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Outcomes Consultation
Water 2020
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31st January 2017

Dear Ofwat,

Consultation on the Outcomes Framework for PR19

Thank you for the opportunity to respond to this consultation, we welcome the clear and early engagement this allows in the development of the PR19 framework.

Bristol Water was a strong supporter of the introduction of outcome-based regulation in the water sector at PR14. We developed a package of outcomes and performance commitments that will deliver significant improvements in our service during the current control period and beyond. We welcome the flexibility that the change to outcomes has provided, and the protection to customers it affords.

We are supportive of the recommendations Ofwat has proposed in updating its approach to outcomes for PR19. We recognise that companies' performance commitments can be an important tool to deliver higher service levels to customers. This should be both through financial and reputational impacts of non-financial ODIs and it is important that the regulatory framework provides the right incentives to companies to stretch their performance. Underpinning this is improved visibility, comparability and engagement with customers on company's performance.

There are areas that need to be clarified in some of the methods undertaken, which we have explored in some detail as part of our responses to this consultation. We know from our experience that identifying appropriate and relevant performance commitments can be a lengthy and complex process and that it is important to receive input from external stakeholders to ensure all views and options are considered, to create a package that best reflects customers' interests. We have the following main observations:

- If companies are able to justify higher levels of services and demonstrate evidence of their customers' willingness to pay for these, then this should be taken into account when comparing differences in company proposals. Where customers are willing to pay for additional service improvements, these can be funded through the reward framework;

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- The further development of the PR19 ODIs to recognise the emerging regulatory framework, specifically the introduction of new separate price controls. Several of the proposed common measures will be applicable to just one price control or multiple controls, so incentive properties and associated investment would need to be appropriately allocated across controls;
- There remains a need for a balance between common industry ODIs and company specific ODIs that enables companies to reflect local customer requirements and preferences, we agree that the number of common ODIs proposed maintains that balance;
- For all ODIs we believe a symmetrical incentive regime has the most powerful, balanced and appropriate incentive properties. A consistent, symmetric approach to incentives, with equal treatment of companies falling into the reward and penalty ranges and dead-bands should also appropriately reflect the quality of the comparative data, to avoid penalties being unfairly imposed;
- We are supportive of the reform of the SIM ODI to provide a wider measure of customer service and ensuring the experience of all customers is recognised;
- The introduction of long term asset management and resilience ODIs is an important part of a company's balanced commitments to its customers. We see this as particularly helpful in supporting Ofwat's long term obligations as well as keeping customers' bills as low as possible in the longer term.

Furthermore, all companies in the industry will need to consult with their customers regarding their proposed outcomes, including the framework for common measures. An early statement from Ofwat on the intended standard measures and approach to target setting would be helpful for customer research and development of companies' bespoke measures. We look forward to the detailed guidance before and in the PR19 methodology consultation to be published in July 2017.

Our responses to the consultations questions can be found overleaf. Please don't hesitate to let me know if you have any immediate questions or if we can be of further assistance.

Yours Sincerely,

A handwritten signature in black ink, appearing to read 'K. Hutton', written over a horizontal line.

Keith Hutton
Director of Strategy and Regulation

Making performance commitments more stretching

1. *What is your view on the use of improved information, including comparative performance information, to make performance commitments more stretching?*

We agree that the availability of reliable, comparable and up-to-date data should be the bedrock of the performance commitments set at PR19. We believe that the industry has taken positive steps towards this since PR14, in particular through publication of annual performance reports on company websites, and development of the industry dashboard 'Discover Water'. The Water UK-led project to standardise the approach to reporting on some key metrics has been useful in identifying differences in companies' methodologies and attempting to resolve those. It is important to ensure that this sort of information that is now available to customers is presented in such a way as to be intuitive and engaging to access, in order to maximise the potential for customer feedback.

The availability of comparative data on a number of key measures, including companies' performance commitments, can support engagement with customers and CCGs to establish the level of performance that customers want and are willing to pay for. However the availability of this information needs to be timelier, by revealing as soon as is possible after publication of the 2016/17 annual reports, and include co-ordination of the longer term historic datasets for standard measures would be helpful where possible.

We expect customers to want to see continuing improvements in the levels of service provided by companies. Research will be key to establishing the extent of improvements expected, and the speed at which they could be delivered. We accept the Ofwat principle to improve industry performance based on customer feedback but we would add that if companies are able to justify higher levels of services and demonstrate evidence of their customers' willingness to pay for such services, then these factors should be taken into account when comparing differences in company services. If performance commitments are solely framed in terms of customer satisfaction, such an approach may overlook the need for 'big picture' improvements and the associated costs involved. Bristol Water therefore favours a focus on customer service rather than customer satisfaction, which is explained further in our response to question 6.

When setting targets for performance commitments at PR19, the main options are to set fixed targets based on actual performance, fixed targets based on forecast performance, or dynamic targets that would depend on the performance of other companies within the sector. We have concerns that the disadvantage of the latter approach is that identifying actual targets becomes more difficult, and staff and customers/CCGs would not be able to fully appraise performance until after the year-end when others' data is made available. This uncertainty over the targets may dampen the incentive properties of the ODIs. It also would make investment planning more difficult, as where investment is made with the intention of outperforming an ODI target, this outperformance may not transpire if the dynamic target moves, and so linking investment to relative performance improvements becomes more difficult.

In regards to the options for applying comparative assessments at PR19, Bristol Water proposes the following:

- *what type of assessment we should carry out (upper quartile, frontier etc.)*

Setting targets based on historic (industry) average/upper quartile best performance across price controls, which will lock in additional benefits to customers in future price controls. We suggest frontier-based targets may not be appropriate, as it is possible that company-specific factors are

driving the performance of the frontier company. This effect is dampened by the use of upper quartile targets. This is even more the case where historic data is not available or there are potential inconsistencies in the comparability of methodologies applied to data reporting.

- *what performance information we base the assessment on (historical, forecast or dynamic)*

Only historical performance can be known when setting targets, and is therefore the most appropriate for setting targets which are linked to investment. For comparative customer satisfaction measures such as the updated SIM measure, relative performance against the industry is likely to remain the key measure and therefore this is effectively a dynamic assessment.

- *whether we set commitment levels for annual or multi-year averages*

Multi-year averages will allow companies to be more innovative and less risk averse in seeking improvements in service levels. This will also mitigate the impact of one-off incidents on overall performance in a given year, particularly for measures such as supply interruptions. However, we recognise that this approach may not be appropriate for all measures, particularly in areas such as water quality where a strong performance in all years is more important to customers than variations in service levels.

- *whether we apply the assessments to individual measures or a basket of measures*

We only see the appropriateness of a basket approach where the ODI and the outcome is common. However, if baskets are used, they should be assessed in a truly 'basket' approach with each component treated equally, rather than using performance of any single measure as the determining factor for achievement of the ODI.

The consultation references a paper published by United Utilities¹, however our view is that the basket approach taken here would be complicated to implement and it would reduce the incentive power on individual measures.

- *whether we set common commitment levels for the performance commitments only or also set common penalties and rewards*

Ideally, having common penalties and rewards across the industry makes sense unless it can be demonstrated that customers prefer a different balance for the measures used by their company. If customers show a willingness to pay for a greater service level, we would question whether it would be correct to limit the rewards available to deliver that.

- *whether there should be a time period before the common commitment applies (a glidepath)*

Glidepaths may be appropriate where companies were not required to meet the cross sector upper quartile performance at PR14 (e.g. targets for Bristol Water, Affinity Water and South West Water were not set with reference to the industry upper quartile) otherwise such companies may be required to spend disproportionately early in the period or in the previous period to meet a level of performance not previously required of them. This expenditure requirement may not have been allowed for through the price control, and so adjustments to the incentive framework may be required to deliver it.

¹ <http://www.ofwat.gov.uk/wp-content/uploads/2016/11/Outcomes-framework-consultation-appendix-1-1.pdf>, page 31

- *whether there should be any adjustments for company-specific factors*

Local company specific factors can impact the levels of service achievable on many common outcomes. For example the geology of an area may impact water quality, or climatic factors may impact resource availability. The question is therefore the extent to which companies should be expected to overcome such disadvantages in order to deliver service levels consistent with those provided elsewhere in the country. Our view is that some consideration must be given to company specific factors when considering the incentive framework to be applied to each measure, as to not do so risks exposing companies to unavoidable penalties. However, we would agree that a materiality threshold should be applied to any such factor in the context of the overall returns available through ODIs, and that consideration of whether the factor is within the control of the company should form part of that assessment. A further consideration is whether any adjustment should be made to cost allowances where companies are impacted by local factors which affect the level of service achievable on common outcomes, particularly if this has a significant effect on the performance level and therefore the level of financial incentive which may be applied.

2. *What is your view on the common performance commitments we are suggesting for PR19?*

Bristol Water is supportive of both the principle of common performance commitments and consistent definitions and we consider that the ten proposed common performance commitments for PR19 (of which we note that a maximum of seven would apply to water only companies) seem appropriate areas for standardisation. We feel that mandating this number of measures in these categories would provide an appropriate balance between standardisation and comparability in the industry and the opportunity for companies to identify and develop more innovative measures to improve performance.

A key driver of the outcomes framework is that it should reflect customers' priorities for service improvements. Companies are able to address this through their own outcomes frameworks, but should also be able to confirm that the industry outcomes are supported by customers. In setting out the PR19 methodology it would be useful for Ofwat to be clear how customer views have helped to inform the selection of these measures. Companies' own research may be useful in this regard, as well as any studies undertaken at a national level. For example, from December 2016 - January 2017 we invited customers to take part in a survey to identify customer priorities. A total of 1088 panellists took part in the survey. As part of the survey we asked panellists whether they agreed with the priorities identified by customers in 2011 and which eventually become part of our outcomes framework in PR14. The results suggest these priorities are still relevant today. As these priorities closely align with the common performance commitments identified in the consultation, we welcome the common performance commitments suggested for PR19 as these cover the key outcomes our customers continue to expect from the services we provide.

Although we do recognise that common performance commitments are important, their inclusion should complement the different factors, i.e. regional and socio-economic, that affect companies in a variety of ways, such as rural and urban networks, diversities in populations, varied network materials and geological influences. Consideration should also be given to linking the performance commitments within a company to demonstrate the interdependencies of the metrics. Most importantly, the metrics chosen need to be relative and comparable.

In regards to the proposed common performance commitments for PR19, Bristol Water's comments are in the table below. As a water-only company we have restricted our comments to the seven water specific proposals.

| No. | Proposed common performance commitments for PR19 | Bristol Water's comments |
|-----|--|--|
| 1 | New customer experience measure | <p>We agree that one of the common performance commitments should be a customer experience measure. The introduction of the SIM has led to improved customer satisfaction and we support the concept of adopting a measure that takes into account a wider reflection of customer service, rather than continuing with a narrow measure that only reflects how satisfied consumers are with the Company's overall handling of their contact.</p> <p>We recognise the benefits SIM provides in benchmarking against other companies. SIM scores help highlight companies that are above and below the industry average for customer service. This has led to further targeted analysis into the reasons behind scores in which specific company-wide schemes can be found to be a contributing factor which impacts the satisfaction of customers.</p> <p>The reporting of the SIM and subsequent analysis allows the industry to identify companies that may perhaps have examples of best practice in customer service and can also present lessons learned from other companies which can provide direction and steer for other companies to improve service.</p> <p>Whilst we recognise the benefits which SIM has brought to customers, It is also the right time for a refresh in the approach in how the measure is calculated; we address this in more detail in our answer to question 6. Our view is that a fixed target would be easy to understand, easy to explain to customers and be easy to measure performance against with other companies in the industry.</p> |
| 2 | Water quality compliance | <p>There is no mention of a specific new water quality measure but we welcome the proposal to have only one water quality measure in PR19. We recommend an alignment between the DWI's stated intentions and Ofwat's framework, otherwise there is a risk of misalignment between actual performance and potential rewards.</p> <p>DWI has stated that they feel MZC is no longer fit for the purpose originally intended. However, we note that MZC will continue to be reported by DWI up until 2020. It should be noted that the Inspectorate intend to introduce a new metric (Company Risk Index). At the moment the intent is to use 2016 data as a 'Beta Year' and formally report based on 2017 data. The new metric (which DWI see replacing MZC) is calculated from a Compliance Risk Score and a Company Risk Score. The new EU DWD moves regulatory monitoring to a risk based approach which would mean different companies would potentially monitor for different parameters at different frequencies. Consequently, a metric like MZC could no longer be used to compare performance across companies, and so a solely compliance based metric would not be a robust comparative measure.</p> <p>Although the Information Direction gives indications of the types of events</p> |

| No. | Proposed common performance commitments for PR19 | Bristol Water's comments |
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| | | <p>that should be reported to DWI there are no prescriptive instructions i.e. it is down to the company to determine if an event should be reported (however, failure to report an event which in DWI's eyes should have been reported can lead to enforcement action against the company). The use of a metric around the number of WQ incidents reported could promote perverse behaviour e.g. a company could decide that the risk of being caught out by the DWI for not reporting an event and the likelihood of a fine is less than an ODI related financial penalty due to the number of events reported. Consequently, an incident reporting related ODI would not be a robust measure.</p> <p>At the moment the Negative Water Quality Contact ODI is a count of appearance and taste/odour related contacts but excludes those contacts associated with a DWI reported event, which may lead to some distortion of reported figures.</p> <p>If going forward, a Negative Water Quality Contact ODI included all appearance and taste/odour related contacts, it would be a much truer picture of a customer's view of WQ and the number of contacts reported would be highly skewed by the number of incidents a company had (the vast majority of WQ related events are associated with appearance and/or taste/odour). Consequently the use of one WQ related ODI would be better to amend to reflect a Negative WQ Contact metric as detailed above. This would act as a good indication of the WQ seen by customers, would be heavily influenced by the number of WQ events a company has and would be indicative of a company's performance in the operation and maintenance of its assets.</p> |
| 3 | Customer water supply interruptions | <p>We agree that supply interruptions should be a key measure of company performance.</p> <p>Bristol Water has taken a lot of time to work with the industry on the standardisation of this measure. We are also part of the working group referred to in the consultation and are supportive of the proposals for the supply interruptions metric.</p> <p>Comparability of performance data is key, and this is an important factor in determining the precise definition to be applied. Whilst the customer impact of different types (planned and unplanned) and durations of incident should not be ignored, we recognise that attempting to capture these through a standard industry measure may not be possible.</p> |
| 4 | Water distribution input (or leakage and per capita consumption) | <p>The volume of water treated and put into distribution is a result of the supply demand balance between Per Capita Consumption (PCC) and leakage. By reducing PCC through water efficiency and metering, we reduce both Distribution Input and leakage. Reducing leakage will reduce the amount of water treated but has little impact on PCC and reducing the water treated forces reductions in both PCC and leakage. The focus should instead be on</p> |

| No. | Proposed common performance commitments for PR19 | Bristol Water's comments |
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| | | <p>reducing PCC, balanced with leakage reduction that is both economic and effective.</p> <p>In seeking views on which measure is best to apply as the common PC for the efficient use of water in the water sector, it is worthwhile noting that efficient can be translated as 'maximum productivity with minimum wasted effort or expense'. Water companies must find a balance between the cost of reducing leakage from pipes, the cost of encouraging customers to reduce their consumption, and the cost saving resulting from producing and distributing less water. An efficient level of leakage and demand reduction could be seen as the point at which further activity would cost more than the achievable offsetting cost saving.</p> <p>Any measure that is introduced should recognise the dependencies between the three metrics. Different companies experience different influences on the metrics, such as socio-economic groups and how these use water in different ways, and the influence of annual or seasonal events, such as Ramadan, on water use.</p> <p>Water distribution input could be used as a common metric as DI per household, this could tie in with PCC or HHC and leakage per household. This would enable each company to report a 'per household' metric, which would be easily comparable to the customer.</p> <p>It is also worth considering that common targets for this measure may be more difficult because of regional differences caused by climate, the supply/demand position in each area, including the influence of historic leakage investment. The impact of climate on the DI would need to be understood and adjusted for if necessary.</p> <p>Furthermore, it is questionable as to whether a financial ODI should apply – companies would save through reduced production costs and customers would save through lower consumption. We recognise that companies still need to incentivise leakage investment.</p> |
| 5 | Abstraction incentive mechanism (AIM) | <p>Bristol Water has no sites currently subject to the AIM and this measure is therefore not directly relevant to Bristol, although this remains to be confirmed, dependent on the final approach that is determined for Bristol's abstractions in the context of the new EA Sustainable Catchments assessment. A wider scope for this outcomes framework could therefore extend to include the developing "sustainable catchments" approach currently under development with EA and other stakeholders.</p> <p>As we are not subject to AIM we are not in a position to comment on whether it is proving an effective measure, but we do suggest a review is done.</p> |

| No. | Proposed common performance commitments for PR19 | Bristol Water's comments |
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| | | In general, a company's environmental outcomes reflect local issues and concerns and so are best left to individual companies to agree with CCGs rather than to standardise. |
| 6 | Customer property sewer flooding (internal) | Not applicable to Bristol Water as a water only company. |
| 7 | Wastewater pollution incidents | Not applicable to Bristol Water as a water only company. |
| 8 | Asset health water – pipe bursts | <p>The number of bursts is an indicator of both asset health and asset failure.</p> <p>Normalising to number per 1,000km of mains allows for comparison between companies, but does not indicate whether the bursts have all occurred in one particular area, on a particular type of main or the impact of the bursts on customers.</p> <p>With improvements in modelling, we could include reports on bursts avoided through investment in networks. We could also include details of where bursts have not resulted in interruptions to customers, demonstrating both innovation in returning customers to supply and resilience of the network.</p> <p>We need to ensure that such a measure does not mean companies double count between the supply interruption effect of bursts and the measurement of network maintenance. For example, in PR14 we have based our asset reliability performance commitments on the basket of measures that were used for the asset health assessment, known as 'Serviceability'. Historically, this basket of measures was larger but as some similar measures are now reported as individual performance commitments with their own incentives (for example Unplanned Customer Minutes Lost, Mean Zonal Compliance and Negative Water Quality Contacts) to avoid double counting performance and potential incentive penalties they have been removed from our asset reliability assessments for 2015-20.</p> <p>We do welcome the exclusion of DG2 from this measure. It does not provide a holistic view of the impacts of low pressure because it relies on a narrow definition which may be interpreted differently by different companies.</p> <p>Although Bristol Water agrees the industry needs common measures for asset health we do not agree it is realistic to achieve this within one price control period. Further detail is given in response to question 9 of the consultation.</p> |
| 9 | Asset health wastewater – sewer | Not applicable to Bristol Water as a water only company. |

| No. | Proposed common performance commitments for PR19 | Bristol Water's comments |
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| | collapses | |
| 10 | Possible new measure or measures of resilience | <p>Resilience is a key issue for the industry and of importance for Bristol; this is a concept we as a Company take very seriously. In parallel with a number of other projects examining the principles of resilience, Bristol is participating in the steering group of the current UKWIR research project on resilience performance measures and we suggest that this UKWIR project, which is due to be completed in April 2017, will provide a useful insight into appropriate measures of this important customer issue.</p> <p>Customers perceive loss of or interruption to supply to be an indicator of resilience, irrespective of the reason (flooding, landslips, power outage, burst mains, etc.). A common resilience metric should provide customers with a measure of how resilient the company is against loss of supply. At PR14 we committed to a resilience metric that made sure that the water supply we provided could cope with extreme events, ranging from flooding and droughts to malicious asset damage.</p> <p>For water supply, the focus of the measures seem very much to be on the network side (bursts and leakage) rather than on the production of water. It is important that the selected measure is relevant to source water quality and not only issues which develop in the network (such as discoloured water complaints).</p> <p>We recognise that further work is being undertaken by Ofwat and support the need for a consistent metric for resilience across the industry. We do however propose that the introduction of a new measure or measures of resilience be introduced in a phased approach. We also suggest that the approach and metric(s) for resilience should be agreed across all relevant regulators, to ensure commonality of purpose.</p> |

A further area of consideration should be which price controls each common performance commitment should apply to and where incentives should take effect. We anticipate, based on the Water 2020 proposals, that water only companies will be subject to three price controls at PR19 – Network plus, Water Resources, and Retail (household only). Several of the proposed measures will be applicable to more than one price control, so incentive properties and associated investment would need to be allocated across controls. This could lead to the proposed standard commitments being allocated as follows:

| Commitment | Network + | Water Resources | Retail | Comments |
|---------------------|-----------|-----------------|--------|--|
| Customer Experience | Y | ? | Y | Need to measure the customer service impacts of wholesale activities as well as retail. May also include other stakeholders, such as the Environment Agency. |
| Water Quality | Y | Y | N | Measure may include the quality |

| | | | | |
|------------------------------------|---|---|---|---|
| Compliance | | | | compliance in reservoirs and treatment works, and network distribution issues such as discolouration and taste |
| Supply Interruptions | Y | ? | N | Primarily a network issue, however, consideration needed for the effects of interruptions caused by failure of resources assets or supply shortages |
| Distribution Input / Leakage / PCC | Y | Y | Y | Network plus will be responsible for leakage, retail interaction with customers will impact PCC, water resources will impact distribution input |
| AIM | N | Y | N | AIM is only applicable to upstream resources |
| Asset Health | Y | Y | N | An asset health measure based on bursts would be mainly applicable to Network+. Widening this measure to upstream assets should include Water Resources. |
| Resilience | Y | Y | ? | We anticipate that this measure would incorporate Network resilience through interconnections, and resource resilience. If a measure of financial resilience was included within this metric then this may also apply to retailers. |

3. What is your view on how we might apply comparative assessments at PR19?

Our view is that the goal of comparative assessments is important in ensuring all companies' performances are stretched. Achieving this goal is strongly in all our customers' interests but companies should be rewarded for improving industry performance where customers or stakeholders require it.

There are both positives and negatives when considering comparative assessments for the common performance commitments identified. We welcome the recognition that comparative assessments would not be appropriate for all common commitment levels; when applying a comparative assessment, if the current level of service reflects local priorities or the relative costs in the local area of making improvements, then tougher/ more stretching targets would not always be appropriate. Likewise, some measures, e.g. supply interruptions, water quality and leakage, are impacted by historic investment allowances and so tougher/ more stretching targets would again not always be appropriate.

Our preferred approach would be based on looking at long-term and cross-industry performance, as well as current performance data. For example, for those service areas where all or the vast majority of companies have financial PCs currently, it is worth looking at the variation in terms of potential reward/penalty per unit of targeted improvement. Even allowing for the fact that companies start

at different points, there are some quite significant differences in areas where you would have thought that neither company circumstances nor customers' views would diverge much (e.g. supply interruptions). It would therefore be more beneficial to compare assessments for supply interruptions over a set period of time, perhaps over three years, rather than comparing single year assessments.

In addition, when standardising, as far as possible this should apply to definition, target and financial incentive – otherwise there could be the perverse situation where 3rd or 4th best performing company could earn greater reward than the best. Such an approach also needs to be balanced against different costs of delivery, willingness to pay and risk appetites. This is explored further in relation to question 7.

4. To what extent do you agree with our proposed approach to leakage performance commitments for PR19?

Bristol Water supports Ofwat's proposed approach to Leakage, which is that it should be a commonly required performance commitment for PR19. However, there appear to be significant difficulties in achieving standardisation of targets, both due to metrics and local economics, and therefore we suggest that targets and incentives should continue to be set independently for each company, rather than through a framework of relative performance.

Each company's current level of leakage is set with reference to an economic calculation of the cost of improvements, compared to the cost of additional resources, as set out in Water Resource Management Plans. This in turn reflects historic allowances for network maintenance and development of new sources, and the willingness of customers in each region to pay for further improvements. Movement to a common incentive target based on leakage per customer or km of mains would be unlikely to capture these differences, and may therefore have an unfair impact on the rewards and penalties attributed to some companies.

To support the use of leakage as a common measure it would be helpful for the industry to provide considerably more education for customers as to the economics of leakage. In recent years, leakage has become an emotive subject for the customers of water companies. There is a perception, particularly during times of drought, that water companies are recklessly wasting our precious resource, whilst customers are affected by drought orders with limitations placed on water use.

The Economic Level of Leakage is the level at which the cost per m³ of constructing, treating and delivering additional water resources equals the operational and capital cost per m³ of leak detection and repair to reduce loss. Ofwat requires the water companies to operate at the sustainable economic level of leakage, which identifies the level of leakage that gives consumers the best value for money. It compares the cost of reducing leakage to the costs of maintaining a balance between supply and demand in other ways, such as developing a new water resource, additional metering or promoting the efficient use of water.

Leakage is affected by the weather, especially cold winters, and may rise or fall from one year to the next. However, the last few winters have been particularly mild and, through improved leakage management activities and a more focused approach to integrated network management, (incorporating new technology and innovation) there has been a consistent downward trend in leakage in England and Wales over the past ten years.

If we are to move from an economic to an emotional level of leakage, it will require clarity of communication with easy to understand terminology, consistent through the industry. Customers

need to be able to understand why a level of absolute zero leakage will never be possible and that asset deterioration is a risk that the industry needs to manage to keep high levels of service affordable. We would agree that this is primarily the responsibility of companies to deliver through messaging to customers, but it should be supported through consistent positions and statements, including those from Ofwat and other regulators.

PR14 saw unprecedented levels of customer research by water companies to ensure engagement with customers on outcomes. This research included establishing what customers would be willing to pay extra for in terms of improvements in levels of service. One key area that customers were willing to pay extra for was further reductions in leakage levels. This 'notional' value was then converted to a benefit for reductions in leakage below the current proposed levels. Further customer research should be undertaken to ensure that customers comprehensively understand the implications of driving leakage levels even lower.

Reporting leakage performance on a three year average would allow companies to manage leakage in the most efficient and cost effective way. This would allow for initiatives, such as metering and pressure management, to be implemented and for the benefits to be realised in a more timely way rather than the reporting year.

In regards to the specific improvements identified for leakage, Bristol Water proposes the following:

- *The commitment levels that companies report for the common performance commitment should be measured on a consistent basis in total megalitres per day and based on financial years.*

We agree that this should be the basis for common reporting, and is consistent on the historic basis of reporting leakage. We have stated our view above that comparative performance targets for leakage may not be appropriate due to local differences in supply demand balance and willingness to pay. However, if comparative reporting is to be adopted then a scale measure is also required. Possible options could be to report as a percentage of Distribution Input, as megalitres per km mains, or as litres per customer served. We note that reporting normalised by % Distribution Input has largely been discontinued across the industry, primarily because the DI figure itself is susceptible to other influences, in particular customer demand. The flaws in the use of DI to normalise leakage are explained further in the article <http://www.leakssuite.com/interpreting-leakage-in-england-wales/>.

We believe that the number of customers served provides a better scale variable for leakage than length of mains, as it is more closely correlated to the amount of water supplied. However, we note imperfections remain with the approach, in particular the impact that different numbers of large users could have on the implied demand.

- *Improve the consistency of data underlying leakage.*

Bristol Water is involved with the working group established through Water UK to develop a standardised definition and we are supportive of the proposals identified through this project. As with all comparative data, along with common definitions and reporting methodologies, it is important to ensure good quality and assurance is provided in reported figures.

- *Companies to report the sustainable economic level of leakage (SELL), and its range to us, in their business plans.*

We agree that SELL should be reported, but it needs to be set in context, by taking into account the period that it relates to. We also agree that more explanation of SELL should be provided to

customers, as there is a lack of knowledge, understanding or appreciation of leakage economics by customers.

We would add caution to the assumptions in Footnote 7 (page 39 Appendix 1) of the consultation. It states that leakage targets should be set at or lower than the SELL otherwise further leakage reduction would reduce costs. As companies have very different sustainable, economic levels of leakage and there are a combination of factors affecting the SELL, we would recommend further study be undertaken in this area. In reality, reducing leakage below the SELL is likely to be more expensive than developing new water resources.

- *Companies should take into account their long-term expectations of the future value of water, the scope for water trading and the resilience of their supplies when considering their leakage commitment levels.*

On the future value of water, we continue to proactively investigate, and act on the findings of our customer research, to check that the costs of delivering any proposed leakage improvements match our customers' willingness to pay for such improvements.

On water trading, our approach is to examine whether buying water from neighbouring water companies is cheaper than developing new sources ourselves. In our Business Plan 2015-2020 we included two proposals to secure additional resources from Wessex Water by 2020.. Neither of the schemes identified incur material costs for our customers.

5. What factors should we take into account in our guidance on setting performance levels for bespoke performance commitments at PR19?

Factors such as customers' priorities and willingness to pay, current and previous levels of service and local circumstances should all be taken into account when setting performance levels for bespoke performance commitments at PR19. If a company has committed to a 'community' related outcome it would be logical for the relevant targets to reflect the preferences of the relevant communities.

These factors will ensure that customer preferences are not overridden with industry targets that may not be supported at a local level where customers do not value further improvements in service levels. For example, customers may not value upper quartile performance across the board, but instead prefer more improvements in a particular area (or areas) or, simply, lower bills.

We are supportive of vulnerability and affordability being a mandatory commitment to all companies. However as we explain in question 6, we have concerns over how comparable this information would be in practise. We recommend letting companies set vulnerability and affordability ODI(s) as bespoke commitments, developed after discussion with their customers and stakeholders for PR19. This may enable a move to a common vulnerability framework in PR24.

We recognise that some bespoke performance commitments may be similar to those proposed by a subset of companies. Perhaps more so for PR19 than was the case at PR14, as companies have had greater time to review and reflect on their own measures and those used by others. Given that, it may be reasonable for some measures for comparisons to be drawn against other companies when agreeing targets. We would expect that any such comparisons would explore the differences as well as commonalities in the service offerings proposed and the relevant local factors for each company.

6. What is your view on our development of a new customer experience measure for PR19?

Our response to this question relates specifically to Appendix 5 of the consultation. We discuss each of the issues raised there in turn:

The Ultimate Outcome

The measurement of customer experience within the price control is a critical component of the outcome package companies will deliver through PR19. Through this measure companies will be incentivised to deliver high service levels, be innovative, provide value for money services, and remain customer-focussed. The measure should seek as far as possible to mimic the effects customer service performance would have in a competitive market, to reflect how customers would react if they had a choice of water service provider. As the industry potentially moves towards more competitive models for retail and upstream services, the customer experience measure needs to adapt to take account of actual choices and decisions customers can make.

A key element of the SIM, and its predecessor DG measures, has been the element of competitive rivalry. Mechanisms which place companies in rank order have been shown to drive improvements, as the reputational incentives of such league tables have proved to be at least as great a driver as financial incentives. One consequence of these improvements has been convergence of scores, making it harder to differentiate between companies and potentially penalising some who are providing good levels of service. On many comparative service measures the water sector is shown to lead other utilities, which brings into question whether the incentive mechanism should pay greater attention to the overall performance of the industry against best customer service rather than just in water or against other utilities.

Customers experience of water services is largely limited to just their own provider, but they have a wider exposure to other utilities such as electricity, gas, telephone/broadband, local councils, and may have switched providers of those services. Customers may therefore be able to provide more informed views of relative levels of service provision, which could form a useful part of the new measure.

On whether a future incentive mechanism should remain more narrowly focused on customer service performance, or whether it should (also) go wider, Bristol Water sees benefit in extending the incentive mechanism to include the full service delivered. Using a wider measure would have its benefits as it has the potential to make further improvements to the overall customer experience.

Although continuing with the current focus on customer service would normally mean that companies need to deliver good overall customer service to achieve a good performance in this measure, the score can be impacted positively or negatively based on the performance of wider business areas so we believe the full service does already have an impact on the narrow customer service.

Bristol Water's view is that to some extent customers are already assessing the wider service in the current SIM which focuses specifically on the customer service. This is apparent from the comments we receive on areas of dissatisfaction identified through the SIM survey, for example:

- "To sort the stop tap out but because it was on the path, it is not their responsibility."
- "The timings could be better, as they were late completing the job."
- "The low water pressure still needs to be resolved."
- "To review their procedures regarding accessing the equipment on private property, and issues of supervision."

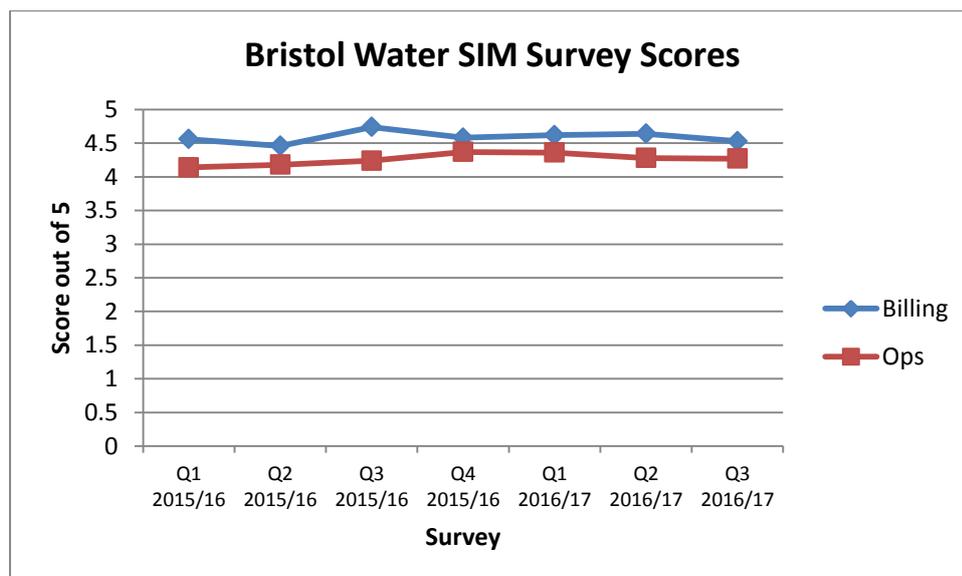
More clarity on which aspects of service the customer is expected to base their assessment on would be helpful. It would be worth considering the mechanics and effort required to create a wider measure verses the benefit to the customer, whilst not duplicating performance across ODIs.

Wholesale to retail?

The current methodology provides an even weighting between operational and billing contacts, which correlate closely to the boundaries of the retail and wholesale controls. Given the proposed movements towards retail competition for households, we believe it is appropriate for the SIM to evolve to reflect the different services provided by the wholesaler and the retailer. Whilst retail will largely own the relationship with customers, wholesale service and customers' views of it remain critical to the overall experience of the water service.

The consultation suggests that customers will be aware whether they have a wholesale or retail issue when questioned through surveys. It seems more likely that customers will remember the nature of the issue, but it will require companies to allocate it to wholesale or retail. This difference may become more pronounced for customers where separate wholesale and retail companies provide services.

We observe based on SIM survey results reasonable consistency in the scores for wholesale and retail contacts, suggesting that the current allocation method is working effectively.



We need to ensure performance in delivering services between wholesalers and retailers is captured in the new methodology (this is explored further in our response to *Beyond end users?*).

Beyond water?

Bristol Water supports cross-industry benchmarking as it would be a progressive step forward to ensuring water companies are incentivised to improve their performance beyond that of other water companies and offer a comparative or even better service to other utility providers. It would also help to keep the industry in line with customers changing expectations. Cross-sector benchmarking could offer an alternative to open market competition.

We feel it is important to recognise the limitations and believe that it would be difficult to set incentives and performance commitments based on cross-sector evidence, due to comparability issues both in data reporting and the levels of investment allowed in different industries, and the differences in customers' expectations of different products. For example, customers' acceptance of service failures may be correlated to their view on how essential the service is, and the price paid for it.

To demonstrate a comparison across industries we recommend a method such as the UKCSI. The UKCSI benchmark is used as a common widespread measure of customer satisfaction. Although it is difficult to compare industries so directly there are benefits to the water industry using UKCSI benchmarking for customer satisfaction due to the fact our customers cannot compare service levels of different water companies but can compare service levels with other organisations they interact with. In Bristol Water's 2015/16 annual customer survey, 67% of surveyed customers said that Bristol Water compares very well or quite well to other utility providers. To gain more insight on this, Bristol Water is in the process of obtaining UKCSI sector reports to internally benchmark against other utility providers.

Beyond contacts and complaints?

We think the concept of widening the scope of the types of customers included is really positive. It will help demonstrate the service given to all customers through all channels that they choose to communicate with us.

While it could be argued that customers who have recently contacted or complained have better or more current insight into the service we provide, more and more customers are experiencing our service without going through these traditional channels.

In 2015/16 Bristol Water received 2,906 emails, 319 letters and 40,490 inbound phone calls equating to 43,729 contacts based on the current methodology. This is compared to a customer base of 1.2 million (just over 530,000 properties), representing just 3.6% of our customers, and therefore means that the experience of the vast majority of our customers is not included within the SIM.

In comparison, Bristol Water has half a million bill payers who regularly use our billing service to pay their bills, by telephone, internet or direct debit. We also interact with customers through a number of other channels that are currently not measured including outbound calls, proactive text messages to send customers updates when there are interruptions to supply (this can reach several thousand customers a month) and Twitter.

Increasing the sample size to include bill payers and overall service users would give a clearer indication of our service as a whole to a broader customer base. We feel it needs to include customers who self-serve. This would incentivise companies to offer a better service and would provide companies with further insight on which service areas need improvement beyond complaints and inbound contacts.

At present some customers may not feel they need to contact us directly due to the fact that they are completely satisfied with the service they receive; these customers are not picked up in the current SIM measure. There is also the issue of the 'struggling silent'. Customers may have a pressing issue with our service, but are not included in the SIM because they have not voiced their concern to us via a phone call, letter or email. A new customer experience measure should provide these customers with the option to express their concerns with the service provided.

We have concerns around the inclusion of customers who contact us due to debt collection matters within the SIM sample. This can hamper the effectiveness of debt collection practices, as the intention is to encourage contact with customers with debt issues, but one would not always expect those customers to welcome this contact and pursuit of arrears.

Key elements of a company's relationship with its customers include brand loyalty and trust. Whilst water companies would seek to act in ways to encourage these, they may not at present be appropriate areas for a comparative measurement. The issue of loyalty poses difficulties as household customers are not able to switch providers. Trust is a more valid measure for the water sector, although to some extent it can be impacted by externalities affecting the public's wider trust of public bodies. Most non-household customers of suppliers based wholly or mainly in England will be able to switch providers from April 2017. We recommend a SIM-style satisfaction survey is applied to customers within the non-household market, including those who do and do not switch provider may then enable a comparative measure to be agreed regarding the level of desired customer service in the non-household market, ready for adoption at PR24.

Value for money is a valid measure of service, and one which we incorporated within our outcomes framework for PR14. We have found that some customers struggle to respond to this question, as they find it difficult to assign a valuation to an essential service over which they have no choice. We have experienced relatively consistent results since incorporating this question into our monthly tracking research. There may be issues however in trying to set comparative targets on this measure, as responses will be dependent on the company's level of charges. The level of charges is set through the regulatory price determination process, so the interaction with the decisions made on efficiency and necessity of investment may impact the incentive properties on value for money. Customers' views will be taken into account in determining the need for investments, so the bill impacts of those decisions should already be factored in.

A multi-channel approach?

Bristol Water encourages a measure that encompasses multi-channel feedback. We believe that the current method is outdated as daily interaction habits have changed, not only are customers using traditional methods of contacting us via letters or phone calls, but increasingly customers are looking to digital communication channels such as twitter, web chat and self-serve via our website. The following statistics present evidence of how our customers are moving away from traditional channels and into an era where digital services are becoming more sought after;

- In our monthly tracker surveys 24% of customers overall stated their preferred method of communication to be text, web chat, web forum or social media.
- Since the introduction of Twitter in 2015 we have been gradually receiving more followers, as of January 2017 we have over 1,500 followers.
- In December 2016 we surveyed our Customer Panel to ask what device they used to complete the survey, 1,100 answered and 54% completed the survey on a desktop or laptop computer, 27% on an iPhone or other Smart phone and 19% on an Ipad or tablet. This helps show us that nearly half of our customers interact with us using a smart phone or tablet.
- This is in line with our website analytics which revealed that on average 55% of customers use a desktop, 30% use a smart phone and 15% use tablet a tablet when visiting our website.

Bristol Water's website traffic has increased over the years; on average we have around 21,000 customers visit our site per month and this is with little active promotion. Most of the visits are by new visitors rather than returning visitors which suggests the customer is likely to be self-serving and looking for one-off information on our site rather than regular browsers. These customers could be

looking to pay their bill or fill out online applications. We feel that due to the increased reliance on our website as a communication channel; it is important for the new service measure to encourage companies to be more flexible in their offering to customers and improve their online service.

We would like to see a new service incentive mechanism that would recognise these changes in customer channel preferences and utilise these channels (and others which may be developed in future) to gain valuable feedback in order to improve the service offered. This incentive would drive technological and digital advances in communication options that are provided to customers, with the intention of continuing to deliver customer satisfaction.

In addition to the changes in channels which offer enhanced self-serve options, it is also apparent that customers are increasingly using social media to try to escalate complaints quicker as they are aware that the public can read the information. In 2016 we received some comments via twitter by a lady expressing her dissatisfaction with the time it took for her elderly Mum to have a meter installed. The first message we received was sent by 'Donna' just after 1pm on 14th September. An immediate and collaborative response by our staff helped resolve her query and the meter was installed the next day. Our final message to Donna was sent at 2.25pm on the same day. 'Donna's' final message of thanks was sent in the early afternoon on 15th September:

Donna: Not sure who is to blame but [@BristolWater](#) pls explain why a week later is my Mum still waiting in for a water meter.

Bristol Water: @xxxxxxx Hi Donna, Sorry to hear this - if you would be able to DM me your mums details (address etc) I can look into this for you.

Donna: Can only have access to my phone once I have finished work hence why I am late in replying. My Mum, spoke to someone AGAIN at 9am this a.m who told her someone would call her and they still haven't. Whether it is your fault or Kier fault she has been let down very badly. The meter was meant to be done last week, she waited in and nothing. She phoned and was told it would be sorted and still nothing. She is [REDACTED] We (her 'grown up' kids) would appreciate it if this matter is sorted with ASAP. Thank you

Bristol Water: Thanks for this Donna, I will look into this for you and let you know what the next step will be.

Bristol Water: Hi Donna, I have spoken with my colleagues in our metering department who are going to either give your Mum a call, or ask one of the Kier team to call and let her know the latest on this. Sorry for the delay.

Donna: She is volunteering this p.m at the Hospice and is unable to receive any phone calls till she finishes just after 6.15pm. She has an ansa phone on her landlines. Thank you for looking into it.

Donna: Thank you for doing my Mum's Meter first thing this morning! One Happy Mum and a grateful family!

This is a prime example of how companies are adapting communication methods and response processes to meet the needs of their customers but the current SIM methodology is failing to identify the voices of these customers who receive service through new and evolving digital channels.

One issue which a new survey mechanism may consider is the different expectations customers may have from different contact channels. It would be interesting to explore whether a contact through

social media would have the same expectation of speed of response and resolution as a contact by phone or email. The different expectations of different types of customers, particularly dependent on age and use of technology may also be instructive.

Bristol Water carries out proactive engagement with customers to gain additional and instantaneous feedback on our service, but these channels are not included in the current SIM. They include:

- Feedback cards distributed after home visits and jobs complete,
- Real-time feedback via text messaging and at the end of emails.
- Looking towards bespoke mobile and instant messaging for appointments,
- Introducing sentiment analysis to track trends on social media in order to improve our offering,
- Interactive mapping on our website as a new channel for customers to report leaks.

We can see the opportunity that instant and multi-channel feedback could add. There are operational advantages of these methods as customers can request a call back and we can look to fix any issues as soon as they arise. We strongly believe a new incentive mechanism should encourage more channels for feedback, like the examples above, in order to offer a more responsive level of service. Furthermore, by requesting customer's satisfaction at the time of completing an application or after using our website for example, we believe it provides a truer representation of our service rather than asking for feedback weeks after the interaction when they may not fully recall the experience.

In addition, the current method of limited channels creates a culture of prioritising responses to customer contact that counts towards SIM. As much as companies try to do the right thing for all customers, the incentive of SIM can still prioritise certain interactions, see part 6. The new approach would support a move away from this practice and would encourage all customer interaction to be equally prioritised to promote a better customer satisfaction for all.

The role of complaints

Bristol Water is supportive of the removal or reduction in emphasis of the quantitative component of SIM. We believe there could be a refresh in approach to the weighting of the quantitative aspects, such as penalising written complaints heavier than phone complaints. Whilst we understand the original logic of this decision, in that writing a letter normally requires more effort and therefore reflects greater dissatisfaction, the inclusion of emails as written complaints has distorted this position, as emails require less effort than phone calls. This can lead to an unfair weighting of complaints as emails can often be quite minor complaints and can quickly build up to a stage 2, whereas the effort that customers may go to by calling us may be more inconvenient for them, yet count less for SIM.

If a customer complains over the phone and they want their query handled formally as a complaint, they are asked to write to us. This is an inconvenience to the disgruntled customer and we believe the current incentive mechanism unintentionally encourages written complaints to be handled differently than complaints made over the phone. Removing the current methodology of scoring unwanted calls and written complaints could make companies more responsive to customer needs and priorities.

Figure 10 in Appendix 5 also highlights that there is only a little correlation between the performance of quantitative data and the overall score.

Removing the quantitative data could work if the proposed multi channel, all customer interaction method was in place.

Incorporate vulnerability?

We think it is key to ensure that customers in vulnerable situations are receiving the service they require and this often needs to be the most flexible and adaptable service. As Ofwat's Vulnerability Focus Report² explains, creating an industry-wide measure to specifically capture vulnerability could be difficult as customers would likely have to self-declare their vulnerable situation. Ensuring the measure captures a larger sub-set of customers through multiple channels (this is explored further below), including home visits and out reach events, would help to pick up more vulnerable customers.

Affordability is an area where we could have a specific measure and the work we are planning for PR19 should give us better information for how many of our customers are in financial difficulty. We recognise that there are different affordability offerings across companies, with various tariffs and different applications processes

The most basic measure available would be the number of customers supported through social tariffs or other affordability schemes. This would be the most likely source of comparative data, although it would not differentiate the value of subsidies and support provided.

The affordability measure we have committed ourselves to in PR14, which records the percentage of customers in water poverty, as measured by water bill as a percentage of disposable income. We consider this to be a strong measure as it directly considers the affordability impacts of our bills and the support packages we offer. However, calculation requires investment in data analytics which may not be appropriate at an industry level and could be hard to standardise.

Bristol Water believes that due to company-specific tariffs as well as different levels of cross-subsidy limiting the level of promotion of such tariffs; the possibility of a comparable financial incentive which includes the affordability offering to vulnerable customers is restricted. We consider that a reputational incentive to support vulnerable customers and those with affordability concerns is sufficient.

Beyond end users?

We agree and welcome the opportunity to report openly qualitative measures on the provision of service to our wider customer base in particular Self Lay Organisations and Developers who should be included within any experience measure. Historically these customers have high expectations and their needs are often challenging to meet which must be respected when they are paying for the privilege of our services. We believe incentivised engagement within this sector will promote improved interpretation of our customers needs to then challenge and drive change in parallel with their voice to continue building the required trust and understanding.

We find at Bristol Water that these customers are heavily reliant on a mix of customer channels including the website, face to face, telephone and email. This has meant that we have had to increase our customer service training with the teams that interact with them to be flexible enough to respond to their needs.

² Vulnerability Focus Report, http://www.ofwat.gov.uk/wp-content/uploads/2016/02/prs_web20160218vulnerabilityfocus.pdf

Although Bristol Water does not have a specific Performance Commitment in this area, we have seen the need to introduce a structured customer research programme with these customers to allow us to be more informed of their views and to support better decision making. The research that Bristol Water now carries out includes:

- Annual surveys with its Developers and SLO companies
- Water UK recommended customer call backs regarding service
- Voice of the customer outbound phone calls
- Developers and SLOs are going to be included customer groups in the annual stakeholder survey from 2017
- Developer and SLO days will be starting in 2017.

The voice of the customer outbound calls were more insightful than the annual survey as both the Developers and SLOs preferred being able to speak through their feedback.

The research and engagement we are carrying out would support the case of including SLO's and Developers in the new service mechanism as we believe tracking a more frequent satisfaction measure, such as SIM, for these customers would help to drive improvements in the service that they receive. It would also help all companies be more informed of the expectations of these customer groups and help them to respond better to their needs. As an industry it may also help our reputation with the national SLO's who comment to us that they see difference in the service they receive across the industry.

As well as developer services customers, Bristol Water sees a benefit in including retailers in the mechanism as retailers are one of the few customers who deal with multiple water companies. Therefore it could be argued that their opinion of us would be one of the most valuable as they are able to cross compare service of other companies. It would also be interesting to understand if the new measure would include the views of the end user customer, especially if they have visited our website for information or if it will be limited to Retailers.

More powerful outcome delivery incentives

7. What is your view on the options for increasing the power of reputational and financial ODIs at PR19?

Enhancing the reputational impact of ODIs

Reputational ODIs ensure delivery of performance measures and allow CCGs and other regulators to challenge companies about their performance. Bristol Water is therefore supportive of this aim. We used reputational ODIs at PR14 mainly where measures were new and robust data was not yet available to support setting of performance targets; where measures are subject to separate regulation; or where a financial incentive was applied to a similar measure and it was necessary to avoid duplication of incentives.

To further enhance the power of reputational performance, it is necessary for performance to be made available to customers through accessible channels. This could include reporting by companies, and summary reports published by regulators, [for example recent reports by Ofwat and CCWater – insert titles]. Such reporting will aid transparency and in turn, help customers. Such a report will build on and compliment the reported figures companies provide as part of the industry dashboard 'Discover Water'. Although this dashboard is at present good for comparable measures, the additional report identified would help increase the profile of reporting against specific ODIs.

More powerful financial ODIs

Financial ODIs have the potential to reduce costs to customers but need fair access and impact to all and companies should not benefit from underinvestment in previous price controls. The main downside with this approach is that across companies these ODIs could be extremely variable. Overall Bristol Water is supportive of an approach that priorities incentives for good performance rather than an approach that penalises a company for not meeting a benchmark which does not take into account local company circumstances.

In general, we feel that the current level of ODIs, constrained to be $\pm 2\%$ RORE at PR14, are relatively weak compared to other incentive mechanisms in PR14 and other utility sectors. We would therefore support a much wider range of rewards and penalties to be available at PR19, including the opportunity to outperform the allowed WACC, if customers are supportive. This would be balanced by companies taking a greater risk of increased penalties if performance targets are missed. The framework needs to consider the overall balance of risk & reward across the plan, given the sector's need to remain an attractive investment to investors and financial institutions.

We agree that linking ODIs to revenue adjustments would provide a stronger link between performance and financial impacts on customers, but need to be mindful of potential financeability issues this may create. Given that the water industry's business plans and outcomes frameworks are customer-centric then the move to more revenue-based financial ODI's may be appropriate for some measures as in the short term revenue-related ODIs are more likely to affect customers, whereas RCV is more business-focused, with the bill impacts spread over a much longer time period. In addition, we agree with Ofwat's assessment that linking a higher proportion of revenue to ODIs could lead to lower bills than would otherwise be the case, while at the same time providing an incentive for frontier-shifting service performance. However, a key issue is that the resulting package of incentives does not impact companies' financeability, even in the event that performance targets are not hit. This means that a fair balance of revenue-based ODIs and RCV adjustments should be established, taking into account customers' preferences and the risk profiles of companies and their investors.

Whilst we agree that as a company we must take account of vulnerability and affordability concerns, if customers demonstrate a willingness to pay for service improvements, this should be reflected in the overall incentive package.

Most financial ODIs set at PR14 will be reconciled at the 2019 price review – the 'end-of-period' ODIs. As a result any end-of-period ODI financial rewards or penalties will be received by companies and applied to customers' bills in the next control period, 2020-2025. We are supportive of in-period price control ODIs; in period revenue incentives will be more effective for some measures than longer term RCV adjustments. This approach is much fairer to customers whose bills reflect more recent service performance. We do note that this will mean that bills during 2020-25 will be impacted by performance levels achieved in both AMP6 and AMP7, and will need to examine the potential impacts of that.

In regards to a reward/penalty or a penalty only approach, we support the former with possibly a few exceptions, such as mean zonal compliance, as safe drinking water is a measure all companies should be expected to provide as a minimum service. We also support an increase in the number of ODIs with financial rewards. We are in favour an approach whereby companies are incentivised for exceeding target performance measures rather than being penalised for under-performance (especially if such performance is affected by local circumstances).

For all ODIs we strongly advise the adoption of a symmetrical incentive regime. We would prefer a consistent, symmetric approach to incentives, with equal treatment of companies falling into the reward and penalty ranges and deadbands should be set appropriately to the quality of the comparative data, to avoid penalties being unfairly imposed.

Implications of more powerful ODIs

We would add caution over the use of just the weighted average cost of capital (WACC) to increase the power of ODIs as this does not ensure that to ensure that companies are appropriately rewarded for outperformance. It would be of greater benefit to customers and companies if a framework was adopted that focused on increasing the rewards available to companies, which is more likely to be of benefit to the companies concerned and their customers. Likewise, there should be a balance between immediate and future ODIs, with a view to link performance to long-term performance.

We note for example British Gas's failed ground of appeal that the Gas and Electricity Markets Authority (GEMA) set inappropriate incentive targets in relation to the interruptions incentive scheme (IIS) and the Broad Measure of Customer Satisfaction (BMCS). British Gas argued that the design of the schemes was flawed in a way that was likely to lead to significant rewards for Distribution Network Operators (DNOs) without these being justified by any substantive improvements in performance. The CMA's Final Determination states:

"that GEMA's design of the schemes is not flawed such that the schemes are likely to lead to significant rewards for DNOs, without these being justified by any substantive improvements in performance. We therefore determine that GEMA was not wrong on any of the prescribed statutory grounds."³

In regards to the principle of 'gated' ODIs (where rewards on some ODIs are contingent on a company incurring no penalties on other ODIs), Bristol Water is not generally supportive of this initiative. ODIs should each act as a standalone incentive; without such an approach, the incentive to invest and outperform could be unintentionally compromised. Rewards should reflect the levels of service delivered and not be contingent on other ODIs.

Better reflecting resilience in outcomes

8. What is your view on our proposals for better reflecting resilience within the outcomes framework?

The importance of resilience to customers and our resilience duty

Resilience is a key issue for the industry and of great importance for Bristol Water; our Southern Resilience Scheme (a major £27 million investment) will provide improved security of supply to over 280,000 customers across our supply area, including Weston-super-Mare, Cheddar, Burnham and Glastonbury and the southern part of Bristol. This new network will give us increased flexibility and will allow us to move water from our northern sources into our southern region in the event of a loss of supply, or water back up to Bristol if we lose our northern supply. In previous price control periods we have delivered similar schemes to provide interconnection in our network, reducing the number of customers (in population centres of greater than 25,000 people) at risk of failure from single assets from over 800,000 to around 9,000.

³ British Gas Trading Limited v The Gas and Electricity Markets Authority, https://assets.publishing.service.gov.uk/media/5609588440f0b6036a00001f/BGT_final_determination.pdf

A good example of resilience is removing the overdependence of customers on a single asset. For example, in our PR14 business plan, we have the Outcome 'Resilient Supply'. Our performance measure for this Outcome is 'Population at risk from asset failure' and is defined as populations in centres of greater than 25,000 who are at risk of supply failure in the event of failure of a single supply asset serving them. Having a standard comparative measure for the number of customers dependent on a single asset would enable Ofwat to assess the vulnerability of customers to service failure.

We agree that all companies should adopt a resilience metric at PR19 but that this should be introduced over a longer period than one price control. We think it is more appropriate to move to a common performance measure for resilience at PR24 and to move to a common incentive(s) framework for a resilience performance commitment, if appropriate, in the price review after that. The measure proposed should be something broad such as percentage of customers with more than one source of supply would be a good industry comparator for the water side but the way it would be defined and the evidence behind its derivation will be critical. Such an approach would reflect the Water Act 2014's requirement for Ofwat to promote appropriate long-term planning and investment by relevant undertakers.

We also note that the 'at risk of flooding' metric (Appendix 3 p16) is a 'single hazard' and not consistent with an 'all hazards' approach. The other metrics are not 'operational' resilience metrics (or are waste water ones).

How Ofwat's programmes are contributing to furthering the resilience objective

In parallel with a number of other projects examining the principles of resilience Bristol is participating in the steering group of the current UKWIR research project on resilience performance measures and we suggest that this UKWIR project, which is due to be completed in April 2017, will provide a useful insight into appropriate measures of this important customer issue.

A set of resilience principles for PR19

Bristol Water agrees that there should be resilience planning principles and we agree with the principles proposed. These will enable Ofwat to be sure that companies are approaching resilience from a common perspective, which is consistent with Ofwat's resilience objective to secure long term resilience through the promotion of appropriate long-term planning.

How performance commitments and ODIs can contribute to our resilience duty

Historically, the industry's efficiency challenge through the price review tends to prioritise concerns about short-term bill impacts over the case for investment in long-term resilience. We therefore welcome the shift in emphasis to supporting long-term ambitions. This will, in theory, address the risk of focussing on opex solutions at the expense of whole lifecycle costs - as PCs and ODIs at PR14 were set for five years, this encouraged companies within the industry to resort to short-term opex solutions to avoid penalties rather than invest in solutions that would minimise whole lifecycle costs. Long-term planning and investment are essential to securing the water sector's resilience. It is worth noting that in 2013 Ofgem switched to a long-term performance based model for setting the industry's price controls, which was designed to encourage:

- Putting stakeholders at the heart of their decision-making process
- Investing efficiently to ensure continued safe and reliable services

- Innovating to reduce network costs for current and future consumers
- Playing a full role in delivering a low carbon economy and wider environmental objectives.

Taking the above into account, ODIs at PR19 should ensure resilient supplies over the long-term.

9. What is your view on the options and our preferred approach to asset health outcomes?

This question is asking for our view on options and preferred Ofwat approach to ‘asset health ‘outcomes’. For the purposes of consistency, we have assumed the question relates to asset health ‘performance commitments’.

Although Bristol Water agrees the industry needs common measures for asset health as a long-term aim, we do not agree it is realistic to achieve this within one price control period. It has taken other sectors two or in some cases three price controls to deliver a standard approach for this measure. We think it is more appropriate to move to a common incentive(s) framework for asset health performance commitments for the start of PR19 and to move to common performance measures for asset health in the following price review.

Accepting that most asset health indicators (including those required by Ofwat) are lag indicators, an effective assessment of performance which indicates whether investment in asset maintenance is appropriate will give comfort to customers. However the proposed asset health metrics (water mains bursts and sewer collapses) are entirely network/infrastructure focused. Although mains bursts should be included within the framework, it would be more beneficial to move away from the focus on ‘serviceability’ and instead develop a new set of measures that all companies can report consistently against.

Making performance commitments more transparent

10. To what extent do you agree with our proposals for making performance commitments more transparent for customers?

Principles to make performance commitments easier to understand

Bristol Water agrees that changes need to be made to ensure performance commitments become more transparent for customers:

- Transparent and easier to understand performance commitments will improve the information available to customers to give them more evidence with which to challenge water companies during the engagement and assurance process for PR19
- Visibility and transparency of comparative data is one of the most frequent and pressing requests from the CCG
- If comparisons in performance were more available, it would support a reduction in the range of performance between companies and promote competition.

We are therefore committed to the principles identified in the consultation. We have already embraced a more open and accessible approach to customer communications and our company annual report provides data and commentary on our performance that is aimed at a broad audience.

In addition to the performance commitments being comparative, the feedback from the CCG is that they need to be easier for customers to understand. Leakage is a top priority for customers but is often a measure that has a lack of understanding when being discussed with stakeholders and

customers. We agree with the view that performance commitments need to be complemented by an educational piece or simplified into something relatable and easy to understand. The introduction of Discover Water is a positive move towards increasing trust for customers regarding the industry and companies performance and we re-affirm our proposal stated in response to question 7 of this consultation.

Making performance commitments easier to understand through reporting requirements on the sub-measures that underlie some performance commitments

Bristol Water is supportive of this aim.

Encouraging companies to explain in their business plans how they will disseminate their performance information to ensure it is visible to customers, CCGs and other stakeholders

We consider it important to demonstrate to our customers, CCGs and other stakeholders that we report information on our performance that is transparent. Visibility and transparency of comparative data is one of the most frequent and pressing requests from the CCG. We also believe that if comparisons in performance were more available, it would support a reduction in the range of performance between companies and promote competition.

A possible advantage to this approach may be to further encourage customers to help them help themselves i.e. by making performance commitments more transparent for customers it may be easier to explain to customers why bills are at a certain level and how behavioural changes could lead to lower bills in the long-term.

Making performance commitments more focussed on customers' preferred outcomes, through reviewing the approach to scheme-specific performance commitments

The approach identified should take into account customers' willingness to pay as an important factor for any scheme-specific performance commitment.