

Bristol Water Challenge Panel Annual Report 2016/17

BRISTOL
WATER
CHALLENGE PANEL

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FOREWORD

Welcome to the 2017 Annual Report of the Bristol Water Challenge Panel

Water is a precious and limited natural resource. Only about 2% of Earth's water is freshwater; the remainder is salty. Yet we can take for granted that the water that comes out our taps is clean, safe to drink, reliably available and is a fair price.



In this region, we rely on Bristol Water to collect, store, cleanse and distribute water to households and many businesses in the area. As the only provider of water, we customers have no choice in where our supply comes from. Hence, it is all the more important that we can obtain reassurance that our interests, priorities and concerns shape how water is delivered to our homes, offices and businesses.

The role of the independent Bristol Water Challenge Panel is make sure the voice of the customer is heard and listened to in the boardroom of Bristol Water. When I speak to people about water, their first comments are along the lines of water from the tap should be drinkable, clear in colour, without taste or smell and with sufficient pressure to be used as required. However, on deeper thought and reflection, water customers also have strong views and preferences about where improvements in bill paying can be made; how public, private and voluntary groups can work together to address catastrophic or more common interruptions; how many chemicals are used in the storage and delivery of our water; what happens to waste products used in this process. Some customers also speak about the balance struck between providing drinking water and retaining rivers and wetlands; the large fines incurred by some water companies because of their behaviour to customers; or how complex and opaque company structures obscure shareholder profit-taking.

As the voice of customers, our responsibility is to ensure that Bristol Water develops a conversation with the community so that customer priorities shape how the business

operates, where it invests and what type of service we receive. We acknowledge that sometimes what we want may be unaffordable or unreasonable and that choices between some options may be required. To be successful in challenging the progress made by and future plans of Bristol Water, our Challenge Panel maintains a robust dialogue with the company at Board level and with its numerous advisors, consultants and regulators.

As a Challenge Panel our ambition is to help Bristol Water to become one of the best companies in the world by providing the service its customers want. We challenge Bristol Water to examine its performance in the context of comparisons and benchmarks within the water sector and beyond so that its management, practices, systems, operations and communications meet customer expectations. We expect Bristol Water to be a robust company, with strong leadership, systems and people.

As we end the second year of the five year business plan, the Challenge Panel has examined how well Bristol Water is performing against the priorities agreed in its current business plan. The report of our annual findings is included within this document.



"The role of the independent Bristol Water Challenge Panel is make sure the voice of the customer is heard and listened to in the boardroom of Bristol Water."

We are also scrutinising the customer engagement strategy and framework that will result in a number of consultations, some on-going and others specific, to determine what customers want in the next five-year plan and up to 25 years hence. The Challenge Panel has been involved in the design, piloting and implementation of an integrated set of surveys and research to understand better what customers want from Bristol Water. We requested information on how Bristol Water will be able to compare and contrast data from these surveys to provide evidence upon which it will make judgments on where and how to invest in the 2020 to 2025 draft five year plan. We wanted to make sure that the company examined issues arising from a growing population; implications of changes in weather patterns and climate; and other factors affecting the amount of water available to be withdrawn from the environment and used in households. We also wanted a greater understanding of vulnerable customers in our region and how their needs and priorities compared to other customer groupings.

Among our principle challenges are:

- How should Bristol Water treat its customers, especially as their needs will vary according to how they use water, interact with the company or work with the company to achieve a given objective
- How should Bristol Water compare its performance in customer service with other businesses in the water industry, utilities sector and beyond
- How resilient to change or crisis is Bristol Water, its Board and management as well as its systems and networks

- How should Bristol Water demonstrate its stewardship of the environment, particularly as it plans for droughts, manages water catchment and invests in future infrastructure or other projects
- How should Bristol Water identify its vulnerable customers and by what means should it assist them
- How will Bristol Water educate its customers on using water resources wisely, influencing policy, designing initiatives together that increase efficiency or productivity

An appendix sets out in greater detail our framework for scrutinising the strategic and operational performance of Bristol Water.

I would like to thank my colleagues on the Challenge Panel for so freely giving of their time and experience. More information on our composition, skills and experience is detailed in this report. I would also like to thank the members of the Bristol Water board for allowing me to inform and influence the dialogue at their board meetings either through their attendance of Challenge Panel meetings, one to one discussions, sub-group meetings or in strategic discussions. This level of influence enables me as Chairman of the Challenge Panel to speak directly to the decision-makers at the right time in a focused way. I also appreciate greatly the time, education and consultation with the water regulators, particularly Ofwat, DWI, Natural England and the Environment Agency, together with the consumer watchdog The Consumer Council for Water.

Peaches Golding OBE
Independent Chairman,
Bristol Water Challenge Panel
August 2017



EXECUTIVE SUMMARY



The Bristol Water Challenge Panel provides assurance to the economic water regulator Ofwat that Bristol Water has incorporated the preferences and priorities of customers in its business plan for the period 2020 to 2025.

The Challenge Panel is independent from both Bristol Water and Ofwat and maintains relationships with these organisations as well as other regulators of the sector. This report details the scrutiny and challenge provided by the Challenge Panel during 2016/17 regarding the delivery, plans and proposals of Bristol Water.

The range of discussions taking place in Challenge Panel meetings were extensive and provide an opportunity to understand how Bristol Water is taking into account the concerns and interests of its customers as it carries out its day-to-day activities and plans its future investments. The Challenge Panel records the challenges it makes to Bristol Water and receives comments back from the company on what has happened as a result of such challenge. This register, among other documents, provides an important part of the assurance the Challenge Panel gives to Ofwat on how well Bristol Water addresses and responds to its customers, both present and future, and will be published in our report in September 2018, which will accompany the Company's Business Plan. A breakdown of challenges raised during the period, by source and topic, is included.

The Challenge Panel has taken the opportunity to recruit additional members during the period and thus strengthen its ability to challenge Bristol Water in the areas of interest to the Bristol Water customers. A Skills Audit was carried out to ensure ourselves of this; the results are included. A list of members at the end of the period is included.

The Challenge Panel also took the opportunity to draft an Aide Memoire for use during meetings to guide our challenges and thus respond to Ofwat's expectations of our role.

In examining how the company carries out its day to day activities and how this performance compares to that of other companies in the water sector, the Challenge Panel questions and challenges the assurances provided by Bristol Water's Technical Assurer (Atkins). In order to carry out such sensitive and technical assessments, it is essential that both the Challenge Panel and the company have mutual trust and respect and that the customer can be confident in the rigour of the challenges made. The detail of this important workstream provides assurance that Bristol Water has the right systems, processes and records in place to meet its promises to customers and plan its future

services. This examination is carried out by a sub-group that reports to the Challenge Panel any challenges made to Bristol Water.

The Challenge Panel is pleased to note that Bristol Water has continued its good start in delivering its commitments to its customers and in making progress from the prior reporting period. The Challenge Panel was satisfied the water supply is resilient and water quality meets the high standards required by the water quality regulator, the Drinking Water Inspectorate. The company has reduced the extent of supply interruptions, improved water quality, reduced the number of negative water contacts and improved its value for money as determined by the customer. The Challenge Panel notes and accepts the company's explanations why certain performance commitment targets were missed or where performance slipped from the previous year. The Challenge Panel notes that Atkins' assurance audits do not cover data supplied by third parties and suggests that the company's information governance policies and procedures should be extended to include third parties. A detailed analysis of the subset of indicators that raised concerns regarding the water service is provided.



We note the extensive use of current customer contact data now being used and look forward to receiving future updates on the progress of customer engagement throughout 2017.

In the run-up to the production of the final business plan, the Challenge Panel will focus on how aware the company is of what its customers want and expect from the water company and how it has acquired and interpreted customer feedback in order to reach its performance promises for the business plan period.

On submission of the final business plan, the impact made by the Challenge Panel through its scrutiny and challenge will be fully apparent in the company's business plan. The Challenge Panel will simultaneously submit its final report for the current five-year business plan.

The Challenge Panel notes the extensive work that went into developing the Customer Engagement Policy by both Bristol Water and the Challenge Panel's customer engagement sub group members and it is pleased that the policy has been adopted.

INTRODUCTION



The independent Customer Challenge Group for Bristol Water is known as the Bristol Water Challenge Panel. The Challenge Panel's role is to monitor, scrutinise, challenge and report on Bristol Water's performance against the commitments set out in the final report of the Competition and Markets Authority dated 6th October 2015 and the Ofwat PR14 Final Determination of December 2014.

The Challenge Panel also advises and challenges the company on its customer engagement policies and procedures and it examines how customer preferences and priorities drive decision making

and business planning for the next price review.

This report provides the Bristol Water Board, its customers and Ofwat, with the Challenge Panel's opinion on the company's progress in delivering its performance commitments in the second year of the 2015-2020 price control period. It also provides the Challenge Panel's opinion on Bristol Water's customer engagement activities presented to them during the year and also the company's information assurance regime.

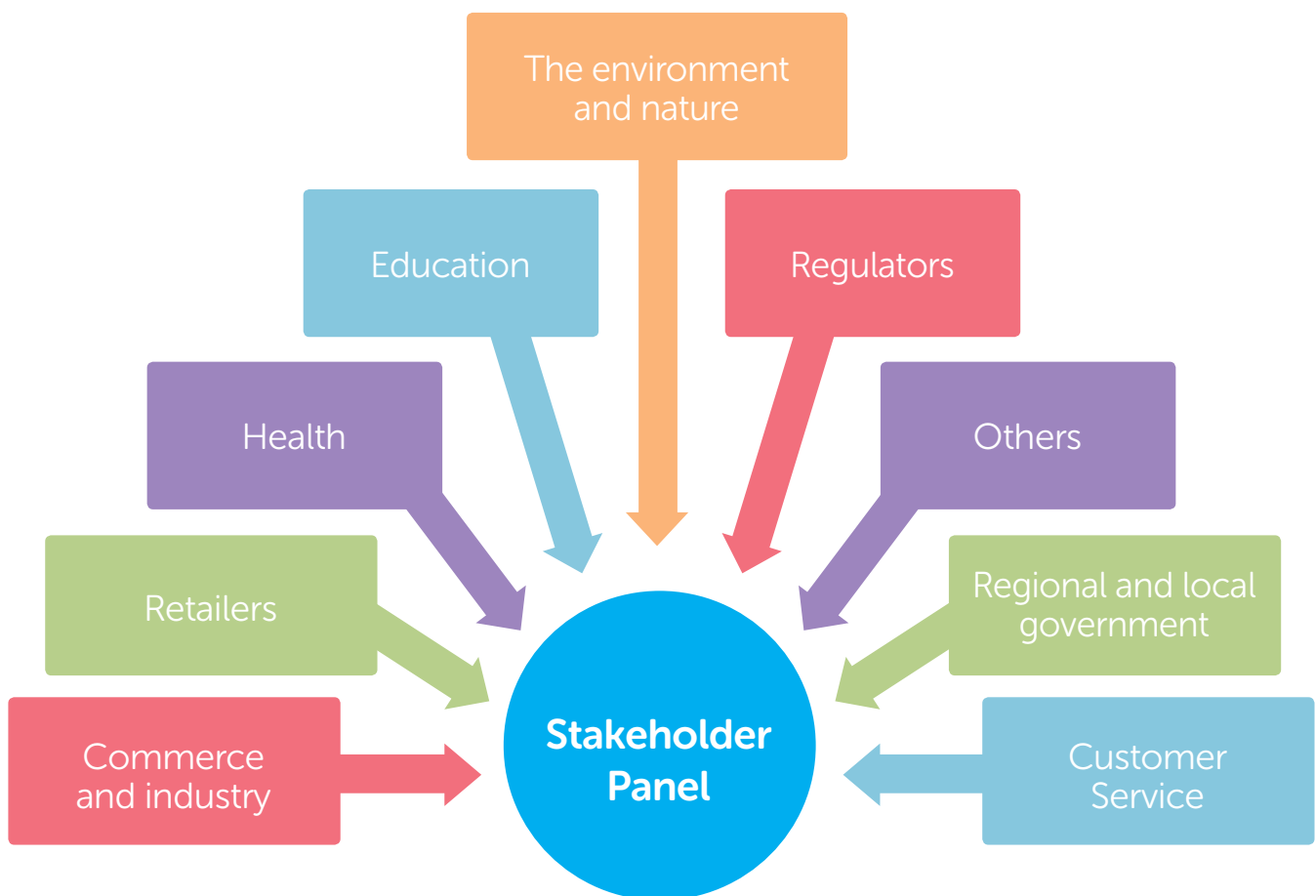
The report also sets out where the Challenge Panel's focus will be in the next 12 months.

The Environment Agency (EA), as a member of the Partnership, supports the views expressed in this report. However these views will not necessarily influence any subsequent position the EA takes as part of its ongoing statutory and regulatory duties associated with Bristol Water's environmental obligations.

CHALLENGE PANEL ACTIVITIES

Members

The Challenge Panel itself is composed of an independent chair, deputy chair and report writer, together with the environmental regulators and individuals drawn from a number of backgrounds, as shown in the diagram adjacent.



A full listing of the Challenge Panel members as at 31 March 2017 is given in Appendix 2. As part of its regular review of membership, the Challenge Panel carried out a Skills Audit of all members. This is detailed above along with the results.

Skills Audit

The aim of the Challenge Panel skills audit was to determine whether the knowledge-base that would enable incisive questioning and useful contributions from members was broad enough to carry out the role and diverse enough to understand the perspectives of customers of many different types. The purpose of the skills audit was to provide comfort to the Challenge Panel, water regulators and Bristol Water a) that the skills needed to carry out its function are in place and b) that the level and breadth of experience among its membership is adequate.

Members contributing to the work of the Bristol Water Challenge Panel need a wide range of skills and experience in order to perform the role the regulator Ofwat requires of it. The two principle roles of the Challenge Panel are:

- To examine the performance of Bristol Water against a) its promises



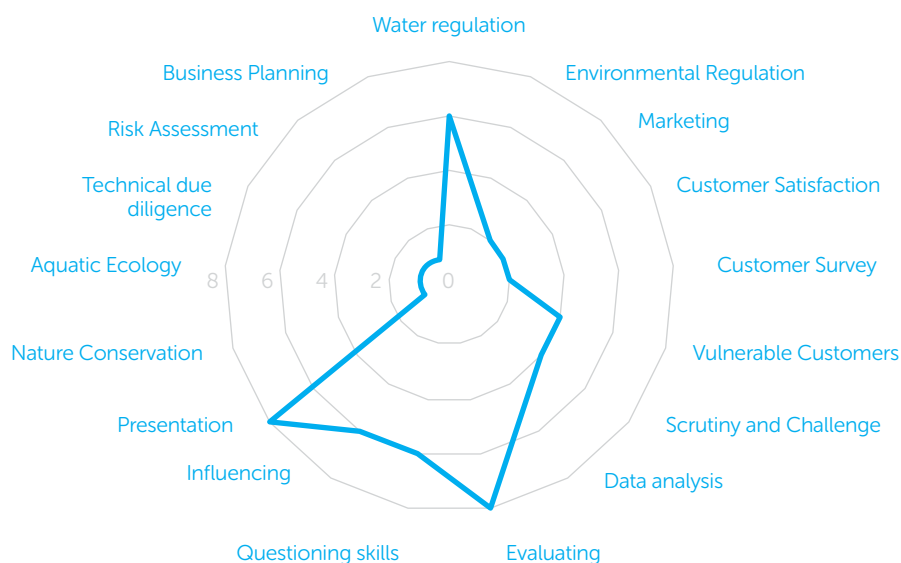
for the current business plan and b) other companies in the water industry and beyond.

- To ask questions about how Bristol Water will carry out its customer engagement plan to understand the priorities, interests and preferences of customers in order to take these into account in its next business plan.

Each member was asked to self-assess the range of relevant skills s/he possesses using a questionnaire devised for this specific purpose. The graph below highlights the range of work environments Challenge Panel members have experience of.

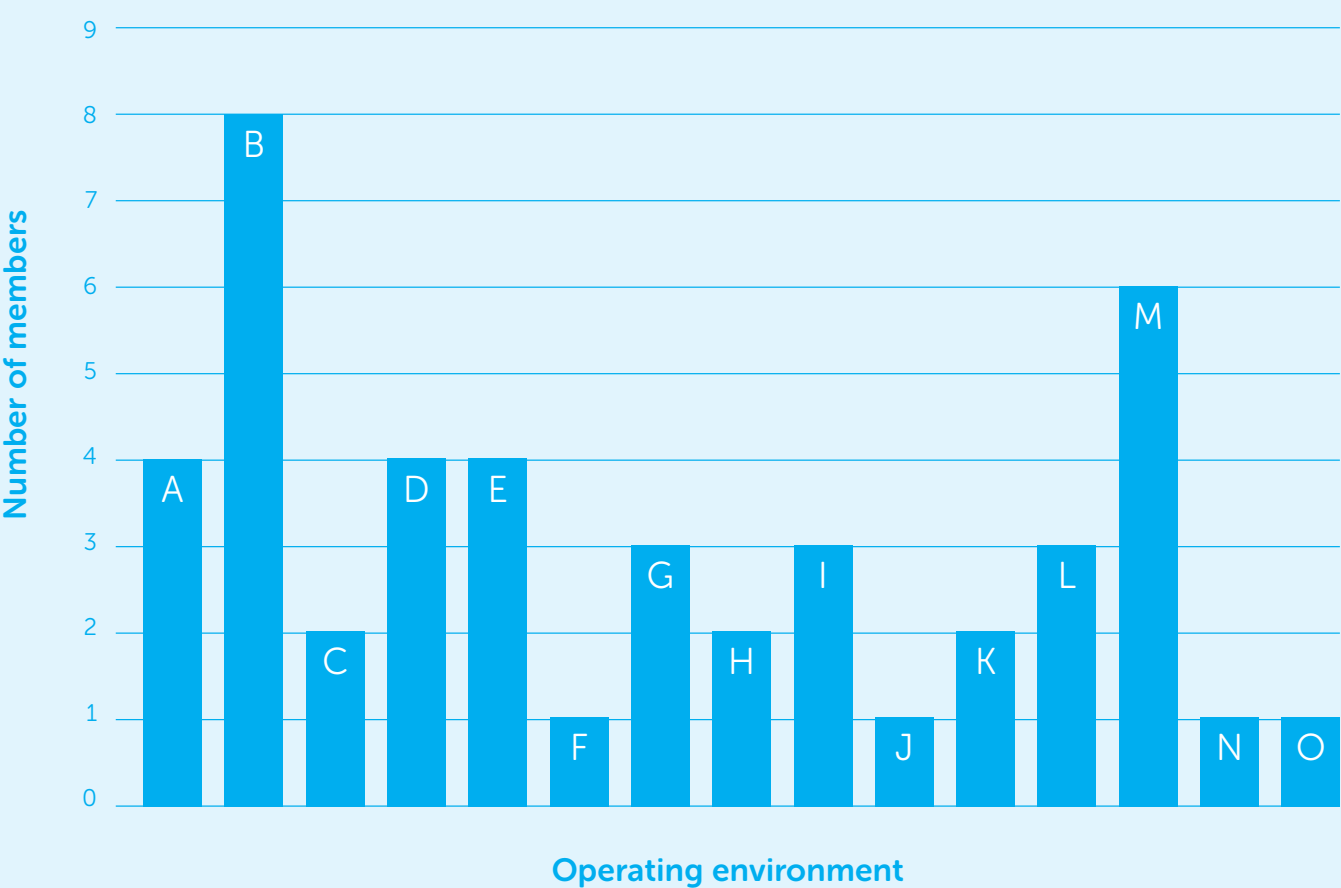
'Work of the Challenge Panel' graph indicates where members' skills map across the potential types of information it may be required to assess during this business planning period. The Challenge Panel is heavily weighted towards being able to understand water regulation, assess data, question information, understand vulnerable customers, implement customer services and present information. This skew should enable the Challenge Panel to scrutinise Bristol Water. With regard to areas of gaps in knowledge, the Challenge Panel is not designed to replace or augment the skills present within Bristol Water; its role is to ensure that it questions and challenges the company, its management and operational performance as would any customer.

Work of the Challenge Panel



CHALLENGE PANEL ACTIVITIES CONTINUED

The Operating Environment of Challenge Panel members demonstrates the subject areas where Challenge Panel members have experience. It is important for the Challenge Panel to have a broad understanding of the customer-base of Bristol Water in its urban and rural needs and lifestyles as well as other factors that affect the availability of water, uses of water as well as health and well-being.



- A

Voluntary sector
- B

Public sector
- C

Private sector
- D

Social/political environment
- E

Equal opportunities & diversity
- F

Rural communities
- G

Urban communities
- H

Farming
- I

Housing
- J

Health
- K

Community development
- L

Climate change & sustainability
- M

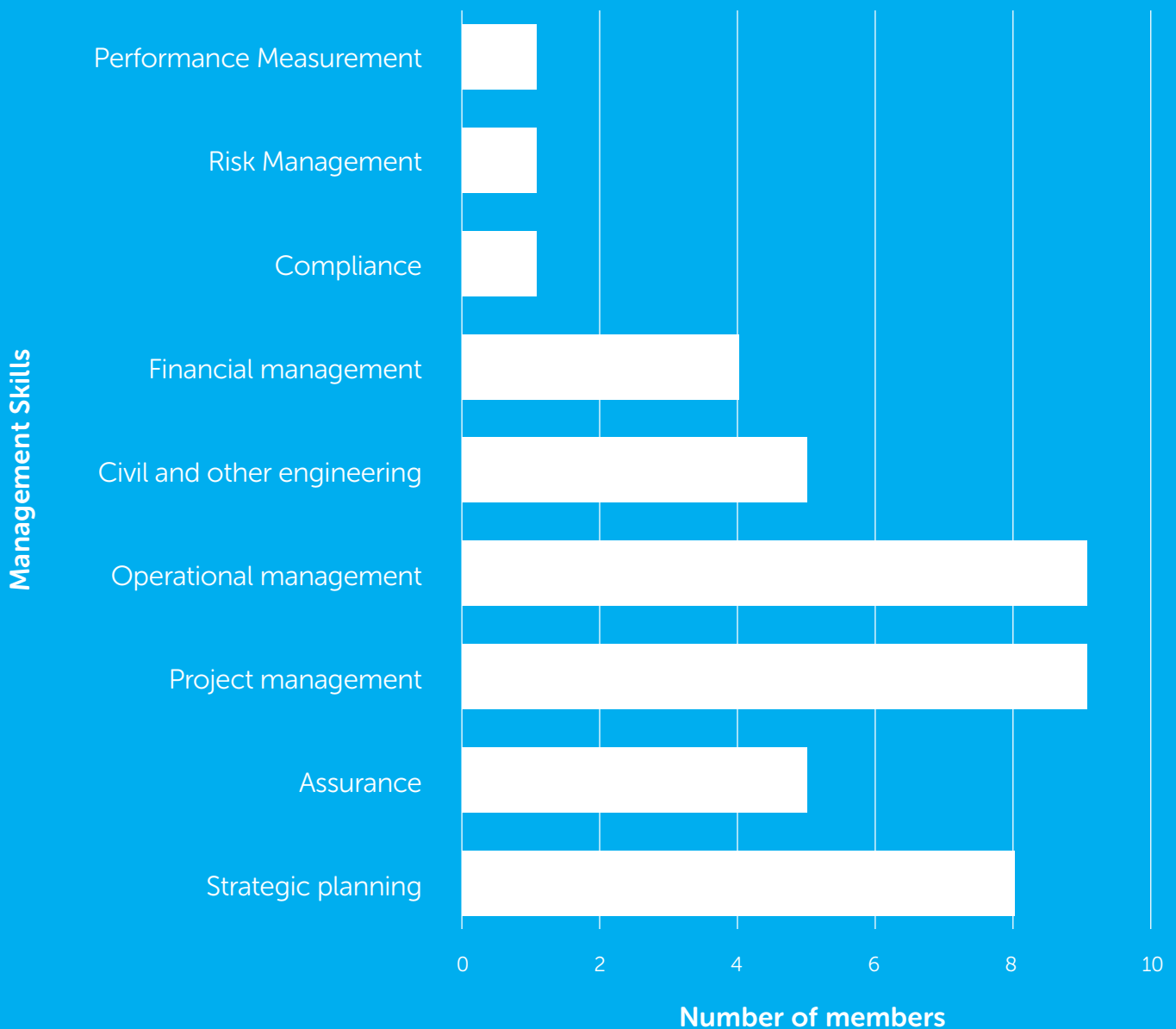
Report writing
- N

Regulated Utility
- O

Auditing

The Management Skills of Challenge Panel Members

highlights the ability of the Challenge Panel to assess management, strategic planning and assurance issues. This knowledge is particularly important in being able to evaluate, scrutinise and challenge Bristol Water on the five-year business plan its must produce for Ofwat by 2018.



CHALLENGE PANEL ACTIVITIES CONTINUED

Meetings

The Challenge Panel has reviewed and challenged Bristol Water policies on Customer Engagement and Customer Assurance as well as the company's performance during the year.

Challenge Panel members have contributed to the three subgroups on Customer Engagement, Customer Assurance and the Environment. To enable members to carry out their review in a structured way we have written an Aide Memoire to assist us; a copy is attached in Annex 1

The Challenge Panel's Chair has attended several meetings of the Bristol Water Board and she has outlined the work of the Challenge Panel, its topics covered and challenged and the Challenge Panel's findings. The Chair has taken the opportunity to participate in the Bristol Water Board's preparation for PR19.

The Chair and Deputy Chair have also attended seminars and workshops organised by Ofwat and others on various topics to do with PR19. Challenge Panel members have been kept informed of the topics discussed and any resulting output

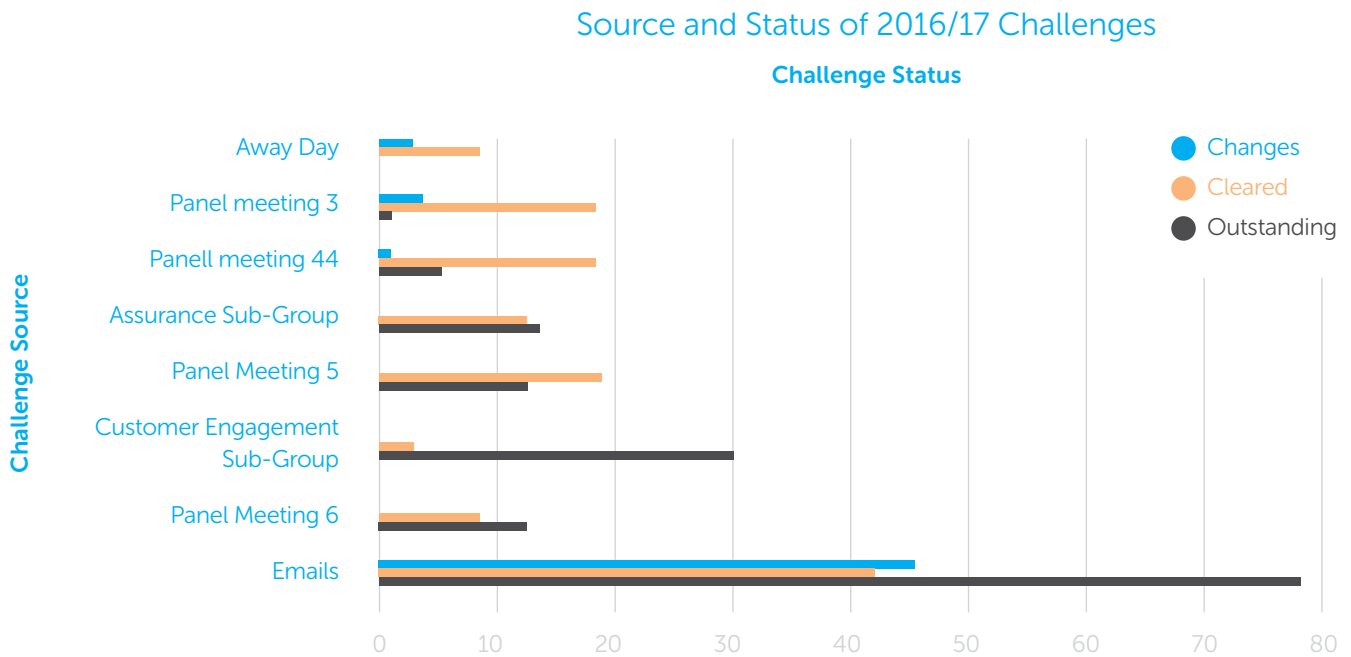
The Challenge Panel is grateful to Bristol Water for organising and hosting all the meeting listed above, particularly the Away Day that was held in the Woodford Lodge on the banks of Chew Valley Lake.

The Challenge Panel's meetings during 2016/17 and topics covered are as follows:

Away Day 10 May 2016	Challenge Panel Meeting 3 9 June 2016	Challenge Panel Meeting 4 21 Sept 2016	Assurance Sub-Group 30 Nov 2016
<ul style="list-style-type: none"> Achieving our Ambition Performance Reporting Independence and Membership Evaluations 	<ul style="list-style-type: none"> Ongoing Performance Water 2020 Ongoing Customer Engagement Household retail competition 	<ul style="list-style-type: none"> Customer Satisfaction Approach to PR19 Resources Management Drought Planning Customer Charges Customer Assurance 	<ul style="list-style-type: none"> Approach to Assurance Assurance Assessment Assurance Status PR19 Assurance Framework
Challenge Panel Meeting 5 7 Dec 2016	Environment Tripartite Meeting 1 7 Dec 2016	Customer Engagement Sub-Group 9 Jan 2017	Challenge Panel Meeting 6 25 Jan 2017
<ul style="list-style-type: none"> Mid-Year Performance Update Assurance Update PR19 Customer Engagement Strategy Willingness to Pay Research 	<ul style="list-style-type: none"> Bristol Water approach to PR19 Group Terms of Reference Drought Plan Water Resources Plan National Environment Plan Environment Performance Measures 	<ul style="list-style-type: none"> Customer Engagement Framework Update Working Together 	<ul style="list-style-type: none"> PR19 Customer Engagement Drought Plan Engagement Environment Update Ofwat Consultations

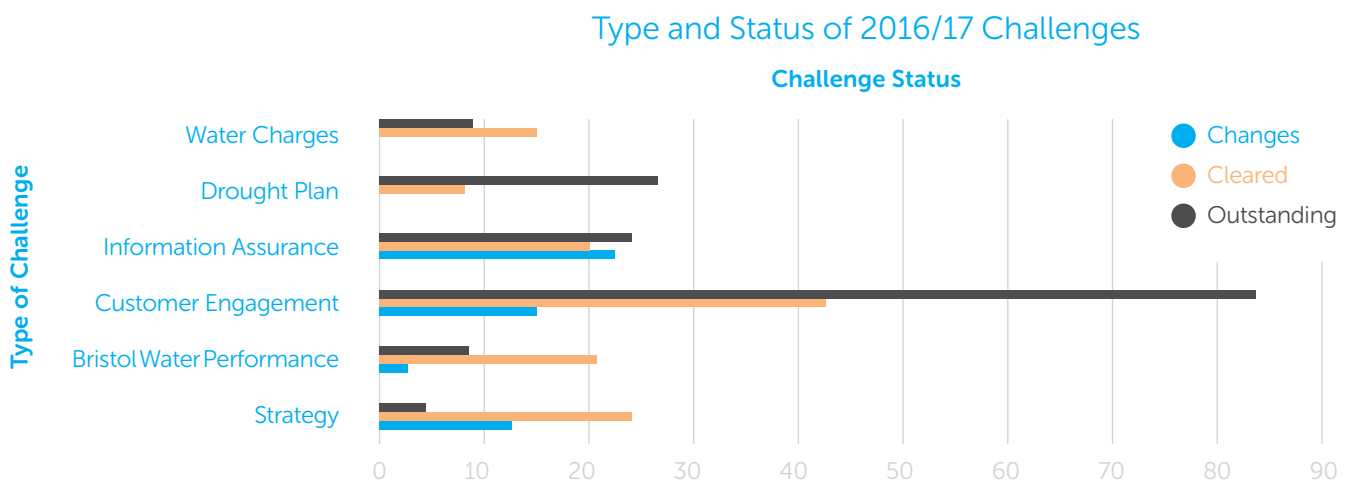
Challenges

From the previous section it can be seen that challenges can arise from numerous meetings; the source and status of all 2016/17 Challenges are given in the following chart.



It is clear that the vast majority of challenges have arisen from members emails received by Bristol Water after members have read circulated documents. Bristol Water have accepted that these Challenges contain the considered comments of members and are valuable and thus take time to answer. This source of Challenges also generates the majority of changes to Bristol Water processes.

The subject matter of the Challenges is as follows:

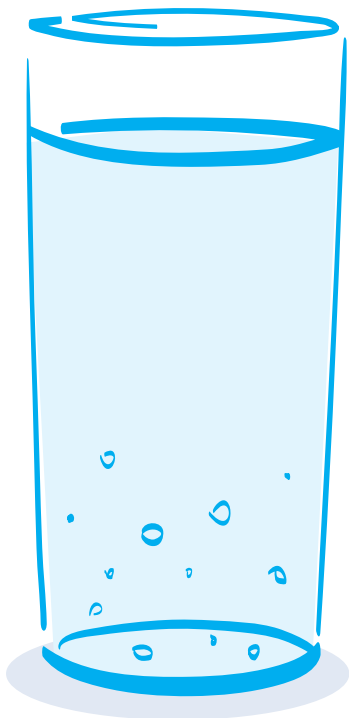


It is clear that most of the members challenges has been on Customer Engagement, but other topics have not been ignored.

The number of Outstanding Challenges has reduced since the end of the year being reported on.

CHALLENGE PANEL FINDINGS

“Bristol Water invited scrutiny and challenge from the Challenge Panel on its risk assessments and on its pre-publication draft Assurance Plan.”



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 or 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 on its risk assessments and on its pre-publication draft Assurance Plan. The Challenge Panel welcomed the opportunity to do this and raised nearly fifty challenges covering:

- Ensuring the Assurance Plan is easy to read and accessible to customers
- Greater emphasis on engagement with customers on their information needs and how this feedback will be used to determine how information should be best presented to them to increase confidence and trust
- The need for greater ambition in terms of demonstrating continuous improvement
- The comparison of Bristol Water's assurance regime with other companies and examples of where best practice is being used or being planned
- More emphasis on the company rather than its auditors in ensuring information quality and compliance

The company acted upon the Challenge Panel's challenges before publishing its draft Assurance Plan for

consultation in February 2017 and the final version in March. The Challenge Panel considered the final Assurance Plan to be satisfactory and a significant improvement from the previous year.

The Challenge Panel received assurance from Atkins, Bristol Water's Technical Auditor, that the performance information reported for 2016/17 is reliable and accurate.

The Challenge Panel was pleased to learn from Atkins that Bristol Water made considerable progress in the year in improving the documentation of its reporting methodologies; issues that had been identified the previous year. Whilst the resulting data for 2016/17 was found to be robust, Atkins considers further work is needed in improving the evidencing of information checking and version control of spreadsheets and other documents, particularly for bursts and low pressure data and the Biodiversity Index. The Challenge Panel will monitor progress on this in the coming year.

The Challenge Panel has challenged the company to confirm that ownership of data at source is satisfactory and that its governance policies and procedures should be explicit in extending to data provided by third parties. It has also suggested that the company considers how it might inform itself and its stakeholders of the quality of its reported data and use this information to benchmark and drive improvement where it is in the company's and the customers' interests. The Challenge Panel will be discussing these issues further with the company during the coming year. The Challenge Panel will also be reviewing the company's governance and assurance processes for the development of its PR19 Business Plan.



CHALLENGE PANEL FINDINGS CONTINUED

Bristol Water Performance

This section identifies the key points and challenges arising from Bristol Water performance during 2016/17. The content is split into 3 parts; the first identifies the 6 Performance Commitments where Bristol Water have not achieved their target for the period; the second identifies the 4 additional Performance Commitments where Bristol Water performance has deteriorated during 2016/17 but Bristol Water has still achieved its target for 2016/17; and final part identifies the 4 Performance Commitments where Bristol Water performance has improved during 2016/17.

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 3 and the detailed review, including the definition of the Performance Commitment, is posted upon our web page.

TARGETS MISSED IN 2016/17

This section describes the Performance Commitment targets missed by Bristol Water during 2016/17.

G1: Meter penetration

	Unit (%)
Target 2015/16	50.4
Actual 2015/16	47.3
Target 2016/17	54.8
Actual 2016/17	49.6
Target 2017/18	58.8
Target 2018/19	62.5
Target 2019/20	65.9

As reported last year Bristol Water made a slow start implementing its plan to install meters on change of occupancy. Despite increasing its meter penetration from 47.3% to 49.6% during the year the company fell short of its 2016/17 target of 54.8%. The associated financial penalty incurred for 2016/17 is £0.152m (in addition to the £0.118m incurred last year).

During 2016/17 the company developed and commenced a revised metering plan. Bristol Water's revised plan is designed to meet the original meter penetration target by 2019/20.

The Challenge Panel welcomed the opportunity to review the revised plan. It has challenged the company to use all means available to promote the benefits of metering, to capture customers' experiences of the metering project and to ensure that any customer complaints received are analysed and the plan amended if necessary. The company has risen to these challenges and the Challenge Panel will monitor progress during the coming year.

H1: Total carbon emissions

	Unit (kgCO ₂ e/person)
Target 2015/16	32
Actual 2015/16	35
Target 2016/17	25
Actual 2016/17	32
Target 2017/18	23
Target 2018/19	22
Target 2019/20	20

Bristol Water reduced its carbon emissions from 35 to 32 kgCO₂e per person from last year but missed

the 2016/17 target of 25 kgCO₂e per person. The Challenge Panel was informed 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. The company has informed the Challenge Panel of the ways in which it is implementing energy savings. It is preparing a revised economic case but it has said it is unlikely to meet its 2019/20 emissions target of 20 kgCO₂e per person. The Challenge Panel is disappointed that this may be the outcome but accepts the reasons for this and looks forward to reviewing Bristol Water's proposals.

H4: Waste disposal compliance

	Unit (%)
Target 2015/16	100
Actual 2015/16	96
Target 2016/17	100
Actual 2016/17	96
Target 2017/18	100
Target 2018/19	100
Target 2019/20	100

Bristol Water achieved 96% compliance against the 2016/17 target of 100%. It reported a similar level of performance last year. More than half the compliance failures it suffered were at Barrow TW. Bristol Water is looking into the reasons for these failures, which the Challenge Panel understands relate to difficulties in obtaining samples. The Challenge Panel is disappointed that there has been no improvement from the previous year, and that the reported underlying cause is still present. The Challenge Panel will monitor performance during the coming year.

J2: General satisfaction from surveys

	Unit (%)
Target 2015/16	93
Actual 2015/16	83
Target 2016/17	93
Actual 2016/17	86
Target 2017/18	93
Target 2018/19	93
Target 2019/20	93

Bristol Water achieved a 3% improvement in performance against this measure over last year. However the 86% satisfaction achieved fell short of the 2016/17 target of 93%. Whilst the company continues to implement a number of service improvement initiatives, it needs to further understand the reasons why a significant proportion of customers give it a service rating of 'neither good nor poor'. The Challenge Panel will monitor progress during the coming year.

K1: Ease of contact from surveys

	Unit (%)
Target 2015/16	96.3
Actual 2015/16	95.0
Target 2016/17	96.4
Actual 2016/17	94.4
Target 2017/18	96.5
Target 2018/19	>96.5
Target 2019/20	>96.5

The Challenge Panel was informed that Bristol Water amended its reporting methodology for this measure during the year in response to Atkins' audit findings. The reporting methodology now aligns with the assumptions used to define this measure at PR14. The Challenge Panel welcomes

the company's response to the audit findings and the improved comparability and consistency that results from the amended reporting methodology. It notes that Bristol Water has had to restate the performance it reported in 2015/16 from 93% to 95% as a result. The Challenge Panel understands that the company has informed Ofwat accordingly.

For 2016/17 Bristol Water achieved a 94.4% performance for this measure against a target of 96.4%.

L1: Negative billing contacts

	Unit (contacts/year)
Target 2015/16	2,480
Actual 2015/16	2,301
Target 2016/17	2,395
Actual 2016/17	3,096
Target 2017/18	2,315
Target 2018/19	2,240
Target 2019/20	2,170

Bristol Water reported 3,096 negative billing contacts in 2016/17. This was significantly higher than in 2015/16 (2,301) and significantly above the target of 2,395 for 2016/17.

The Challenge Panel challenged the company over its performance and its plans to improve. It understands a coding issue identified by the company has resulted in additional contacts now being logged against this measure. The Challenge Panel welcomes the increased focus Bristol Water is giving to customer service and the initiatives such as proactive text messaging it has introduced. It will closely monitor the company's performance against this measure in the coming year.

PERFORMANCE DETERIORATION FROM 2015/16

This section describes the Performance Commitment targets achieved by Bristol Water during 2016/17 but where performance deteriorated from the year before.

C2: Hosepipe ban frequency

	Unit (days)
Target 2015/16	10.2
Actual 2015/16	1.5
Target 2016/17	10.2
Actual 2016/17	3.1
Target 2017/18	10.2
Target 2018/19	10.2
Target 2019/20	10.2

The reported return period for 2016/17 was 3.1 days per year, a rise from 1.5 days per year in 2015/16. The target for 2016/17 was 10.2 days per year so the actual performance was well within this.

The Challenge Panel notes the deterioration in reported performance from the previous year but recognises that the measure expresses the risk of a hosepipe ban, rather than the incidence. The increased risk in 2016/17 is due to increased output from the company's treatment works compared to the previous year, probably due to increased demand caused by the dry weather.

CHALLENGE PANEL FINDINGS CONTINUED

F1: Leakage

	Unit (MI/day)
Target 2015/16	48
Actual 2015/16	44.2
Target 2016/17	47
Actual 2016/17	46.4
Target 2017/18	45
Target 2018/19	44
Target 2019/20	43

During the year the company reviewed its leakage calculation methodology and updated and increased its estimate of non-household night use, one the components that make up the calculation. This had a resulting negative 2.5 MI/d impact on the reported leakage figure compared to using the former estimate of non-household night use. The company explains in detail in its Annual Performance Report the rationale for revising its estimate and the comparability and consistency of this with the leakage targets included in its Final Determination. The company has informed Ofwat of its revised assumptions.

Atkins has reviewed the revised estimate, and other adjustments to the leakage methodology made by Bristol Water, and concludes that the basis of the latest reported leakage figure is more aligned to the Final Determination performance commitment. It considers the revised methodology and the reported leakage to be robust. The Challenge Panel cannot comment on the technicalities of the leakage calculation but takes comfort in Atkins' findings.

The reported leakage for 2016/17

was 46.4 MI/d, just within the target of 47MI/d. The reported leakage for 2015/16 was 44.2 MI/d but this is not comparable with this year's figure because of the change in methodology described above.

Bristol Water has informed the Challenge Panel that it will be assigning more resources to reducing leakage in the coming year. The Challenge Panel will monitor the effect of this accordingly.

G2: Per capita consumption

	Unit (litres/head/day)
Target 2015/16	145.4
Actual 2015/16	141.1
Target 2016/17	144.5
Actual 2016/17	144.1
Target 2017/18	143.6
Target 2018/19	142.8
Target 2019/20	142.0

The per capita consumption reported for 2016/17 was 144.1 litres per head per day. The target for the year was 144.5 litres per head per day so was met. The reported consumption for the previous year was 141.1 litres per head per day. Bristol Water informed the Challenge Panel that the increase was probably due to the drier weather experienced in 2016/17 which resulted in higher demand and usage such as garden watering.

Last year Atkins recommended that Bristol Water improve the documentation of its reporting methodology for per capita consumption. The Challenge Panel is pleased to learn that this was addressed during the year and that Atkins considers the process to be

materially sound and the reported figure for 2016/17 is robust. Further refinements to the methodology are recommended by Atkins however and the Challenge Panel will monitor progress during the coming year.

I1: Percentage of customers in water poverty

	Unit (%)
Target 2015/16	2.0
Actual 2015/16	0.37
Target 2016/17	2.0
Actual 2016/17	0.94
Target 2017/18	1.9
Target 2018/19	1.9
Target 2019/20	1.8

The reported percentage of customers in water poverty in 2016/17 was 0.94%, an increase over the figure of 0.37% reported last year. The target percentage for 2016/17 was 2% so is well within this.

When challenged by the Challenge Panel over the increase in customers in water poverty from last year, Bristol Water explained that this is a statistical issue and that source data on income come from a census-based model provided by an external provider. The increase is unlikely to be 'real' because of this. The company's focus is more on number of customers on social tariffs, rather than in water poverty as defined by this measure.

IMPROVED PERFORMANCE OVER 2015/16

This section describes the Performance Commitment targets achieved by Bristol Water during 2016/17 and where performance improved from the year before.

A1: Unplanned customer minutes lost

	Unit (mins/ prop/yr)
Target 2015/16	13.40
Actual 2015/16	15.49
Target 2016/17	13.1
Actual 2016/17	13.12
Target 2017/18	12.8
Target 2018/19	12.5
Target 2019/20	12.2

The Challenge Panel is pleased to note that Bristol Water's performance against this measure improved over 2015/16. The reported number for 2016/17 was 13.12 minutes per property per year, just within the target of 13.1 minutes per property per year. Last year's reported performance was 15.49 minutes per property per year.

The Challenge Panel recognises this performance against this measure can be significantly impacted by large unplanned supply interruptions. There were no such interruption events during the 2016/17.

Some source data for this measure comes from third parties such as Bristol Water's operational contractors. The Challenge Panel notes that Atkins' assurance audits do not cover these data and assume that the company's contractual arrangements with third parties and the company's audits of these ensure the data are accurate. The Challenge Panel has suggested that the company's information governance policies and procedures should be extended to third party data to ensure that robust data are provided and that the reporting process is efficient.

D1: Mean zonal compliance

	Unit (%)
Target 2015/16	99.96
Actual 2015/16	99.93
Target 2016/17	99.96
Actual 2016/17	99.97
Target 2017/18	100
Target 2018/19	100
Target 2019/20	100

The Challenge Panel is pleased to see that Bristol Water's performance in 2016 against this measure was 99.97% against a target of 99.96%. Performance last year was 99.93% so has improved.

The compliance of water from the company's assets was very high in 2016, similar to the previous year. The overall performance against the measure improved from last year partly due to a lower number of failures on customers' pipework (over which Bristol Water has little control).

E1: Negative water contacts

	Unit (contacts/ year)
Target 2015/16	2,422
Actual 2015/16	2,329
Target 2016/17	2,409
Actual 2016/17	2,162
Target 2017/18	2,322
Target 2018/19	2,275
Target 2019/20	2,221

The Challenge Panel is pleased to note that Bristol Water's performance against this measure has improved over 2015. 2,162 negative water contacts were

recorded in 2016, 167 fewer than the previous year. The target for 2016 was 2,409 negative water contacts.

J3: Value for money

	Unit (%)
Target 2015/16	71
Actual 2015/16	70
Target 2016/17	71
Actual 2016/17	72
Target 2017/18	71
Target 2018/19	72
Target 2019/20	72

The Challenge Panel was informed that Bristol Water amended its reporting methodology for this measure during the year in response to Atkins' audit. This established that the value had previously been calculated as the mean average score of responses to the survey rather than using the definition used in setting the targets for this commitment at PR14 (which also includes all respondents to the survey, rather than just operational contacts).

The Challenge Panel welcomes the company's response to the audit findings and the improved comparability and consistency that results from the amended reporting methodology. It notes that Bristol Water has had to restate the performance it reported in 2015/16 from 78% to 70% as a result. The Challenge Panel understands that the company has informed Ofwat accordingly.

For 2016/17 Bristol Water reported a 72% performance for this measure against a target of 71%.

CHALLENGE PANEL FINDINGS CONTINUED

Customer Engagement

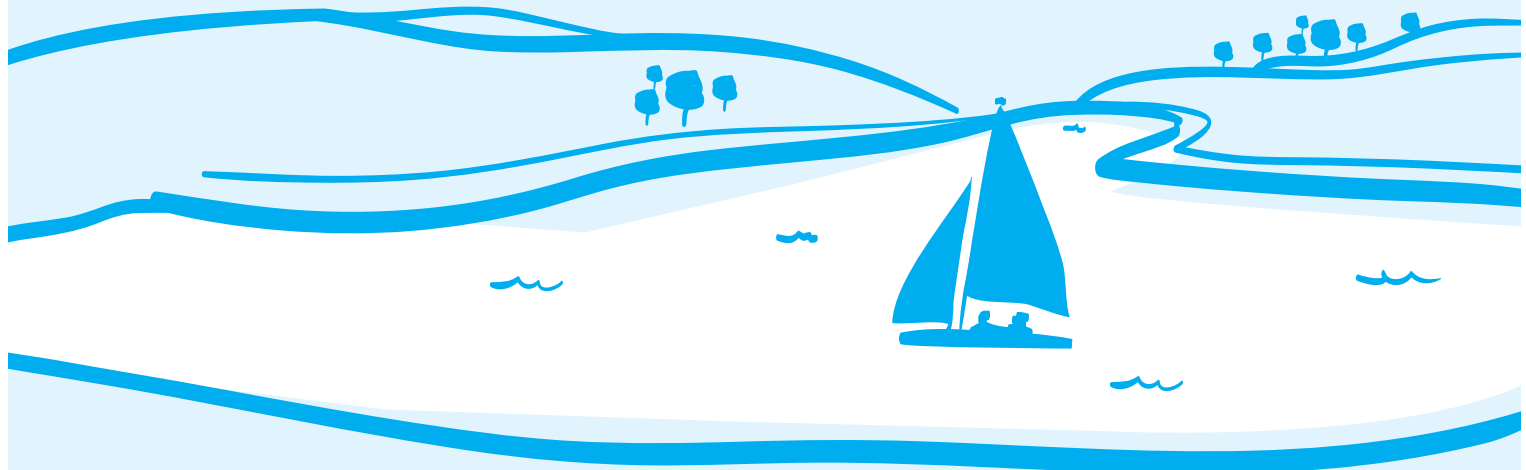
The Challenge Panel is aware of Ofwat's expectations on it to provide independent challenge on the quality of Bristol Water's customer engagement. This includes the way that results of the engagement are driving Bristol Water's decision making and are reflected in the PR19 Business Plan, thus putting the customer at the centre of the process.

Members of the Challenge Panel were given the opportunity to review and comment on the Strategic Policy Framework that Bristol Water intended to use to drive its customer engagement and to recruit partners to provide an overview of the process. This was in July 2016. The Challenge Panel's involvement has continued in a more structured way via the establishment of a Customer Engagement Sub-Group reporting to the main Challenge Panel. All members receive all relevant documents and can attend meetings of the Sub-Group depending upon their interest in the agenda topics.

The main work during the period under review has been in setting up the Framework under which Bristol Water intend to carry out its customer engagement. The Challenge Panel has been given free access to Bristol Water staff and partners to question and challenge the processes and research intentions being put in place. This has resulted in the Challenge Panel raising 140 challenges during a relatively short period. After discussion 42 were cleared following further explanation and 15 resulted in Bristol Water making changes to its intended processes. The remainder were still being reviewed at the end

of the period, but are expected to result in further process changes.

The outcome was the 'ratification' of the Customer Engagement Framework in late March 2017 by email discussion. We now look forward to a three-monthly review and update on research results throughout 2017/18. This will allow the Sub-Group to specify which areas of the customer engagement it wishes to become more actively involved with. This will include vulnerable customers, affordability and innovation.



FOCUS FOR 2017/18

2017/18 will be an important year for Bristol Water and the Challenge Panel as the company's business planning activities draw to a conclusion and the PR19 Business Plan becomes clear.

The Challenge Panel will continue to review and challenge the company's customer engagement activities in order to fulfil its PR19 reporting and assurance duties for Ofwat.

The regular three-monthly Customer Engagement Sub-Group meeting will enable the Challenge Panel to review progress with the Framework and receive research results as they become available. The Sub-Group enables the Challenge Panel to discuss forthcoming research activities and specify which they wish to be more closely involved with. One activity we are particularly looking forward to is the review of the triangulation of research results and subsequent challenge. This will result in a set of attribute values that Bristol Water can then use in any subsequent Cost Benefit Review exercise knowing that the values are solidly based upon the researched customer views.

Among other issues, the Sub-Group will focus on

- How Bristol Water segments its customers and the importance of water to each segment and how it speaks to customers in each segment.
- The range of investments to the network, systems and service that customers might want or expect
- How sustainable, eco-friendly and energy-efficient its activities may be
- How service disruptions are managed
- The affordability of the service and how to assist vulnerable customers who may have limited choices in how their water is provided
- How the voices of customers

result in policy development, changes in management activities and the design and implementation of local or regional initiatives

- How innovation can lead to lower customer bills and improved services

The Challenge Panel will also take a close interest in the company's efforts to further improve the reporting and assurance of its performance information, particularly for mains bursts and low-pressure data and the Biodiversity Index. The Challenge Panel will encourage the company to confirm that it has strong ownership of data at source and that information provided by third parties is sound and well assured.

Based on its scrutiny of Bristol Water's performance in 2016/17, the Challenge Panel will be monitoring the company's progress in the coming year with respect to:

- Promoting the benefits of metering and incorporating customer feedback and complaints into its future plans,
- The revised economic proposals for implementing energy savings
- Waste disposal compliance
- Increased understanding of customer satisfaction as expressed through survey results
- Increased focus on customer service and new initiatives such as proactive text messaging
- The effect of assigning more resources to reducing leakage
- Further refinements to the methodology for assessing per capita consumption
- Extracting the full potential of the Biodiversity Index reporting tool



CONCLUSIONS

In the coming year, the Challenge Panel will increasingly focus on the relationship between Bristol Water and its customers. This relationship will be an important feature in the five year business plan that Bristol Water must submit to Ofwat, its regulator, in 2018.



It is the views, interests and priorities of customers that will substantially influence the service Bristol Water provides, the investments it makes in improving its catchment areas as well as the storage facilities and distribution networks. These factors, together with other considerations such as the cost of borrowing money to invest in maintaining, upgrading or developing its infrastructure, will determine the level of the water bill paid by its customers.

Ofwat rely on the report of the Bristol Water Challenge Panel to assess the quality of customer input into the five year business plan.

To assist the Challenge Panel in its role, either I or my Deputy Chairman Tony Denham continue to attend workshops, conferences and meetings aimed at ensuring we have an opportunity to hear first-hand from Ofwat and other water regulators their strategies for improving the water market. We also have an opportunity to influence how regulation may be strengthened or changed to meet the growing expectations of customers. Such input not only broadens our understanding of issues faced by the regulation, but it also builds our skills and knowledge to perform the tasks which the Challenge Panel is judged.

We will also comment on policies being developed by Bristol Water to determine how the company will behave in times of water shortage and drought; how Bristol Water will manage over the longer term its water resources; and how Bristol Water will incorporate the information arising from its customer engagement programme to influence management and operational activities.

However, the information the company receives through its

customer engagement programme may well highlight differences in emphasis between customer segments and identify conflicts between investment and affordability. In a company the size of Bristol Water and with a population as diverse as it is, this is only to be expected. Sometimes difficult choices may need to be made in setting out the five year business plan. The Challenge Panel will examine how deeply particular issues are held and how customer input from differing perspectives are evaluated by Bristol Water. The way that decisions are made and the costs put to the range of options will be of particular interest to the Challenge Panel. The culmination of such choices and decisions will shape the business plan and, for the Challenge Panel, we will be seeking clarity on how the priorities of customers is evident in the resultant business plan.

By being transparent and open about getting these priorities right, Bristol Water will be seen as a business its customers can trust; confident that the company will provide a great public service to its customers at a price that is right for this generation and the next.

Peaches Golding OBE
Independent Chairman,
Bristol Water Challenge Panel
August 2017



APPENDIX 1: AIDE MEMOIRE

Aide Memoir for use by the Challenge Panel

Meeting conduct

Expectations

Bristol Water should explain what it is expecting from the Bristol Water Challenge Panel for each agenda item or presentation;

- Is it for information?
- Is the Challenge Panel required make a decision?
- Is it a request for comment on the presented content or proposed line of travel?

Content

In its presentations, Bristol Water are expected to report against the following four criteria:

- How it is customer led
- Impact on customers
- How it relates to Best Practice and Innovation within the industry
- Ethical Issues, eg differing 'willingness to pay' methods, intergenerational concerns, etc.

Areas of Focus

Members should consider the following when listening to the presentations;

- The selection of attributes and priorities (and how these change over time),
- The incorporation of cross cutting themes, ie, environment, climate change, health, etc,
- The use of comparators both in sector and outside,
- On-going academic research (eg UWE),
- Two-way communication with customers and how best to achieve this,
- How are the priorities valued by the customer,
- The customer needs to understand what their responsibility is,
- How any customer engagement is undertaken,
- How the customer base is segmented,
- Consider the usage of water by religious groups,
- Customer education, particularly as this affects valuation of the environment.
- How are the customer engagement process and the economic business planning process coming together,
- Be clear what customers think about the environment.
- Challenge the company to help with innovation, process and to push the boundaries on customer engagement,
- Consider the intergenerational aspects of all discussions and topics,

Review

Consider the presentation in terms of the following where applicable;

- Are there stretching Service levels?
- Are the Incentives [if any] appropriate?
- Does the outcome provide increased Resilience?
- Is the outcome arrived in a transparent manner?
- Is the outcome Innovative or arrived at via best practice?

Specific Customer Engagement considerations:

- Set clear objectives about what you want your engagement programme to deliver at the beginning of the programme
- Focus on the most significant issues and have a proportionate approach
- Transparent and visible – to help ensure accountability
- Legitimate – the process needs to be open, diverse and act on the feedback received
- Tailored – to suit topic/organisation/sector/stakeholder need
- Embedded – company led and an integral part of the organisations decision making process
- Measured – understanding the value and the impact across the organisation
- Iterative – not just “business plan and forget”
- Provides feedback – you said: we did.

Non-exhaustive list of issues for inclusion into CCG reports to Ofwat:

- Has the company developed a genuine understanding of its customers' priorities, needs and requirements – and where appropriate customer valuations – drawing on a robust, balanced and proportionate evidence base? Has the company engaged with customers on the issues that really matter to them?
- Where appropriate, has the company engaged with its customers on a genuine and realistic range of options? For example, in relation to a need to rebalance supply and demand, this might include increasing its own capacity, purchasing water from another company or demand management options. Where appropriate, has the company considered how customers could help co-create and co-deliver solutions to underlying challenges?
- Has customer engagement been an on-going, two-way and transparent process, where companies are informing their customers as well as soliciting feedback from them?
- Has the company effectively engaged with and

APPENDIX 1: AIDE MEMOIRE CONTINUED

understood the needs and requirements of different customers, including those in circumstances that make them vulnerable? Has the company considered the most effective methods for engaging different customers, including those that are hard to reach?

- Has the company effectively engaged with its customers on longer term issues, including resilience, impacts on future bills and longer-term affordability? Does the business plan adequately consider and appropriately reflect the potential needs and requirements of future customers? Wherever appropriate, has the company engaged with its customers on the long-term resilience of its systems and services to customers?
- Has the company effectively informed and engaged with customers on its current levels of performance and how does this compare to other companies in a way customers could be expected to understand?
- Has the evidence and information obtained from customers (including through the company's day-to-day contacts with customers) genuinely driven and informed the development of the business plan to benefit current and future customers? What trade-offs (for example between different customers) have been identified and how has the company proposed to deal with these?

From the Bristol Water Challenge Panel Terms of Reference:

The primary purpose of the Challenge Panel is to act as an independent body to ensure that the customer voice remains at the heart of Bristol Water's decision making.

- Ofwat states that "CCGs should focus on those issues that customer engagement is most likely to genuinely influence. We have provided more guidance on the issues that CCG reports should include and made it clear we do not expect CCGs to endorse a company's overall plan."
- The Challenge Panel will provide independent reporting to Ofwat, the Bristol Water Board and the public on the performance of Bristol Water against its 2015-2020 Business Plans. It will do this by facilitating inclusive discussion in an open and transparent manner.
- The Challenge Panel will challenge, comment and advise the company on its plans to educate, inform and consult its customers on the development of Bristol Water's 2020-2025 Business Plan. The panel's work will ensure that the outcomes and service levels customers expect from their water services are reflected in the company's plans as well as any incentives around delivering higher levels of service.

Additional Ofwat expectations from recent ODI consultation to be added

APPENDIX 2: CHALLENGE PANEL MEMBERS AS AT 31 MARCH 2017

Name	Organisation	Operating Environment
Peaches Golding	Chair	Marketing, Influencing
Tony Denham	Deputy Chair	Water Regulation, Scrutiny
Jeremy Hawkins	Report Writer	Water Regulation, Assurance
Jeremy Bailey	Environment Agency	Environmental Regulation
Mark Taylor	Natural England	Environmental Regulation
Michael Barnes	Consumer Council for Water	Water Customers, Evaluating
Mike Bell	Consumer Council for Water	Water Customers, Challenge
Sue Evans	Citizens Advice	Voluntary Sector, Housing
Mhairi Threlfall	Bristol City Council	Customer Representation, Vulnerability
Robert Cleland	North Somerset Council	Customer Representation
Chad Staddon	University of the West of England	Water Regulation, Climate Change
Danielle Wain	Bath University	Young Customers, Data analysis
Alison Sleightholm	Western Power	Regulated Utility, Customers
Luke Hassell	The Story Group	Farming, Climate Change
Alex Hastings	Independent	Urban communities, Diversity
David Wilson	Duchy of Cornwall	Farming, Rural Communities
Tabinda Rashid-Fadel	University of the West of England	Public Health, Equal Opportunities and Diversity

APPENDIX 3: BRISTOL WATER PERFORMANCE COMMITMENT RESULTS

Outcomes and Performance Commitments	Unit	Target 15/16	Actual 15/16	Target 16/17	Actual 16/17	Target 17/18	Target 18/19	Target 19/20
Reliable supply								
A1: Unplanned customer minutes lost	mins/prop/yr	13.40	15.49	13.1	13.12	12.8	12.5	12.2
A2: Asset reliability – infrastructure	n/a	Stable	Stable	Stable	Stable	Stable	Stable	Stable
A3: Asset reliability – non-infrastructure	n/a	Stable	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	288,589	288,589	9,063	9,063	9,063
Sufficient supply								
C1: Security of Supply Index	%	100	100	100	100	100	100	100
C2: Hosepipe ban frequency	days	10.2	1.5	10.2	3.1	10.2	10.2	10.2
Safe drinking water								
D1: Mean zonal compliance	%	99.96	99.93	99.96	99.97	100	100	100
Water is good to drink								
E1: Negative water contacts	contacts/year	2,422	2,329	2,409	2,162	2,322	2,275	2,221
Efficient use of resources by company								
F1: Leakage	MI/day	48	44.2	47	46.4	45	44	43
Efficient use of resources by customers								
G1: Meter penetration	%	50.4	47.3	54.8	49.6	58.8	62.5	65.9
G2: Per capita consumption	litres/head/day	145.4	141.1	144.5	144.1	143.6	142.8	142.0
Sustainable environmental impact								
H1: Total carbon emissions	kgCO ₂ e/person	32	35	25	32	23	22	20
H2: Raw water quality of sources	n/a	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Marginal	Marginal	Stable
H3: Biodiversity Index	n/a	Improving	Improving	Improving	Improving	Improving	Improving	Improving
H4: Water disposal compliance	%	100	96	100	96	100	100	100
Affordable bills								
I1: Percentage of customers in water poverty	%	2.0	0.37	2.0	0.94	1.9	1.9	1.8
Satisfied customers								
J1: Service Incentive Mechanism (SIM)	ranking	Top 5	Top 5	Top 5	85.9 (Top 5)	Top 5	Top 5	Top 5
J2: General satisfaction surveys	%	93	83	93	86	93	93	93
J3: Value for money	%	71	70*	71	72	71	72	72
Easy to contact								
K1: Ease of contact from surveys	%	96.3	95.0*	96.4	94.4	96.5	> 96.5	> 96.5
Bills that avoid confusion for customers								
L1: Negative billing contacts	contacts/year	2,480	2,301	2,395	3,096	2,315	2,240	2,170

* re-stated performance following amendments to reporting methodology



