

July 2019

Trust in water

PR19 draft determinations

**Bristol Water – Securing long-term resilience
actions and interventions**

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PR19 Draft Determinations: Bristol Water – Securing long-term resilience actions and interventions

Following our initial assessment of plans, we categorised two types of actions for slow-track and significant scrutiny companies:

- required actions for companies which in general were required for draft determinations (or final determinations for some aspects of past delivery); and
- advised actions for companies to do by a specific date but that are not required for our draft determinations.

Table 1 below sets out the required and advised actions, a summary of the company's response to the action, our assessment of the company's response, and any further interventions we are making as part of the draft determination.

Each action has a unique reference. The prefix 'BRL' denotes the company Bristol Water. The central acronym references the test area where the action has been identified, please see the 'PR19 draft determinations: Glossary' for a key to these acronyms. Actions whose numbers are preceded with an 'A' denote required actions and actions whose numbers are preceded with a 'B' denote advised actions.

Table 2 below sets out any further interventions that are not resulting from an action which we are making as part of the draft determination.

Each further intervention that is not resulting from an action has a unique reference. The prefix 'BRL' denotes the company Bristol Water. The central acronym references the test area where the action has been identified, please see the 'PR19 draft determinations: Glossary' for a key to these acronyms. Intervention numbers are preceded with a 'C'.

For all other documents related to the Bristol Water draft determination, please see the [draft determinations webpage](#).

Table 1 – Bristol Water's response to required actions and interventions for draft determination s

Test area	Action reference	Action type	Action	Date required	Summary of company response to action	Our assessment and rationale	Required interventions
Securing long-term resilience	BRL.LR.A1	Required	The company should ensure that its common and bespoke performance commitments associated with operational resilience are clearly defined, sufficiently demanding for the 2020 to 2025 period and the long term, and supported by the right incentives. We expect the company to satisfy the relevant actions set out in relation in the outcomes areas ensuring a line of sight between risks to resilience and package of outcomes.	1 April 2019	Bristol Water has not implemented all relevant outcome actions associated with operational resilience, in particular those related to asset health and bespoke resilience performance commitments.	Intervention required. The company should address any outstanding actions associated with operational resilience from the 'Bristol Water - Delivering outcomes for customers actions and interventions' tables, in particular those related to mains repairs, unplanned outage and to its bespoke resilience performance commitments ('Population at risk from asset failure' and the new 'Glastonbury Street Network Resilience' performance commitment).	Refer to interventions described in the 'Bristol Water - Delivering outcomes for customers actions and interventions' tables regarding mains repairs, unplanned outage and to its bespoke resilience performance commitments ('Population at risk from asset failure' and the new

Test area	Action reference	Action type	Action	Date required	Summary of company response to action	Our assessment and rationale	Required interventions
							'Glastonbury Street Network Resilience' performance commitment).
	BRL.LR.A2	Required	The company should provide a commitment that it will, by 22 August 2019, prepare and provide to us an action plan to develop and implement a systems based approach to resilience in the round and ensure that the company can demonstrate in the future an integrated resilience framework that underpins the company's operations and future plans showing a line of sight between risks to resilience, planned mitigations, package of outcomes and corporate governance framework.	1 April 2019	Bristol Water has confirmed its commitment to complete the action by 22 August 2019.	No intervention required. The company has complied with the required action.	N/A
	BRL.LR.A3	Required	The company should provide a commitment to work with the sector to develop robust forward looking asset health metrics and provide greater transparency of how its asset health indicators influence its operational decision making.	1 April 2019	Bristol Water has confirmed this commitment.	No intervention required. The company has complied with the required action.	N/A
	BRL.LR.A4	Required	<p>The company has noted the possibility of additional equity investment as a financial risk mitigation measure to maintain long term financial resilience. Please explain the steps the company and its Board have taken to ensure equity will be available if such support is required, particularly in the context:</p> <ul style="list-style-type: none"> • of available headroom in the financial metrics under the actual financial structure given reconciliation adjustments from the current control period; and • that the requested company specific adjustment to the cost of capital is not guaranteed (either at PR19 or at a future price control). 	1 April 2019	<p>Bristol Water has considered its financeability metrics both with, and without, the proposed company specific adjustment. Bristol Water sets out that with the company specific adjustment included, adjusted interest cover is challenging to maintain, taking account of AMP6 reconciliation adjustments; when the company specific adjustment is excluded, Bristol Water sets out it is not able to provide confidence on financial viability in the context of downside scenarios without equity injection or debt restructuring.</p> <p>Bristol Water states that (with the company specific adjustment) it expects to achieve a strong Baa2 credit rating. It provides a confidential third party report in support of its view that a Baa2 credit rating is appropriate. The company states that although the financial ratios in its plan appear weak, they are appropriate for its plan and are resilient to a range of cost shocks; in addition, the company says it will only need to</p>	<p>Intervention required. Bristol Water is responsible for maintaining its long term financial resilience. The company has provided a Board assurance statement that its plan is financeable on the basis of its actual structure.</p> <p>While the company has assessed its financial resilience with and without the requested company specific adjustment (which has not been allowed in our draft determination), there is limited headroom in the projected financial ratios, which are also impacted by past performance adjustments.</p>	<p>In its response to our draft determination Bristol Water should provide further detail and Board assurance about its plans to maintain its long term financial resilience in the context of targeting a Baa2 credit rating (that is only one notch above the lowest investment grade rating and lower than the target credit rating the company states it targets on a notional basis), and our draft determination as referenced in BRL.LR.C1.</p> <p>In its future reporting Bristol</p>

Test area	Action reference	Action type	Action	Date required	Summary of company response to action	Our assessment and rationale	Required interventions
					<p>raise additional debt of £9 million over 2020-25.</p> <p>Bristol Water sets out in its board assurance statement that the level of financial resilience in the revised plan does not require new equity retention and in response to the action sets out that it does not consider that additional equity investment will be required in 2020 to 2025.</p>		Water should undertake suitably robust stress tests to support its long term viability statements.
	Advised actions	Advised	No advised actions.	N/A	N/A	N/A	N/A

Table 2 – Further interventions for draft determinations

Intervention reference	Our assessment and rationale	Interventions
BRL.LR.C1	The Board assurance on actual and notional financeability and financial resilience in the revised business plan was provided on the basis of the assumptions made in the business plan, prior to any interventions we have made in the draft determination and our updated view of the cost of capital. There is evidence of further downward pressure on the cost of capital in very recent market data which will be considered for our final determination.	We expect companies to provide further Board assurance, in their responses to the draft determination, that they will remain financeable on a notional and actual basis, and that they can maintain the financial resilience of their actual structure, taking account of the reasonably foreseeable range of plausible outcomes of their final determination, including evidence of further downward pressure on the cost of capital in very recent market data as we discuss in the 'Cost of capital technical appendix' and the specific issues we have set out related to the financial resilience of the actual financial structure.

Ofwat (The Water Services Regulation Authority) is a non-ministerial government department. We regulate the water sector in England and Wales. Our vision is to be a trusted and respected regulator, working at the leading edge, challenging ourselves and others to build trust and confidence in water.

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July 2019

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