



CUSTOMER ENGAGEMENT FORUM

Date: 15 February 2019
Time: 10.30 – 14.30
Location: Lancaster House, Ermine Business Park, Huntingdon, PE29 6XU

- Present:**
- . Jeff Halliwell – Independent Chair (M)
 - . Craig Bennett – Chair, Sustainability & Resilience Panel (M)
 - . Beth Corbould – Economist, Civil Aviation Authority (M)
 - . Bernard Crump – CCWater (M)
 - . Bev Finnegan – Lincolnshire County Council's Community Engagement team (representing Cllr Davie)
 - . Gill Holmes – CCWater (M)
 - . David Howarth – Environment Agency (M)
 - . Martin Lord – Chair, Vulnerability & Affordability Panel (M)
 - . Peter Olsen (M) – Hartlepool Independent Advisory Panel (M)
 - . Paul Metcalfe – MD, PJM Economics (M)
 - . Nathan Richardson – Waterwise/Blueprint for Water (M)
 - . Daniel Storey – Director, High Point Economics (M)
 - . John Torlesse – Natural England (M)
 - . Richard Tunnicliffe – CBI (M)
 - . Carolyn Cooksey – Anglian Water (O)
 - . Graham Hindley – Jacobs (O)
 - . Natalie Jones – Anglian Water (O)
 - . Alex Plant – Anglian Water (O)
 - . Darren Rice – Anglian Water (O)
 - . Peter Simpson – Anglian Water (O)
 - . Andrew Snelson – Anglian Water (O)
 - . Jane Taylor – Anglian Water (O)
 - . Vicky Anning – CEF Report Author (O)

- Apologies:**
- . Cllr Colin Davie – Lincolnshire County Council (M)
 - . Joanne Lancaster – MD, Huntingdonshire District Council (M)
 - . Cat Carlon – Anglian Water (O)
 - . Kevin Ensell – Anglian Water (O)

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

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<p>1. <u>Chair's introduction: Jeff Halliwell</u></p> <p>Jeff Halliwell (CEF Chair) told CEF members that Ofwat had delivered its Initial Assessment of Anglian Water's Business Plan on 31 January. AW's Customer Engagement received the highest rating (the only company to receive A in this category). Other sections of the BP needed to be resubmitted by 1 April.</p> <p>Jeff asked AW colleagues to spell out implications for the CEF in terms of input needed from the panel for the April resubmission.</p> <p>He also briefed CEF members on a meeting of Customer Challenge Group (CCG) Chairs with Ofwat on Wednesday, 13 February. Ofwat explained the Initial Assessment of Business Plan (IAP) process and talked about the next steps. They thanked CCG groups for helping companies to raise the bar on customer engagement.</p> <p>Areas of discussion among CCG Chairs included:</p> <ul style="list-style-type: none"> • Short time period between 31 Jan and resubmission dates for those companies that weren't deemed fast track (including AW). There was some challenge about the depth of customer engagement that could be carried out, depending on level of changes required. • Discussion on mandated performance measure on the Priority Services Register (PSR) for vulnerable customers. AW customers wanted to go well beyond that minimum level. • It was pointed out that level of consumer engagement was tiny for Ofwat's strategy refresh in comparison to the engagement carried out by water companies and there was no independent scrutiny. This was pointed out as a flaw in the overall process. <p>Action: Minutes from meeting between CCG Chairs and Ofwat would be circulated when available. (available in ShareFile: https://anglian-water.sharefile.com)</p>	<p>JH/VA</p>

Item	Action
Section A: Anglian Water approach for PR19	
<p>2. <u>Overview of Ofwat's Initial Assessment: Peter Simpson</u></p> <p>Peter Simpson welcomed AW's A rating for customer engagement by Ofwat, saying it was hard won but very valuable. He reiterated that this high score was a reflection of the way customers had helped to shape AW's BP.</p> <p>It was unfortunate that AW had ended up on 'naughty step' by being labelled as 'slow track'. In particular, AW's board was very exercised about securing a D rating on confidence and assurance.</p> <p>AW have gone back to Ofwat and emphasised that they are wrong to say that the board weren't behind the plan. This is having a damaging and direct impact on AW's reputation now (e.g. in terms of raising debt). AW have written to Ofwat.</p> <p>Action: Alex Plant's letter to David Black to be circulated.</p> <p>Peter said he believes this is the right plan and AW will answer Ofwat's questions in forensic detail and defend the plan. Some of the questions are misunderstandings or simply need more evidence.</p> <p>Crucially, Ofwat thinks AW could deliver their plan in £1.25 bn less than proposed in the BP. Ofwat has used a different econometric model to look at Botex and enhancements. Natural capital solutions like Ingoldsthorpe were included as enhancements but have been moved to Botex by Ofwat.</p> <p>Ofwat has looked at forward projects and said AW is one of the least efficient water companies. Peter felt AW had been penalised as a result of doing the right thing. The whole process is disincentivising all of the things AW (and others like Defra) think are important to benefit communities and the environment.</p> <p>The other area to highlight is the fast-tracked companies were all listed (vs private). The more highly geared companies were rated lower than other companies. The listed companies have lower levels of Totex.</p> <p>Peter expressed concern that some of the companies are going to be cutting down on stable serviceability. This is an important issue in terms of generational equity. AW haven't taken that approach and therefore haven't been able to reduce Totex as much. The modelling approach taken by Ofwat also doesn't reflect regional variations for companies in the south east, which have particularly</p>	<p>NJ</p>

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<p>strong housing growth/dry climates etc.</p> <p>One final thing to highlight is that AW shareholders are earning no dividends over five years (cf. other companies that are all higher).</p> <p>Peter acknowledged there was limited room for manoeuvre but AW wanted to defend what they regarded as a very strong plan. They don't want to take money out of capital maintenance, as this would create risk down the line. They were determined to retain as much of the plan as possible before Ofwat's final determination in December.</p> <p>Bernard Crump (CCWater) said it was a frustrating aspect of the process that efficiency models determine 80% of the regulatory outcome and these models are not known until the plans are submitted. In the aide memoire for CCGs, maintenance was mentioned as something that CCGs shouldn't look at – yet it's something that is very important to customers.</p> <p>Peter said it was damaging if other companies were cutting back on maintenance. AW's performance is sector leading on this and this is really important wiring that has a long-term impact, he said.</p> <p>David Howarth (Environment Agency) said that lack of maintenance will start to have an impact on performance commitments in future.</p> <p>Craig Bennett (Chair, Sustainability and Resilience Panel) asked about the reaction from other companies that have been rated as slow track?</p> <p>Peter said there's a high level of frustration among the majority of companies because the gaps in figures are huge.</p> <p>Jeff Halliwell said he was reassured that there wouldn't be significant changes in the BP at this stage as there wouldn't have been time to carry out significant customer engagement on major changes.</p> <p>3. Analysis of IAP focusing on next steps for CEF and sub-</p>	

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<p><u>panels: Alex Plant and Darren Rice</u></p> <p>Alex Plant offered some reflections on the three companies that had been deemed fast-track under Ofwat’s IAP (United Utilities, Severn Trent and South West), including an overview of serviceability performance and reduced expenditure on maintenance.</p> <p>AW was rated alongside nine other companies as slow track, while four companies were deemed as needing significant scrutiny.</p> <p>Alex shared a slide showing industry scores at the test level. AW was the strongest performing company among the other slow-track companies, and sector leading in several areas – including one of only three A-ratings (for Customer Engagement work).</p> <p>Ofwat has acknowledged several strengths of BP and AW score highly on proposals on:</p> <ul style="list-style-type: none"> • Affordability and vulnerability • Outcomes for customers • Markets and innovation • Accounting for past delivery <p>Response from AW board is they are supportive of BP as it stands and they plan to defend their approach in the April resubmission. Other slow track companies are trying to hold their line too. AW are doing some joint work with some of the other slow-track companies.</p> <p>Analysis:</p> <ul style="list-style-type: none"> • <i>Addressing affordability and vulnerability (B).</i> Ofwat is happy with the evidence put forward in terms of both the overall acceptability of the proposed bills and note that the proposed bill change is below what customers were willing to pay. Ofwat also note AW’s sector-leading increase in the level of support for vulnerable customers. • <i>Securing long-term resilience (C).</i> AW were disappointed with this score. Ofwat wanted more evidence on system-based approach. • <i>Targeted controls, markets and innovation (B).</i> Overall plan includes strong evidence of a culture of innovation across most areas. A number of follow up actions required around Water 	

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<p>Resource Management Plan (WRMP).</p> <ul style="list-style-type: none"> Accounting for past delivery (B). Ofwat is happy that BP demonstrates a high-quality approach, with sufficient and convincing evidence on measures to support the deliverability of the 2020-25 plan given past performance. Questions on this area are easily addressed Securing trust, confidence and assurance (D) Ofwat presents two central issues with AW's plan in this area. Firstly, questioning which documents and statements the Board have seen and assured. Second, AW's plan is perceived to fall short of expectations on Back in Balance. This is on the basis of the company's gearing position (despite acknowledging the acceptance of the gearing sharing mechanism) and also insufficient evidence of meeting expectations on Executive Pay and Dividend Policy. The position on Exec Pay and Dividend Policy has been asked of all companies. <p>Craig Bennett mentioned that Ofwat had questioned him on how far the CEF had looked at executive pay and dividends when he attended a meeting on behalf of the CEF on 24 September 2018.</p> <p>Daniel Storey suggested that the CEF should look at those figures/policies and give additional scrutiny/assurance in this area.</p> <p>Cost assessment challenge:</p> <p>Darren Rice said there were significant gaps between Ofwat and AW's understandings of costs (this also applied to other companies).</p> <p>On Totex:</p> <ul style="list-style-type: none"> Most significant challenge for AW is on Totex and cost efficiency. Ofwat assesses AW forecast costs as being significantly above (c.18%) their view of efficient costs. The Totex gap is c.£1.25bn, with c.£590m of this falling into enhancement costs, and c.£660m into Botex. <p>On Botex: There is a £667m gap between Ofwat view and AW (most of gap is in wholesale costs) Ofwat has recognised that keeping leakage at lower base is important. They have granted £55m in cost adjustments.</p>	<p>Action for CEF</p>

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<p>Main areas of challenge on Botex:</p> <ul style="list-style-type: none"> • Ofwat’s econometric models • Treatment of enhancement opex • Allowance for Real Price Effects • The additional 0.5% pa for productivity improvement <p>AW’s emphasis is on amending the outputs of the models rather than revising their Totex plan at this stage</p> <p>On enhancements: There’s a challenge on £592 million of expenditure in three key areas:</p> <ul style="list-style-type: none"> • Efficiency challenge (around efficient costs to run and fund parts of the business) • Challenge of need • Move to Botex <p>Ofwat has taken out significant amount of budget from WRMP and has also moved enhancements to Botex</p> <p>AW need to reflect metaldehyde ban in IAP submission. That drives £75m out of original submission (£50m in farmer incentive payments and £25m in treatment). AW are looking at how to use these funds to make more enhancements.</p> <p>ODIs Headline assessment very positive; AW ranked joint first by Ofwat for outcomes package – specific praise for how AW have engaged and used customer and stakeholder feedback in shaping ODI suite. Some of feedback seems to challenge robustness of customer engagement. Ofwat argue that their models trump customer feedback. AW are sticking to their guns on this.</p> <ul style="list-style-type: none"> • AW will conduct additional engagement with customers on two new performance commitments – ‘Affordability’ and ‘British Institution standard for inclusive service’. • Other areas where Ofwat proposes ‘performance commitments’ (e.g. scheme delivery) will be treated as regulatory mechanisms and not performance commitments (therefore no customer engagement planned). • AW are currently considering whether to seek additional evidence from customers on the level of support for performance commitment specific caps, collars and deadbands. <p>In addition, Ofwat have provided a list of 65 actions for AW to</p>	

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<p>consider, including guidance for upper quartile Performance Commitments for four ODIs (Leakage, Interruptions to Supply, Internal Flooding and Pollution Incidents).</p> <p>Potential for 6 further ODIs. These split in to a mix of performance measures and customer protection for the delivery of schemes.</p> <p>Affordability AW need to include a performance commitment on affordability Ofwat have mandated 7% registered on PSR across companies. AW's ambition is 15%.</p> <p>Jane Taylor said AW is looking at mechanics of this. They are looking at whether more stretching target might warrant financial reward/penalty. (Deadband on 7%). AW will engage with CEF and A&V subpanel on this.</p> <p>Jeff Halliwell said CEF would want to look at any diminution of performance commitment that had been strongly supported by customers.</p> <p>Next steps: 1 April - IAP response 8 July – Ofwat will give draft determination 30 August – companies will make representations December – final determination from Ofwat Jan 2020 – companies accept or appeal final determination</p> <p>Daniel Storey asked whether other regulatory agencies will be responding to IAP?</p> <p>David Howarth said EA will review but not publish anything.</p> <p>Bernard Crump said CCWater will be making representations.</p> <p>Nathan Richardson said Blueprint for Water had looked at Business Plans and AW came out top. Want to do recap/resume of Ofwat assessment and publish in window before 1 April.</p> <p>Action: Nathan said he would send round link to Blueprint for Water PR19 scorecard. Here is the link: https://www.wcl.org.uk/blueprint-for-pr19.asp</p> <p>Action: NJ to circulate AP's slides to CEF (Saved in Sharefile: https://anglian-water.sharefile.com/)</p> <p><u>4. Customer Engagement update: Carolyn Cooksey</u></p>	<p>JT/ML</p> <p>NR</p> <p>NJ</p>

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<p>Carolyn Cooksey reported that there will be two main strands of customer engagement between now and 1 April:</p> <ul style="list-style-type: none"> i. Acceptability research – Accent will carry out a quantitative survey of 100-1,000 household customers, focusing on revised bill profile. This will happen week of 18 March (research coming back week of 25 March). ii. Online community <ul style="list-style-type: none"> • Initial Assessment outcomes – introduce Ofwat feedback • Two new performance measures (and caps and collars/deadbands) (report available on 18 March) • Totex – information on metaldehyde and storm tanks • Bills – engage on revised bill profiles (only available from 18 March) <p>Online community has already started looking at two new ODIs with 48 responses so far</p> <ul style="list-style-type: none"> iii. Customer board: Customer board meeting 4 March. They are visiting Newmarket innovation shop window. <p>This activity will all feed into revised BP for 1 April.</p> <p>Alex said it's very tight in terms of internal processes. Final board sign off will be 27 March.</p> <p>Bernard offered help from CCWater on showcard and developing engagement.</p> <p>Jeff suggested there was very little time to do extensive customer engagement. It's incumbent on the CEF to point that out to Ofwat.</p> <p>Graham Hindley said Jacobs had been invited to carry out an independent review of AW customer engagement on 20 March.</p> <p>Carolyn also reported on customer engagement that has happened since November's CEF meeting:</p> <ul style="list-style-type: none"> • Online community – there's been a high level of engagement around public vs private ownership. • Community ambassadors – 50 talks completed, 24 booked for 2019/20. <p>Action: NJ to circulate Carolyn's slides to CEF (Saved in Sharefile: https://anglian-water.sharefile.com/)</p>	<p style="text-align: right;">NJ</p>
<p>Section B: Current Performance Matters</p>	

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<p>5. <u>Company performance update and 2018 Company Monitoring Framework: Andrew Snelson</u></p> <p>Andrew Snelson presented the ODI dashboard dated January 2019 (see Sharefile for details).</p> <p>Leakage was a significant issue: leaks went up during long hot summer last year. AW have put a lot of resources into reducing leakage and will be within performance commitment. Some companies will miss this quite significantly.</p> <p>Expectation to hit target in the last year of AMP6 in terms of leakage reduction but will be doing this with unprecedented amount of investment.</p> <p>AW expecting £7.5m in rewards this year. On leakage = £1m, which will be recovered in 2020-21, with an approximate bill impact of 50p per customer.</p> <p>Andrew also gave a short presentation on AW's Company Monitoring Framework (also saved on Sharefile):</p> <ul style="list-style-type: none"> • Falling credit ratings across the sector • Improvements to companies' long-term viability Statements • Ofwat continues to challenge high levels of gearing • Half the companies outperformed their allowed RORE, driven mainly by totex and financing outperformance • Continued concern about some companies' pension deficits 	
Section C: CEF only session	
<p>i. Jeff Halliwell opened the CEF only session by inviting general reflections on the day's discussions.</p> <p>Several CEF members suggested that the gap in costs between Ofwat's assessment and the company's Business Plan was quite worrying, particularly as this was a plan that had secured customer approval and willingness to pay. There was concern about what would be dropped from the plan if the £1.3bn had to be saved.</p> <p>Members were reassured that AW was reasonably determined to defend the plan, based on customer feedback. Ofwat's position would become clearer after 8 July, and CEF members would be meeting in the summer to look at Ofwat's response.</p>	

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<p>There was some discussion about a potential statement from CCG Chairs to Ofwat but it was agreed this wasn't appropriate. However, Jeff confirmed there was quite strong push back from CCG chairs on lack of time available.</p> <p>Action: Jeff said he would go through Ofwat's Action Summary table to check customer engagement responses.</p> <p>Several members of the CEF would be attending the Customer Engagement Steering Group on 21 February at 3pm (next CESG meeting on 14 March at 10am)</p> <p>Gill Holmes said she would like to see the quantitative survey mentioned by Carolyn before it goes out to customers to make sure it complies with CCWater guidelines.</p> <p>Paul Metcalfe said he would like to see information on deadbands, caps and collars.</p> <p>Members agreed it would be important to get customer engagement on executive performance related pay and the company's dividend policy.</p> <p>The CEF intended to submit a brief report to coincide with AW's 1 April submission. Several meetings would be needed before this.</p> <p>Action: Call has been set for 25 March at 9am</p> <p>Note: Follow up CEF only call set for 28 March at noon</p> <p>Jeff will be on annual leave in the second half of March, during which time Daniel Storey will delegate as Chair.</p> <p>Graham Hindley reported that Jacobs would be doing an independent review of AW's customer engagement and assurance processes on 20 March. He would check when this might be available to share with CEF.</p> <p>One member asked for an update on the company's microsite at the next CEF meeting</p> <p>There was agreement that it would be good to move the summer CEF meeting forward to July to give time to respond to Ofwat's determination on 8 July.</p> <p>Action: CEF meeting has subsequently been moved to 30 July.</p>	<p>JH</p> <p>VA/NJ</p> <p>GH</p> <p>CC</p> <p>NJ/VA</p>

Item		Action
	Next CEF meeting on 11 April to include a de-brief of the entire process.	