

## Minutes of Meeting 19 – 22<sup>nd</sup> August 2019

### Attendees

Peaches Golding OBE (Items 1 to 6)	BWCP Chair	Iain McGuffog	Bristol Water (BW)
Tony Denham	BWCP Deputy Chair	Leah Devlin	Bristol Water
Jeremy Hawkins	Report Writer	Jim McAuliffe	Bristol Water
Tamsin Sutton (Items 1 to 7)	Environment Agency (EA)	Ben Newby	Bristol Water
Michael Barnes	Consumer Council for Water (CCW)		
Dr Tabinda Rashid-Fadel	NHS		
Cllr. Karin Haverson	North Somerset DC (NSDC)		

### Apologies

Dr Mark Taylor	Natural England	Cllr Michael Gay	Mendip District Council
Luke Hassel	The Story Group		

### Minutes

<b>1. In camera session before main meeting</b>	
Minutes are confidential and not published.	
<b>2. Chair update</b>	
<p>The Chair welcomed everyone to the meeting.</p> <p>The Chair presented her report, the main points of which were included on slides handed out at the meeting. BW agreed to place the slide pack on the File Transfer System (FTS).</p> <p>The presentation covered:</p> <ul style="list-style-type: none"> <li>The Chair’s activities since the last meeting</li> </ul>	<b>Action: BW</b>

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<ul style="list-style-type: none"> <li>• The Draft Determination (DD) process</li> <li>• Next steps in 2019 - 2020</li> </ul> <p>The Chair considers it appropriate that the Panel should respond to Ofwat on the DD and BW's response to it.</p> <p>The Deputy Chair noted that the next Social Contract sub-group (SCSG) meeting is on 19<sup>th</sup> September, the next CESG meeting is on 5<sup>th</sup> November and Panel meeting No.20 is on 5<sup>th</sup> December.</p>	
<p><b>3. Acceptance of previous meeting's notes</b></p>	
<p>The minutes of last Panel meeting (No.18) were accepted as a true record.</p>	
<p><b>4. Review of outstanding actions</b></p>	
<p>The Deputy Chair outlined the current position regarding actions outstanding from recent meetings. This position had been circulated by BW as part of meeting briefing pack and is on the FTS. There are eight actions outstanding. It is expected at least three of the eight will be cleared as a result of this meeting.</p> <p>The DD response is taking up a lot of resource at present so the remainder of the actions, and those generated by this meeting, will be reviewed in the next few weeks, for possible conversion to challenges.</p>	<p><b>Action: Deputy Chair</b></p>
<p><b>5. Review of outstanding challenges</b></p>	
<p>The Deputy Chair referred to slide 5 which summarises the position on outstanding challenges. This information had also been circulated in the meeting briefing pack and is on the FTS .</p> <p>The Deputy Chair noted the increase in outstanding challenges. There is a need to review likely completion dates (many are due for completion in April 2020). Again the DD workload is affecting the clearance rate.</p>	<p><b>Action: Deputy Chair</b></p>
<p><b>6. DD response overview</b></p>	
<p>BW presented a series of slides on the DD and the company's response to it.</p> <p>The main points discussed were:</p>	

### Bill Impacts

The Deputy Chair noted the £20 difference in bill reduction in 2020/21 between the DD and the original business plan, He asked how this difference was comprised. BW replied that the different cost of borrowing assumption contributes approximately 25% to the difference, the small company premium 10%, alterations to resilience schemes around 5% and the rest (65%) down to Ofwat's efficiency assumptions.

BW said that there would be no major change to service levels delivered over next five years as a result of its response to the DD.

The Deputy Chair asked about the colour coding on the 93% acceptability gauge on Slide 8. BW replied it represents its acceptability target thresholds.

BW said that the residual funding gap of £15m between the DD and its response to it can be delivered through cost efficiency. The other gaps in funding cannot be delivered, eg cost of capital assumptions, and BW will be responding to Ofwat with evidence to support its position.

The Chair asked if there is any evidence that if Ofwat were to accept any one of the DD challenges, it will have an impact on other companies. BW said there is a mix of issues at stake but most are company-specific efficiency points. It is not arguing against the fundamentals of Ofwat's efficiency models, but there are other BW-specific factors it believes the regulator should take into account.

The Chair asked how confident BW is that it can deliver the plan for the £15m less funding. BW replied that methodology changes to future wages and energy prices account for some of the £15m and these changes alter the risk balance. Ofwat is consulting on these and there should be clarity by the FD. Other efficiencies are expected to come from the company's transformation programme.

The Deputy Chair remarked that if BW is arguing for a higher cost of debt, if it ends up with cheaper debt, is it offering to share any resulting additional profits with customers? BW replied this issue not relevant because it is not raising any new debt in the next AMP.

CCW noted that the DD requires BW to adopt Ofwat's benefit sharing mechanism should gearing increase beyond 70%. BW replied that it doesn't agree with this mechanism but that its plan doesn't include gearing above 70%.

### Costs and Efficiency

EA asked how much funding gap the strategic reservoir development covers. BW replied £1m and that this money has been approved through the West Country Resources Group (WCRG) to allow for the appraisal of resource options (including transfer of water to the

<p>south east). Work has to start now on this optioneering. BW said it has a joint statement from WCRG to support this.</p> <p><b>Performance Commitments and ODIs</b></p> <p>BW confirmed that, in its response to the DD, service outcomes for customers remain as originally planned and there no transfer of risk to customers in the next five years.</p> <p>NHS asked if there is any correlation of mains bursts with supply interruptions. BW replied there is but only if bursts can't be fixed quickly which is rare. Bursts typically occur with changes of water volumes and pressure in the system. An interruption is the end result for customers. A burst is an indicator of asset health. In its DD response BW will be arguing that burst repairs should have an associated output target rather than a performance commitment and that perhaps a minimum replacement rate should be included.</p> <p>The Deputy Chair asked if BW will be going back to Ofwat with any specific resilience schemes to be financed other than the Glastonbury/Street scheme. BW said it will be listing all its proposed small resilience schemes. The Deputy Chair asked to see the data on this soon so the Panel can comment in its DD response. BW agreed to supply this but explained that some scheme expenditure is allocated to maintenance as well as enhancement.</p> <p>EA noted that the DD requires a 6.3% reduction in per capita consumption whereas BW's original plan included 5%. BW said it will be accepting the 6.3% target but noted that Ofwat is consulting on imposing a 10% target on everyone. BW doesn't agree with the imposition of compulsory targets as it believes it will tend to drive consumption up. It also considers it unfeasible to deliver a 10% reduction.</p> <p>The Deputy Chair raised a general point that the Panel would like BW to take it through its plan to achievement of the FD targets when agreed. BW agreed to do this and will explain its delivery plan.</p> <p>BW clarified the definition of a void property in response to a question from the Deputy Chair. Ofwat assumes in the DD that all void properties are unoccupied but BW said it has evidence from Pelican that 10% of its void properties are occupied and it will be sending this evidence to Ofwat . The Chair enquired about the thoroughness of the Pelican evidence. BW said it is robust and that BW has one of the lowest rates of voids in the industry.</p> <p>The Deputy Chair asked if there were no voids, how much would this save BW's customers. BW said it amounted to a relatively small amount, around £300,000 per year. The Deputy Chair said the Panel would like to understand more about voids and BW's assessment of them as we go forward into AMP7. BW agreed to cover this at a future meeting.</p>	<p>Action: BW</p> <p>Action: BW</p> <p>Action: BW</p>
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<p>The Deputy Chair remarked that BW’s bad debt as presented in Section C2 of the Business Plan was higher than the industry average. If BW was to achieve industry upper quartile performance then customers might save up to £6 on their bills. He asked about the bad debt assumptions are in the DD. BW replied the DD assumptions are the same and it has an aggressive plan to deal with bad debt. The Deputy Chair said the Panel would like to look at this plan next year.</p> <p>EA asked whether the DD target for waste disposal is based on historical performance. BW said it doesn’t know but is accepting it as it’s not materially different to its original plan.</p> <p>EA enquired about the difference between WINEP delivery and compliance as set out in the DD. BW replied this is an Ofwat allocation. All the original WINEP is covered by both categories. The ‘amber’ Chew Valley eel scheme may not happen but the rest is considered to be straightforward.</p> <p>The Chair noted that Ofwat has asked BW to provide more information on system resilience and asked whether the Glastonbury/Street scheme addresses this. BW replied it doesn’t and it will be responding to Ofwat with a progress update on its systems action plan. A document is going to the BW Board today which describes in detail how the systems approach works to address resilience issues. Three third parties are providing assurance on this approach.</p> <p>The Deputy Chair noted that p11 of the DD provides a summary of Ofwat’s key interventions. Four of these reflect its concerns over BW’s performance and this doesn’t reflect well on BW. However BW’s customer view from the engagement performed is more positive. Is there a gap between Ofwat’s view on performance and the customers’ view? BW replied that it accepts that performance in some areas has not been good. However Ofwat is making delivery harder through the imposition of stricter targets and higher penalties and is ignoring external factors such as bad winter weather. This would appear to be illogical. The Deputy Chair reminded everyone that customers said that they didn’t like penalties when asked, as it made delivery harder.</p> <p>BW said that its emerging ODI research results suggest customers want a better balance of incentives than in the DD. Otherwise the company may focus on service areas with big penalties areas and ignore other areas which are of more concern to customers.</p> <p>The Deputy Chair said that the Panel in its DD response to Ofwat may express concern that excessive penalties will force the company to divert resources away from areas of service where customers have concerns.</p>	<p><b>Action: BW</b></p>
<p><b>7. CESG and Social contract update</b></p>	
<p>The Deputy Chair presented his updates using a number of slides (34 to 38).</p>	

<p>The last CESG meeting was held on 31st July 2019. There was discussion on the time the Panel needs to consider and challenge the engagement being undertaken and confirm that the surveys meet best practice.</p> <p>The company’s engagement activities and results are described in its quarterly engagement report which is available on the FTS.</p> <p>The Panel has taken the opportunity to observe the recent focus groups and has attended the Customer Forum.</p> <p>It had been expected that shadow reporting of C-Mex would be happening by now but no comparative industry data will now be available until the end of August.</p> <p>Slide 36 is an extract from the BW Dashboard showing illustrating the results of all its ongoing customer engagement. It is used regularly across BW to monitor progress and assess the results. The slide gives an example of customer complaints. Ofwat have requested more details on this attribute.</p> <p>Slide 37 relates to the comprehensive 170-page CW report entitled ‘CCWater Matters’. It is available from the CCW website and is on the FTS. It indicates an improving customer service position of BW.</p> <p>Slide 38 describes the company’s Network Focus Groups. These have discussed the operational use of pressure to reduce leakage (including education of customers), self-serve to clear queries and faults (including the use of associated videos) and expectations around street works (this is currently ‘work in progress’).</p> <p>The issue of the reinstatement of water supplies using cloudy water was discussed. NHS asked if there is any risk to health as a result of this practice. BW said there is no material risk from sediment in the water. It is safe to drink and DWI are content with the practice. EA asked if there was a surge in complaints following the practice. BW said not. CCW added that it is important to let people know there’re going to receive cloudy water. BW agreed.</p>	
<p><b>8. Vulnerability Action Plan (VAP) and Social tariff research</b></p>	
<p>BW provided a high-level update on its VAP (see slides 39 and 40). It described the key changes to the Plan and its governance arrangements.</p> <p>The increased PSR target that Ofwat is now requiring was noted. This is to achieve 7% of customers (37,000) on the PSR by 2025. There are currently 5,000 on the register. BW reminded the Panel of its current data share with WP Distribution.</p>	

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<p>The Deputy Chair asked if BW will be able to determine type of vulnerability. BW said it will be able to do so. NSDC asked how many vulnerability categories BW uses. BW said its categorisation is in line with that used in the energy sector.</p> <p>It was noted that the Social Tariff research final report will be available next Tuesday.</p> <p>The Deputy Chair asked if there are any new tariff proposed other than extending the Pension Credit tariff. BW confirmed there are none. The Deputy Chair asked how the tariff is spread across BW’s area, BW said there is as much involvement in rural areas as in Bristol city. NSDC requested an explanation of BW’s social tariff. And BW provided this after the meeting.</p> <p>BW said it will respond to Ofwat’s DD by saying it wishes to retain its proposed PC relating to the percentage of customers in water poverty. It does not believe a PC associated with the number of people on social tariff is appropriate given that there is good evidence that its customers support the scheme.</p> <p>The Deputy Chair enquired about the frequency of reporting of the PC. BW replied it will be reporting quarterly.</p> <p>In response to a request from BW the Deputy Chair proposed that the Panel accepts the revised VAP subject to any last-minute concerns when the final version comes out next Wednesday. BW agreed to circulate the substantive document on Friday .</p>	<p><b>Action: BW</b></p>
<p><b>10. AOB</b></p>	
<p>The Deputy Chair asked that the full results from the recent engagement are put on the FTS. BW agreed to do this as soon as possible.</p>	<p><b>Action: BW</b></p>
<p><b>11. In camera session after main meeting</b></p>	
<p>Minutes are confidential and not published.</p>	