



**Business Plan
2015-2020**

Our vision:

“to meet our customers’ expectations
by providing an outstanding water service
in a sustainable and affordable way”



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Our plan will deliver increased investment, improved services and bills that rise by less than inflation. We will:

Deliver our statutory obligations in terms of water quality and the National Environment Programme

Improve the appearance of water, reducing the number of appearance complaints by 10%

Reduce leakage, from our current target of 18% to 16%

Increase investment to over £334m

Improve reliability, reducing the number of interruptions by 10%

Invest to meet the needs of a growing population by starting to build a new reservoir at Cheddar, to be completed in 2024

Improve the environment, using a catchment management approach to improve the quality of our lakes and water sources

Provide extra resilience, reducing people supplied by only one treatment works from 312,000 to 9,000

Reduce carbon emissions by half

Keep customer satisfaction higher than 92%

Introduction



Welcome to our Business Plan for 2015-20. This document describes how we propose to deliver our vision to *meet customers' expectations by providing an outstanding water service in a sustainable and affordable way, for the five years from 2015 to 2020.*

We have a long history of supplying water to customers in Bristol and the surrounding area, so we understand the importance of making the right decisions now to ensure an affordable, high quality service into the future.

However, we face a series of challenges over the coming years including population growth, the impacts of climate change, and further changes both in customer expectations and the regulatory environment in which we operate. Rising to these challenges demands an innovative approach if we are to continue to provide the levels of service that you expect.

As a Board, we have been determined that our plan should reflect your priorities and deliver the services that you want. To this end, we have sought the opinions of a wide range of customers, and asked our Local Engagement Forum to challenge us in order to ensure our research identifies your priorities and that this plan reflects them.

You have told us what value you put on different levels of service and performance, what the balance should be between the different outcomes and finally, how acceptable our proposed plan is to you.

This feedback has been invaluable in helping us to develop our vision and strategy for the next five years. We're confident that our plan will deliver greater resilience and reliability, reduce leakage, meet all our statutory requirements and bring benefits for the environment while keeping price increases to average customer bills below inflation. And it seems that most customers agree. Recent research to find out what customers think of our proposal showed that 92% of households and 97% of businesses rated it as acceptable.

We submitted our original plan to Ofwat in December. Following feedback from them, we have made some minor revisions and reduced proposed bills by an additional 1%.

Keith Ludeman

Chairman

Bristol Water

Bristol Water – who we are and what we do

Throughout our history we have been focusing on the needs of our customers, acutely aware of how important a reliable water supply is to everyday life.

Our principal water sources are the Mendip lakes (Chew, Blagdon and Cheddar) and the Gloucester-Sharpness canal, although springs and wells also provide an important source of good quality water.

The water from these sources is treated by one of 16 water treatment works that purify the water and produce safe, clean drinking water. We then distribute the water through a 6,700 km network of water mains, typically supplying more than 240 million litres of water a day to households, businesses and other non-domestic customers in our region.

The quality of the tap water our customers enjoy is extremely high, meeting exacting regulatory standards. Thanks to our highly trained, motivated staff and contract partners, we also have a track record of excellent customer service, consistently appearing near or at the top of industry performance tables.

We also recognise our responsibility as stewards of the environment in which we operate and our record in this respect is excellent. We own three major Sites of Special Scientific Interest (SSSI), namely Chew, Blagdon and Cheddar reservoirs, where we have full biodiversity action plans in place. We manage these sites carefully, ensuring that all the different recreational and conservation activities on offer complement rather than risk their protected status.

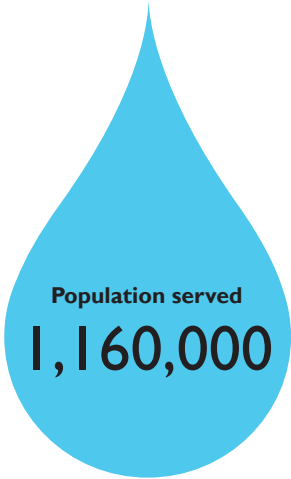
Bristol Wessex Billing Services Ltd invoices customers on our behalf and they make sure that customers receive accurate bills covering both water and wastewater services.

Proud of our past and present service to customers, we now want to ensure that we are ready to meet our customers' future expectations.

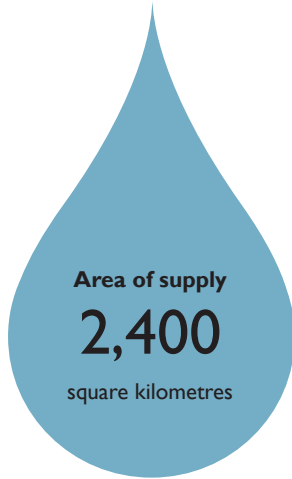
-  Established in 1846, we have supplied drinking water for over 167 years.
-  We are a water supply company. Wastewater (or sewerage) services are provided by Wessex Water for most customers in our area, with Thames Water and Severn Trent Water serving the remainder.
-  We serve approximately 1.2 million people and all associated businesses in an area of 2,400 square kilometres centred on Bristol.
-  We have three major reservoirs (Chew, Blagdon, Cheddar) and many boreholes. But nearly half the water used in the area comes from rivers outside our area of supply.
-  We operate a range of treatment works feeding water into a network of pumping stations, storage reservoirs and mains for delivery to customers.
-  We are privately owned by three international corporate investors.



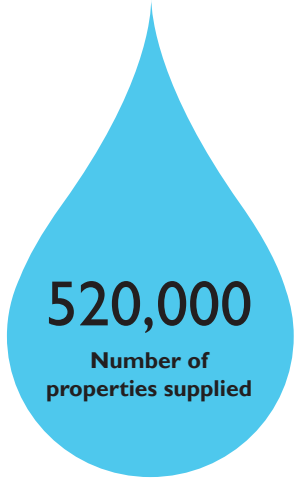
Our principal business is the supply of water to an area of almost 2,400 square kilometres, covering a population of approximately 1.2 million people.



68 Sources
(including reservoirs, rivers, springs, wells and boreholes)



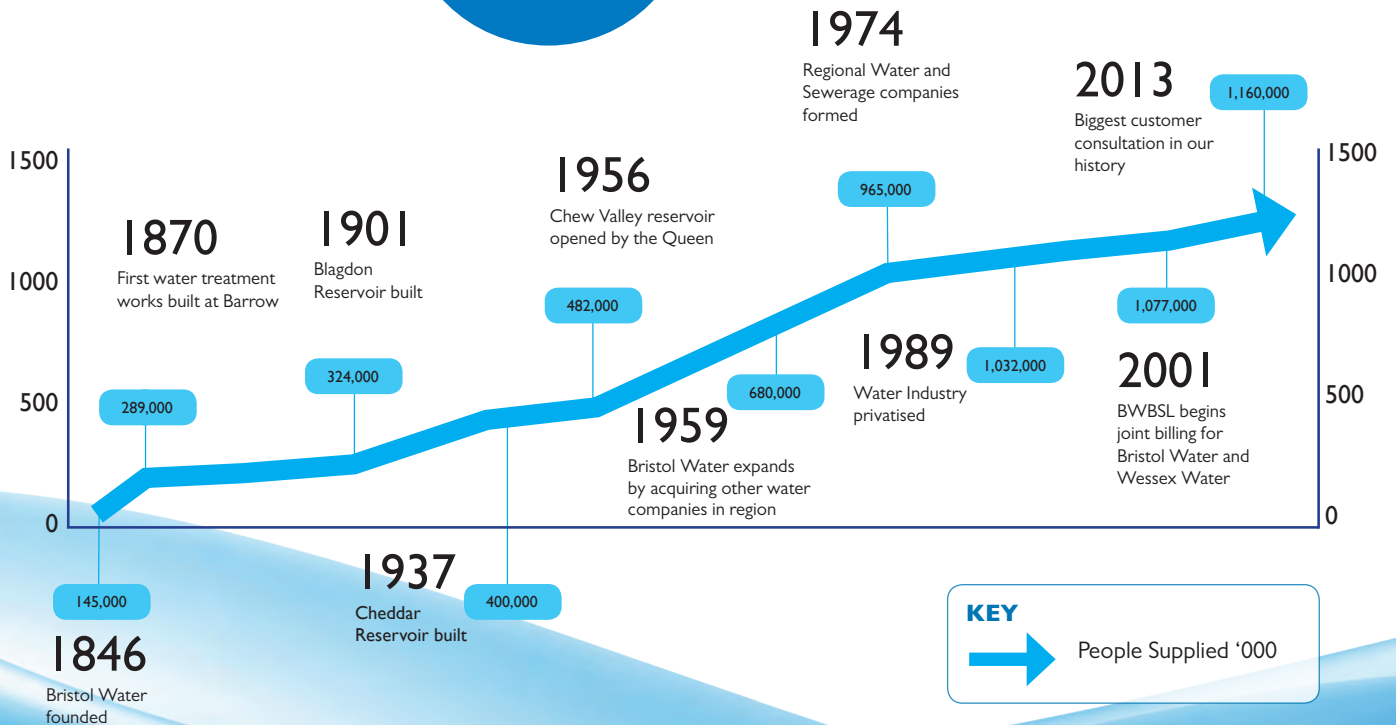
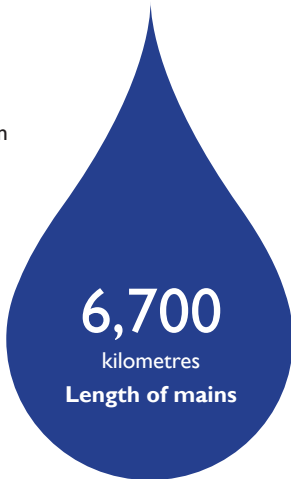
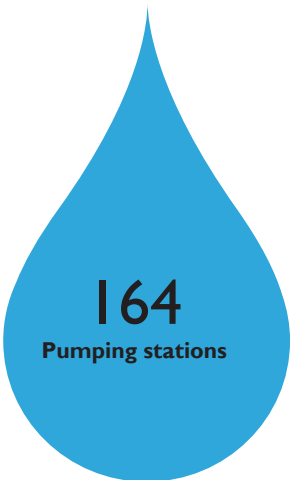
240
million litres
Average daily supply



139
Covered storage reservoirs
(the largest, Pucklechurch, can hold 115 million litres)

16
Treatment works
(output ranges from 2 million litres/day at Tetbury to 165 million litres/day at Purton)

14
Raw water reservoirs
(the largest, Chew Lake, can hold 20,460 million litres)

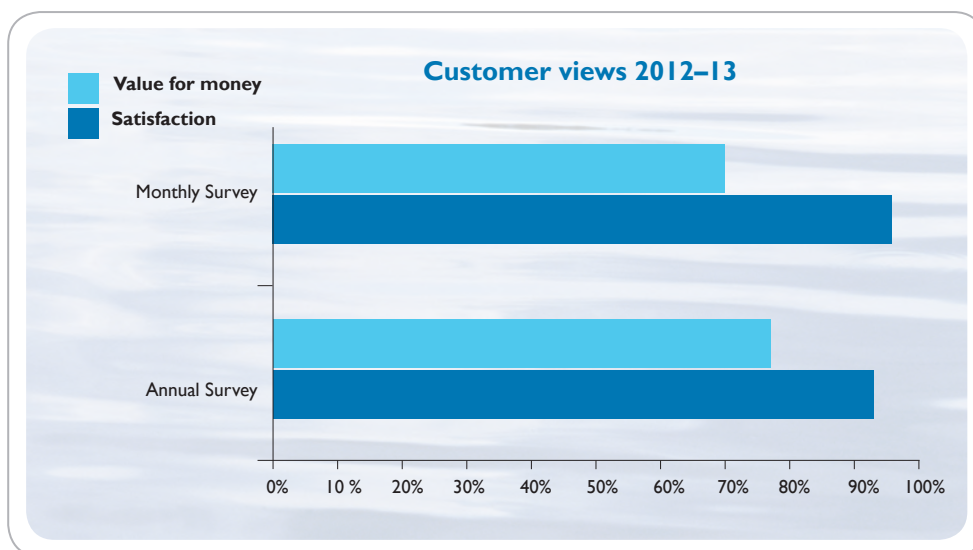


Our track record

We are proud of our record in delivering high quality services to our customers and focusing on what you tell us your priorities are.

Good customer service

To make sure we are doing what you want, we carry out a monthly survey of customers that have contacted us to assess how well we responded to their enquiry. We also survey customers more widely once a year to ensure we get the views of those that haven't needed to contact us. These surveys show over 90% of our customers are satisfied with their water supply and around three quarters believe we offer good value for money.



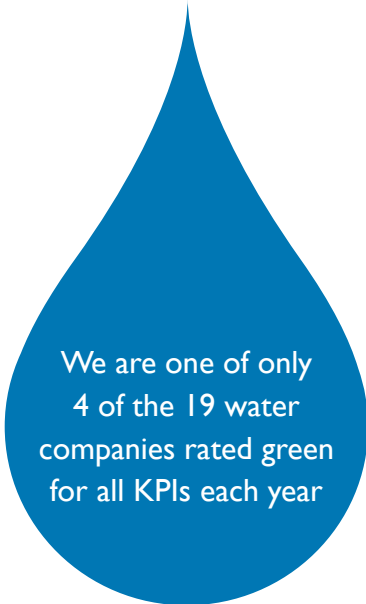
Helping customers who can't pay

We have introduced new approaches to help customers who find it difficult to pay their bills. In 2010, we introduced our Assist tariff that offered lower bills for customers referred to us by debt advice agencies such as the Citizens Advice Bureau (CABs). In 2013, we were one of the first water companies to introduce a social tariff, which widened access to lower bills. Currently around 6,000 customers (1%) are being helped in this way, and we will be increasing the promotion of social tariffs to those customers requiring assistance by working more closely with debt advice agencies and CABs.

Safe drinking water

Customers tell us that safe drinking water is their joint highest priority. Our water quality performance has been excellent; compliance with legal standards has been at 99.96% or better, and the trend in complaints about water quality is downwards.





Meeting our targets

The industry regulator Ofwat publishes key performance indicators (KPIs) for all water companies each year using traffic light colours to set out whether they have met their targets. So far, we have met all our targets during the current price control period (2010-15) and are one of only 4 of the 19 water companies rated green for all KPIs each year. Ofwat ranked our customer service performance as second in the industry in 2011/12 and fourth in 2012/13.

	Customer Service (SIM)	Leakage	Infrastructure Serviceability	Non-infrastructure Serviceability	Carbon Emissions	Interruptions to Customers Supplies	Security of Water Supplies (SOSI)	Water Pollution Incidents
2013/14								
2012/13								
2011/12								
2010/11								

Investing in the future

During the period 2010 to 2015, we will have invested almost £300m in our supply system. That's around £600 for every property we supply. We have an established track record of delivering new assets efficiently and effectively, and are well placed to deliver the programme included in our plan for 2015 to 2020.

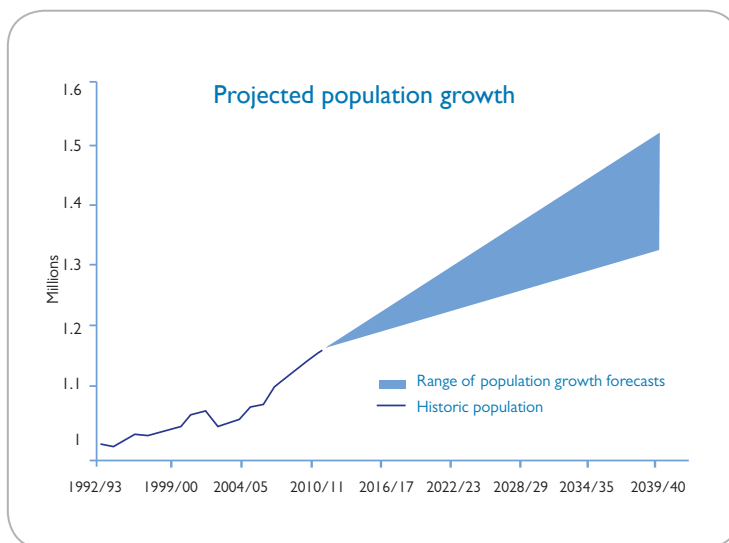


Future challenges



Growing population

Over the next 25 years, we need to make sure we can supply the needs of both existing and future customers. Based on government forecasts, we expect the population we serve to increase by 15%-25% by 2040. This will lead to higher demand for water.



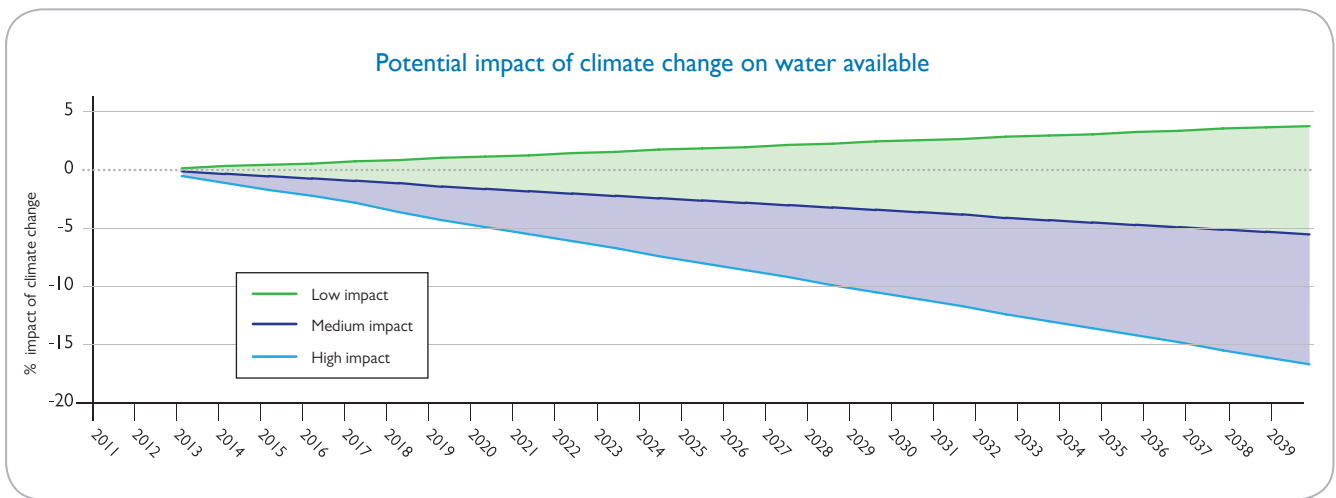
¹ Source of data – Office of National Statistics (2010)

Climate change

We also need to consider the potential impact that climate change might have on providing water in the future. Climate change could affect rainfall and so change the amount of water we can get from our sources. Forecasts based on Met Office climate projections suggest that the amount of water available to us is likely to reduce by around 6% by 2040. However, the impact is uncertain – it could range from a slight increase in water available to a reduction of over 15%. Climate change may also result in increased risk of extreme weather events such as flooding or droughts, which could also affect our supply system.

Rather than plan to meet the worst case scenario, we need to improve the resilience of our supply system so that we can respond flexibly to meet the eventual outcome whether small or large. Being more resilient will help us meet this challenge in an efficient way.





Economy and prosperity

The economy has been through a difficult period recently, and although most forecasters suggest it is starting to improve, there may be a few more bumps along the way. These may affect how much water business customers want to use, and our customers' ability to pay their bills. We need to make sure that we are responsive to the needs of customers and work to keep our bills affordable.

Customer expectations

We anticipate that customers' expectations about the water service they receive will increase with time. In order to meet these growing expectations, we will need to engage with customers on an ongoing basis to understand their requirements so that we can make sure the water service we provide meets them.

Government expectations

The Government has set out its expectations for the water industry, which are:

- An innovative water sector in a transparent and predictable regulatory regime
- A sustainable and resilient water sector
- A customer-focused water sector

We agree with these aims and we need to make sure our plans take them into account.

An innovative approach

Improving the resilience and flexibility of our supply system will enable us to respond effectively whatever the future brings. While some of this resilience will be delivered by additional investment, more is likely to come over time from inventive new ideas that can bring in extra resilience and flexibility at low cost. A consistently innovative approach is therefore essential to meet future challenges.

Putting customers at the heart of our plan

In early 2012, we drafted a vision statement which declared: “Our vision is to exceed our customers’ expectations by providing outstanding water services in a sustainable and affordable way.” However, when we tested this with customers, they told us we should be meeting their expectations but not aiming to exceed them. We therefore amended our vision statement accordingly.

To deliver it we need to understand what customers’ expectations are. So, over the last two years, we have undertaken extensive research and involved customers in the development of our plans. This engagement has played a key role in the development of our future strategy, with more than 3,000 household customers and 400 business customers contributing their views.

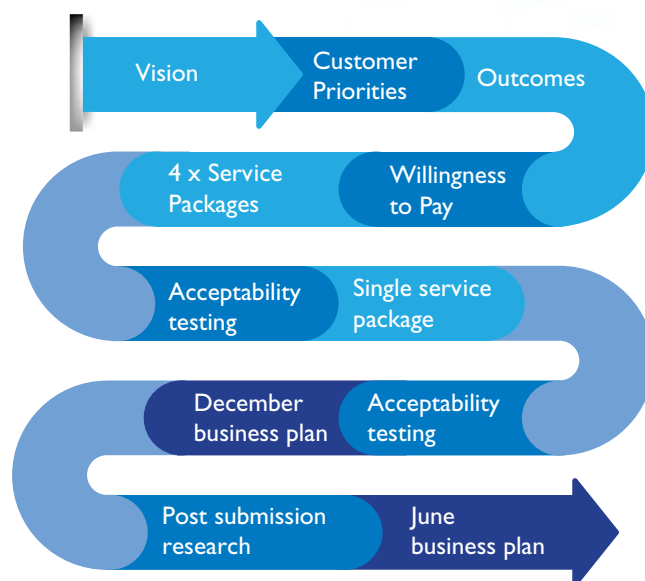


Understanding your views

To make sure our plans meet customer expectations, we have developed them in three stages using customer research at every step:

- In the first stage, we undertook priority research to help us identify the outcomes customers wanted us to deliver and understand their relative importance. This was used to help us confirm the outcomes and formulate a long-term strategy and performance measures to achieve them.
- In the second stage, we used preferences research to help us understand how customers valued different outcomes compared to one another. We used this to help us develop four possible plans to test with customers.
- In the third stage, we used acceptability research to find out how receptive customers were to each plan, which they preferred and what they liked and disliked about each one. We used this to help us identify a single preferred plan.

Finally, we undertook further acceptability research to make sure that our preferred plan was indeed the one customers were most enthusiastic about.



Bristol Water Local Engagement Forum (LEF)

To make sure we've been listening to and writing our plan to deliver your priorities, our Local Engagement Forum (LEF), a group of representatives from local and national organisations, has been monitoring and challenging our approach.

A key role taken by the LEF was to scrutinise our customer research proposals and challenge us to make sure that we were measuring customer views appropriately. Each separate piece of research was examined in detail in advance, and the market researchers challenged to ensure that the methods they used were best practice and that the results obtained could be relied upon.

In addition, the LEF has challenged us to explain how we have incorporated the results of this research into our proposed plan. They have also ensured that we have taken account of the interests of wider stakeholders, vulnerable customers and the environment.

An independent report produced by the LEF is available on our website: www.bristolwater.co.uk



Charles Howeson
LEF Chairman

Ongoing customer engagement

Whilst we have now completed the customer research needed to help us develop and then test our business plan, our engagement with customers and other stakeholders will continue, and we are taking steps to enhance this substantially. In 2013/14 we increased our monthly customer research programme, introduced a new annual stakeholder survey to complement our annual household customer tracking survey, and published a bi-annual customer newsletter 'WaterTalk'.

We also invested in a mobile customer service and exhibition unit; and we have been using this over the last few months to provide information to local people about our mains improvement works and to promote water efficiency and metering. We recently appointed a full-time community liaison officer who will lead our face-to-face engagement with customers, local groups and other stakeholders, including those parts of the community which might be considered 'harder to reach'.

We will shortly begin to implement plans to provide new feedback channels for customers and stakeholders to get their views on what we do, how we perform and where we need to improve. This will include setting up a new consumer panel to help ensure we continue to base what we do on what our customers want. In addition, we plan to set up a stakeholder panel to review our performance and hold us to account.

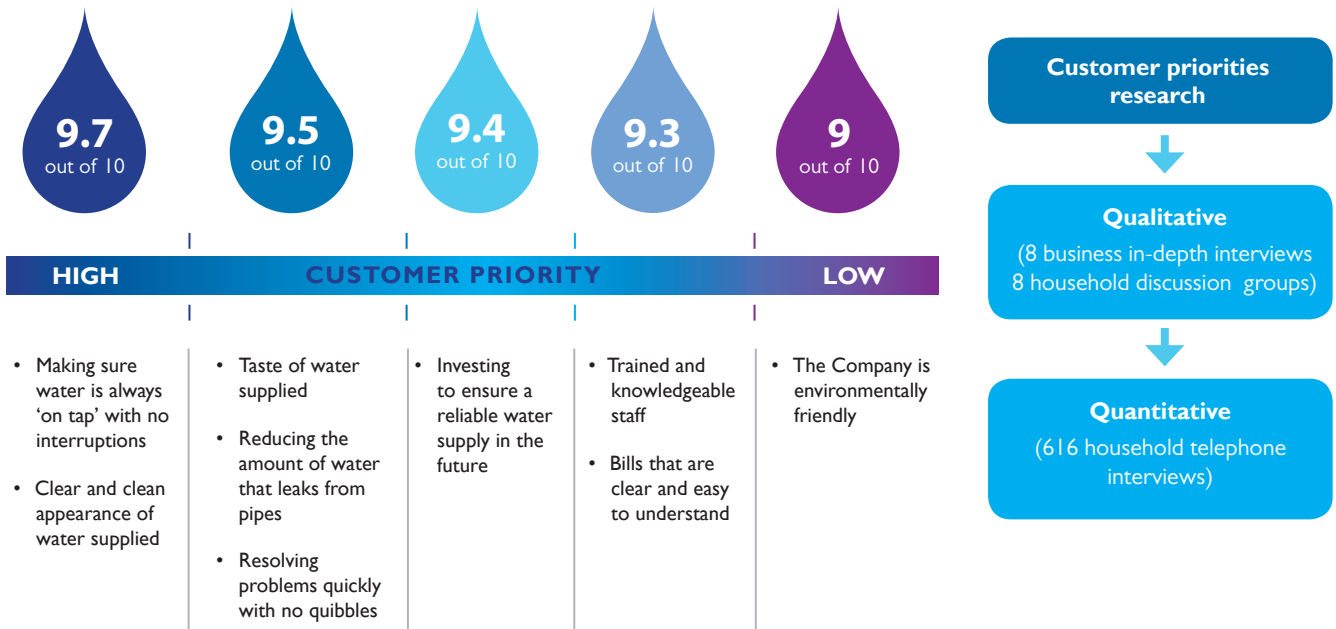


Stage I

Customer priorities and outcomes

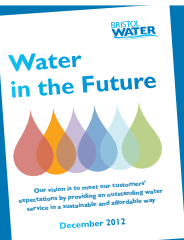
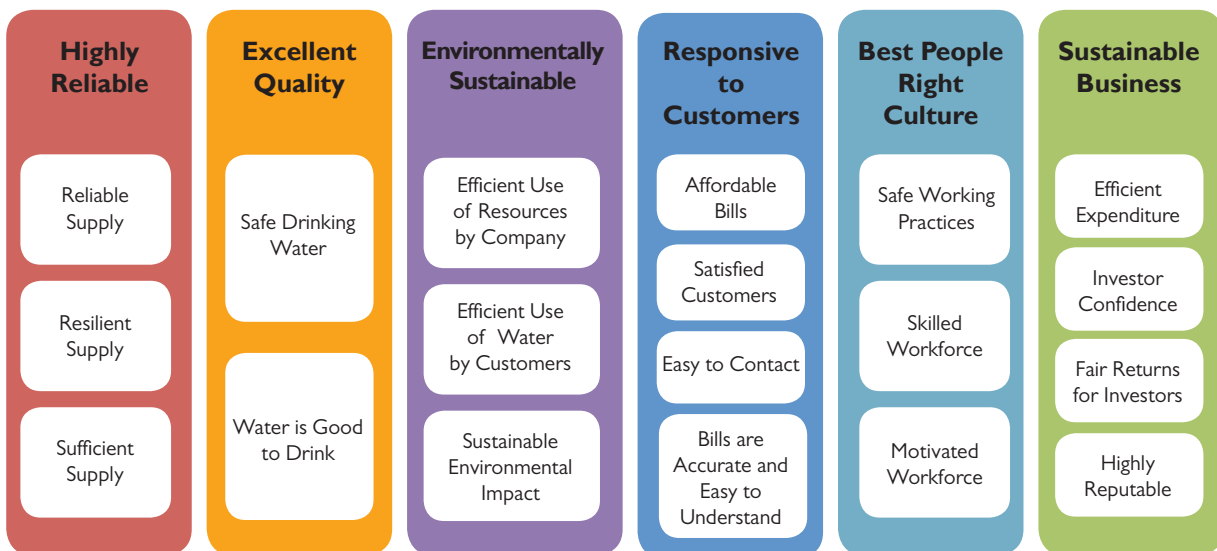
Customer priorities – what you told us

The findings of this research showed your top priorities are:



Outcomes

We've translated these priorities into six key aims, each supported by the outcomes you and other stakeholders have told us are important. For each of the outcomes we have identified measures that we can use to check whether we are delivering them.



Using the results of the priority research, we set ourselves long-term (2040) targets for all of the performance measures. These were set out in our long-term strategy "Water in the Future" which was published in December 2012. In our magazine 'Water Talk', which is delivered to all our customers, we set out a summary of this strategy and invited customers to tell us what they thought.

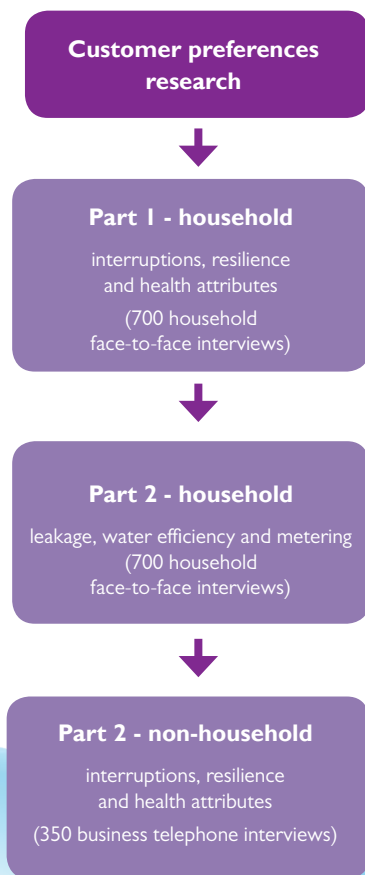
Stage 2

Developing possible plans

Having developed our long-term strategy, our next step was to focus on a detailed approach for the period up to 2020. The key steps we took were:

- Undertaking customer preferences research (sometimes called 'willingness to pay') to find the values customers place on different aspects of the services we provide;
- Developing detailed investment planning models that enable us to optimise our proposed plan for a given level of investment (based on the values obtained from the research);
- Creating four potential plans for testing with customers, each with its own combination of service levels, investment and impact on bills. By asking you about them, we aimed to find the best plan for you.

For each step, we asked the LEF to challenge us to ensure we were properly gathering and reflecting customers' views. This process has helped us to formulate plans that deliver what you want.



Customer preferences research

We used an independent market researcher to help us find out how much household and non-household/business customers would value improvements in specific areas of service:

- interruptions (short and long-term);
- hosepipe bans;
- leakage;
- metering;
- water efficiency;
- discoloured water;
- taste and odour;
- low pressure.

Investment planning

To maintain or improve services to customers, we will need to invest in repairing and improving our supply system. However, there are a large number of possible interventions we can make, each of which can have a different impact on different aspects of service. For example, replacing old pipes may make interruptions less likely, whereas building a new reservoir may make restrictions of supply in drought less likely.

To deliver the most benefit for a given level of expenditure, we have to get the mix of things we do just right. This is determined using optimisation tools, which use customer preferences to calculate the best combination of interventions to give us the most efficient and effective investment programme. This approach means that only interventions where the benefits are greater than the costs are taken forward into the plan.

Finding the right plan

Bills would increase significantly if we put in place all the interventions where the benefits are greater than the costs. So, to find the right balance between service levels and bills, and to make sure our proposed plan would be acceptable, we used our optimiser to create four different packages of service, each assuming a different level of investment.

The package with the lowest level of investment delivered all legal and water quality requirements, plus a reduction in leakage, but allowed service to reduce in other areas. This package resulted in a £12 reduction in average bills relative to inflation by 2020.

Each subsequent package included additional cost beneficial interventions that delivered better service, but also resulted in higher bills, with the highest level of investment leading to a bill increase of £12. The four packages were then tested for acceptability with customers.

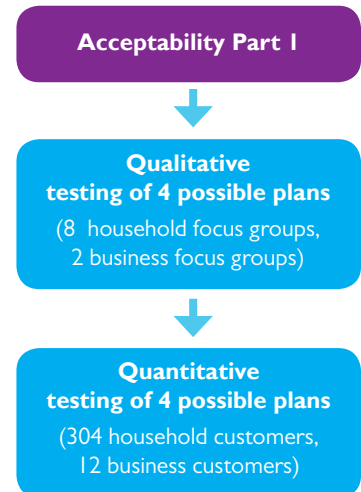
Stage 3

Finalising the preferred plan

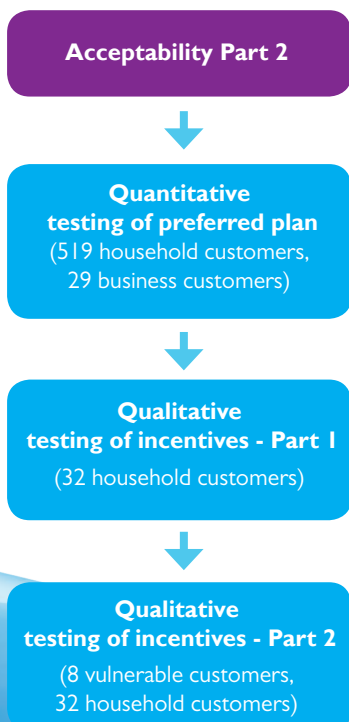
Part I What customers said

To help the research, we used colours to label each plan. We asked customers how acceptable each plan was, which they preferred, and elements of each plan they liked and disliked.

The results of this research showed a strong preference for the brown and blue plans, with the blue plan favoured by more customers, but the brown plan having a slightly higher level of acceptability. The purple plan was strongly rejected by customers. The orange plan was acceptable to the majority of customers, but was not preferred over the blue and brown plans.



Package	Purple	Brown	Blue	Orange
Service improvements	Reduced service	Maintaining service	Slight increase in service	Increase in service
Bill impact by 2020 (excluding inflation)	-£12	£0	+£6	+£12
Acceptability	31%	74%	72%	57%
Preferred plan	12%	32%	34%	15%



Developing the preferred plan

The results of the research showed that customers liked the idea of a plan where bills remained in line with inflation (the brown plan), but that they also wanted to see some improvements in service if the cost was not too high (the blue plan). It also showed that customers were not looking for a reduction in their bills at the expense of poorer service or inadequate maintenance (the purple plan).

Given these views, we challenged ourselves to produce a plan that included most of the service levels in the blue plan but ensured that average bills did not increase above inflation. This was delivered by increasing the efficiencies included in our plan, refinements to the optimisation, and a reduction in the level of returns for investors.

By refining the plan in this way, we aimed to make it acceptable to more of you. To make sure we were on the right track, we tested the acceptability of this refined plan by research with both business and household customers.

We also considered whether we should include proposals for penalties and incentives around the targets we set. We undertook additional customer research to understand customers' views on these proposals. Following new Ofwat guidance, we undertook a second phase of research on incentives in May 2014.

Part 2 Acceptability results

Our research sought customers' views on the acceptability of the proposed plan at three points in the survey.

- The first was to get an 'uninformed' acceptability rating after they'd heard only a brief outline of our plan.
- The second was to get an 'informed' acceptability rating after they'd heard more detail about how the plan would improve our services.
- The third was to get an 'overall' acceptability rating after they'd heard how inflation, assumed to be 3.3% on average per year, would impact upon their bills over the five years.

The findings of this research showed that the level of acceptability was very high at all three points.

- For household customers, the level of uninformed acceptability was 93% and the level of informed acceptability was 98% with no customers saying the plan was unacceptable.
- The overall level of acceptability, after they'd considered the impact of inflation, was 92%, with only 5% of customers saying the plan wasn't acceptable.
- Nine out of every ten households surveyed found the plan to be acceptable overall, irrespective of whether they have a high or low household income and irrespective of whether they'd indicated during the survey that they worried about paying their bill or couldn't afford to pay their bill currently.
- Of the 5% of households surveyed which didn't find the plan acceptable overall, the majority indicated that they didn't find it difficult to pay their bill and didn't worry about paying their bill currently. They were, however, concerned that prices would rise because of inflation.

The results for non-household customers were similarly very high, with all of the businesses surveyed finding the plan acceptable when informed about the detail of the proposed plan and 97% of them finding it acceptable after considering the impact of inflation.



92%

OVERALL ACCEPTABILITY
OF OUR PLAN

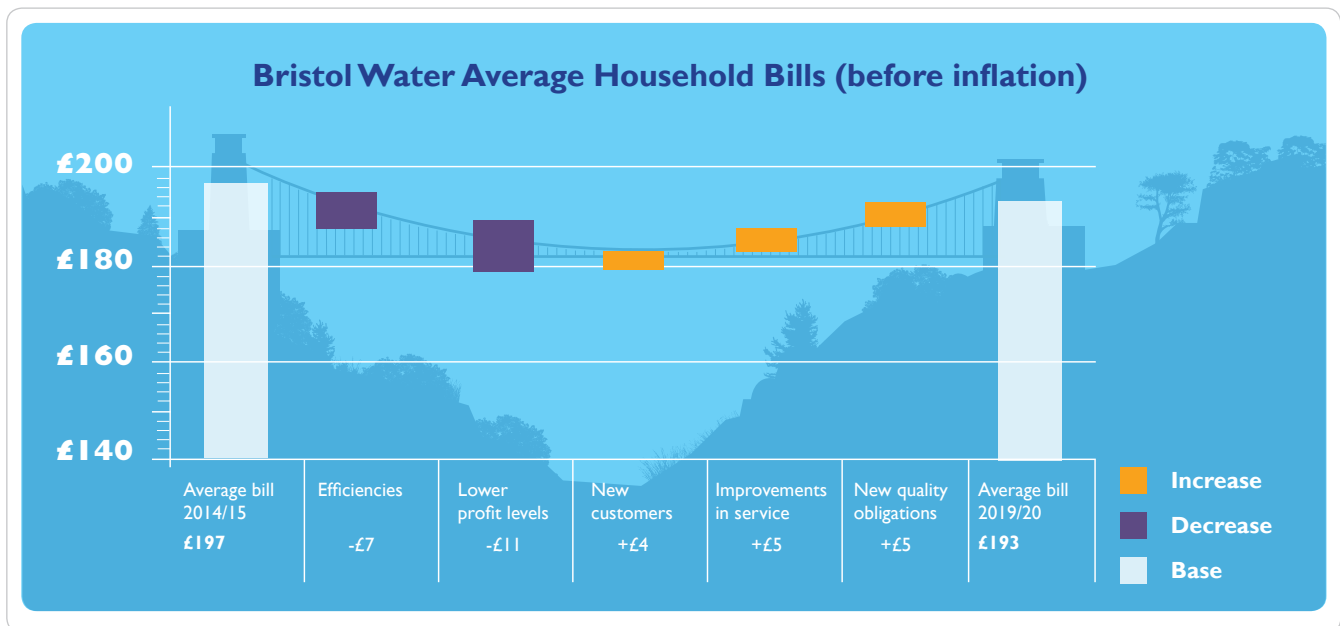
Summary of our proposed plan

Bills

Our plan is that rises in bills will be less than inflation.

We understand that some customers struggle to pay their bills. To help them we have a variety of schemes and tariffs available that reduce their bill and make it easier for them to pay.

We were one of the first companies to introduce a social tariff. We will monitor affordability carefully in the future and extend our social tariff scheme if required.



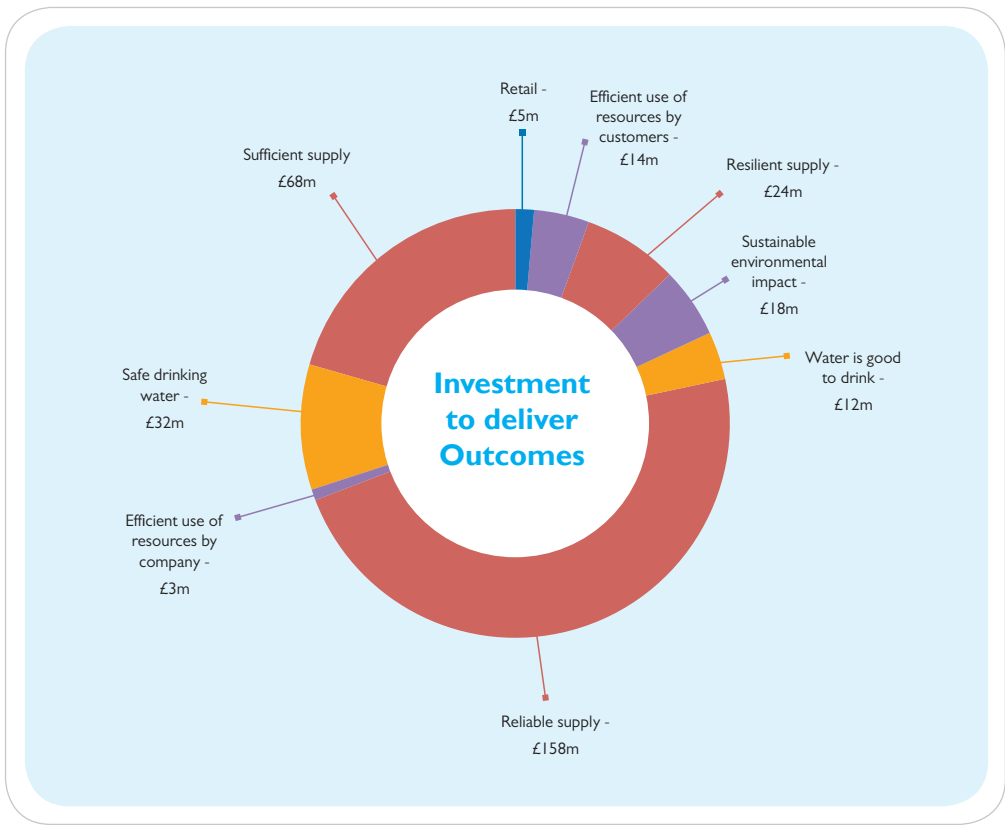
Outcomes

The key outcomes delivered by our plan are summarised in the adjacent table. We have included the majority of the service improvements that customers liked from the blue plan, but with lower bills. More details of our proposed outcomes and targets are set out on the following pages.

To deliver these outcomes will require expenditure of nearly £615m over the next five years including investment of over £334m. This investment is equivalent to over £640 for each household we supply.

The investment includes sufficient maintenance to keep the reliability of our supply system stable and also enables us to meet the needs of our growing customer base. Therefore, we believe our proposals provide the right balance for both current and future customers.

Selected Performance Measures	Current Performance	Performance by 2020
Customer minutes without supply (unplanned)	13.7	12.2
Asset reliability	Stable	Stable
Customers supplied by single source	312,000	9,000
Hosepipe ban risk	1 in 15yrs	1 in 15yrs
Risk of emergency drought measures	1 in 100yrs	1 in 100yrs
Water quality complaints p.a.	2,504	2,221
Leakage target	49 MI/d	43 MI/d
Total carbon emissions (kg per customer served p.a.)	40	20
Raw water quality of sources	Deteriorating	Stable
Average bill (2012/13 prices)	£197	£193



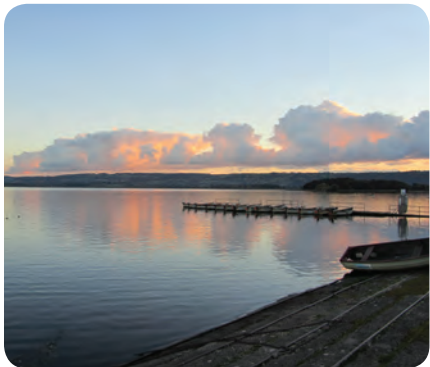
Incentives

For each of our outcomes we have considered whether we should include any ‘carrots’ or ‘sticks’ around the target we propose. For some measures there is an existing regulatory or legal framework that means that these are not necessary. For others, reputational impacts are sufficient incentive.

However, for measures where customers have told us that a particular outcome is important, we have proposed penalties to which we would be subject if we did not meet the targets we propose. These penalties would reduce bills for customers from 2020 onwards.

In our December plan we did not include any incentives (‘carrots’) for outperforming our targets as our research showed that customers were not in favour of these unless specified by the Regulator. In January, Ofwat set out its views that companies should include positive incentives within its plans. As a consequence, we undertook further customer research in May to identify a package of incentives that was acceptable to customers.

As a result, for leakage, resilient supply, interruptions and water quality complaints, the outcomes customers have told us are most important, in addition to ‘sticks’ if we fail to meet the target, we have included incentives (‘carrots’) if we beat them. We have also included a two-sided incentive for metering. Overall, the impact of incentives we propose is that bills could reduce by up to £7 in 2020 if we fail to meet targets, or increase by up to £4 if we exceed them.





Highly Reliable

Providing a highly reliable water service is our core business.

You told us that:

- You valued improvements in maintenance to ensure a reliable supply;
- You valued improvements in providing a back up supply which would allow households to be supplied from more than one source, increasing resilience and reducing the likelihood of supply interruptions;
- Ensuring a sufficient supply to meet the needs of a growing population is the joint top area for investment.

We have translated your priorities into three outcomes that we will deliver into the future. We will ensure that we provide a reliable, resilient and sufficient supply to our customers by:

- Ensuring water is always available for our customers when they turn on the tap;
- Enhancing and extending the water supply network so it can cope with extreme events, such as the results of flooding or malicious damage; and
- Providing and securing sufficient water to supply a growing population.

How we will deliver

To reduce the level of supply interruptions in our pipeline network, we will replace 47km of mains (0.7% of our network) on average each year, targeting those that have the highest risk of bursts. In addition, we are improving our network to minimise the number of customers affected when a burst actually happens, and also improving telemetry to allow us to identify and fix problems sooner, making interruptions shorter.

Looking to the future, we are investigating innovative smart grid technologies in partnership with Imperial College. If successful, these could help us improve performance even further.

To ensure that our supply system remains reliable, we need to maintain our assets effectively. Overall, maintenance expenditure is anticipated to be £158m, slightly less than during the current five-year period. Expenditure is expected to be higher in some areas compared to the current period, for example, maintaining treatment works and service reservoirs, and slightly lower in other areas such as mains replacement and looking after pumping stations. Maintenance activity overall is targeted to produce the most benefit for every £ spent.

To improve resilience, we will construct the Southern Resilience Scheme, which will reduce the risk of long duration loss of supply to approximately 280,000 people supplied from three sources where there are currently no alternatives available. This scheme will link up different areas of our supply network and provide extra resilience to customers in North Bristol, Weston-super-Mare, Cheddar, Glastonbury and Street.

To continue to ensure that we have sufficient supply, we need to address the twin challenges of increasing demand from a growing population along with the possibility of lower rainfall as a result of climate change. To meet these challenges we propose to:

- Fit more water meters, especially when people move house. This is because customers tend to use less water when they have a meter;
- Reduce leakage;
- Make better use of water available from other water companies; and
- Develop new supplies, starting with the construction of a new reservoir at Cheddar.

Outcome	Performance				
	Measure	Current	Future Commitment for 2020	Incentive	Cost of Delivery £m
Reliable Supply	Unplanned interruptions – minutes per customer p.a.	13.6	12.2	Penalty & Reward	3
	Asset reliability (network)	Stable	Stable	Penalty only	77
	Asset reliability (treatment and pumps)	Stable	Stable	Penalty only	78
Resilient Supply	Population at risk of asset failure (000's)	312	9	Penalty & Reward	24
Sufficient Supply	Security of Supply Index	100	100	Penalty only	68
	Hosepipe ban frequency	1 in 15 years	1 in 15 years	Reputational	



Artistic impression

Cheddar Reservoir Two

You told us that your joint top area for investment was making sure there was sufficient water to meet the needs of a growing population. Population growth and climate change mean that the pressure on water resources will increase in the future. To address this, we are reducing leakage and helping customers to reduce their consumption, but we also need new supplies of water.

A key element of our plan will be the construction of a new Reservoir at Cheddar by 2024. This will provide an additional 16.3 Ml/d of water, enough to supply 50,000 homes.

We have already done a lot of work to prepare for the submission of planning permission in December 2013. This included two rounds of consultation with local residents. Over 75% of them were in favour of our proposals for the reservoir.

The total cost of the reservoir is expected to be £120m. Of this, £5m has already been spent, £44m is to be spent between 2015 and 2020, and £72m between 2020 and 2025.

Southern Resilience Scheme

At present, 26% of our customers are dependent upon a single source or water treatment works. Although unlikely, if something were to happen to that source then those customers might suffer a long interruption to their water supply.

Customers have told us that ensuring “water is always on tap” is their joint number one priority. So by 2020 we plan to reduce the number dependent upon a single source from 26% to 2% as a result of our ‘Southern Resilience Scheme’. This will consist of more pipelines and pumps that will ensure an additional 280,000 people will have a back-up supply of water available in the event that their usual source fails.

The proposed scheme has been carefully designed, taking into account where we will need to add new pipes in the future as new properties are added. This has allowed us to reduce the cost by making some of these pipes larger rather than laying new pipes from scratch. The additional investment for the scheme is £22m.



Water trading

Another aspect of our approach to ensure that “water is always on tap” is to examine whether buying water from neighbouring water companies is cheaper than developing new sources ourselves. In the plan we include two proposals to secure additional resources from Wessex Water by 2020.

The first is that we will agree a reduction in the amount of water that we supply Wessex Water. This will leave more water for our customers, which helped delay the need for completion of Cheddar Reservoir Two until 2024.

The second is an innovative and resilient approach to helping avoid low flows on the River Avon in Malmesbury. We have agreed to change our abstraction licences at Tetbury and Shipton Moyne to allow Wessex to manage abstraction so that river levels do not fall too low. Wessex will build a pipe to provide us with additional water at times when we cannot use our own sources because of the new licences. As well as improving river flows, the new pipe will provide additional resilience to both our and Wessex’s customers.

Neither of these schemes incurs material costs for Bristol Water customers.



Excellent Quality

Providing excellent quality water is fundamental to our business.

You told us that:

- Providing safe and clean drinking water is your joint top priority; and that
- You valued improvements in service levels for taste, odour and discoloured water.

We have translated your priorities into two outcomes that we will deliver into the future. These are:

- Producing and supplying water which is always safe to drink for our customers and complies with regulatory standards; and
- Producing and supplying water which is always good to drink for our customers.



Outcome	Performance				
	Measure	Current	Future Commitment for 2020	Incentive	Cost of Delivery £m
Safe Drinking Water	Drinking Water Inspectorate Standards	99.97%	99.96%*	Statutory	32
Water is Good to Drink	Negative Water Quality Contacts	2,504	2,221	Penalty & Reward	12

* Whilst the quality of our water is not forecast to deteriorate in the future, the introduction of the new lead standard in 2014 means that the measurement of our performance will be on a different basis and may suggest a slight deterioration.

How we will deliver

The quality of drinking water supplied by us is already very high. However, some of the sources from which our water comes are suffering from deterioration in water quality. As a result, we need to improve some of our treatment works to ensure that we can continue to supply high quality, safe drinking water. In particular, we plan to:

- Make improvements to Cheddar and Stowey Treatment works, so that they can meet the challenge of increased frequency and size of algal blooms. Without these improvements, there is an increasing risk that these works will not be able to provide sufficient water of adequate quality;
- Install a new ultraviolet disinfection process at Barrow Treatment Works to address increased levels of *Cryptosporidium* (a bug which can cause sickness) in the water coming from Mendip springs;
- Undertake targeted replacement of lead pipes to help meet the new standard; and
- Expand our approach to catchment management to try and stop the deterioration in raw water quality of our sources.

Customers can very occasionally experience discoloured water when flow changes lead to sediments in water pipes being mixed up with the water coming through their tap. Although this is rare, we can reduce the likelihood of this happening by periodically removing sediments through flushing pipes or cleaning them with slush ice. In addition we can reduce the creation of sediment by relining some of our older iron mains. To reduce the number of customers experiencing discoloured water, we plan to reline 30km of trunk mains and continue our programme of cleaning.

Cleaning mains with slush ice

Small diameter pipes tend to be cleaned by flushing. This is not possible for large diameter pipes because the amount of water required is too great. To enable us to clean large diameter pipes, we worked together with Bristol University to develop an innovative approach using slush-ice. This collaboration started in 2006, and the technology is now in use around the world.

Cheddar Treatment Works – algal bloom removal

Cheddar Treatment Works supplies over 42,000 households and businesses in the area. The quality of the water being received by Cheddar Treatment Works has been deteriorating due to algal blooms in Cheddar Reservoir. We have considered many different solutions to reduce the level of algal blooms – including catchment management – but nothing will deliver the required improvements in the water quality quickly enough for us to maintain a good quality water supply to our customers. Therefore, a treatment solution is required.

We have considered alternative treatment solutions, and the most acceptable in terms of performance and cost is the installation of a dissolved air flotation (DAF) plant on the existing Cheddar Treatment Works site at an investment of £23m.

Once this is in place, the catchment management activity we propose will help ensure that there is no further deterioration in the quality of the source.

Catchment management

The water quality of our sources is affected by what happens in their catchments. If this quality deteriorates, then we might have to add expensive treatment processes to the water before we can supply it to customers. This could increase bills significantly.

A lower cost approach is to work in partnership with others within the catchment to try and prevent any pollution in the first place. This is called catchment management. Over the last few years, we have been working with farmers to help them manage their use of slug pellets. Through these successful partnerships, there has been a reduction in the amount of insecticide in our sources and this has helped avoid the need to install very expensive treatment processes.

Over the next five years we intend to scale up our catchment management activities to help tackle a wider range of issues. We believe that by working together with farmers and landowners, we will be able to halt the long-term trend of deteriorating raw water quality and perhaps begin to reverse it.





Environmentally Sustainable

Our vision is to provide an outstanding water service in a sustainable way.

You told us that:

- You valued us improving our performance on leakage; and that
- You agreed with the statement 'water companies should spend more encouraging water efficiency and valued an increase in levels of water efficiency and metering'.

To provide a sustainable water service, we must deliver for the environment as well as for our stakeholders. We have therefore translated customer priorities for this aim into three outcomes which we will deliver into the future. We will minimise and manage our impact on the environment by:

- Reducing the amount of power used in our water treatment and distribution processes, and reducing our level of leakage; and
- Helping our customers to save water, through education, water efficiency devices and audits; and
- Improve our impact on the environment.



Outcome	Performance				
	Measure	Current	Future Commitment for 2020	Incentive	Cost of Delivery £m
Efficient use of resources by company	Leakage	18%	16%	Penalty & Reward	3
	Pumping Efficiency	55%	60%	None	–
Efficient use of water by customers	Average Consumption per person per day	146 l/h/d	142 l/h/d	Reputational	14
	Household Meter Penetration	43%	66%	Penalty & Reward	
Sustainable environmental impact	Total Carbon Emissions (kg per customer served p.a.)	40	20	Statutory (Carbon reduction commitment)	–
	Raw water quality of sources	Deteriorating	Stable	Reputational	5
	Water disposal compliance	97%	98%	Statutory	8
	Biodiversity Index	Being assessed	Improving	Reputational	5

How we will deliver

We will reduce our leakage target from 49MI/d (18%) in 2015 to 43MI/d (16%) in 2020 by increased active leakage control, investment in leakage detection and maintaining our network effectively. We aim to reduce leakage even further after 2020.

We will improve the overall efficiency of our pumping system through continuous improvement and innovation in the way we monitor, operate and maintain our pumping plant, together with replacement of the most inefficient ones.

We will help customers to reduce their water use by providing targeted education, water efficiency equipment and audits.

Customers tend to use less water if they are metered, so to increase the rate at which customers are metered, we will install meters on unmeasured properties when there is a change of occupier. This is anticipated to increase the proportion of customers with meters to 66% by 2020.

The majority of our carbon emissions arise as a result of electricity used for pumping. Reducing leakage will reduce the amount of water we have to pump, and improving energy efficiency will reduce the amount of electricity we need for pumping. Together, these initiatives will contribute significantly to reducing carbon emissions. The remainder of the reduction in emission should result from electricity generation across the UK becoming greener.

We will deliver raw water quality improvements through catchment management and investigations schemes included in the National Environment Programme (NEP).

National Environment Programme

The National Environment Programme (NEP) is a legal requirement produced by the Government. It identifies environmental issues and what we need to do about them, ranging from water quality at wildlife sites to protection of endangered species. Our obligations under the NEP include:

- £5.4m investment on catchment management and studies to protect water quality in our lakes such as Chew Valley and Blagdon, provide some ecological improvements and to protect our sources from pesticides;
- £6.5m investment to protect eels and other fish.



Leakage reduction

We reduce the leakage from our pipes through a variety of actions:

- Targeted mains replacement in areas with high leakage to reduce the occurrence of leaks;
- Schemes to enhance our identification and rapid repair of leaks;
 - o A pressure reduction programme – 48 new pressure reduction zones;
 - o Enhanced leakage monitoring with new technology;
 - o Improved customer pipe repair scheme – increasing the subsidy available for supply pipe repair; and
 - o Additional Active Leakage Control – additional leakage inspectors to help find leaks faster.

Looking to the future we are investigating new and innovative approaches to reducing leakage with a range of partners. If these are successful, they could help reduce leakage further.

We will reduce our leakage target from 49MI/d in 2015 to 43MI/d in 2020







Responsive to Customers

We understand that your requirements and expectations change over time, and we know that we will have to continue to improve the way in which we provide them if we are to meet your expectations in the future.

You told us that:

- You want us to keep bills as low as possible and to keep any price rises to a minimum; and
- You want bills that are clear, easy to understand and, above all, accurate.

We have made being responsive to our customers one of our six key aims because firstly, achieving our vision depends on it and secondly, it is fundamental to the success of our long-term strategy.

We have identified four outcomes from the priorities highlighted by customers in our customer research. We will ensure that we offer the best possible service by:

- Maintaining our current high levels of customer satisfaction, quickly resolving any problems you experience and providing value-for-money services;
- Making it as easy as possible for you to contact and communicate with us;
- Issuing bills that are both correct and as easy as possible for you to understand; and
- Keeping bills as low as possible and offering assistance if you experience difficulty in paying them.



We will ensure that you can contact us using your preferred method of communication

Outcome	Performance		
	Measure	Current	Future Commitment for 2020
Satisfied Customers	Ofwat's measure of customer service	4th	Top 5
	General satisfaction from surveys	93%	>93%
	Value for money	70%	72%
Easy to Contact	Ease of contact from surveys	96%	>96.5%
Bills are accurate and easy to understand	Negative billing contacts	2,686	2,240
Affordable Bills	Customers in water poverty	2.1%	1.8%

How we will deliver

- Average bills will rise by less than inflation between 2015 and 2020. In addition, we will offer assistance to household customers experiencing difficulty in paying their bills through our capped WaterSure+ and Assist tariffs, and our Restart and Restart Plus repayment schemes;
- To maintain our current high levels of customer satisfaction, we will continue to supply high quality drinking water and provide excellent customer service. We will also look for ways to improve our services in order to give you the best possible customer experience and value-for-money, and to meet your future expectations and requirements;
- We will ensure that you can contact us using your preferred method of communication. If you want to speak to us, we promise you will be able to call a local contact centre staffed by friendly, knowledgeable people and that you will be able to get through without having to use an automated telephone system requiring you to choose from a menu of options; and
- We will review and, where needed, improve the information we provide on our bills to ensure that they are both correct and as easy as possible to understand.



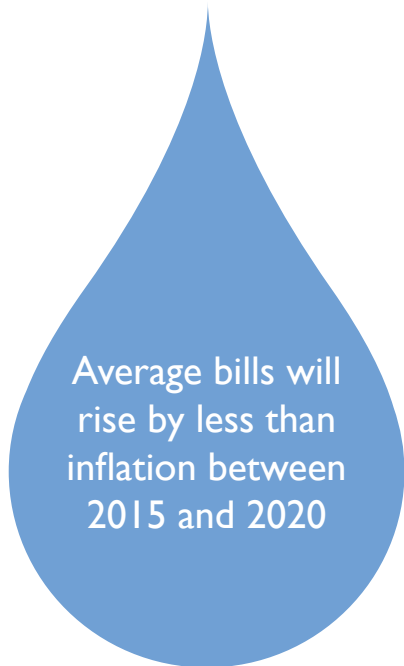
Affordable bills

To ensure we meet our 'affordable bills' outcome, we will monitor the percentage of our household customers who are classed as experiencing 'water poverty' – meaning that they spend more than 2% of their income (after tax) on paying their water bills – and we will continue to offer advice and assistance if they are finding it difficult to pay their bill.

We already have a variety of assistance schemes and capped tariffs which may benefit customers struggling to pay their water bill. In total we support over 6,000 of our customers through these measures. We work closely with CABs and other debt advice agencies who help people to manage and deal with household debts and we will be increasing the promotion of our social tariffs through these agencies.

Non-household customers

The Government is planning to introduce competition in water supply for businesses from 2017. This will allow businesses to choose a different supplier if they wish. We welcome this development and the flexibility it will give us to help improve our service.



Average bills will rise by less than inflation between 2015 and 2020



Sustainable Business

Providing water is a long-term business – indeed, it's been our mission for over 167 years.

We believe that to meet customer expectations in the long run we will need to operate our business sustainably. This means:

- Spending money efficiently and effectively;
- Providing a fair return to investors;
- Retaining the confidence of investors; and
- Being seen as a highly reputable company.



Spending money efficiently

Capital expenditure

To deliver all the outcomes set out in the earlier sections, we need to invest in maintaining, repairing and improving our supply system. We have used investment optimisers to ensure that our plan includes the best mix of schemes so that we produce the most efficient and effective investment programme. The programme included within our plan is the minimum cost at which we can deliver the outcomes set out in this document.

The costs included for the planned schemes have been estimated using a robust approach that includes a high-level design report and advice from suppliers. To verify the estimates, the Board commissioned an external review of the approach, which confirmed that the costs included in the plan were reasonable central estimates.

The total capital expenditure required to deliver the outcomes after taking account of the efficiencies we expect to make is over £334m, £5m of which is earmarked for the retail part of the business.

Operating costs

The operating costs included in our plan are based on current actual costs. We have taken into account expected price increases in energy, costs arising from supplying new properties, and additional expenses arising from the new treatment process we are planning to address deteriorating water quality. To offset these increases, we have assumed productivity improvements of 1.5% per annum. The overall impact is that we expect operating costs to increase only slightly from £55.6m in 2013/14 to £57.4m in 2019/20 (2012/13 prices).

Providing a fair return to investors

The money we invest in providing our service is not all collected through customers' bills in the year in which we spend it. Although this revenue from your bills covers day-to-day operations and the longer term running costs of providing your water supply, it is not enough to cover the investment needed to maintain and improve our supply assets.

These assets are designed to last for a long time – up to 100 years – so naturally we don't pass on the total cost of this work through bills in the space of just one year. Instead, we spread the cost of ongoing investment in our assets over their lifespan and borrow money to fill the gap. This means that the cost of the assets is spread fairly between current and future customers.

During the period 2015-20 we anticipate borrowing around £246m to deliver our proposed programme. This money will come from investors, generally debt providers. As you would expect, this will only be available if we are able to give investors confidence that they can earn a fair return on their investment.

We measure the returns to investors using a post-tax cost of capital. We believe that a return of 4.4% is fair for our investors and have included this in our plan. This assessment includes a premium of 0.7% compared to the larger water and sewerage companies. Because we are a smaller company, investors see us as more risky and therefore they require higher returns.

From 2015, Ofwat is regulating the retail elements of our business separately from the wholesale elements. For the retail elements we have assumed a household retail profit margin of 1.0%, and a non-household retail margin of 2.5%. We consider that these profit margins are consistent with the risks faced by the retail elements of the businesses.

Retaining investor confidence

To retain the confidence of investors we will need to retain an investment grade credit rating and manage our risk so that investors believe they will earn a fair return.

Sharing risk

The business plan we have developed aims to fairly balance the burden of risk between the company and our stakeholders (primarily customers, shareholders and the environment). To do this we have assessed what our current levels of risk are and how our proposed plan changes them. Our aim is to mitigate risks to customers (in terms of service risk) and the environment without 'gold plating' our asset base, as to do so would mean customers had to pay more than they needed to.

Our regulation allows notified items to be included in plans for some uncertain items. These allow companies to apply for price increases if the impact from these items is material. We do not propose any notified items in our plan.

Our plan proposes that if we are fortunate and events lead to shareholders earning returns of greater than 11%, we will split any outperformance above this 50:50 with customers.

Finally, the way we are regulated means that some risks are shared between customers and companies. For example, cost differences are shared 50:50 with customers through adjustments in the next period.

Financial risk

The returns available to investors could be affected by increases in costs, higher interest rates, different inflation and the impact of the wider economy.

We have undertaken an analysis of the risks that we face, based on a reasonable range of risk, rather than an extreme range. We have also taken account of the actions we can take ourselves to mitigate the risk.

This analysis shows that within these risks and with effective mitigation, the returns within the plan are sufficient to allow the company to keep its investment grade credit rating and continue to invest.



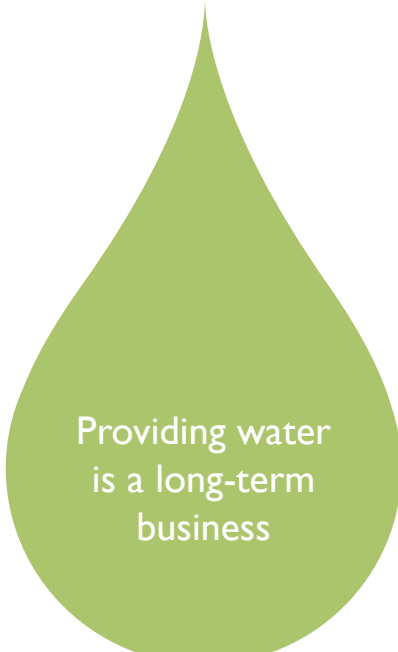
A reputable company

For every business having a good reputation is critical.

For us, trust and credibility with our communities and stakeholders is essential for a good reputation.

We recognise how important it is for our business, that our customers and our other stakeholders think highly of us.

Each year, through independent research, we monitor and track how our customers and other stakeholders rate our reputation, and based upon their feedback, we look for ways to enhance it.



Providing water
is a long-term
business



Best People – Right Culture

To continue being a successful water company, we need to have the best people and maintain the right culture within the business.

Our approach to deliver this aim fits with what you have told us in our surveys that having trained and knowledgeable staff is important to you.

We believe that ensuring our employees feel engaged, believe in what they do and are valued, means they are better motivated and are able to give their best. In addition, we will ensure our people are well trained for their roles not just in the technical (the “what”) but also the “how” since in our view that supports our commitment to customer service.

We have identified three outcomes that will help us to target how we continue to deliver outstanding service in the future. The three outcomes cover applying safe working practices, ensuring we have the right skill base for our people and motivating our staff. We will meet these outcomes by:

- Making sure we work safely and efficiently;
- Training and empowering our staff; and
- Motivating all our staff to deliver outstanding service to you.



Empowering our staff to deliver outstanding service



Conclusion

We are proud of our long history as a water supplier and are confident we will succeed in our vision to meet customers' expectations by providing an outstanding water service in a sustainable and affordable way. Our plan will deliver increased investment, improved services and bills that rise by less than inflation. We believe our proposals for 2015-2020:

- Reflect the priorities of our customers;
- Are designed to deliver the right outcomes for current and future customers and the environment;
- Will ensure we meet our statutory obligations;
- Represent the right balance of risk and reward between customers, investors and other stakeholders; and
- Are affordable and soundly financed.

A key part of formulating the plan was engaging with customers every step of the way to ensure it met their expectations. We are pleased that in our final survey, 92% of household customers surveyed confirmed that our plan was acceptable.

In line with other water companies in England and Wales, our business plan has now been submitted to Ofwat, which is responsible for assessing it and setting limits on our prices. They will publish their draft determination in August 2014, following which there will be a period of consultation and discussion with companies. Final decisions on price limits for 2015-20 will be made in December 2014.

Your views

There's still time for you to comment on our business plan. Which of our proposals do you think are most important? What would you like to see us do more or less of? Do you think our proposals represent good value for money?

Let us have your views either online at www.bristolwater.co.uk or by writing to us at:

Corporate Affairs (PR14), Bristol Water plc, PO Box 218, Bridgwater Road, Bristol. BS99 7AU, or email to corporate.affairs@bristolwater.co.uk.

The closing date is 5th July 2014. We look forward to hearing from you.

Summary of our Business Plan

Our plan is that rises in average bills will be below inflation over the period 2015 to 2020. For this level of bill we will deliver the targets set out for each of our outcomes in the table below.

AIM	OUTCOMES	PERFORMANCE MEASURES	TARGET BY 2020	TARGET BY 2040
Highly Reliable	Reliable Supply	Unplanned interruptions – minutes per customer p.a.	12.2	<5 mins/property
		Asset Reliability	Stable	Maintain - Stable
	Resilient Supply	Population at risk from asset failure	9,000	Zero
	Sufficient Supply	Security of Supply Index	100	Maintain - 100
Hosepipe ban frequency		1 in 15 years	1 in 25 years	
Excellent Quality	Safe Drinking Water	Drinking Water Inspectorate Standards	99.96%	>99.99%
	Water is Good to Drink	Negative Water Quality contacts	2,221	<1,000 per year
Environmentally Sustainable	Efficient Use of Resources by Company	Leakage	16%	10%
		Pumping Efficiency	60%	65%
	Efficient Use of Resources by Customers	Average Per Capita Consumption	142 l/h/d	130 l/h/d
		Household Meter Penetration	66%	95%
	Sustainable Environmental Impact	Total Carbon Emissions	20kg per customer	5kg per customer
		Raw Water Quality of sources	Stable	Improve - stable
		Biodiversity Index	Improve	Improve
Water Disposal Compliance	98%	>99%		
Responsive to Customers	Affordable Bills	% Customers in Water Poverty	1.8%	1%
	Satisfied Customers	Ofwat's measure of customer service	Top 5	Top 5
		General satisfaction from surveys	>93%	>95%
		Value for Money	72%	>80%
	Easy to Contact	Ease of contact from surveys	>96.5%	>95%
Bills are Accurate and Easy to Understand	Negative billing contacts	2,240	<1,300	
Sustainable Business	Efficient Expenditure	Expenditure against targets	Continually improve efficiency	Continually improve efficiency
	Investor Confidence	Credit Rating	Baa1	Maintain
	Fair Returns to Investors	Post-tax return on capital	4.4%	Maintain
	Highly Reputable	Stakeholder survey	70%	Maintain
Best People Right Culture	Safe Working Practices	No. Accidents per 1000 employees	Aim for zero	Aim for zero
	Skilled Workforce	Training Matrix Compliance	100% up to date with training plan	100% up to date with training plan
	Motivated Workforce	Staff Satisfaction Survey	Maintain >90%	Maintain >90%



www.bristolwater.co.uk