

MINUTES

Date: 30 July 2019
Time: 13:00 – 18:00
Location: Boardroom, Lancaster House, Huntingdon

- Present:**
- . Jeff Halliwell – Independent Chair (M)
 - . Craig Bennett – Chair, Sustainability & Resilience Panel (M) (by phone)
 - . Bernard Crump – CCWater (M)
 - . Gill Holmes – CCWater (M)
 - . David Howarth – Environment Agency (M)
 - . Martin Lord – Chair, Vulnerability & Affordability Panel (M)
 - . Paul Metcalfe – MD, PJM Economics (M)
 - . Peter Olsen – Hartlepool Independent Advisory Panel (M) (by phone)
 - . Stephen Rothera – Natural England (M)
 - . Daniel Storey – Director, High Point Economics (M)
 - . Richard Tunnicliffe – CBI (M)
 - . Graham Hindley – Jacobs (O)
 - . Andy Brown – Anglian Water (O)
 - . Carolyn Cooksey – Anglian Water (O)
 - . Natalie Jones – Anglian Water (O)
 - . Alex Plant – Anglian Water (O)
 - . Darren Rice – Anglian Water (O)
 - . Ian Rule – Anglian Water (O)
 - . Peter Simpson – Anglian Water (O)
 - . Jane Taylor – Anglian Water (O)
 - . Vicky Anning – CEF Report Author (O)

Apologies:

- . Joanne Lancaster – MD, Huntingdonshire District Council (M)
- . Beth Corbould – Economist, Civil Aviation Authority (M)
- . Bev Finnegan – Lincolnshire County Council's Community Engagement team (representing Cllr Davie)
- . Nathan Richardson – Waterwise/Blueprint for Water (M)
- . John Torlesse – Natural England (M)

Presentations and papers are shared in Anglian Water's Sharefile: <https://anglian-water.sharefile.com>

Item	Action
<p>1. <u>Chair's introduction: Jeff Halliwell</u></p> <p>Jeff Halliwell, CEF Chair, outlined the purpose of the meeting, which was to hear from Anglian Water colleagues about the company's response to Ofwat's Draft Determination. The CEF would then meet in a CEF-only session to discuss their own response to Anglian Water's Business Plan.</p> <p>2. <u>CEO Update: Peter Simpson</u></p> <p>Anglian Water CEO Peter Simpson painted a picture of the current operational context for the company. There had been a lot of activity around Ofwat's Draft Determination and also around public interest commitment (see agenda item 4).</p> <p>Peter was proud that he had just signed off articles of association, which was part of wider public interest commitment work as part of water industry. AW was the first company to have done this and had made industry wide commitments to try and enhance the reputation of the water sector as a whole.</p> <p>AW was planning to hold a series of workshops over the remainder of the year on these issues. CEF members had been invited to a (rescheduled) workshop in Daventry on 12 August.</p> <p>To conclude, Peter presented a set of slides showing AW's performance compared to other WASCs against a suite of core measures (slides available on ShareFile here).</p> <p>AW was number 1 on SIM and high performing in terms of leakage. He said AW has delivered more than any other company on ODIs.</p> <p>Peter also said that DWI Chief Inspector's report has now been published (available here). AW was leading sector in terms of level of risk on DWI consolidated performance tracker.</p>	

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<p data-bbox="203 233 1230 296">3. <u>Update on Anglian Water’s Business Plan and Ofwat Draft Determination</u></p> <p data-bbox="277 302 659 333">Alex Plant/Darren Rice</p> <p data-bbox="277 373 781 405">Slides available (DD Update) here</p> <p data-bbox="277 445 1192 508">Alex Plant gave an overview of the main points from Ofwat’s Draft Determination (DD) on AW’s Business Plan (BP).</p> <ul data-bbox="326 552 1263 1856" style="list-style-type: none"> • There are huge changes from Ofwat in the DD versus the IAP and the PR19 methodology. These include: <ul style="list-style-type: none"> - moving all growth expenditure into botex and reducing growth allowances very significantly; - moving enhancement opex out of botex; - changing how they deal with differences between Ofwat and companies after the Final Determination. • The differences between AW and Ofwat remain significant across botex and enhancement expenditure. Whilst some AW arguments had been taken into account, most other evidence has either not yet been assessed, or not accepted. • Combined with much more stretching Performance Commitments, an ODI approach that skews to the downside very significantly (ignoring customer engagement outcomes), and a much lower WACC, the DD position is very tough. • The sector is facing a very challenging position. • A big driver of the position is the treatment of growth. • On Executive Pay, Ofwat asks for more specific detail on the metrics driving decisions. • On transition expenditure, Ofwat has disallowed around £16m of AW’s £48m claim which has urgent implications. • Ofwat has lowered expected weighted average cost of capital by 21 basis points to give an updated value of 2.19% in DDs, which will have significant impact on many companies. • Ofwat has made significant interventions in areas clearly stated as priority areas for government. The DD clearly challenges AW’s proposed level of forecast growth as “atypical” and replaces forecast growth values (based on local authority plans and consistent with WRMP guidelines) and replaces these with independent ONS forecasts. Ofwat rebuts the evidence that facilitating growth on greenfield sites has different costs to that of brownfield developments. • In relation to supply-demand investment underpinned by the WRMP, Ofwat focuses their interventions around the lack of optioneering and consideration for alternatives such 	

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<p>as water trading as justification for not demonstrating best value and hence removing expenditure.</p> <ul style="list-style-type: none"> • Tonally, the DD is very dismissive of both company and customer evidence in areas such as bill acceptability, ODI performance levels and support for WINEP mechanism. <p>Alex shared slides on Catch Up Analysis on water and water recycling that showed strong AW position in terms of efficiency scores (available here).</p> <p>Alex said that AW is confused as to why the company was suddenly considered to be in an inefficient position. He said AW would be making additional arguments or strengthening existing arguments in response to Ofwat's DD.</p> <p>Alex asked members of the CEF for any updates on WRMP, which had been expected to be published before price review was finished. He would update the CEF about this as it was a significant part of AW's Business Plan. (No further information was available from CEF members.)</p> <p>Jeff Halliwell asked for any updates about Hartlepool. Darren Rice confirmed that there was no differentiation for Hartlepool customers.</p> <p>Alex said that AW will create a bill profile for all customers – has done it for CCWater but this may changed as more work is done.</p> <p>Bernard Crump confirmed that Hartlepool bills for 2020/21 were falling by 10% and falling again by 2025 (11.6% reduction).</p> <p>Cost assessment: understanding the gap (slide 5) Darren Rice explained the gap in costs assessments between AW and Ofwat.</p> <ul style="list-style-type: none"> • Ofwat have materially changed their modelling approaches between IAP and DD. • At IAP Ofwat defined and modelled botex (i.e. the recurring costs for delivering current service, opex and capital maintenance) separately from enhancement. • For DD, Ofwat have moved enhancement opex into enhancement and also modelled <i>Base+</i> costs: essentially botex costs + growth costs. <p><i>In the opinion of the company, this makes reconciling Ofwat's approaches between IAP and DD very challenging.</i></p>	<p>AP</p>

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<ul style="list-style-type: none"> • There is a significant movement in the treatment of growth expenditure between IAP and DD. • IAP: Modelled growth costs in separate enhancement models using AW forecasts – the difference in views on efficient growth costs contributed £182m to the enhancement gap here • DD: Modelled growth costs within the botex models (Base+) using ONS forecasts. AW still confirming the precise contribution of growth to this revised Base+ gap. <p>AW continuing to engage with Ofwat to understand their views and their assurance models. They were working with a well-known economic consultant to make sure there's consistency of methods and models.</p> <p>Comparing IAP with DD The gap between Ofwat and AW at IAP for enhancements was nearly £600mn. At DD, the gap is more than £651mn. Most of the gap is driven by a mismatch between Ofwat's model, and the company's, view of costs. This is an emerging issue for the sector. Darren referred to David Black's letter to Peter Simpson that had been shared with CEF members in advance of the meeting (here).</p> <p>Ofwat also reversed their IAP decision and fully removed AW's leakage cost adjustment claim. AW are asking Ofwat to share their calculations to help frame this issue for the whole sector.</p> <p>Breaking down the gap The most significant component of this remaining gap relates to the Ofwat treatment of growth expenditure. This is an issue affecting all companies, but is more acute for AW given the scale of growth and associated forecast expenditure.</p> <p>Ofwat's transfer of enhancement opex to enhancement models reduces the gap here, but is subject to assessment in the enhancement benchmarking models.</p> <p>There would be a continuation of discussions between AW and Ofwat that have been ongoing since January.</p> <p>David Howarth asked how DD will affect scope of WINEP.</p> <p>Darren said scope of WINEP isn't impacted but Alex suggested it has impacted scope of WRMP.</p> <p>BREAK</p>	

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<p>Headline on ODIs (slide 8) Darren Rice reported:</p> <ul style="list-style-type: none"> • In general Ofwat has rejected both AW arguments and customer engagement on the development of AW’s suite of ODIs. • Ofwat has materially changed the overall package of performance commitments, including changing the total number of ODIs and whether they are financial or reputational (e.g. on providing support to customers and retailer customer satisfaction). • AW consider some of the interventions wholly unreasonable (e.g. under Ofwat’s view on the WINEP delivery ODI, AW would incur a penalty if they deliver the statutory obligations in line with the agreed obligation dates. There are further proposals to remove AW’s Natural Capital and Social Capital ODIs.) • Ofwat has accepted AW’s revised leakage performance level at the price of a heavy penalty if AW doesn’t meet stretching, frontier-moving PCL. • Most deadbands have been removed exposing AW to greater risk in those areas. • Caps and collars have been removed in some areas. <p>AW was concerned that Ofwat was using their own judgement to supersede evidence gathered through sector-leading customer engagement to inform AW’s BP.</p> <p>Gill Holmes asked about the impact on bills?</p> <p>Alex responded that AW would expect to see bill reductions (due to net penalties) although details were to be confirmed.</p> <p>Paul Metcalfe asked how AW would respond to Ofwat?</p> <p>Alex said that AW would continue to argue their points, particularly where they have clear customer/evidence base. AW needed to respond to DD and resubmit their BP by 30 August. Final determinations would be made by Ofwat on 11 December. After this, AW may then refer to competition and markets authority by 6 February (decision would be made by AW board meeting end of January).</p> <p>Vulnerability and Affordability (slides 14-15) Ian Rule said the suite of measures proposed by AW on vulnerability and affordability is now materially different. In</p>	

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<p>original BP, AW proposed two ODIs (increasing proportion of customers on Priority Services Register (PSR) to 12.8% and adding an independent panel assessment of performance in the round. AW proposed an outperformance mechanism that would be reinvested for vulnerable customers.</p> <ul style="list-style-type: none"> <li data-bbox="324 441 1281 546">i. Ofwat accepted 12.8% PSR increase and suggested reputational only incentive mechanism. AW has accepted that. <li data-bbox="324 577 1281 651">ii. With regard to qualitative measure – AW also propose to accept BSI commitment and remove independent panel. <p>Alex said that AW couldn't deliver the BP with 30% uplift in delivery with less money than in PR14. He was concerned that there would be a reduction in performance measures if companies end up underinvesting in capital maintenance. There would also be a direct knock on in terms of ODIs as companies would be in constant penalty position.</p> <p>Peter reiterated that customer engagement confirmed wanted AW to get on and do things now rather than kicking the can down the road.</p> <p>Sustainability and Natural Capital Craig Bennett said it was a disappointing picture overall. CEF and S&R Panel encouraged the company to look at natural solutions that might take longer, but it sounds like Ofwat has gone for more old-fashioned model without looking at longer term impact. He asked whether the S&R Panel could help AW to develop a Performance Commitment on natural and social capital before 30 August.</p> <p>Andy Brown said that AW's position re. putting in performance commitments around natural and social capital was to put in a flavour of AW's thinking without firming up metrics. He was testing/honing metrics and writing up narrative – building on previous work with S&R Panel. He would share a draft as soon as live.</p> <p>Customer Engagement</p> <p>Carolyn Cooksey reported that AW was doing more research on executive pay with their online community, following Ofwat's DD. AW would also complete acceptability research (draft text would be circulated to CEF for comment as soon as available).</p>	<p></p> <p>AB</p> <p>CC</p>

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<p>4. <u>Public Interest Commitment</u> Andy Brown/Carolyn Cooksey</p> <p>Andy Brown reported that sustainability is engrained in AW's work. But they are now adapting to a range of external factors including: changing customer expectations; regulatory expectations; creating a company with a purpose; the need for transparency etc.</p> <p>Water UK issued a public interest commitment statement in April that represented a step change and was signed by all water company CEOs (available here).</p> <p>It was divided into two elements:</p> <ul style="list-style-type: none"> - Champion measures through which water companies can enshrine what it means to operate in the public interest. - Set out particular goals or aspirations outlining five challenging goals for the sector: <ul style="list-style-type: none"> i. Tripling reduction in leakage by 2030 ii. Affordability – water bill as a minimum of 5% of disposable income iii. Achieving net zero carbon emissions for sector by 2030 (significant shift from previous commitment to 2050) iv. Preventing the equivalent of 4 billion plastic bottles as waste by 2030 (in businesses) v. Becoming first sector to achieve 100% commitment to social mobility. <p>AW wanted to test this with customers and will create their own version – based on conversations with customers and Customer Board. AW was also doing some work in online community over last three weeks and will be able to share findings soon.</p> <p>Customers said:</p> <ul style="list-style-type: none"> - We expect you to be doing these things anyway - We want you to take action rather than just words <p>Co-creation workshops have been held in Norwich and Colchester and new dates to come in Daventry and Lincs.</p>	<p>CC/AB to share</p>

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<p>The top two issues in Colchester were affordability and environmental issues.</p> <p>AW now in discussion with PSI about setting out principles for responsible businesses (PAS). The goal is to create a framework for sustainability and responsibility.</p> <p>See full slide set in ShareFile here</p> <p>David Howarth (EA) said that companies should be seeking to eradicate pollution incidents.</p> <p>Peter Simpson confirmed that AW's target is zero pollution incidents.</p> <p>Richard Tunnicliffe (CBI) asked how far AW was looking along supply chain?</p> <p>Andy Brown responded that AW was looking at sustainable procurement strategy; looking at partnerships based on Australian models.</p> <p>Jeff Halliwell welcomed the developments and asked whether AW was a social enterprise?</p> <p>Alex responded that AW was a public interest company. Decisions made are made with those articles in mind.</p> <p>Craig welcomed the public interest commitment as a positive step forward to be built upon. The net zero pledge by 2030 is particularly welcome and shouldn't be underestimated.</p>	
<p>5. <u>CCWater Acceptability Research</u></p> <p>Bernard Crump reported that CCWater is doing acceptability research on Ofwat's DDs, using one research agency that's following the same approach for every company. The aim is to look at how acceptable DDs are to household and business customers.</p> <p>Research will involve a 15-minute survey of 500 bill payers (using representative samples for each region and including some offline to reach hard-to-reach groups)</p> <p>He would share results as soon as available.</p> <p>Note: results are now available here.</p>	<p>BC to share</p>

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<p data-bbox="203 262 787 304">6. Bernard’s slides are available here</p> <p data-bbox="203 304 552 346"><u>Roundtable – All</u></p> <p data-bbox="276 367 1258 619">David Howarth gave a presentation about the Environment Agency’s annual Environmental Performance Assessment. AW has three-star rating (out of four stars). This is the same position since 2013 – he suggested AW should have the ambition to step up to four-star performance. David confirmed AW has three green and three amber ratings and has a good working relationship with EA.</p> <p data-bbox="276 651 1226 798">However, David reported there’s a sense of disappointment with the industry as a whole. In 2018 they saw a reversal of gradual improvement since EPA introduced in 2011 and EA are going to toughen regulatory approach in response.</p> <p data-bbox="276 829 714 871">Summary for AW in 2018/19:</p> <ul data-bbox="324 871 1250 1186" style="list-style-type: none"> • Declining compliance with discharge permits • Self-reporting industry worst, but improvement this year • Steady improvement in pollution incident performance, but stalling this year • Significant water resources challenges • Good collaborative working on Flood and Coastal Risk Management • Maintenance at waste and installation sites more reactive than preventative <p data-bbox="276 1218 503 1260">See slides here</p> <p data-bbox="276 1291 1258 1543">Ian Rule responded that on self-reporting, AW had bench marked against other companies UU and Northumbrian and adapted their best practice. Before that AW was over reporting on problems (alarms were raised that were discharges rather than pollutions). AW continue to push themselves on this and are also looking at engaging communities. Also use a pollution app that EA has access to.</p> <p data-bbox="276 1575 714 1617">Other roundtable updates:</p> <p data-bbox="276 1648 1250 1858">Bernard Crump reported that new national chair of CCWater was on his way to meet water companies. CCWater have been talking about overarching targets for per capita consumption – discussing pros and cons of a more stretching national target. When price review is done, would be good to look at that conversation in more detail.</p>	

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<p>Jeff reported that sadly this was Daniel Storey's last meeting with the CEF because he was going on to retrain as a maths teacher. He thanked Daniel warmly for his contribution to the CEF and as Chair of the Economic and Valuation Subcommittee.</p> <p>Minutes of previous CEF meetings were approved.</p> <p>Next CEF meeting in the calendar is Friday, 17 January.</p> <p>7. <u>CEF Only Session (17:30-18:00)</u></p> <p>CEF members met in a CEF-only session to discuss how the CEF should respond to AW's BP and Ofwat's Draft Determination.</p> <p>Members agreed that they would like to submit a report alongside AW's revised BP by 30 August with the following content:</p> <ol style="list-style-type: none"> 1. Address the comments on customer engagement in the Draft Determination. 2. Comment on customer engagement on the revised Business Plan. 3. Look at where AW is going to dispute Ofwat's response on PCs and ODIs 4. Look at AW calculations on efficiency (do the company's figures stand up to scrutiny in terms of efficiency?) <p>Daniel Storey and Paul Metcalfe (Econ and Valuation Subcommittee) have been asked to look at some of the figures – their report could be appended to CEF statement.</p> <p>General agreement on CEF view was:</p> <ul style="list-style-type: none"> - We saw (through customer engagement) a message from customers that they wanted a balance between bill and service improvement that's different from Ofwat's DD - There will be significant consequences if this DD becomes the plan in terms of how customers are served. <p>There's a gap between Ofwat DD and Business Plans for all the companies but there are three that are a long way out in terms of gaps (Thames, Yorkshire and AW). If the gap persists, what are mechanisms in place to protect customers? For example, what's the implication for maintenance of service for customers.</p>	<p>DS/PW</p>

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<p>Members of the Sustainability and Resilience Panel wanted to hear more about the metrics around natural capital and social capital – how would this work in practice?</p> <p>Craig Bennett agreed to coordinate a conference call by end of August to gather panel’s input. Craig to talk to Andy Brown this week. S&R Panel to contribute to the development of natural capital metrics.</p> <p>Members of the Vulnerability and Affordability Panel felt it was a shame that the independent panel was being lost, as this was an opportunity to work with the voluntary sector. But they were otherwise relatively content with Ofwat’s changes to the vulnerability ODIs:</p> <ul style="list-style-type: none"> - Checking of data on PSR will be quite an improvement - BSI seems to achieve a lot of what panel would achieve - Together it was quite a good suite of measures. <p>Martin Lord agreed to email over a few paragraphs for inclusion in the CEF report.</p> <p>Vicky Anning to coordinate holiday schedules and input to report and to circulate a first draft of the report to CEF members asap.</p>	<p>CB</p> <p>ML</p> <p>VA</p>