

A photograph of a bird, possibly a greenshank, standing in a wetland area with green and yellow vegetation and water. The bird is facing right. The background is a shallow body of water with some reeds or tall grasses. The overall scene is a natural, wetland environment.

# **Bristol Water**

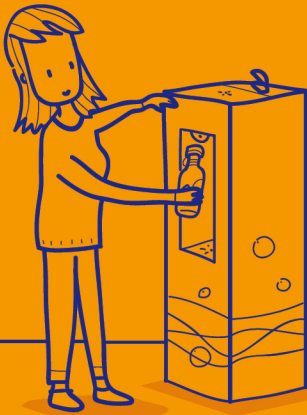

## A guide to our plan

BRISTOL  
**WATER**



# Structure of our Business Plan Submission

## Appointee plan

<b>A1</b> Bristol Water For All 	<b>A2</b> Customer summary 
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## Wholesale controls

<b>B1</b> Water resources 	<b>B2</b> Water network plus 	<b>B3</b> Residential retail 
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## Supporting evidence

<b>C1</b> Engagement, communication and research Engagement Summary	<b>C2</b> Addressing affordability and vulnerability	<b>C3</b> Delivering outcomes for customers	<b>C4</b> Bristol Water... Clearly Resilient
<b>C5</b> Cost and efficiency Investment cases	<b>C6</b> Financeability, risk & return, and affordability	<b>C7</b> Track record of delivery	<b>C8</b> Securing Trust, Confidence and Assurance

## 1. Introduction

In this document we provide a short guide to our business plan for 2020-2025, including the structure of our plan and the principal sources of evidence against Ofwat's Initial Assessment of Plan (IAP) tests.

The document has three parts:

- The structure of our submission;
- Mapping our key proposals to IAP tests; and
- Mapping of submission documents to IAP tests.

## 2. The structure of our submission

The key documents within our submission are shown on the inside cover of this document.

**Section A** - provides our main narrative and our customer summary of our plan. We have also separately published the **Executive Summary** from this document. **Section A1** is our main plan document that describes our plan as a whole. **Section A2** is a customer summary of our plan, which is accompanied by our interactive performance graphic on our website<sup>1</sup>.

**Section B** - provides our summaries for each of the three separate price controls (water resources, water network plus and residential retail).

**Section C** - provides supporting evidence for our submission included within 8 separate documents.

In addition:

- Detailed evidence in relation to our customer engagement is provided as an appendix to section **C1 – Engagement, communication and research**;
- Our investment case summaries and cost adjustment claims are provided as appendices to section **C5 – Cost and efficiency**; and
- We have supplied Technical Reports where appropriate.

**Board Assurance Statement** – a statement from the Board to demonstrate how it has led the development of our plan and the assurance and governance framework to ensure that our plan reflects customers' views and is of high quality.

We have also provided:

- A full set of **business plan data tables** using the templates published by Ofwat on 25 June 2018.
- A completed **financial model** which is consistent with our business plan tables, together with supporting feeder models.
- A completed **initial assessment of business plan pro-forma**.
- **Two business plan videos**, one being the video we will use at the start of the presentation of our plan to Ofwat in September and another that is a short customer summary that will be published on our website.
- Our **PR19 business plan presentation pro-forma**, with supporting guidance tables and PR19 bill movement model.
- Our **Bid Assessment Framework**, which will support the bidding market for water resources, demand management and leakage services.
- The report from the **Bristol Water Challenge Panel**, which they have also independently submitted to Ofwat.

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<sup>1</sup> <https://www.bristolwater.co.uk/performancecommitments/>

### 3. Mapping our proposals to IAP tests

The table below provides a summary of the key proposals within our business plan against the IAP tests.

Test area	Summary of our plan	Additional details
Engaging our customers	<p>Extensive ongoing customer and stakeholder engagement has been used to shape our plans. A wide range of innovative engagement tools, both one-off and ongoing have been used to inform and challenge our plans.</p> <p>The Bristol Water Challenge Panel (BWCP) has challenged us on process and interpretation and application of results.</p>	<ul style="list-style-type: none"> <li>Over <b>37,000</b> customers engaged</li> <li><b>50</b> unique pieces of research on a wide range of topics</li> <li><b>37</b> meetings with the BWCP</li> <li>Over <b>4,000</b> responses to our draft business plan consultation</li> <li>Triangulated willingness to pay information used to develop business targets and incentives</li> <li>Innovative techniques</li> </ul>
Addressing affordability and vulnerability	<p>Our plan provides overall value for money, with:</p> <ul style="list-style-type: none"> <li>Improved service levels together with a lower bill (before inflation)</li> <li>Proposals based on customer views and valuations, tested through our draft business plan consultation and ongoing research</li> <li>Inclusive services which meet the needs of all of our customers</li> <li>Improved promotion and accessibility of financial support and our extra care services</li> <li>Careful sharing of data to identify customers who may need additional support</li> <li>Continued joint approach to supporting vulnerable customers through our joint billing venture with Wessex Water.</li> </ul>	<ul style="list-style-type: none"> <li>Our bills on average will reduce by <b>4.5%</b> in 2020 before inflation, and by 6% by 2025</li> <li><b>93%</b> acceptability of our plan (bill before inflation)</li> <li><b>84%</b> acceptability for the most service and price vulnerable customer segment</li> <li><b>Zero</b> customers in water poverty</li> <li><b>83%</b> value for money performance by 2025</li> <li>All eligible customers supported by social tariffs (up to an additional <b>c12,000</b> customers)</li> <li><b>Trebling</b> the number of customers on our Priority Services Register (an additional <b>c8,000</b>)</li> <li><b>85%</b> of vulnerable customers satisfied with the services they have received</li> </ul>
Delivering outcomes for customers	<p>Delivering the outcomes which our customers value through our four outcomes and 10 customer promises (see our <i>"Bristol Water For All"</i> Wheel in <a href="#">Figure 1</a>).</p> <p>Clear 'line of sight' between customer views, service level targets, outcomes and outcome delivery incentives.</p>	<p><b>Performance by 2025:</b></p> <ul style="list-style-type: none"> <li><b>Zero</b> customers in water poverty</li> <li>Already top water company, with an aspiration to become the <b>top performing utility company</b> for customer satisfaction on UKCSI</li> <li><b>15%</b> reduction in leakage</li> <li><b>5%</b> reduction in Per Capita Consumption to 135 l/prop/day</li> <li><b>75%</b> meter penetration through promoting meter as a choice and on change of occupancy</li> <li><b>52 point</b> improvement in our innovative Biodiversity Index, which measures the net change in natural capital, equivalent to c5 hectares of improved habitat.</li> <li>A programme of <b>community initiatives</b> linked to stakeholder satisfaction and our 'Bristol Water For All' re-investment mechanism</li> <li><b>Industry top quartile</b> supply interruption performance to 1.8 minutes per property per year</li> <li><b>Top performance</b> on water quality compliance risk index</li> <li><b>50%</b> reduction in discoloured water and taste and odour complaints</li> <li><b>540,000</b> additional people protected from severe supply reductions through our resilience scheme</li> </ul>

Test area	Summary of our plan	Additional details
Securing long-term resilience	<p>Operational, service, corporate and financial resilience achieved through our four outcomes.</p> <p>Our resilience maturity assessment demonstrates our current level of resilience together with the improvements we will make in the future.</p>	<p>We set out our long-term ambitions in relation to our resilience framework in <b>Bristol Water...Clearly</b> (published in February 2018).</p> <p>See our resilience framework in <b>Figure 2</b> below for a summary of how our plans deliver long-term resilience in the round.</p>
Controls, markets and innovation	<p>We demonstrate our culture of innovation. We are dependent on new ways of working and new technology through our ongoing transformation to deliver our challenging cost reductions and service improvements.</p> <p>Throughout our plan we provide examples of how innovation and use of markets to find better ways of doing things will support our plans.</p>	<p>We have consulted on our <b>Bid Assessment Framework</b>, which sets out how we will encourage companies to approach us with proposals and new ideas, as well as how these will be assessed in a fair and transparent way.</p>
Cost and efficiency	<p>We have benchmarked our efficiency levels and both our retail and wholesale costs currently appear to be at the industry upper quartile or better.</p> <p>Our future plans are based on targeting industry upper quartile levels of efficiency as a minimum.</p> <p>Our transformation programme makes sure we can deliver both our cost and ambitious service targets.</p>	<ul style="list-style-type: none"> <li>• Totex of <b>£503m</b> (£24m below allowance made by the CMA in 2014)</li> <li>• <b>£52m</b> of efficiency savings included in our plans by 2025 (around 9%) <ul style="list-style-type: none"> <li>○ <b>£22m</b> wholesale capex</li> <li>○ <b>£26m</b> wholesale opex</li> <li>○ <b>£4m</b> retail</li> </ul> </li> <li>• <b>80%</b> of efficiencies delivered from 2020 to reduce bills early.</li> <li>• Reducing bills overall, absorbing through efficiency as much input price pressure that we can.</li> <li>• Improving revenue collection rate from 96.6% to <b>97.1%</b></li> </ul>
Aligning risk and return	<p>We have balanced the difficult trade-offs on risk and reward, service improvements and bill levels to protect the long-term interests of our customers. The plan we present delivers affordable bills for all customers, with significant and challenging service improvements.</p> <p>This process has been led by our Board – the Board assurance statement meets the test area <b>Securing confidence and assurance</b> and describes the evidence to support this in full.</p>	<ul style="list-style-type: none"> <li>• <b>5.74%</b> nominal appointee cost of capital (2.66% RPI-real) including 0.27% company specific adjustment (0.45% on the cost of debt)</li> <li>• Moody's Baa2 target investment grade rating</li> <li>• Overall RORE of 4.7%, with range from -0.8% to +8.7%</li> <li>• Outcome delivery underperformance <b>-2.3%</b> RORE</li> <li>• Outcome delivery outperformance <b>+1.1%</b> RORE</li> <li>• Dividend yield of <b>3.2%</b> and <b>1.3%</b> per annum real growth</li> <li>• <b>"Bristol Water For All"</b> reinvestment linked to community initiatives and customer satisfaction</li> <li>• Gearing sharing which adopts Ofwat's proposals (for gearing above 70%, excluding preference share equity)</li> <li>• <b>£2.5m</b> per annum cap on impact of outcome incentives on bills, to protect customers from bill volatility</li> <li>• Notified item for a specific water resources cost risk with a 75% customer sharing rate proposed</li> </ul>

Test area	Summary of our plan	Additional details
Accounting for past delivery	<p>Board commitment to calculate outcome incentives for leakage without the benefit of technical adjustments included in the plan.</p> <p>Early pass back of £1m of leakage underperformance payment to customers by reducing bills in 2019/20.</p> <p>Customers see bills reducing due to efficiency improvements and small outperformance of 2015-20 total expenditure assumptions.</p>	<ul style="list-style-type: none"> <li>• <b>-£10.3m</b> of underperformance payment for performance in 2015-20 <ul style="list-style-type: none"> <li>○ <b>-£5.6m</b> for leakage</li> <li>○ <b>-£1.5m</b> for supply interruptions</li> <li>○ <b>-£0.7m</b> for marginal performance for reliability of infrastructure assets</li> <li>○ <b>-£0.6m</b> for mean zonal compliance</li> <li>○ <b>-£0.6m</b> for meter installation</li> </ul> </li> <li>• Transparent reporting of performance including mid-year performance report and new interactive graphic</li> </ul>

## Customer priorities and promises at the heart of our plan



Figure 1: Our 'Bristol Water for All Wheel'



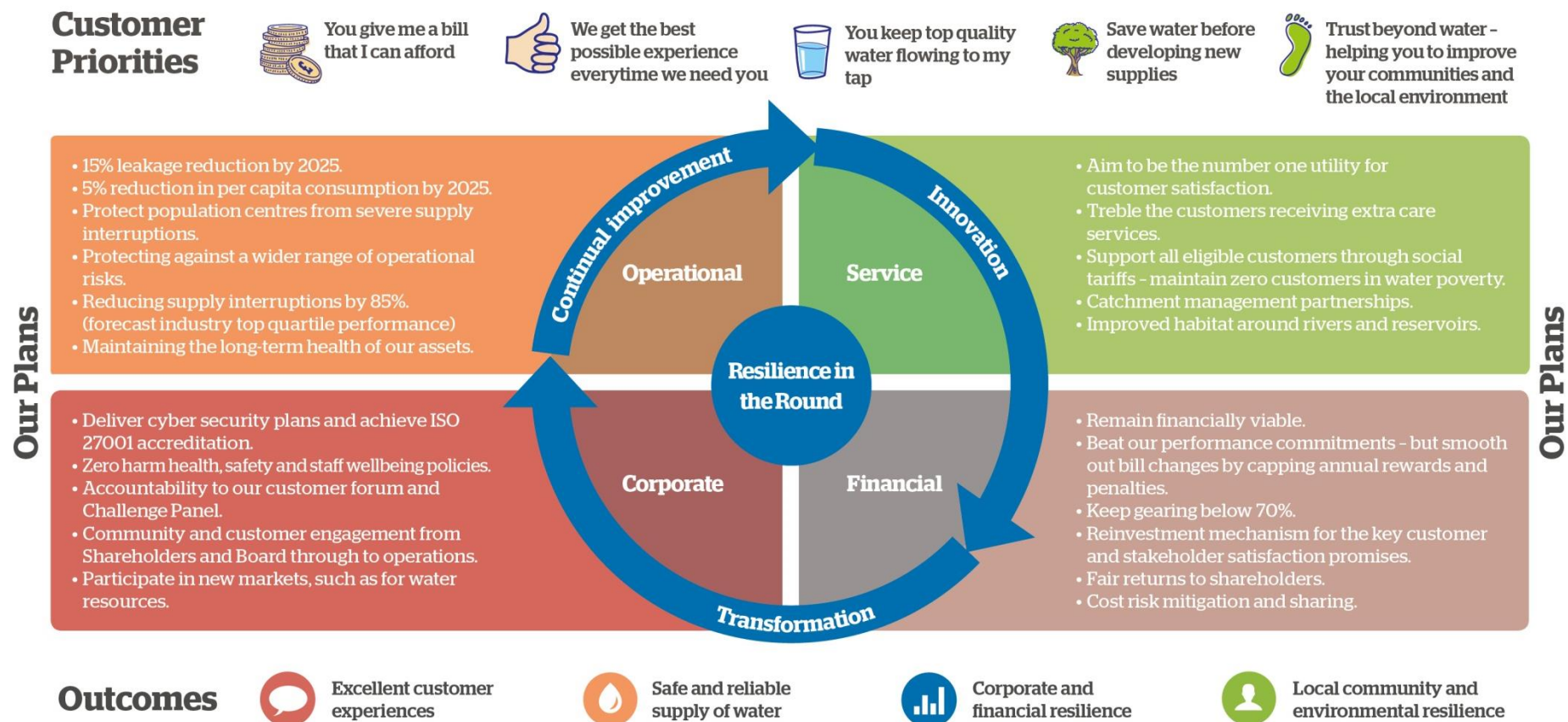


Figure 2: Our resilience framework



## 4. Mapping of submission documents to IAP tests

The table below is an assessment of how our each section of our plan relates to the IAP tests. The separate IAP pro-forma spreadsheet provides further details.

IAP Test area		Main narrative - Section A1													Price controls			Supporting evidence								Board A.S	
		Chapter													Section			Section								Part A	Part B
		1	2	3	4	5	6	7	8	9	10	11	12	13	B1	B2	B3	C1	C2	C3	C4	C5	C6	C7	C8		
Engaging customers	EC 1																										
Addressing affordability and vulnerability	AV 1																										
	AV 2																										
	AV 3																										
	AV 4																										
Delivering outcomes for customers	OC 1																										
	OC 2																										
	OC 3																										
Securing long-term resilience	LR 1																										
	LR 2																										
Targeted controls, markets and Innovation	CMI 1																										
	CMI 2																										
	CMI 3																										
	CMI 4																										
	CMI 5																										
	CMI 6																										
	CMI 7																										
Securing cost efficiency	CE 1																										
	CE 2																										
	CE 3																										
	CE 4																										
Aligning risk and return	RR 1																										
	RR 2																										
	RR 3																										
	RR 4																										
Accounting for past delivery	PD 1																										
	PD 2																										
Securing confidence and assurance	CA 1																										
	CA 2																										
	CA 3																										
	CA 4																										
	CA 5																										
	CA 6																										

### Key

	Within Section A1
	Principle source
	Secondary source

## Appendix 1: Add full list of IAP tests

Ofwat's IAP test areas and questions are set out in the table below:

Engaging customers	EC 1	What is the quality of the company's customer engagement and participation and how well is it incorporated into the company's business plan and ongoing business operations?
Addressing affordability and vulnerability	AV 1	How well has the company demonstrated that its bills are affordable and value for money for the 2020-25 period?
	AV 2	How well has the company demonstrated that its bills will be affordable and value for money beyond 2025?
	AV 3	To what extent has the company demonstrated that it has appropriate assistance options in place for those struggling, or at risk of struggling, to pay?
	AV 4	To what extent does the company identify and provide accessible support for customers in circumstances that make them vulnerable, including proposing a bespoke performance commitment related to vulnerability?
Delivering outcomes for customers	OC 1	How appropriate, well-evidenced and stretching are the company's proposed performance commitments and service levels?
	OC 2	How appropriate and well-evidenced is the company's package of outcome delivery incentives?
	OC 3	How appropriate is the company's focus on service performance in its risk/return package?
Securing long-term resilience	LR 1	How well has the company used the best available evidence to objectively assess and prioritise the diverse range of risks and consequences of disruptions to its systems and services, and engaged effectively with customers on its assessment of these risks and consequences?
	LR 2	How well has the company objectively assessed the full range of mitigation options and selected the solutions that represent the best value for money over the long term, and has support from customers?
Controls, markets and innovation	CMI 1	How well does the company's business plan demonstrate that it has the right culture for innovation which enables it, through its systems, processes and people, to deliver results for customers and the environment from innovation?
	CMI 2	2. How well does the company use and engage with markets to deliver greater efficiency and innovation and to enhance resilience in the provision of water and wastewater services to secure value for customers, the environment and the wider economy; and to support ambitious performance for the 2020-25 period and over the longer term?
	CMI 3	To what extent has the company set out a well evidenced long-term strategy for securing resilient and sustainable water resources, considering a twin track approach of supply-side and demand-side options and integrating third party options where appropriate, to meet the needs of customers and the environment in the 2020-25 period and over the longer term?
	CMI 4	To what extent does the company have a well-evidenced long-term strategy for delivering bioresources services, integrating an assessment of the value from the delivery of bioresources services by third parties for the 2020-25 period and over the longer term?
	CMI 5	How appropriate is the company's proposed pre-2020 RCV allocation between water resources and water network plus – and, if relevant, between bioresources and wastewater network plus – taking into account the guidance and/or feedback we have provided?
	CMI 6	To what extent has the company produced a bid assessment framework for water resources, demand management and leakage services that demonstrates a clear commitment to the key procurement principles of transparency, equality/non-discrimination and proportionality and the best practice recommendations?
	CMI 7	5. To what extent has the company clearly demonstrated that it has considered whether all relevant projects are technically suitable for direct procurement for customers? Where it has one or more such projects, to what extent has the company provided a well-reasoned and well-evidenced value for money assessment supporting its decision on whether or not to take forward each technically suitable project using direct procurement for customers?
Securing cost efficiency	CE 1	How well evidenced, efficient and challenging are the company's forecasts of wholesale water expenditure, including water resources costs?
	CE 2	How well evidenced, efficient and challenging are the company's forecasts of wholesale wastewater expenditure, including bioresources costs?
	CE 3	How well evidenced, efficient and challenging are the company's forecasts of retail expenditure, including bad debt costs?
	CE 4	To what extent are cost adjustment claims used only where prudent and appropriate, and where they are used, are cost adjustments well evidenced, efficient and challenging?

Aligning risk and return	RR 1	Has the company based the separate costs of capital that underpin each of its wholesale price controls, and the net margin(s) that underpins its retail price control(s), on those we state in our early view? If not, to what extent has the company robustly justified, in terms of benefits for customers, its proposed costs of capital and retail margin(s) within the context of expected market conditions for 2020-25?
	RR 2	To what extent has the company demonstrated a clear understanding and assessment of the potential risks in its RoRE assessment, including the effect of the risk management measures it will have in place, across each of the price controls?
	RR 3	Has the Board provided a clear statement that its plan is financeable on both an actual and a notional basis? Is the statement appropriate and how robust is the supporting evidence?
	RR 4	How appropriate are the company's PAYG and RCV run-off rates? How well evidenced are they, including that they are consistent with customers' expectations, both now and in the longer term?
Accounting for past delivery	PD 1	How well has the company given evidence for its proposed reconciliations for the 2015-20 period, and has it proposed adjustments by following the PR14 reconciliation rulebook methodology?
	PD 2	How well has the company performed, and is forecast to perform, over the 2015-20 period and, taking into account this overall performance, how well has it put measures in place to ensure that it maintains confidence that it can successfully deliver its PR19 business plan?
Securing confidence and assurance	CA 1	To what extent has the company's full Board provided comprehensive assurance to demonstrate that all the elements add up to a business plan that is high quality and deliverable, and that it has challenged management to ensure this is the case?
	CA 2	To what extent has the company's full Board been able to demonstrate that its governance and assurance processes will deliver operational, financial and corporate resilience over the next control period and the long term?
	CA 3	To what extent has the company's full Board provided assurance that the company's business plan will enable customers' trust and confidence, through appropriate measures to provide a fair balance between customers and investors (which include outperformance sharing, dividend policies and any performance related element of executive pay) and high levels of transparency and engagement, on issues that matter to customers (which extends to their ability to understand corporate and financial structures and how they relate to its long-term resilience)?
	CA 4	To what extent has the company's full Board provided comprehensive assurance to demonstrate that the business plan will deliver – and that the Board will monitor delivery of – its outcomes (which should meet relevant statutory requirements and licence obligations and take account of the UK and Welsh Governments' strategic policy statements)?
	CA 5	To what extent does the company have a good track record of producing high-quality data, taking into account the company's data submission, assurance process and statement of high quality, and our 2018 assessment of the company under the company monitoring framework?
	CA 6	How consistent, accurate and assured are the company's PR19 business plan tables, including the allocation of costs between business units, information on corporation tax, and the assurance and commentary provided?