



CUSTOMER ENGAGEMENT FORUM

Date: 16 January 2018
Time: 10.00 – 14.30
Location: Lancaster House, Ermine Business Park, Huntingdon, PE29 6XU

- Present:**
- . Jeff Halliwell – Independent Chair (M)
 - . Beth Corbould – Economist, Civil Aviation Authority (M)
 - . Bernard Crump – CCWater (M)
 - . John Giles – Environment Agency (M)
 - . Joanne Lancaster – MD, Huntingdonshire District Council (M)
 - . Paul Metcalfe – MD, PJM Economics (M)
 - . Peter Olsen – Chair, Hartlepool Panel (M)
 - . Anne Ramsay – Natural England (on behalf of J. Torlesse (M))
 - . Nathan Richardson – RSPB/Blueprint for Water (M)
 - . Daniel Storey – Director, High Point Economics (M)
 - . Richard Tunnicliffe – CBI (M)
 - . Peter Simpson – Anglian Water (O)
 - . Cat Carlon – Anglian Water (O)
 - . Carolyn Cooksey – Anglian Water (O)
 - . Helen Dunn – Anglian Water
 - . Graham Hindley – ch2m (O)
 - . Natalie Jones – Anglian Water (O)
 - . Alex Plant – Anglian Water (O)
 - . Darren Rice – Anglian Water (O)
 - . Chris Royce – Anglian Water
 - . Ian Rule – Anglian Water (O)
 - . Andrew Snelson – Anglian Water (O)
 - . Jane Taylor – Anglian Water (O)
 - . Vicky Anning – CEF Report Author (O)

- Apologies:**
- . Craig Bennett – Chair, Sustainability & Resilience Panel (M)
 - . Cllr Colin Davie – Lincolnshire County Council
 - . Gill Holmes – CCWater (M)
 - . Martin Lord – Northampton CAB, Chair, Vulnerability & Affordability Panel (M)
 - . John Torlesse – Natural England (M)

Item	Action
Section A: The national and regional picture	
<p>1. Chair's report: Jeff Halliwell</p> <ul style="list-style-type: none"> a. CEF members welcomed Joanne Lancaster, Managing Director of Huntingdonshire District Council, as a new member. b. Minutes for 8 December CEF meeting and CEF only session were approved (with one amendment). c. Jeff has been in touch with Sue Pennison from DWI who is able to attend 6 March CEF meeting. d. Jeff reported that Ofwat had moved its meeting with CCG chairs so he was unfortunately unable to attend (it clashed with current CEF meeting). It would have been a good opportunity to meet the new Ofwat CEO and hear about the final methodology. He will circulate papers. <p>Jeff also reported on behalf of Martin Lord (Chair of Affordability and Vulnerability Panel) that a meeting was planned for the final week of January (TBC).</p>	<p>Jeff/VA to share papers with CEF members</p>
<p>2. Roundtable update</p> <ul style="list-style-type: none"> e. Bernard Crump reported CCWater board meeting will take place in Newmarket, at the Anglian Water Shop Window project on 6 Feb, which showcases the company's innovative approach. The meeting theme is innovation and will include presentations from four chief execs from local water companies. BC asked for some time on the next agenda to feed back to the CEF. <p>He also reported he had raised a query with DWI at the CCWater regional committee around the drinking water quality mandatory ODI – highlighting performance compliance risk and how to effectively explain this to the public. Chief inspector of drinking water is coming to CCWater board to discuss concerns.</p> <ul style="list-style-type: none"> f. Anne Ramsay from Natural England (delegating for John Torlesse) reported that NE have continued to work with Anglian Water on WINEP but need to follow up on broader company lines (e.g. on non-native species and biodiversity), as well as talking to AW about environmental ODIs. 	<p>VA to circulate meeting info.</p>

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<p>DEFRA 25-year plan has been published and NE is looking forward to working with AW to implement some of the ambitions.</p> <p>g. John Giles from the Environment Agency also welcomed DEFRA’s 25-year plan, but suggested the devil will be in the detail. He reported that, although dry water pressures in the region had eased somewhat, drought situations prevailed in three out of four regions.</p> <p>John also reported that DEFRA is still undertaking security checks on WRMPs, which is taking longer than expected.</p> <p>Anne asked AW how this would affect the consultation period. Alex Plant confirmed the company is awaiting a decision, but he did not anticipate this would affect the PR19 process.</p> <p>EA’s response to Ofwat’s draft methodology had been circulated to CEF members (see here).</p> <p>John also reported on positive progress with water companies regarding WINEP.</p> <p>h. Carolyn Cooksey reported that Ofwat has invited each water company to talk about customer engagement and AW was due to meet them on 31 January. Jeff will attend on behalf of CEF.</p> <p>i. Bernard Crump said these meetings with Ofwat came about as a direct result of advocacy from CCGs during PR14. However, he was concerned that this could be something of a missed opportunity as Ofwat has not sent the most senior officials and the meetings are coming late in the process for addressing any problems that may arise.</p> <p>j. Graham Hindley reported that he had been active with portfolio reviews for Anglian Water and was looking forward to talking to the CEF only session about assurances later that afternoon.</p> <p>k. Nathan Richardson reported that Blueprint for Water is planning to do comparisons of WRMPs in Feb/March</p>	

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	<p>to help members respond to plans. He was looking forward to seeing the initial assessment of plans coming from Ofwat and their focus on the environment.</p> <p>I. Joanne Lancaster (Huntingdonshire District Council) reported that, with significant housing challenges in the region, and the additional homes now expected linked to the Oxford-Milton Keynes-Cambridge proposals, there needed to be more discussion around people’s water consumption and habits. She said there was a lack of good design practice in new builds that could help to reduce water consumption and she was keen to press for more developments on this front.</p> <p>Alex Plant reported that the growth assumptions within AW’s WRMP were based on current local authority plans. AW has been closely involved with housing developments so water resources are understood – but the company lamented the loss of regional spatial strategies.</p>	
Section B: Anglian Water approach for PR19		
3.	<p>Ofwat final methodology: Alex Plant, Director of Regulation, Anglian Water</p> <p>Alex reported that most of the final methodology is in line with the draft methodology Ofwat published in the summer.</p> <p>The four key themes remain the same:</p> <ul style="list-style-type: none"> • customer service • resilience in the round (with Ofwat being more explicit in the document about good corporate resilience being a prerequisite for operational resilience) • affordability (this has strengthened considerably over past few years) • innovation. <p>The headline was that Ofwat set an initial indicative Weighted Average Cost of Capital (WACC) of 2.4%. This is 1.3% lower than PR14, and Ofwat has said that, all other things being equal, this would have the effect of reducing average bills by between £15 and £25.</p>	

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<p>There are some changes to the way Ofwat will grade company business plans. Companies are also expected to reduce leakage by at least 15%, regardless of current performance.</p> <p>Ofwat will allow transitional expenditure, which the company thinks is a sensible approach. Some of the changes around asset health metrics are also useful.</p> <p>There are increased benefits on cost sharing rates for companies with efficient plans, combined with penalties for companies that bid very low and then underperform (to avoid gaming risk).</p> <p>There is some move around the cost modelling approach that Ofwat is signalling for PR19, which suggests they are now more accepting of AW's arguments that enhancement expenditure cannot be modelled alongside Botex. This is a significant move, which has been very hard fought for by AW's team since PR14. There are also some changes to CMEX and DMEX, which will be piloted in 2018-19.</p> <p>AW will still be talking to Ofwat about calibration of ODIs.</p> <p>Alex concluded that the WACC decision leaves the company in a tough position in terms of financeability, an issue that led to Moody's negative outlook for the water sector (see article). There would be an Anglian board meeting in January to discuss some of the challenges, which are sector wide.</p> <p>Discussion:</p> <p>Bernard reported that CCWater advocated for low WACC so would be pleased with Ofwat's decision on this. He pointed out that the timetable for two key aspects (cost exclusion and definition of performance commitments) had to be made by 3 May so that would be a pressured few weeks and timing would be tight.</p> <p>Alex confirmed that the company has a requirement to submit a financeable plan and it's working hard to get there. Part of that is thinking about some of the things flagged in the Ofwat Aide Memoire – these issues need to be explained in language customers understand.</p>	

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<p>Paul Metcalfe pointed out that the nub of the issue was current vs future customers and any trade offs had to bear that in mind.</p> <p>Jeff asked about the structure of the company and how that might affect financeability.</p> <p>Peter Simpson, AW CEO, reported that Ofwat would like to see gearing below 70% but this is up to the company. He reported that all water companies, including AW, were registered in the UK for tax purposes. AW have committed to disposing of their Cayman Island company over the next six months. This is not used for tax purposes and all debt is raised on companies in UK.</p> <p>AW have argued that securitised structures have given strong protection to bond holders and customers, and this puts strong constraints on what you can do, according to Peter. Securitisation also allows a company to raise lower debt, which decreases bills. A listed company has more flexibility, but the ideal corporate structure for water companies is an ongoing discussion, he said. The current political context creates a difficult backdrop for the current price review.</p>	
<p>4. Update on investment plan/trade offs</p> <p>Alex Plant gave an update on investment plans/trade offs following on from Chris Royce's presentation to the CEF in December. The company will be putting a plan to the board that's informed by the company's revised SDS.</p> <p>He reported that the company has some upward pressures on financeability, and there is a need for additional investment beyond the baseline position of PR14 to address the needs identified in the WRMP, and the higher levels expected in the WINEP. Framing of resilience/WRMP/WINEP/affordability are key to the business plan, he said.</p> <p>AW has a set of ODIs that include some bespoke indicators so the links with high-level ambitions are clear.</p> <p>He reported that AW is leading the industry in leakage reduction – so it would be difficult to justify not continuing this in light of arguments made for enhancing resilience.</p>	

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<p>AW saw bills going down by 9% in PR14, which was the biggest reduction of any company. The issue of bill size will be put to customers when the outline business plan goes out to consultation in April.</p> <p>Discussion:</p> <p>Bernard said that the online forum would be a good place to get swift feedback. He would be happy to see discussion on trade offs happen there. But need to make sure panel is representative.</p> <p>Carolyn Cooksey reported that panel members are all domestic and that views from non-household customers are gathered in other ways. She confirmed that the panel is broadly representative of customers in the region.</p> <p>Daniel Storey asked how the company will avoid confirmation bias – and how will company design a price control to meet increasing demand/pressures on housing?</p> <p>Carolyn responded on confirmation bias that the company uses external consultants and CEF member Gill Holmes feeds in to the process as CCWater regional rep. Results are consolidated into the synthesis report by a separate independent consultant, a process specifically designed to ensure impartial analysis of the engagement results. But if CEF wants additional assurance, Halcrow could be instructed to look at this in more detail.</p> <p>Alex responded that, on the second point, he wasn't convinced that Ofwat's models fully take account of differentials in relation to pace of housing growth. The company is talking to Ofwat about this – and aims to submit a paper on this in February/March to Ofwat.</p>	
<p>5. Willingness to pay update: Helen Dunn</p> <p>Following her presentation to the CEF in December, Helen wanted to: 1) update the CEF on progress in the societal valuation programme; 2) respond to CEF's queries.</p> <p>On the first point: ICS have now completed the interim stage of the valuation completion report, providing preliminary recommended values for use in the PR19 business planning and WRMP appraisal process. The report sets out the</p>	

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<p>triangulation process that has been followed and method that has been used to calculate the interim valuations.</p> <p>On the main stage survey: All the survey work is complete. The analysis for the DCE (discrete choice experiment) surveys is complete and the results have fed into the Valuation Completion Report. The BWS (best worst scaling) online household survey was completed before Christmas with the analysis currently on-going. The preliminary indications from the BWS analysis are that the survey has worked well. A full set of DCE and BWS values and technical reporting are to be expected by the end of January.</p> <p>Follow up meetings will be arranged with relevant CEF representatives to discuss the application of valuation evidence to the ODI setting.</p> <p>On the second point: Helen tried to address CEF’s main concerns raised in her paper, which will be included in the CEF challenge log.</p> <p>Paul asked if it would be possible to share the technical reports with CEF members.</p> <p>Darren Rice confirmed this would be possible and would be available by end of January.</p> <p>Helen said that webinars had been held in the past and could be held for the main stage survey.</p> <p>Bernard suggested that the company should tap into CEF’s expertise before reports are finalised.</p> <p>Daniel asked for more information on golden thread of data – how data has informed company decision making.</p> <p>Action: workstream to be set up urgently between Helen and Darren and CEF experts. Darren to circulate papers and timelines for expert economic group (Bernard, Paul, Beth and Daniel).</p>	<p>VA to follow this up</p> <p>Darren/Helen to circulate</p> <p>Darren Rice and CEF to coordinate</p>
<p>6. Customer engagement update: Carolyn Cooksey, Head of PR19 Strategic Stakeholder Engagement</p> <p>Carolyn Cooksey reported that the focus groups were finished, including groups in Hartlepool. Notes would be circulated asap.</p>	<p>Carolyn to circulate notes</p>

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<p>For the “spare” focus group, the company had decided to focus on outages (looking at an outage that happened in Daventry on Christmas Eve). Jeff Halliwell would be attending one of these sessions.</p> <p>The first customer board was due to be held on 5 February, with eight attendees (a mixture of participants, 3 women and 5 men). The company tried to get a good mixture from customer segmentation but one of the first questions will be to ask how representative they feel and whether they want to extend membership.</p> <p>Going forward, the company is now working on ideas for the consultation for the draft business plan. Looking at fun and interactive electronic consultation.</p> <p>Future focus groups will look at: WRMP, sewer growth, transport fleet. They will also be looking at day to day enquiries and social media.</p> <p>Carolyn has also set up a microsite for customer engagement. Under each section there’s narrative explaining what the company is trying to achieve and background documents.</p> <p>Carolyn asked CEF members for any feedback on missing content.</p>	
<p>7. Q&A session for CEF members</p> <ul style="list-style-type: none"> a. Bernard asked about Sophie Ahmad’s engagement. Carolyn confirmed that her role in compiling the synthesis report will continue. b. Nathan wanted to see evidence of how the company will be using info from the synthesis report to inform the business plan. <p>Graham reported that he is looking at the synthesis report and portfolio holders for evidence. CEF could ask him to carry out an audit of this.</p> <ul style="list-style-type: none"> c. Bernard said Anglian Water’s customer engagement was very impressive, and he particularly liked the online community. During the one-off opportunity to impress Ofwat on 31 Jan, the company should 	<p>CEF to discuss exec summary</p> <p>CEF to consider assurance options</p>

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<p>emphasise the breadth of engagement and thoughtful way it's been developed.</p> <p>Two things stand out for him:</p> <ul style="list-style-type: none"> - How AW has mined activities to change things - The approach to an independent synthesis and making everything actionable. <p>Bernard said he'd like to see evidence of engagement with water retailers.</p> <p>Ian Rule confirmed that the company has regular contact with retailers and will work to tie this into business-as-usual customer engagement.</p> <p>Jeff suggested water retailers could be represented more actively through an industry group, if one exists. CBI could play a role in this.</p> <p>Bernard agreed it would be a good idea to arrange a one-off opportunity for CEF members to hear from water retailers. CCWater has seen a troubling number of complaints from non-household customers, some dragging on more than 100 days.</p>	<p>CF/IR to follow up & feedback to CEF</p>
Section C: Current performance/matters	
<p>8. Company Performance update: Andrew Snelson</p> <p>Following CEF feedback at last meeting, Andrew included trend data in his report to CEF members.</p> <p>Andrew reported that Anglian Water had an improved qualitative SIM score of 4.52 in the third quarterly survey. Seven companies scored above 4.5, leaving AW sixth, with fourth quarter figures still to come.</p> <p>Pollution incidents are well down on last year and well within performance expectation.</p> <p>Weather has been challenging. Day after Boxing Day was one of busiest in terms of customer calls. Internal and external flooding numbers have gone up as a result.</p> <p>Interruptions to supply target was 12 mins and is actually below six minutes (heading into reward territory). Pollution incidents are also heading for reward of £2.5 million (about £1 on average bill)</p>	

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<p>Sewage: 250 figure is below target and excellent result.</p> <p>Leakage: behind on target on leakage, not helped by cold weather.</p> <p>Bathing water is behind target but not assessed until the end of the AMP.</p> <p>On water recycling serviceability the company was behind target and earned a penalty in 16-17 but forecast returning to 'green' in 17-18 due to better performance on mains bursts and long supply interruptions.</p> <p>Overall, Andrew said he forecast rewards for 2017-18 of £2.5m for pollution incidents and £4.3m for leakage. Because of excellent performance so far on interruptions to supply there was a possibility of reward on this measure, but it is a very volatile measure so too early to make a confident forecast.</p> <p>Andrew will circulate draft assurance plan to CEF members for feedback.</p> <p>AW shares data on performance with customers via http://ourperformance.anglianwater.co.uk/</p> <p>Comparative data is also available via the Discover Water website: https://discoverwater.co.uk/</p> <p>Andrew confirmed that in December Ofwat had approved the change to its 18-19 price limits to reflect the reward it earned for leakage performance in 16-17.</p> <p>Jeff mentioned it would be good to show comparative company performance in future – and show how the company has actively consulted with customers on this issue (see Aide Memoire).</p>	<p>Andrew to circulate</p>
<p>9. AOB</p> <p>a. Next CEF meeting is on Tuesday, 6 March.</p>	