHALLENGE PANEL ACTIVITIES

Members

The Challenge Panel is composed of an independent Chair, Deputy Chair and Report Writer, together with the environmental regulators, local councillors and individuals drawn from several backgrounds, as shown in the diagram below.



During the period our membership has remained constant which has been a great asset in being able to undertake the increased workload required to complete the assurance reports for Ofwat by the set timescales.

A full listing of the Challenge Panel members who have contributed to this report and the two Ofwat reports is given in Appendix 1

Skills Audit

A full audit of the skills of all members in 2016-17 was reported in the Annual Report for that period. As all new members have the same skills set as the members they replaced there has been no requirement to repeat the skills audit.

CHALLENGE PANEL ACTIVITIES CONTINUED

Meetings

The Challenge Panel has reviewed and challenged Bristol Water policies on Customer Engagement and Information Assurance during the year. The Challenge Panel has received presentations on Bristol Water's performance during the year and has taken the opportunity to challenge the company. The review of Bristol Water's end of year performance is presented later in this report.

During 2016/17 and 2017/18 the Challenge Panel became progressively involved in the review and challenge of Bristol Water's PR19 Business Plan. This work continued in 2018/19 and culminated in the Challenge Panel reporting its findings and opinions to Ofwat on the company's Business Plan in September 2018. The Challenge Panel also reviewed and reported on Ofwat's Initial Assessment of the Plan (IAP) and the company's response to this assessment in March 2019.

The number of meetings held, during 2018/19 is shown in the table right along with the topics covered in each meeting.

Challenge Panel members have contributed to the three ongoing Challenge Panel subgroups on Customer Engagement, Information Assurance and the Environment, as well as a new series of meetings introduced during the year on Bristol Water's Performance Commitments and Outcome Delivery Incentives. In 2016 the Challenge Panel produced an Aide Memoire to assist members to ensure their challenge

Customer Engagement Sub-Group 10	20 April 2018	<ul style="list-style-type: none"> Water Resources Research Acceptability Testing Draft Business Plan Customer Summit Communication Plan
Challenge Panel Meeting 11	25 April 2018	<ul style="list-style-type: none"> Customer Challenge Group Aide Memoire Draft Business Plan Outcome Delivery Incentive Early Submission Special Cost Factors Early Submission Drinking Water Quality Voids
Challenge Panel Meeting 12	25 May 2018	<ul style="list-style-type: none"> Consultation Responses Affordability and Vulnerability Performance Commitment Targets, Penalties and Rewards Delivering Outcomes for Customers
PC & ODI Sub-Group 3	7 June 2018	<ul style="list-style-type: none"> All 26 Performance Commitments were individually reviewed in detail.
Environment Tripartite Meeting 7	7 June 2018	<ul style="list-style-type: none"> Drought Plan Water Resources Management Plan National Environment Programme Measuring Environmental Performance Resilience
Assurance Sub-Group 3	13 June 2018	<ul style="list-style-type: none"> Bristol Water 2017/18 Performance Assurance of all Performance data
Customer Engagement Sub-Group 11	26 June 2018	<ul style="list-style-type: none"> Draft Business Plan Vulnerability Assistance Customer Strategy Retailers Research Acceptability Testing
Challenge Panel Meeting 13	9 July 2018	<ul style="list-style-type: none"> Bristol Water Board Final Business Plan Transparency on Performance Commitment Targets and Incentives Community Performance Commitment Customer Priorities

Customer Engagement Sub-Group 12	17 July 2018	<ul style="list-style-type: none"> • Outstanding Challenges • Performance Commitments Update • Outcome Delivery Incentive Update • Triangulation • Bill Profiles • Outcome Delivery Incentive Deadbands
Challenge Panel Meeting 14	9 August 2018	<ul style="list-style-type: none"> • Customer Support for Performance Commitments • Acceptability Testing Results • Affordability Update • Water Poverty Target • Values for Money Target Update • Final Business Plan • Periodic Review 2019 Assurance
Chair, Deputy Chair and Report Writer	21 August 2018	<ul style="list-style-type: none"> • The Challenge Panel's report on Bristol Water's Business plan
Chair, Deputy Chair and Report Writer	12 September 2018	<ul style="list-style-type: none"> • Debrief of Challenge Panel report with Bristol Water
Customer Engagement Sub-Group	27 November 2018	<ul style="list-style-type: none"> • On-going Customer Engagement • Vulnerability • Risks, Strengths and Weaknesses Statement
Challenge Panel Meeting 15	12 December 2018	<ul style="list-style-type: none"> • 2019/20 tariffs • Innovation update • Mid-year performance • Assurance findings • Periodic Review 2019 update • Water Resources Management Plan and Drought Plan updates
Customer Engagement Sub-Group	19 February 2019	<ul style="list-style-type: none"> • Ofwat's Initial Assessment of Plans and Bristol Water's proposed additional customer engagement activities
Challenge Panel	7 March 2019	<ul style="list-style-type: none"> • Ofwat's Initial Assessment of Plans details and Bristol Water's response
Chair, Deputy Chair and Report Writer	14 March 2019	<ul style="list-style-type: none"> • Challenge Panel's Report on Bristol Water's response to Ofwat's Initial Assessment of Plans March 2019
Challenge Panel	21 March 2019	<ul style="list-style-type: none"> • Bristol Water's response to Ofwat's Initial Assessment of Plans Challenge Panel's opinions on these responses
Chair, Deputy Chair and Report Writer	27 March 2019	<ul style="list-style-type: none"> • Challenge Panel's Report on Bristol Water's response to Ofwat's Initial Assessment of Plans March 2019 • Challenge Panel's report to Bristol Water's Board

was undertaken in a structured way by considering the expectations, content, focus and review of any Bristol Water presentation. A copy of the BWCP Aide Memoire was attached to the Challenge Panel's 2016/17 Annual Report.

The Challenge Panel welcomed the opportunity of working with Bristol Water leading up to the submission of the company's PR19 Business Plan to Ofwat in September 2018. This collaborated approach assisted the Challenge Panel in composing its own report to Ofwat.

The Challenge Panel is pleased to see that Ofwat has assigned 'Slow Track' status to Bristol Water's PR19 Business Plan, as this reflects the Challenge Panel's view that it is a significant improvement on its submissions for PR14 and reflects that Bristol Water is now listening to customers more effectively.

This positive working relationship continued and enabled the Challenge Panel to compose its response to Ofwat's IAP in March 2019 and the resubmitted Bristol Water Business Plan. The Challenge Panel now awaits the Draft Determination due to be published in July 2019.

The Chair has attended seminars and workshops organised by Ofwat and others on diverse topics to do with PR19. The Chair has also attended selected Bristol Water Board meetings to keep them apprised of the Challenge Panel's view of the PR19 Business Plan. Challenge Panel members have been kept informed of the topics discussed and any resulting output.

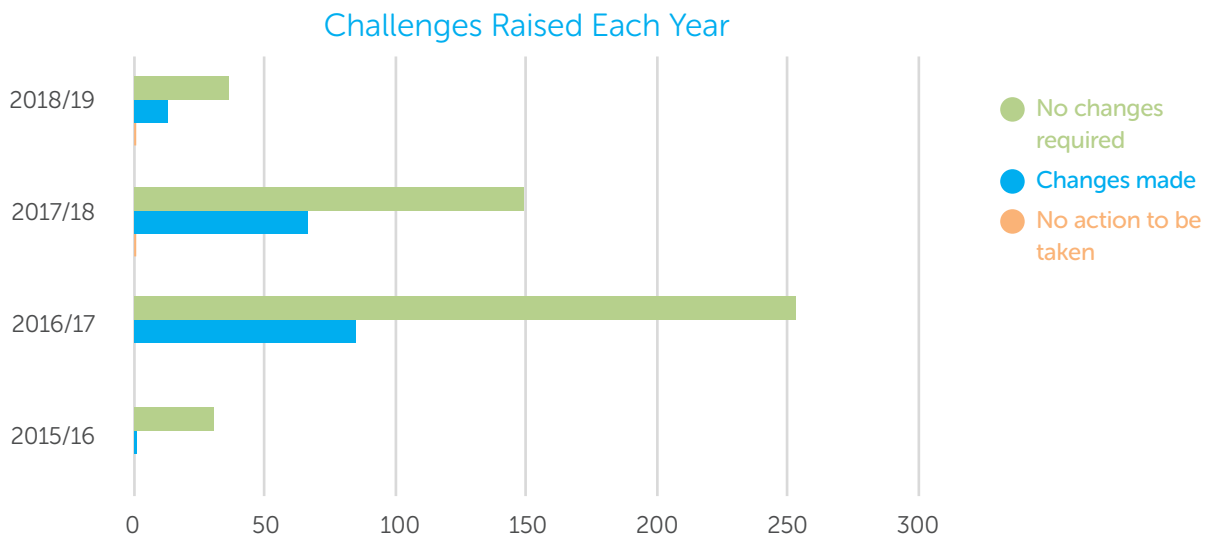
The Challenge Panel is grateful to Bristol Water for organising and hosting all the meeting listed above, particularly the Away Day that was held at Bristol Water's Blagdon Reservoir, which allowed members the opportunity to more fully understand the company's operations and its heritage at this site, including a view of the preserved beam engine.

CHALLENGE PANEL ACTIVITIES CONTINUED

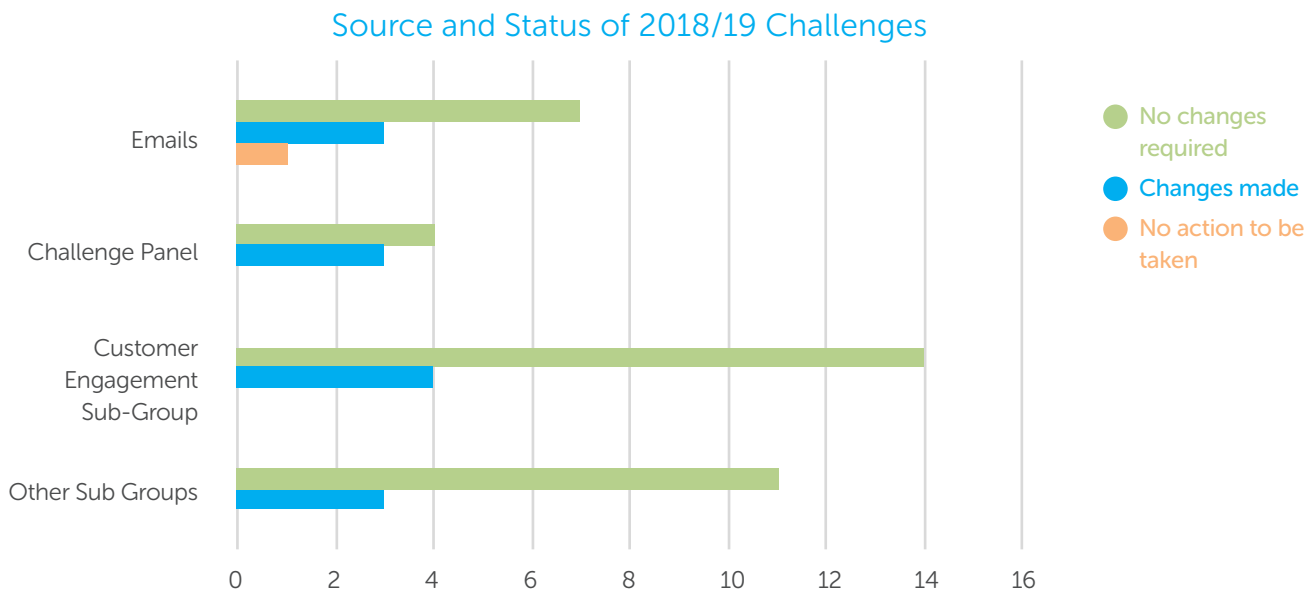
Challenges

The number of challenges raised in 2018/19 was considerably lower than in 2017/18. This was due to the completion of the PR19 Business Plan Review by September 2018.

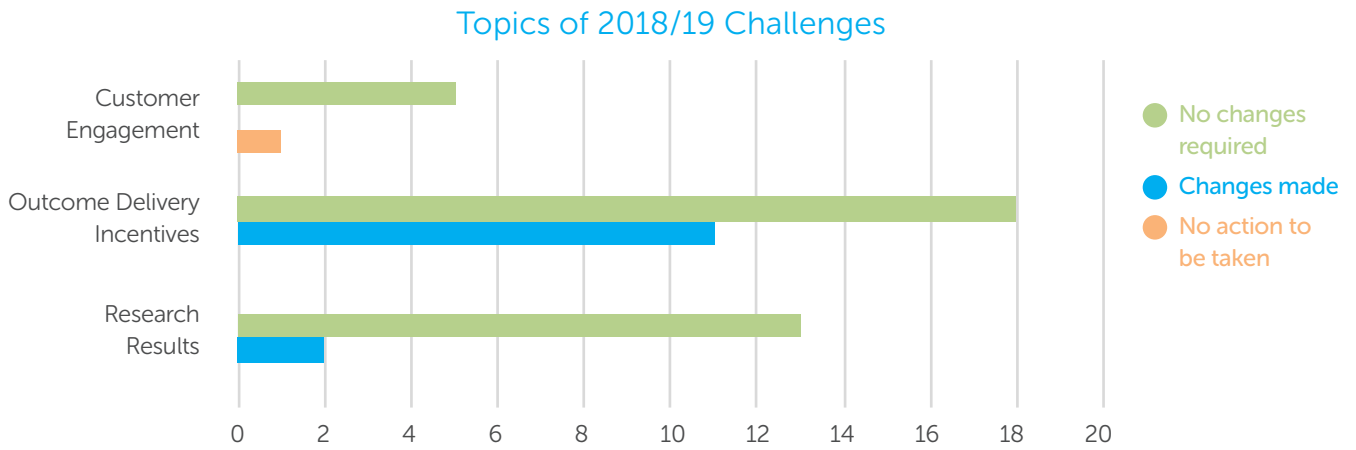
And that little new customer research was carried out or reported between April and September 2018 as the emphasis was on understanding the effect of minor changes in the proposed PR19 Business Plan to provide a bill profile to suit customer priorities.



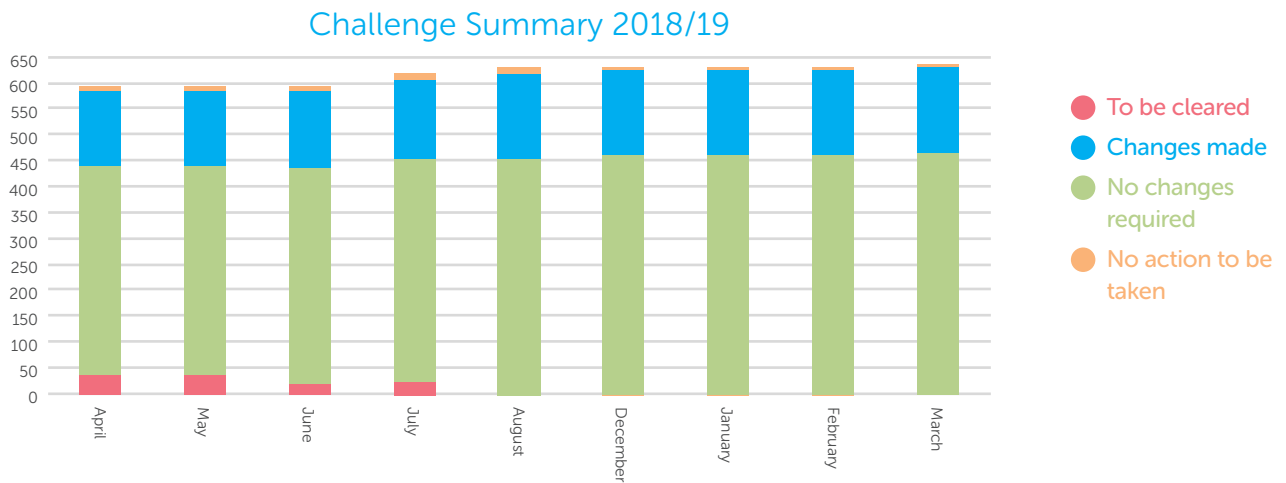
Challenges can arise from emails and any of the meetings in the previous section; the source and status of all 2018/19 challenges are given in the following chart.



The subject matter of the challenges raised during 2018/19 is as follows:



The number of challenges being raised reduced during the year as shown in the Challenge Summary for 2018/19 below. Also, considerable work was undertaken by members and Bristol Water staff to review documentation to ensure that most of the outstanding challenges were cleared, either with changes made or no changes required.



CHALLENGE PANEL FINDINGS

Information assurance

The Challenge Panel places great importance on the need for Bristol Water to provide its customers with clear, high quality information on its service performance, on billing matters, operational issues and on engagement on its future plans. Customers' trust in the company is heavily dependent upon sound information.

In accordance with Ofwat's requirements Bristol Water analysed the risks, strengths and weaknesses of its reported performance information and updated and published its Assurance Plan during the year.

The company invited scrutiny and challenge from the Challenge Panel at the end of 2018 on its risk assessments and on its pre-publication draft Assurance Plan. The Challenge Panel sought and received assurance from the company at that time that any new or emerging information-related risks were included in the Assurance Plan and that they would be dealt with by the end of 2018/19. It took particular interest in data associated with SIM, turbidity, the non-household market, carbon emissions, complaints received by CCWater and the provision of information to Bristol Water by third parties.

The Challenge Panel was pleased to see that the risk of reporting poor information continued to reduce during 2018/19, building on the improvements to reporting methodologies and governance introduced during this price control period. At the end of 2018/19 Bristol Water informed the Challenge Panel that all the reporting methodologies and data associated with its PR14 (AMP6) Performance Commitments had been assigned a 'green' assurance assessment by its Technical Auditor, Atkins. The improved evidencing of information-checking and version control of spreadsheets and other documents

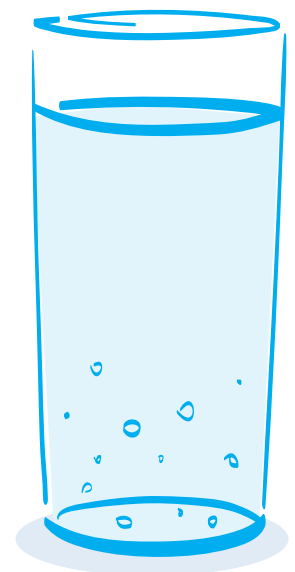
were the main contributors to the 'green' assessments being achieved for all PR14 Commitments.

During 2018/19, Bristol Water was notified by Ofwat that, under the regulator's Company Monitoring Framework, the company's information reporting and governance regime for 2018 was now 'Targeted' rather than 'Prescribed'.

The Challenge Panel considers both the Atkins' findings and Ofwat's 'Targeted' assessment are significant achievements by Bristol Water and reflect the success of the transformation the company is going through to improve its operations and the delivery of services to its customers and its stakeholders. The Challenge Panel encourages the company to maintain its strong information reporting and governance processes in order to be able to accommodate any future regulatory or other external requirements and to report accurate and reliable information throughout the next price control period and beyond.

Bristol Water has also been collecting and reporting information on some of its PR19 Performance Commitments. This 'shadow' reporting activity has also been subject to risk assessment by the company and assurance by Atkins and the performance data and assurance results have been shared with the Challenge Panel. The Challenge Panel is pleased to see that the company is preparing well for full reporting of its new Commitments from April 2020. Most aspects of its reporting systems and processes for PR19 have already received 'green' assurance assessments from Atkins. The Challenge Panel sought and received assurance from Bristol Water that any current 'amber' assessments will be 'green' by April 2020. The Challenge Panel will monitor progress during the coming year.

Bristol Water informed the Panel that it has reviewed information that comes from third parties, particularly from its contractors, and has improved the ownership and checking of such data within the company. It is noted that further work is needed in improving the evidencing of information checking and document control. The Challenge Panel will monitor the company's response during the coming year.





COMMENCED 1834
ISAMBARD KINGDOM BRUNEL F.R.S. ENGINEER
COMPLETED 1834
JOHN HAWKSHAW F.R.S. WILLIAM HENRY BARLOW F.R.S. ENGINEERS
COCKPANE GROVE & CO CONTRACTORS

25

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CHALLENGE PANEL FINDINGS CONTINUED

Key points arising from of Bristol Water performance during 2018/19

This section identifies the key points and challenges arising from Bristol Water performance during 2018/19. The content is split into two parts; the first identifies the twelve Performance Commitments where Bristol Water has not achieved its target for the period; and the second identifies the nine Performance Commitments where the company has achieved the target and identifies where performance was maintained or improved from the year before.

In all cases Atkins has confirmed that both the company's reporting methodology and the resulting data for all the measures are sufficiently robust to enable the Challenge Panel to rely upon the published results.

An overview of all Performance Commitments is included in Appendix 2 and the detailed review, including the definition of the Performance Commitment, is posted upon the Challenge Panel's web page.

TARGETS MISSED IN 2016/17

This section describes the twelve Performance Commitment targets missed by Bristol Water during 2018/19.

A1: Unplanned customer minutes lost

Unit	Mins/prop/yr
Actual 15/16	15.5
Actual 16/17	13.1
Actual 17/18	73.7
Target 18/19	12.5
Actual 18/19	14.7
Target 19/20	12.2

Bristol Water's performance in 2018/19 against this measure at 14.7 minutes per property was significantly better than the 73.7 minutes per property per year achieved last year. Despite this much improved performance the company fell short of the target of 12.5 minutes per property per year.

The associated financial penalty incurred for 2018/19 is £739,000 with the total penalty accrued since 2015/16 now standing at £2.217m. £2.217m is also the company's latest forecast total penalty for 2015/16 to 2019/20.

The Challenge Panel recognises this performance against this measure can be significantly impacted by large unplanned supply interruptions. There were no such large incidents in 2018/19.

The company informed the Challenge Panel that an incident at Frenchay in Bristol, whilst not major, made the difference between meeting the PC target and missing it. Bristol Water considers this event could have been mitigated through better risk planning. It has informed the Challenge Panel that operational lessons have been learnt and new processes are in place. The Frenchay event also caused a rise in contacts and it also coincided with other supply interruptions around same period. With hindsight the company believes should have opened a formal incident to cover this busy period.

The Challenge Panel notes that the company continues to implement its new network strategy involving leadership changes, a new asset management function, a restructuring of its outsourced contractual arrangements and process and procedural improvements including a new work scheduling system. The Challenge Panel considers this ongoing transition had a beneficial impact in 2018/19 and this, combined with ongoing mains replacement and relining programmes, should mean the company becomes better placed to deal with such incidents in the future.

A2: Asset reliability – infrastructure (bursts/low pressure)

Unit	Assessment
Actual 15/16	Stable
Actual 16/17	Stable
Actual 17/18	Marginal
Target 18/19	Stable
Actual 18/19	Marginal
Target 19/20	Stable

The reliability of the company's infrastructure assets in 2018/19 was assessed to be 'marginal', the same assessment as the previous year, and so missed the 'stable' target for the second year running.

The incentive associated with this commitment is financial (penalty only). The penalty accrued for 2018/19 is £685,000 and, as a result of Ofwat's incentive methodology, is the first penalty to be incurred in this price control period. Bristol Water is forecasting that £685,000 will be the total penalty incurred for the five years to 2019/20.

As for last year, the performance in 2017/18 against the low-pressure component of this commitment was good (lower than target). However, the number of mains bursts in the year at

1,074 exceeded the target of 950. On a positive note, the number of bursts at 1,074 was some 12% lower than the year before. The company informed the Challenge Panel that the freeze-thaw event towards the end of 2017/18 had an ongoing impact into 2018/19 and this, combined with the hot summer of 2018, had a detrimental impact on bursts numbers.

D1: Mean zonal compliance

Unit	%
Actual 2015	99.93
Actual 2016	99.97
Actual 2017	99.93
Target 2018	100
Actual 2018	99.99
Target 2019	100

The Challenge Panel notes that Bristol Water's performance in 2018 against this measure was 99.99% against a target of 100%. Performance last year was 99.93% and, despite just missing the target for this year, the company's performance has improved.

There is no associated financial penalty incurred for 2018 as performance was within the penalty deadband. The total penalty accrued to date since 2015 is £568,000. The forecast total penalty for 2015 to 2019 is £568,000.

The Challenge Panel was informed that performance improved in 2018/19 as a result of there being no problems on customers' pipework. The compliance of water from the company's assets remained high with only two failures out of 30,000 samples taken. Bristol Water informed the Challenge Panel that both failures related to network issues.

F1: Leakage

Unit	MI/day
Actual 15/16	44.2
Actual 16/17	47.4
Actual 17/18	49.6
Target 18/19	44.0
Actual 18/19	45.8
Target 19/20	43.0

The reported leakage for 2018/19 was 45.8 MI/d, below the target of 44.0 MI/d. The reported leakage for 2017/18 was 49.6 MI/d so the latest performance represents a significant reduction in reported leakage (see below).

The incentive mechanism for leakage is based on the average figures for the five years of the AMP period. The associated financial penalty incurred for 2018/19 is £1.804m based on the original Final Determination target and methodology. The total penalty accrued to date since 2015/16 is £2.706m. The company is forecasting to meet its leakage next year, based on its new reporting methodology. However, it is assuming the incentives associated with its leakage performance will be calculated with reference to the original Final Determination leakage targets. This means it is anticipating a total penalty of £2.706m to be incurred for 2015/16 to 2019/20.

In 2016/17 Bristol Water informed the Challenge Panel that it was assigning more resources to reducing leakage so the Challenge Panel is pleased to see that the company's efforts have been successful in 2018/19, particularly as leakage had increased between 2016/17 and 2017/18. The Challenge Panel is also pleased to learn that Bristol Water is confident of meeting its leakage target in 2019/20. Indeed, the company hopes to out-perform this target but this is weather dependent. It has reviewed and increased productivity, eliminated the backlog of leakage work and increased in-house staff numbers assigned to leakage reduction activities.

G1: Meter penetration

Unit	%
Actual 15/16	47.3
Actual 16/17	49.3
Actual 17/18	52.7
Target 18/19	62.5
Actual 18/19	56.0
Target 19/20	65.9

As reported in previous years Bristol Water made a slow start implementing its plan to install meters on change of occupancy. The company increased its meter penetration to 56.0% by the end of 2018/19 but fell short of its target of 62.5%.

The associated financial penalty incurred for 2017/18 is £152,000. The total penalty accrued to date since 2015/16 is £574,000. The forecast total penalty for 2015/16 to 2019/20 is £722,000.

The Challenge Panel noted that Bristol Water's end of year meter penetration performance at the end of 2018/19 was less than forecast six months earlier. The company explained that this was partly due to fewer customer requests due to a slowdown in the housing market.

During 2016/17 the company developed and commenced a revised metering plan and it invited comments from the Challenge Panel on this. Bristol Water's revised plan was designed to meet the original meter penetration target by 2019/20 but the Challenge Panel now considers this to be ambitious and challenged the company to explain how it intends to do this. The company has informed the Challenge Panel that it is increasing its marketing activities including more advertising and it will be promoting its 'Beat the Bill' campaign again. The Challenge Panel will continue to monitor progress during the coming year.

CHALLENGE PANEL FINDINGS CONTINUED

G2: Per capita consumption

Unit	Litres/head/day
Actual 15/16	141.1
Actual 16/17	144.1
Actual 17/18	144.5
Target 18/19	142.8
Actual 18/19	148.3
Target 19/20	142.0

The per capita consumption reported for 2018/19 was 148.3 litres per head per day. The target for the year was 142.8 litres per head per day so was missed. The reported figure for the previous year was 144.5 litres per head per day so consumption increased by over five litres per head per day per (around 4%). Bristol Water informed the Challenge Panel that the increase was probably due to the warm weather experienced in May 2018 and the hot spell in June and July which resulted in higher demand and usage such as garden watering.

The Challenge Panel requested and received information on the company's efforts to encourage customers to use water wisely during hot weather and its other water efficiency promotions. The Challenge Panel is satisfied that the company makes reasonable efforts to reduce consumption but has requested further information on its future plans to influence customer behaviour more generally. The company has agreed to share its plans with the Challenge Panel in the coming year.

H1: Total carbon emissions

Unit	kgCO ₂ e/person
Actual 15/16	35
Actual 16/17	32
Actual 17/18	28
Target 18/19	22
Actual 18/19	23
Target 19/20	20

Bristol Water reduced its carbon emissions from 28.6 to 23.0 kgCO₂e per person from last year (a reduction of 18%) but just missed the 2018/19 target of 22 kgCO₂e per person. It has missed all its targets since 2015/16.

As reported in previous years, the company has informed the Challenge Panel that the use of some standard industry definitions when the targets were set are proving to be too aggressive and cannot be met in a cost-effective manner. Despite this the company made good progress during the year and has informed the Challenge Panel of a number of projects it intends to progress over the coming year which will further offset the import of energy from grid and lower overall energy consumption. However, it remains unlikely to meet its 2019/20 emissions target of 20 kgCO₂e per person. The Challenge Panel continues to be disappointed that this may be the outcome but accepts the reasons for this.

H4: Waste disposal compliance

Unit	%
Actual 15/16	96
Actual 16/17	96
Actual 17/18	98
Target 18/19	100
Actual 18/19	98
Target 19/20	100

Bristol Water achieved 98%

compliance against the 2018/19 target of 100%, the same as achieved in the previous year. Compliance issues remain at Barrow but the company intends to implement a remedial scheme for the reed bed discharge at this site. Despite this, a new discharge consent at Blagdon will mean the target is likely to be missed in 2019/20.

J1: Service Incentive Mechanism (SIM)

Unit	SIM score/ ranking
Actual 15/16	85 Top 5
Actual 16/17	86 Top 5
Actual 17/18	83 Outside Top 5
Target 18/19	87 Top 5
Actual 18/19	85 Outside Top 5
Target 19/20	88 Top 5

The company agreed with Ofwat a change to reporting this metric, therefore the targets are presented as the previous year's upper quartile SIM.

The Challenge Panel is pleased that the company's SIM performance improved from the previous year's SIM score of 83. However it fell short of the target of 87 and at 85 is outside the industry top five.

There is no penalty accrued for 2018/19 because the performance was within the penalty deadband defined in Ofwat's Final Determination.

The company told the Challenge Panel that its SIM performance in the first half of 2018/19 had been affected by significant operational incidents associated with the effects of the cold weather experienced

in early 2018 and low-pressure problems resulting from the hot weather in the summer. Performance in the second half of 2018/19 was much improved and the Challenge Panel was pleased to learn that the company had implemented improvements to its customer systems and processes during this time. The Challenge Panel will monitor the ongoing impact of these improvements during the coming year.

J2: General satisfaction from surveys

Unit	%
Actual 15/16	83
Actual 16/17	86
Actual 17/18	87
Target 18/19	93
Actual 18/19	89
Target 19/20	>93

Bristol Water achieved a satisfaction score of 89% in 2018/19, two percentage points higher than the previous year. However the 89% satisfaction achieved fell short of the 2018/19 target of 93%. Whilst general satisfaction has increased each year, the targets have been missed in all years of the current period. The company considers customers' satisfaction was adversely affected by the operational challenges faced as a result of the cold weather conditions in the early part of the year and the hot summer.

The Challenge Panel notes the company's information shows the top reasons for dissatisfaction include poor quality work, poor response to problems and poor ground repairs after competing work in the field. The Challenge Panel was encouraged that the company continues to work hard to improve its customers' experience through initiatives including the

improvement of its digital offering and its street working activities. Some of these initiatives were started in 2017/18. The Challenge Panel was also pleased to learn about the company's efforts to make its website more accessible to customers with disabilities. These improvements should be implemented in the coming year. The Challenge Panel will monitor progress and effectiveness of the customer service initiatives during the coming year.

J3: Value for money

Unit	%
Actual 15/16	70
Actual 16/17	72
Actual 17/18	69
Target 18/19	72
Actual 18/19	68
Target 19/20	72

For 2018/19 Bristol Water reported a 68% performance for this measure against a target of 72%. Performance slipped from 69% the year before and from a high of 72% in 2016/17.

The company told the Challenge Panel that it believes its score has dropped because of the number of low-pressure contacts it received during the hot weather in summer 2018. The Challenge Panel continues to believe the increased publicity around re-nationalisation of the water industry and fines imposed on other water companies for poor performance may also have had an impact as it appears that falling value for money perception is being replicated across the industry.

The Challenge Panel is pleased to see that Bristol Water is striving to improve its customer service through the various initiatives mentioned elsewhere in this report.

K1: Ease of contact from surveys

Unit	%
Actual 15/16	95.0
Actual 16/17	94.4
Actual 17/18	93.1
Target 18/19	>96.5
Actual 18/19	91.4
Target 19/20	>96.5

For 2018/19 Bristol Water achieved a 91.4% performance for this measure against a target of greater than 96.5%. Performance in 2017/18 was 93.1% so has reduced. It also reduced slightly between 2017/18 and 2016/17

The Challenge Panel notes that Bristol Water continues to strive to improve its customer service by making it easier to respond to enquiries. This is proving to be a challenge. As mentioned last year Bristol Water increased its efforts to understand and reduce customers' 'don't know' responses to the survey questions. The company is planning further improvements in the coming year to ensure customers' queries are dealt with effectively and resolved at the first opportunity. These improvements involve more staff training and better IT systems and working methods. The Challenge Panel will monitor performance against this measure during the coming year.

TARGETS MET OR EXCEEDED IN 2018/19

This section describes the nine Performance Commitment targets achieved by Bristol Water during 2018/19 and where performance was the same or improved from the year before.

CHALLENGE PANEL FINDINGS CONTINUED

A3: Asset reliability – non-infrastructure

Unit	Assessment
Actual 15/16	Stable
Actual 16/17	Stable
Actual 17/18	Stable
Target 18/19	Stable
Actual 18/19	Stable
Target 19/20	Stable

The reliability of the company's non-infrastructure assets in 2018/19 was assessed to be 'stable' in line with the target for the year. This assessment has been achieved each year since 2015/16.

The Challenge Panel notes that the number of unplanned non-infrastructure asset maintenance events in 2018/19 was some 11% lower than the previous year.

B1: Population in centres >25,000 at risk of asset failure

Unit	Pop at risk
Actual 15/16	288,589
Actual 16/17	288,589
Actual 17/18	9,063
Target 18/19	9,063
Actual 18/19	9,063
Target 19/20	9,063

The company's performance in 2018/19 was in line with the target because of the completion of the Southern Resilience Scheme last year.

C1: Security of Supply Index

Unit	Index
Actual 15/16	100
Actual 16/17	100
Actual 17/18	100
Target 18/19	100
Actual 18/19	100
Target 19/20	100

The company's performance in 2018/19 was 100% in line with the target.

C2: Hosepipe ban frequency

Unit	Days/year
Actual 15/16	1.5
Actual 16/17	3.1
Actual 17/18	3.1
Target 18/19	10.2
Actual 18/19	3.1
Target 19/20	10.2

The reported return period for 2018/19 was 3.1 days per year, the same as in the previous two years. The target for 2018/19 was 10.2 days per year (the same as last year) so the company's actual performance continues to be well within this.

E1: Negative water contacts

Unit	Contacts/year
Actual 2015	2,329
Actual 2016	2,162
Actual 2017	1,711
Target 2018	2,275
Actual 2018	1,934
Target 2019	2,221

The Challenge Panel notes that while Bristol Water's performance against this measure was within target, the number of negative water contacts increased by 223 (13%) over 2017. The company has cited the increased activity on its mains network and a reduction in its

systematic flushing programme as reasons for this. The legacy of the cold weather at the start of the year, the hot summer and increased leak reduction activity were contributory factors.

Whilst the Challenge Panel accepts these factors may have contributed to the increased numbers of negative water contacts received in 2018, it is disappointed to see that the reducing trend of such contacts over the last three years was reversed. It encourages the company to do all it can to minimise such contacts and will monitor performance in the coming year.

H2: Raw water quality of sources

Unit	% of AMP5 baseline aggregate of algal bloom frequency
Actual 15/16	+20% Deteriorating
Actual 16/17	+11% Deteriorating
Actual 17/18	-1% Marginal
Target 18/19	+/-<10% Marginal
Actual 18/19	-14% Improving
Target 19/20	+/-<10% for >2years Stable

The company agreed with Ofwat a change to reporting this metric, therefore the targets are presented as a % change of the AMP5 baseline aggregate (8,059) of algal bloom frequency. The previous measure was based on a categorisation as either deteriorating, marginal, stable or improving, which the table above shows for comparison.

The quality of the company's raw water sources in 2018/19 was assessed to be 'improving' in line with expectation. This represents an improvement on the positions reported in 2015/16, 2016/17 and 2017/18.

The Challenge Panel was interested in why performance improved significantly in 2018/19. Bristol Water said its work on catchment management with farmers (concerning improved farming practices) was being effective. The Challenge Panel also wished to understand how performance of this initiative was measured and monitored. It is not confident there is correlation of information provision to farmers and improved raw water quality. The company has agreed to provide more information on this to the Panel during the coming year.

H3: Biodiversity Index

Unit	Index score
Actual 15/16	17,649 Improving
Actual 16/17	17,650 Improving
Actual 17/18	17,657 Improving
Target 18/19	17,652 Improving
Actual 18/19	17,668 Improving
Target 19/20	17,653 Improving

The company agreed with Ofwat a change to reporting this metric, therefore the targets are presented as a numerical BI index score. The previous measure was based on a categorisation as either deteriorating, marginal, stable or improving, which the table above shows for comparison.

Bristol Water achieved an 'improving' Biodiversity Index in 2018/19, in line with its target. The Challenge Panel congratulated the company on its improving performance noting that the Biodiversity Index score will reduce due to natural degradation in the environment and that the company has to undertake environmental improvement work

to counter this. It also noted that the company's targets in the next price control period will be more stretching.

L1: Percentage of customers in water poverty

Unit	%
Actual 15/16	0.4
Actual 16/17	0.9
Actual 17/18	0.0
Target 18/19	1.9
Actual 18/19	0.0
Target 19/20	1.8

The reported percentage of customers in water poverty in 2018/19 was 0%, the same as reported last year. The target percentage for 2017/18 was 1.9% so the Challenge Panel was pleased to see performance was well within this and maintains the excellent result from last year.

The Challenge Panel was keen to further understand the definition the company uses to determine water poverty. It established that Bristol Water uses a population analytics model and then deducts those customers whom it has supported via its Assist social tariff. The Challenge Panel queried how the company can be sure these customers are no longer in poverty. Bristol Water told the Panel that it can't be absolutely sure but that it can be confident that the customers to whom it provides help are unlikely to remain in water poverty. The Panel is satisfied with this approach.

The Challenge Panel notes that the company is planning research into its social tariff later this year and it enquired about how it might spend the extra money on in the current price control period if it gets support for the cross subsidy it is seeking. Bristol Water said it will extend its current systems to more people and that it will continue its partnerships with debt charities to identify such

people. The Challenge Panel notes that other water companies work with public services such as the police and has suggested that Bristol Water explores such opportunities with the Avon & Somerset police force. The company has said it is already in contact with the Fire Service and that it will explore opportunities with other services.

L1: Negative billing contacts

Unit	Contacts/year
Actual 15/16	2,301
Actual 16/17	3,096
Actual 17/18	2,300
Target 18/19	2,240
Actual 18/19	1,595
Target 19/20	2,170

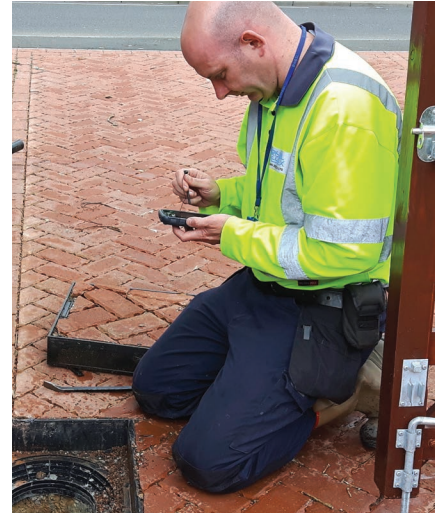
Bristol Water reported 1,595 negative billing contacts in 2018/19, significantly fewer than in 2017/18 (2,300) and well below the target of 2,240 for the year.

The Challenge Panel was pleased to learn that performance has improved markedly over the last two years and that the ongoing focus the company is giving to customer service and the initiatives such as proactive text messaging are proving to be effective.

CHALLENGE PANEL FINDINGS CONTINUED

Customer Engagement

Customer engagement has become business as usual for Bristol Water of the past five years. Much of the customer engagement required for the Bristol Water submission of its Business Plan to Ofwat in September 2018 was completed before the reporting period of this report, however the overall context is provided below. The small amount of customer engagement carried out in the reporting period is then reviewed. This is followed by an overview of the unexpected and additional customer engagement required as a result of the Ofwat IAP published in January 2019. The final part of this section is an overview of the new continuous customer engagement developed by Bristol Water during the past few years.



OVERVIEW OF ALL CUSTOMER ENGAGEMENT SUPPORTING BRISTOL WATER BUSINESS PLAN BEFORE APRIL 2018

Throughout the period from 2015 to 2019, the Challenge Panel has worked closely with executive directors and senior managers of Bristol Water to:

- Establish a customer engagement framework that used a wide range of research techniques to understand customer priorities and preferences
- Scrutinise the findings revealed in customer research
- Challenge Bristol Water on its triangulation of the research and the valuation data obtained
- Examine and ensure that customer preferences were driving company decisions regarding its business planning process
- Assess whether the final business plan met customer expectations and priorities.

The Challenge Panel has tested Bristol Water to ensure that the voice of the customer is heard in all its diversity and that their needs and priorities are reflected throughout the Business

Plan. The customer engagement plan included several notable innovations, including the use of an interactive game to engage customers. Importantly, bespoke research aimed at understanding the needs and priorities of vulnerable customers has resulted in a step change of support targeted at these individuals. Comparisons between vulnerable customers and control groups on particular pieces of research ensured that Bristol Water could compare and contrast priorities across its entire customer base.

Members of the Challenge Panel participated in a number of consultation and research initiatives, either as observers or in the role of an independent, 'honest broker' chairperson in bringing together company, local council, community leaders and customers. Bristol Water develop a broad-ranging customer engagement strategy involving 40 pieces of research and that obtained responses from 37,000 customers.

As part of the customer engagement strategy, Bristol Water defined its customer base and created segments to understand the impact

of its operations and activities on customers of differing ages, income and other characteristics. As a result, the Challenge Panel has seen clear evidence that the bespoke performance commitments set out in its business plan reach into new areas of activity (such as the measuring of community satisfaction with investments in co-created community activities).

The Challenge Panel has seen evidence that Bristol Water also is proposing to assist customers with the affordability of their water bill and provide support for vulnerable customers.

In summary, the Challenge Panel considers the evidence that the Bristol Water Business Plan 2020-2025 is grounded in a sound, extensive customer engagement strategy and research; the views, priorities, preferences and valuations of customers are reflected throughout. Performance commitments meet the regulatory and statutory requirements set out by Ofwat and other regulators and the incentives reflect what customers value and prefer.

2018 CUSTOMER ENGAGEMENT PRIOR TO BUSINESS PLAN SUBMISSION

Twenty-five distinct pieces of customer engagement had been reported to the Challenge Panel in the two years prior to April 2018. These had concentrated on the customer views on the various attributes that would make up the Bristol Water Business Plan for 2020 to 2025. The ten customer engagements during the five months of the period under review up to the Business Plan submission dealt with customer views of the overall plan.

The first five customer engagements covered a Draft Business Plan which was completed by the company in early 2018. The engagements involved reconvening customers who had participated in earlier research, engaging and recruiting uninformed customers, mass participation (roadshows, water talks, social media and a freepost survey) and specific focus groups of seldom heard customers, including rural, English as a second language and low income groups.

Overall, customers were positive about being involved and the results supported the company's business plan priorities. There was a majority view for the final bill level to be no higher than the suggested plan. There was also a view that the level of Vulnerability Assistance should be increased.

BW took all the customers views on the Draft Business Plan into account and produced the final version of the Plan which was submitted to Ofwat in September 2018.

Prior to submission to Ofwat there was a more formal customer engagement on the acceptability of the Final Business Plan. The Challenge Panel had the opportunity to review and challenge Bristol Water's approach to the survey, the

results it obtained and the use of these in finalising the Plan.

The testing including obtaining opinion on three levels of service improvement (slower, preferred and faster) and bill impact. The acceptability research also sought views on the overall level of ambition in the draft plan, overall bill levels and the level of vulnerability assistance.

The Challenge Panel noted that the preferred plan was marginally more acceptable than the slower plan.

The acceptability of the final plan was high across all the research activities at 93%. The level of unacceptability was very low at around 5%.

At this stage four focus groups were held to gather qualitative information on customers' view of the future of the water sector; these were supplemented by 400 on-line interviews. Findings were weighted to Bristol Water's customer base demographics. Customer views were positive on the company and its Business Plan; most were against the nationalisation of Bristol Water and welcomed the idea of community initiatives.

Next a representative survey on the Final Business Plan was carried out supplemented by a series of focus groups targeted at seldom heard customers. Acceptability was higher in the focus groups, possibly because the focus group customers were given the opportunity to ask questions and find out more before voting; this was not possible with the representative survey. Customers suggested that Bristol Water would need to explain clearly any increase or decrease to bills which resulted from incentives or penalties.



The last survey carried out before the Business Plan submission was a comparison of PR19 Willingness to Pay results obtained by several water companies with each other. For most service measures, as at PR14, the range of PR19 unit values across companies and studies was large.

In summary, the Challenge Panel considers the evidence that the Bristol Water Business Plan 2020-2025 is grounded in a sound, extensive customer engagement strategy and research; the views, priorities, preferences and valuations of customers are reflected throughout. Performance commitments meet the regulatory and statutory requirements set out by Ofwat and other regulators and the incentives reflect what customers value and prefer. The Plan focuses on building trust, being transparent in its undertakings and inspiring confidence among its customers. The reduction in the cost of the bill will be welcomed by its customers. Customers will also be pleased with the environmentally focused performance commitments that respond to customer expectations as identified in the customer engagement research activities.

The Executive Summary of the full BWCP Assurance Report on Bristol Water's Business Plan September 2018 is attached as Appendix 3; the full report can be found on our webpage www.bristolwater.co.uk/about-us/our-customers/#challenge-panel

CHALLENGE PANEL FINDINGS CONTINUED

CUSTOMER ENGAGEMENT AS A RESULT OF OFWAT'S INITIAL ASSESSMENT OF PLANS MARCH 2019

In January 2019 Ofwat published its Initial Assessment of Bristol Water's Business Plan [IAP] and asked the Challenge Panel to provide a short report on Bristol Water's responses to it. Our report covers the Challenge Panel's views on:

- The feedback and challenges raised in the IAP which are considered to be relevant to customers and the work of the Challenge Panel
- The extent and quality of additional customer engagement undertaken by Bristol Water in response to the IAP
- The impact of the IAP, and Bristol Water's responses, on the affordability of bills and the vulnerability of customers
- The effect of the IAP, and Bristol Water's responses, on the proposed delivery of outcomes for customers

The short report provided to Ofwat contained the Challenge Panel's views on the extent and quality of additional customer engagement undertaken by Bristol Water in response to the IAP

Bristol Water split the additional IAP research into two distinct surveys as follows:

- Updated acceptability research, which covered future bill profiles, the overall ODI package and small company premium
- ODI Focus Groups, which tested views on outperformance incentives, outperformance caps, underperformance collars, deadbands, and the approach to asset health incentives.

Updated acceptability research

The Challenge Panel commented on the updated acceptability research survey wording before it was finalised

and accepted that as the survey was an update of that used in summer 2018 there was no requirement for pilot testing. Sample sizes and quotas were set to meet Bristol Water customer demographics. Challenge Panel members were provided with a copy of the online survey to try out; these inputs were not included in the survey result.

A sample size of 415 was achieved in the short time available and the intended demographic quotas were met. There was consensus across all the customer segments which gives the Challenge Panel high levels of confidence that the engagement met the intended purpose.

As a result of its review and challenges the Challenge Panel considers that the survey met with social research best practice. The Challenge Panel also considered the updated Acceptability engagement achieved sufficient accuracy and demographic spread.

ODI focus groups

The Challenge Panel was provided with the material to be used in the focus groups and given time to comment on the survey materials. The Challenge Panel members were also invited to observe a focus group.

Bristol Water originally intended to explore all topics in each focus group, but it soon became clear that some respondents were having difficulty understanding the concepts involved, particularly when related to the more technical ODIs. This necessitated a rethink of the approach by Bristol Water and a simplification of the process such that not all topics were covered in each subsequent focus group. This targeting of respondents' time on fewer topics at a time worked well but did mean that there were fewer respondents reviewing each topic. The Challenge Panel

considered this was a reasonable response to the challenges faced by the first focus group.

The Challenge Panel considers that, while the results from these ODI focus groups should not be considered in isolation, they can be used in conjunction with the associated research undertaken in summer 2018 to add to confidence in the overall research into incentives and that this research reaffirms Bristol Water's original ODI package.

The Challenge Panel is pleased to note that the additional IAP customer engagement has not altered the company's outcomes, priorities and promises made to customers in its original PR19 Business Plan. In addition, the impact on service levels and customers' bills is materially the same as originally proposed and that future bills will remain materially in line with the results of the customer engagement undertaken for the Business Plan in 2017 and 2018. The Challenge Panel has been assured by the Board of Bristol Water that the company, rather than customers, will bear any resulting increase in financial risk.

The Executive Summary of the full IAP report is attached as Appendix 4; the full report, which should be read in conjunction with the Challenge Panel's original views on the PR19 Business Plan as reported to Ofwat in September 2018, can be found on the BWCP webpage

www.bristolwater.co.uk/about-us/our-customers/#challenge-panel



ONGOING AND REGULAR ENGAGEMENT

While undertaking the single bespoke surveys mentioned above Bristol Water has developed a number of engagement activities that are undertaken on a regular basis – some quarterly, some annually. The engagements enable Bristol Water to identify trends in customer views and also to track how changes and improvements the company makes to its services and impact on its customers.

Whilst engaging with its customers every day, Bristol Water has over the last few years transformed the way it uses this data to ensure the company is capturing its customers' views and learning from their feedback on an on-going basis.

A Customer Dashboard presentation has been developed by the company as the primary reporting tool for customer engagement data. It is designed to make it easy for the business to take into account the customer voice in its everyday decision making. The Dashboard is a

live tool, and is referred to by Bristol Water staff regularly, and updated once a quarter. An annual overview of customer feedback across a range of service attributes is produced to review what customers are saying.

The main sources of quarterly data are the Online Customer Panel, which generates customer insights on a regular basis, allowing tracking of changes over time, and the Customer Forum, which allows more in-depth discussion face-to-face with a demographically similar group. The Forum also allows Bristol Water to consult with customers who are relatively well acquainted with the company on topics that are relevant at that time. These inputs are supported by a simple quarterly online survey, with questions tied to other customer engagements in that quarter to triangulate responses; customer numbers for the survey vary but are always over 700 and can be up to 1,600

On an annual basis more formal surveys are carried out, including the ICS Benchmarking survey, the UK Customer Satisfaction Index and an

annual stakeholder survey.

Similar arrangements are made to engage with company staff, retailers, developers and future customers on an on-going basis.

A summary of this data is provided to the Challenge Panel at its quarterly Customer Engagement Sub-Group meetings. The Sub-Group is encouraged by the company to challenge the methodology used and the results. Future surveys are also discussed, and members are encouraged to take part as their time permits.

CHALLENGE PANEL FINDINGS CONTINUED

Social Contract

Bristol Water has been developing the concept of a Social Contract between the company and the population it serves. This strategic platform will inform how the company invests in projects in various communities in the future and how it forms partnerships with other bodies and institutions. It also sets out how the company intends to share any outperformance payments it receives under the incentive mechanism for the company's proposed Local Community Satisfaction ODI for 2020 to 2025.

The Social Contract initiative has been welcomed by Bristol Water's customers, the Challenge Panel, community partners and by members of staff.

The Challenge Panel is pleased to see Ofwat has also recognised Bristol Water's proposed Social Contract initiative.

The Challenge Panel notes that Bristol Water is the first water company in the UK to have launched a Social Contract and has begun the process of shaping

and evolving it for full implementation from April 2020. The company has been engaging with its customers on the objectives and possible scope of Social Contract since its Business Plan for 2020 to 2025 was submitted last September.

Bristol Water intends to involve the Challenge Panel in the detailed design of the Social Contract and in its implementation and the monitoring of its success during the upcoming AMP. The Challenge Panel is looking forward to this involvement

as it will need to understand the Social Contract development and its evolution, the key milestones, communication with customers and other stakeholders, the quality of the performance measurement system and the interaction with the proposed Performance Commitments for 2020 to 2025. The Challenge Panel will be looking to challenge the ongoing development, delivery and continuous improvement of the Social Contract, the transparency of performance reporting and the application of the incentive sharing mechanism.



FOCUS FOR 2018/19

In the preparation of this report the Challenge Panel has noted areas where it needs to focus its review and challenge during 2019-20 and the business planning period to 2024/25 leading up to PR24.

The Consumer Council for Water has publicly challenged Bristol Water to reduce customer complaints. The company has recently changed some working practices and achieved a 19% reduction in complaints. The Panel will continue to challenge the company to deliver its intention to reduce this number further.

In 2017/18 Bristol Water experienced several significant and unusual operational incidents as well as unusually cold weather. These events had an adverse impact on a few interrelated performance commitments. The company kept the Challenge Panel informed of its response to these incidents, the lessons learned from them and the steps it has taken to reduce the risk of reoccurrence. The Challenge Panel will monitor the company's performance going forward.

Bristol Water informed the Panel that it has reviewed information that comes from third parties, particularly from its contractors, and has improved the ownership and checking of such data within the company. It is noted that further work is needed in improving the evidencing of information checking and document control. The Challenge Panel will monitor the company's response during the coming year.

There are several concerns expressed in the Bristol Water Performance section above that will form the core of the Panel's performance challenges in 2019/20, as follows:

Meter penetration. Bristol Water's plan was designed to meet the original meter penetration target by 2019/20. The Challenge Panel now considers

this to be ambitious and has challenged the company to explain how it intends to do this. The Challenge Panel will continue to monitor progress during the coming year.

Per capita consumption. The Challenge Panel has requested further information on Bristol Water's future plans to influence customer behaviour more generally. The company has agreed to share its plans with the Challenge Panel in the coming year.

Service Incentive Mechanism (SIM). The Challenge Panel was pleased to learn that Bristol Water had implemented improvements to its customer systems and processes during the period and that performance in the second half of 2018/19 was much improved as a result. The Challenge Panel will monitor the ongoing impact of these improvements during the coming year.

General satisfaction from surveys. The Challenge Panel notes that customer's top reasons for dissatisfaction include poor quality work, poor response to problems and poor ground repairs after competing work. The Challenge Panel was encouraged that the company seeks to improve its customers' experience through initiatives including the improvement of its digital offering and its street working activities. The Challenge Panel will monitor progress and effectiveness of the customer service initiatives during the coming year.

Ease of contact from surveys. The Challenge Panel recognises that Bristol Water continues to strive to improve its customer service by making it easier to respond to enquiries. The Challenge Panel will monitor performance against this measure during the coming year.

Raw water quality of sources. The Challenge Panel wishes to understand how performance of this initiative is measured and monitored as it is

not confident there is correlation of information provision to farmers and improved raw water quality. The company has agreed to provide more information on this to the Panel during the coming year.

Looking forward, there are several areas that may require the Challenge Panel to focus on as follows:

Bristol Water has committed to upper quartile performance in many areas over the period 2024/25. Targets such as supply interruptions and leakage are particularly stretching and will be monitored closely by the Challenge Panel.

The Challenge Panel is concerned about the on-going arbitration with the Canal & River Trust regarding its £10m demand for the abstraction of water from the Sharpness Canal and the potential impact on customer bills when this matter is resolved.

The Challenge Panel has asked that in the coming year the Bristol Water Board sets out a clear corporate responsibility statement and policy that enshrines the company's and its shareholders' responsible attitude towards the communities where it operates, how its investment strategy affects customers, its policy on shareholder dividends and the performance related element of executive pay. The Challenge Panel looks forward to receiving and discussing the revised policies where they affect customers.

A new reputational PC relating to retailer measure of experience (R-Mex) has been introduced by Bristol Water following the IAP challenge to Bristol Water. The Challenge Panel has reviewed the proposed R-Mex PC and ODI and considers it to be a reasonable response to Ofwat's challenge. The Challenge Panel will be seeking further clarity of definition of this PC and its service target and its implementation.

CONCLUSIONS

Reflecting on the performance of Bristol Water during the year, its Business Plan submitted in September 2018 and its response to the Initial Assessment of the Business Plan (IAP), the Bristol Water Challenge Panel makes several observations. These are:

- Evidence examined by the Challenge Panel demonstrates that the priorities and preferences of customers have shaped the Business Plan submitted by Bristol Water and is the result of a high-quality customer engagement programme. Ofwat has commended the thoroughness of the work of the Challenge Panel. Risks to the customer seem balanced with the cost and profile of water bills remaining below that of current bills.
- The balance of incentives and rewards indicates the ambitious nature of its promises for the next AMP given its performance during the 2018/19 reporting year. While the Challenge Panel does not receive reports regarding the deployment of human resources, its third party contractual arrangements or the training and development programmes for its staff, the Challenge Panel is reassured through its board link that the changes in how Bristol Water carries out its business are sufficiently funded, that the culture is positive and that staff morale is high. All these indicators help to deliver a better quality of service to customers and, hence, are of importance and interest to customers.
- The Challenge Panel does not receive reports on the ability of Bristol Water to finance the business, the company's debt structure or its investment programme. However, it is in the interest of its customers for Bristol Water to be financially viable and to reward fairly and transparently its staff and shareholders. The Challenge Panel has, and will continue to, interrogate the board of Bristol Water for reassurance on these matters.

- A growing proportion of customers of Bristol Water are demonstrating a greater desire for more education about water as a resource and how the company conducts its business of supplying customers with excellent quality, always available, fairly priced water from the tap. The demand for greater knowledge and the empowerment of water users can help transform the company and exert a positive influence on customer service, customer satisfaction and a more considered use of water as a resource.

The customers of Bristol Water have confirmed through two separate research programmes that they value being served by a local company. While the small company premium results in marginally higher bills, customers also benefit from corporate activities such as the social contract and the biodiversity index, both on the leading front of corporate responsibility in the water sector and beyond.

Expectations from customers, regulators and politicians will continue to have an impact on the water sector. Among the issues gaining traction are:

- the growing expectation by customers to be educated about water and to have a greater voice and involvement in the sector as educated consumers,
- the expectation by customers that companies actively place importance on their environment and social consequences as well as on delivery and strategic matters,
- a greater stewardship of the environment (from water catchment zones to the tap),
- the impact of climate change on weather, water resources management and resilience,
- the need to use less water and to use it more wisely,
- greater transparency and openness from companies regarding their strategic and operational activities and rewards.

The Challenge Panel looks forward to receiving from Ofwat its Draft Determination and Final Determination for Bristol Water. The latter document will determine the precise promises that Bristol Water will make to its customers. In the meantime, the Challenge Panel will continue to have oversight of the on-going customer research programmes, the development of the social contract and the year-end reports on Bristol Water's 2018/19 performance and technical assurance.

As Independent Chair of the Bristol Water Challenge Panel, I wish to thank all the members of the Challenge Panel, particularly those who give of their time voluntarily to carry out this most important task. Contributions from local councillors and regulatory bodies are also vital for the work of the Challenge Panel as they provide a different channel to Bristol Water customers. I also thank Bristol Water for the way that its executives and non-executives participate in the work of the Challenge Panel. There are times when the scrutiny of our work must result in increased pressure and extra work. However, the timeliness and the courteousness of response is of great assistance to us and aids us in carrying out our role.

The importance of water is increasing in the consciousness of the British public. Whether it is the floods and droughts that may be associated with climate change or how much water may be lost through leakage, water users are moving from placid customers to enlightened consumers, keen to steer the future consumption of this most precious and vital natural resource.

APPENDIX 1: MEMBERS

Challenge Panel members who have contributed during 2018/19:

Name	Organisation
Peaches Golding OBE	Chair
Tony Denham	Deputy Chair
Jeremy Hawkins (Report Writer)	Creoda Consulting
Michael Barnes	CCWater
Mike Bell	CCWater
Jeremy Bailey	Environment Agency
Dr Mark Taylor	Natural England
Dr Danielle Wain	University of Bath
Cllr. Robert Cleland	North Somerset DC
Cllr. Terry Napper	Mendip DC
Dr Tabinda Rashid-Fadel	NHS
Luke Hasell	The Story Group
Daniel Woodhead	Step Change



APPENDIX 2: BRISTOL WATER PERFORMANCE COMMITMENT RESULTS

Outcomes and Performance Commitments	Unit	Actual 15/16	Actual 16/17	Actual 17/18	Target 18/19	Actual 18/19	Target 19/20
Reliable supply							
A1: Unplanned customer minutes lost	Mins/prop/yr	15.5	13.1	73.7	12.5	14.7	12.2
A2: Asset reliability – infrastructure	Assessment	Stable	Stable	Marginal	Stable	Marginal	Stable
A3: Asset reliability – non-infrastructure	Assessment	Stable	Stable	Stable	Stable	Stable	Stable
Resilient supply							
B1: Population in centres > 25,000 at risk of asset failure	Pop at risk	288,589	288,589	9,063	9,063	9,063	9,063
Sufficient supply							
C1: Security of Supply Index	Index	100	100	100	100	100	100
C2: Hosepipe ban frequency	Days/year	1.5	3.1	3.1	10.2	3.1	10.2
Safe drinking water							
D1: Mean zonal compliance	%	99.93	99.97	99.93	100	99.99	100
Water is good to drink							
E1: Negative water contacts	Contacts/year	2,329	2,162	1,711	2,275	1,934	2,221
Efficient use of resources by company							
F1: Leakage	MI/day	44.2	47.4	49.6	44.0	45.8	43.0
Efficient use of resources by customers							
G1: Meter penetration	%	47.3	49.3	52.7	62.5	56.0	65.9
G2: Per capita consumption	Litres/head/day	141.1	144.1	144.5	142.8	148.3	142.0
Sustainable environmental impact							
H1: Total carbon emissions	kgCO ₂ e/person	35	32	28	22	23	20
H2: Raw water quality of sources	Assessment	Deteriorating	Deteriorating	Marginal	Marginal	Improving	Stable
H3: Biodiversity Index	Assessment	Improving	Improving	Improving	Improving	Improving	Improving
H4: Water disposal compliance	%	96	96	98	100	98	100
Affordable bills							
I1: Percentage of customers in water poverty	%	0.4	0.9	0.0	1.9	0.0	1.8
Satisfied customers							
J1: Service Incentive Mechanism (SIM)	Ranking	Top 5	Top 5	Outside Top 5	Top 5	Outside Top 5	Top 5
J2: General satisfaction surveys	%	83	86	87	93	89	>93
J3: Value for money	%	70*	72	69	72	68	72
Easy to contact							
K1: Ease of contact from surveys	%	95.0*	94.4*	93.1	>96.5	91.4	>96.5
Bills that avoid confusion for customers							
L1: Negative billing contacts	Contacts/year	2,301	3,096	2,300	2,240	1,595	2,170

* re-stated performance following amendments to reporting methodology

APPENDIX 3: BWCP ASSURANCE REPORT ON BRISTOL WATER'S BUSINESS PLAN SEPTEMBER 2018

EXECUTIVE SUMMARY

The role of the Bristol Water Challenge Panel is defined by Ofwat, the water regulator, and is three-fold in nature; firstly to provide an independent assurance to Ofwat of the quality of customer engagement undertaken by Bristol Water, secondly, to provide evidence of the extent to which the findings from its customer engagement is reflected in the company's business plan for the period of 2020 to 2025 and lastly to scrutinise the performance of the company on the commitments and promises it made for its 2015 to 2020 Asset Management Plan (AMP).

The Challenge Panel is independent from Ofwat and Bristol Water, yet works with each one to obtain the best outcomes for customers of the water company.

As Bristol Water is in the prescribed category by Ofwat, the Challenge Panel was acutely aware that the company would be receiving greater scrutiny than most water companies regarding the quality of its customer strategy, its analysis and translation into its business plan. As a Challenge Panel, our ambition is to assist Bristol Water to become the best performing company in the water sector, and possibly the utilities sector as a whole. In order to do so, the Challenge Panel comprises a range of skilled independent contributors drawn from diverse backgrounds as well as a selection of stakeholders such as the environment regulators (Natural England and Environment Agency) and the Consumer Council for Water.

This report sets out the evidence of how the Challenge Panel has carried out its role. In order to assist the Challenge Panel in carrying out its function, we have adhered to the duties

and responsibilities set out by Ofwat in its "Customer engagement policy statement and expectations for PR19" published in May 2016, its publication "Delivering Water 2020: Our final methodology for the 2019 price review" from December 2017 and the Ofwat "Aide Memoire for Customer Challenge Groups" from March 2018. The extent of challenge made by the Challenge Panel exceeded the issues in the above documents as the strengths, skills and expertise of Challenge Panel members broadened, augmented and enriched its discussions and deliberations.

The Challenge Panel was keen to ensure that the customer engagement strategy was rooted in the realities facing customers in the short and longer term and presents evidence to this effect. Among these key issues facing the local area are the impact of austerity measures on certain customers, the expectation of a resilient water supply and service as well as the longer-term potential for climate change to affect water supplies, the scarcity of water as a natural resource and the importance of stewardship of the water catchment.

The Challenge Panel wishes to highlight that 25% of its challenges and scrutiny have resulted in changes in how the company carries out its business. The Challenge Panel has had real influence over the creation and implementation of the customer engagement strategy and how it has been translated into the Bristol Water business plan.

Throughout the period from 2015 to 2019, the Challenge Panel has worked closely with executive directors and senior managers of Bristol Water to:

- establish a customer engagement framework that used a wide range of research techniques to understand

- customer priorities and preferences
- scrutinise the findings revealed in customer research
- challenge Bristol Water on its triangulation of the research and the valuation data obtained
- examine and ensure that customer preferences were driving company decisions regarding its business planning process
- assess whether the final business plan met customer expectations and priorities.

The Challenge Panel has tested Bristol Water to ensure that the voice of the customer is heard in all its diversity and that their needs and priorities are reflected throughout the business plan. The customer engagement plan included several notable innovations, including the use of an interactive game to engage customers. Importantly, bespoke research aimed at understanding the needs and priorities of vulnerable customers has resulted in a step change of support targeted at these individuals. Comparisons between vulnerable customers and control groups on particular pieces of research ensured that Bristol Water could compare and contrast priorities across its entire customer base.

The Challenge Panel is pleased to report that the Director of Strategy & Regulation, Chief Customer Officer, and Head of Customer Service attended Challenge Panel agenda conferences, meetings and sub-group meetings, keeping the Panel informed of their progress with the customer engagement framework and seeking its views at an early stage in the business planning process. Specialists such as the Head of Water Resource & Environment, Regulatory Policy Advisor, Head of Economic Regulation, among others supported the Challenge Panel in probing deeply on behalf of the customer the range of strategies,

APPENDIX 3: BWCP ASSURANCE REPORT ON BRISTOL WATER'S BUSINESS PLAN SEPTEMBER 2018 (CONTINUED)

policies and reports in development during the asset management period.

Throughout 2016, an Independent Non-Executive Director of the Bristol Water Board attended several Challenge Panel meetings as both observer and contributor. The executive director and senior managers supporting the Challenge Panel responded well to the scrutiny posed by the Challenge Panel and were supportive of our requests for, say additional information, greater clarity wider considerations or clearer communication, in a timely and transparent manner and as thoroughly as practicable. There were times when the Challenge Panel found that the executives had advanced quicker in the development of the business plan than the Challenge Panel was informed or that business planning concepts were developed before the Challenge Panel had an opportunity to scrutinise them thoroughly. However, the Challenge Panel felt it had contributed to the formulation of strategies through its influence on the executive team and in reports to the Bristol Water Board, the latter by presentation of the yearly Annual Report written by the Challenge Panel.

Members of the Challenge Panel participated in a number of consultation and research initiatives, either as observers or in the role of an independent, 'honest broker' chairperson in bringing together company, local council, community leaders and customers. Bristol Water develop a broad-ranging customer engagement strategy involving 40 pieces of research and that obtained responses from 37,000 customers.

As part of the customer engagement strategy, Bristol Water defined its customer base and created segments to understand the impact

of its operations and activities on customers of differing ages, income and other characteristics. As a result, the Challenge Panel has seen clear evidence that the bespoke performance commitments set out in its business plan reach into new areas of activity (such as the measuring of community satisfaction with investments in co-created community activities).

The Challenge Panel has seen evidence that Bristol Water also is proposing to assist customers with the affordability of their water bill and provide support for vulnerable customers.

Bristol Water is meeting its statutory obligations regarding the environment, although here is little in the plan that it is doing anything outstanding or above and beyond. The Business Plan includes some key projects in WINEP that will help to address diffuse pollution threats to lake SSSIs under the company's ownership, together with important strategic work to develop its future direction on Biodiversity and Natural Capital enhancement. The Panel has evidence that the business plan meets the value for money expectations of its customers.

The Challenge Panel notes that changes in the Bristol Water Corporate Board and company shareholders have resulted in the lack of an independent designated non-executive director focused on customer engagement for a period of some two years. The Director of Strategy and Regulation and the Chief Customer Officer, both Executive Directors of Bristol Water, attended Challenge Panel meetings and provided a tangible link with the Board. The hiatus in independent Board-level involvement with the Challenge Panel may not necessarily have changed the outcome of the business plan submitted, however

it does impact on the Board's ability to observe the quality of discussion, debate and challenge carried out by the Challenge Panel on behalf of the customer. Since this matter was raised by the Chair of the Bristol Water Challenge Panel during a recent Board meeting, a number of Board Independent Non-Executive Directors and shareholder Directors have attended subgroup and Challenge Panel meetings. The Challenge Panel is pleased with this improvement in corporate governance.

In developing its long-term strategy and business plan 2020-2025, Bristol Water has stressed that its aims are to provide greater transparency, increase levels of trust from its customers and improve confidence in services provided by the company. The Challenge Panel has evidence that the company has increased the level and quality of communication with its customers on a range of topics, from supply interruptions to environmental and educational messages. Use by the company of social media has increased exponentially and has provided a useful platform for communications of all types. From a standing start, Bristol Water has in excess of 3,600 followers on Twitter and 2,600 followers on Facebook. The local BBC and ITV television stations and other broadcast media cover incidents and provide updates and information presented by the Chief Customer Officer.

Bristol Water has established new performance commitments that are in line with customer expectations and that address customer priorities. In line with its history of being a local privately-owned water company that provides services for all the residents in its area, performance commitments by Bristol Water, such as its satisfaction with its local community investments, underline this local, community-focus.

Bristol Water has adopted the methodology set out by Ofwat in setting incentives in most cases. The Challenge Panel has questioned the cases where the methodology is not followed and it understands and accepts the reasons put forward by Bristol Water.

The Challenge Panel notes that Bristol Water has committed to upper quartile performance in many areas, especially where customers have expressed a preference in the setting of this aim. Targets such as supply interruptions and leakage are particularly stretching and will be monitored closely by the Challenge Panel.

The Challenge Panel, however, brings to the attention of customers, Ofwat and the Bristol Water Board that there is a lack of consensus on two performance commitments. These are the level of ambition regarding the Biodiversity Index and the imposition of a deadband on waste disposal compliance. A programme of work is planned by the Company to ensure that performance commitments in PR24 linked to biodiversity protection and enhancement are fully informed by a thorough assessment of what is feasible alongside the limitations of operational constraints.

The Challenge Panel notes with concern the on-going arbitration with the Canals & Rivers Trust regarding its £10m demand for the abstraction of water from the Sharpness Canal and the potential impact on customer bills when this matter is resolved.

On balance the Challenge Panel supports the business plan set out by Bristol Water. Customers are likely to welcome both the reduction of water bills across the period and the bill profile set out in the business plan. The service commitments align with

Bristol Water's strategic objectives at a cost that is affordable. Customers can be assured that their bills will become increasingly affordable and that customers in vulnerable circumstances have extensive and ambitious levels of support targeted to them.

The Challenge Panel is clear about the areas where the Challenge Panel it will need to monitor the performance of Bristol Water against its targets, particularly those that are particularly innovative, through our on-going performance assurance role. The Panel has also asked that in 2020 the Bristol Water Board sets out a clear corporate responsibility statement and policy that enshrines the company and its shareholders responsible attitude towards, for example the communities where they operate, how their investment strategy affects customers and their policy on shareholder dividends and the performance related element of executive pay.

In summary, the Challenge Panel considers the evidence that the Bristol Water Business Plan 2020-2025 is grounded in a sound, extensive customer engagement strategy and research; the views, priorities, preferences and valuations of customers are reflected throughout. Performance commitments meet the regulatory and statutory requirements set out by Ofwat and other regulators and the incentives reflect what customers value and prefer.

APPENDIX 4: BWCP REPORT ON BRISTOL WATER'S RESPONSE TO OFWAT'S INITIAL ASSESSMENT OF PLANS MARCH 2019

EXECUTIVE SUMMARY

Ofwat has made an initial assessment of Bristol Water's Business Plan prepared for Price Review 2019 (PR19) and the company has responded to this. Ofwat's assessment is known as the Initial Assessment of the Plan (IAP).

The Challenge Panel has reviewed the IAP questions in detail to determine which were relevant to its terms of reference. Its main areas of focus have included customer engagement, affordability and vulnerability, PCs and ODIs, customer service levels and customer bills.

The Challenge Panel assessed the materiality of Bristol Water's changes to its Business Plan resulting from its IAP response and their impacts on customer service and future bills. It also established if customers would be facing increased risk of poor service or unexpected costs.

The Challenge Panel applied its own tests of best practice in order to assess the quality of Bristol Water's customer engagement undertaken in response to the IAP. It also observed some of the additional engagement in the field and helped shape modifications to the research methodologies as a result.

The Challenge Panel found that the additional customer engagement undertaken by the company was appropriate. The results have not altered the company's outcomes, priorities or promises made to customers in its original PR19 Business Plan.

In addition, the impact on service levels and customers' bills of the company's changes to performance commitments and outcome delivery incentives in response to the IAP has not materially changed from those

originally proposed. Future bills will remain in line with the results of the customer engagement undertaken for the Business Plan in 2017 and 2018.

The Challenge Panel has been assured by the Board of Bristol Water and its external assurers that the company, rather than customers, will bear any resulting increase in financial risk arising from its response to the IAP.

The Board has also confirmed that the company will have sufficient capability and leadership to transform the company, its systems and procedures and its network to meet the efficiency challenges posed by Ofwat.

APPENDIX 5: GLOSSARY

AMP	Asset Management Period
BW	Bristol Water
BWCP	Bristol Water Challenge Panel
CCG	Consumer Challenge Group
CCWater	The Consumer Council for Water
DD	Draft Determination of Prices (by Ofwat scheduled for July 2019)
EA	Environment Agency
FD	Final Determination of Prices (by Ofwat scheduled for December 2019)
IAP	Initial Assessment of the business Plan
NHH	Non-Household
NHS	National Health Service
ODI	Outcome Delivery Incentive. Delivery of each Performance Commitment will be assigned a financial or reputational incentive by Ofwat in the Final Determination
Ofwat	Water Services Regulation Authority - The economic regulator of the water sector in England and Wales
Outcome	Strategic outcomes for customers, derived from BW's customer engagement, and defined in its Strategic Direction Statement (SDS)
PC	Performance Commitment
Performance Commitment (PC)	Performance measures supporting the Outcomes. The levels of performance (targets) were set by Ofwat in the Final Determination
PR14	Price Review 2014
PR19	Price Review 2019
SIM	Service Incentive Mechanism
SSSI	Sites of Special Scientific Interest
WRMP	Water Resources Management Plan

BRISTOL
WATER
CHALLENGE PANEL

