

## MINUTES

**Date:** 17 January 2020  
**Time:** 10:30 – 15:00  
**Location:** Boardroom, Lancaster House, Huntingdon

**Present:**

- . Jeff Halliwell – Independent Chair (M)
- . Craig Bennett – Chair, Sustainability & Resilience Panel (M)
- . Beth Corbould – Economist, Civil Aviation Authority (M)
- . 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)
- . Nathan Richardson – Waterwise/Blueprint for Water (M)
- . Richard Tunnicliffe – CBI (M)
- . Graham Hindley – Jacobs (O)
- . Carolyn Cooksey – Anglian Water (O)
- . Alex Plant – Anglian Water (O)
- . Darren Rice – Anglian Water (O)
- . Ian Rule – Anglian Water (O)
- . Andrew Snelson – Anglian Water (O)
- . Jane Taylor – Anglian Water (O)
- . Vicky Anning – CEF Report Author (O)

**Apologies:**

- . Peter Simpson – Anglian Water (O)
- . Joanne Lancaster – MD, Huntingdonshire District Council (M)
- . Bev Finnegan – Lincolnshire County Council's Community Engagement team (representing Cllr Davie) (M)
- . Stephen Rothera – Natural England (M)
- . John Torlesse – Natural England (M)

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

Item	Action
<p><b>1. <u>Chair’s introduction: Jeff Halliwell</u></b></p> <p><b>Jeff Halliwell</b>, CEF Chair, outlined the purpose of the meeting, which was to hear from Anglian Water colleagues about the company’s response to Ofwat’s Final Determination. The CEF would then meet in a CEF-only session.</p> <p><b>2. <u>Anglian Water: Update on Final Determination</u></b></p> <p><b>Alex Plant</b> gave an overview of AW’s response to Ofwat’s <a href="#">Final Determination</a> (FD), which was released in December 2019. Alex’s slides are available <a href="#">here</a>.</p> <p>Alex reported that AW colleagues and the Board were considering the pros and cons of accepting the FD or referring to the Competition and Markets Authority (CMA), taking into account the short- and long-term impact on customers, shareholders and the environment.</p> <p>AW was taking into consideration Ofwat’s duties, the Government’s stated policy priorities, AW’s Articles of Association, 25-year Strategic Direction Statement (SDS) and the results of the company’s customer engagement programme.</p> <p>Alex said that the FD fell short in many areas against those assessments, and the consequences of accepting the FD would lead to sub-optimal choices being made, which would argue in favour of a referral to the CMA.</p> <p>Equally, he said there were downsides to referral to the CMA, including the fact that the company would have to live with the FD for the first year of the AMP, and potential wider negative impacts on regulatory relationships, management distraction, and the risk of a slower pace of delivery in AMP7.</p> <p>AW’s Board would be considering the options the following week and would need to decide on a CMA referral by February 15th.</p> <p><b>Overview of Final Determination</b></p> <p>In total there is a £230m increase compared to the Draft Determination (DD). Comparing DD Representation to Ofwat’s FD, the totex gap is £744m.</p>	

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<p>Ofwat has made some adjustments in relation to totex in response to AW's arguments:</p> <ul style="list-style-type: none"> <li>- within the headline totex gap there is a true-up mechanism for some aspects of growth spend, which reduces the £744m gap by £180m making the real totex gap £564m; and</li> <li>- on ODIs, several AW arguments have been accepted, including easing back from the very tough expectations on Supply Interruptions. Overall, the ODI package has less of a downside skew.</li> </ul> <p>On WACC, Ofwat has reduced this by a 16 basis points from the DD, meaning the headline appointee level WACC is 2.03%. Ofwat has also accepted AW's arguments that the notional company should target Baa1 credit rating for the purposes of assessing financeability. As a result, Ofwat allows £95m of PAYG to try to address financeability concerns.</p> <p>On the gearing outperformance sharing mechanism, Ofwat has provided a glidepath across the AMP. However, this doesn't benefit AW or any company affected by the mechanism.</p> <p>On bills, there is a 10.5% reduction over the AMP, also with a glidepath: a smaller up front reduction than at DD, and with decreases phased over the AMP, which does benefit AW.</p> <p>Ofwat's FD provides for two Notified items for the Elsham DPC scheme and costs for Metaldehyde treatment; however, the forecast materiality of these means these mechanisms offer no protection if AW is required to invest to address these needs during AMP7.</p> <p>Ofwat's treatment of growth expenditure and its methodological approach creates a misallocation of costs between capex and opex, which generates additional opex pressure during AMP7.</p> <p>In terms of water bills, Alex reported that AW was approximately 18% adrift of where they wanted to be.</p> <p>If AW were to accept the FD, it would involve accepting a large increase in risk. The opex and capital maintenance budget would be emaciated.</p> <p><b>Bernard Crump</b> (CCWater) said that CCWater wanted to find ways of looking at capital expenditure in a much more granular way in future AMPs.</p>	

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<p>Alex shared several slides showing industry comparisons to illustrate some of the factors impacting on the sector.</p> <p>In terms of Botex allowed, AW has punitive cost sharing rates (only 88% of base operating expenditure has been allowed in the FD – which is the lowest in the sector). This allows for less on capital maintenance than at any time since AMP3.</p> <p>87% of enhancement costs have been allowed, which is an increase on the amount allowed in the DD.</p> <p><b>Darren Rice</b> presented several slides that unpacked the totex gap in the FD in more detail:</p> <p><b>Base at FD</b>  Ofwat’s base models are largely unchanged but they have adjusted all companies’ allowances for growth rates. This gives AW £+40m as well as £+50m to reflect AW’s frontier leakage position  The continuing productivity factor has reduced from 1.5% pa to 1.1% pa, but Ofwat has applied it to all base costs as well as some enhancement costs, with a net effect of £-39m.</p> <p>For growth, Ofwat has continued to use a forecast for new connections based on an ONS forecast, but has updated the proposed Developer Services true-up mechanism should growth materialise at a higher rate than assumed (provides £180m of cover).</p> <p><b>Enhancement at FD</b>  One of the major elements of the closure of the totex gap by £230m stems from Ofwat increasing its allowance for the WRMP programme compared to DD. This resulted from extensive dialogue with Ofwat leading to a significant increase of £70m compared to DD.</p> <p>Increase in Smart Metering c£20m funding reflected AW’s arguments.</p> <p>Ofwat has responded to AW specifics on leakage and growth, recognising AW faces different challenges compared to other regions, including a higher run rate on maintaining frontier leakage performance. A costs adjustment of £140m was accepted in January 2019 but this has not been removed in its entirety. This gives an allowance of £50m, which AW argues is insufficient for maintaining frontier leakage performance.</p>	

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<p>In addition, c£180m of the FD totex gap is recovered through the end of period Developer Services Revenue true-up mechanisms should new connections outturn at the level in AW's Business Plan rather than at the ONS forecast reflected in the FD.</p> <p>Residual enhancement gap is around efficiency haircuts on Ofwat models – many of which, Darren said, were overly simplistic and led to an interpretation that AW is inefficient in base costs.</p> <p>WINEP efficiency challenge remains significant.</p> <p><b>Botex</b> Pure Botex gap estimated at <b>£278m</b>. This is driven by a number of factors including differences in RPE assumptions, Ofwat increasing the catch-up challenge in water and sewerage models compared to DD and the change to the scope of costs future productivity has been applied to.</p> <p>Growth costs not covered by true-up mechanisms c.<b>£125m</b> (e.g. offsite growth at STW, flooding etc) – the risk here is dependent on the level of growth that materialises in AMP7.</p> <p><b>ODI Overview</b> Alex presented an overview of AW's penalties and rewards under the ODIs. Whilst the FD improves the ODI position, a downside skew remains; there remains a strong prospect of incurring net penalties during AMP7 under the FD.</p> <p>Alex finished by sharing some of the uncertainty mechanisms (Elsham and metaldehyde) and showing the potential timetable for a CMA referral:</p> <table border="1" data-bbox="282 1367 1281 1856"> <tbody> <tr> <td data-bbox="282 1367 472 1451">15 Feb-20</td> <td data-bbox="472 1367 1281 1451">Deadline for AWS decision on Final Determination</td> </tr> <tr> <td data-bbox="282 1451 472 1503">Early March</td> <td data-bbox="472 1451 1281 1503">Ofwat Reference to CMA with back information</td> </tr> <tr> <td data-bbox="282 1503 472 1587">Mid March</td> <td data-bbox="472 1503 1281 1587">AWS submit Statement of case</td> </tr> <tr> <td data-bbox="282 1587 472 1640">Late March</td> <td data-bbox="472 1587 1281 1640">Ofwat and other parties may reply</td> </tr> <tr> <td data-bbox="282 1640 472 1692">Mid April</td> <td data-bbox="472 1640 1281 1692">CMA may invite further submissions or ask specific que</td> </tr> <tr> <td data-bbox="282 1692 472 1755">End April</td> <td data-bbox="472 1692 1281 1755">Third party submissions &amp; hearings</td> </tr> <tr> <td data-bbox="282 1755 472 1808">May</td> <td data-bbox="472 1755 1281 1808">CMA may issue working papers for comment</td> </tr> <tr> <td data-bbox="282 1808 472 1856">June</td> <td data-bbox="472 1808 1281 1856">Party hearings</td> </tr> </tbody> </table>	15 Feb-20	Deadline for AWS decision on Final Determination	Early March	Ofwat Reference to CMA with back information	Mid March	AWS submit Statement of case	Late March	Ofwat and other parties may reply	Mid April	CMA may invite further submissions or ask specific que	End April	Third party submissions & hearings	May	CMA may issue working papers for comment	June	Party hearings	
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Late June	Deadline for representations before provisional findings
Mid July	Provisional findings published
Late July	Response to provisional findings
Mid August	Final deadline for representations
Late August	Deadline for Determination from CMA
<p><b>Discussion:</b></p> <p><b>Beth Corbould</b> said this wasn't a decision to be taken lightly and said the stress of going to CMA should not be underestimated.</p> <p><b>Alex</b> stated it could have an impact on customer bills, particularly if the process went beyond December. If AW did accept the DD, he said, it would be inimical to the priorities customers wanted to see.</p> <p><b>Nathan Richardson</b> (Waterwise) asked whether any further customer engagement had been carried out to find out customer views on DD. He said the role of CCGs and customer engagement (and the weight given to it) had been thrown into question.</p> <p><b>Alex</b> stated that customer engagement had been done at DD stage and 66% of AW customers preferred the original Business Plan. At PR14 a lot of effort was put into customer engagement that was largely ignored but we were promised it would be better this time.</p> <p><b>Carolyn Cooksey</b> stated that AW would need to know what Customer Engagement would be helpful to the CMA process.</p> <p><b>Jeff Halliwell</b> wanted to understand the likely role of the CEF in any appeal process.</p> <p><b>Alex</b> responded that the role of customer evidence in the CMA process would be significant but he was not aware of any need for CEF to prepare any formal representations.</p> <p>Regardless of the Board's decision, AW would need to engage with customers and rein in the level of ambition embodied in the original Business Plan.</p>	

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<p><b>Bernard Crump</b> talked about the role of CCGs in relation to Ofwat’s definition of efficiency. The CEF was unique in having brought in economic expertise but if CCGs don’t make any contribution to this central question in future, what role can they play?</p> <p><b>Peter Olsen</b> asked whether there would be any impact for customers in Hartlepool? Alex said there would be no impact.</p> <p><b>Craig Bennett</b> asked which way the company was leaning?</p> <p><b>Alex</b> replied that, on balance, the view was to go to the CMA because it was felt that the customer should determine the direction of the Business Plan rather than the regulator.</p> <p>The Board had decided that the Draft Determination was not financeable, but the Final Determination is a slight improvement. However, he said there are still limited shock absorbers for the company if they do go down that route. Alex said accepting the FD as it would stop the company from “doing the right thing” and would encourage a short term-ist approach, which would be harmful in the long term to all stakeholders.</p> <p><b>Action:</b> Alex would share the letter of acceptance that would go to Ofwat, should AW go down the CMA route.</p>	<p><b>AP</b></p>
<p><b>3. <u>Performance Update and Draft Assurance Plan</u></b></p> <p><b>Andrew Snelson</b> presented the latest performance update (December 2019).</p> <p><b>Interruptions to supply</b> were below target of 12mins due to major incident in Bucks in December (before this, score was 5mins but has now gone up to 15 mins and 11 seconds). This also affects the serviceability measure.</p> <p>AW’s overall <b>Cmex</b> score is 81% (5<sup>th</sup> in country)</p> <p><b>Leakage</b> – forecast is 185 megalitres per day, which compares to 192 ml the year before, which is back on track after last year’s beast from the east.</p> <p><b>Bathing waters</b> – on track for good score on this (30 excellent and 13 good, 1 poor).</p>	

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<p><b>Low pressure:</b> 280 properties are still below standard. AW is looking to take these off the register by end of March to bring numbers down to 150.</p> <p><b>Penalties and rewards</b></p> <p>End of five-year period:</p> <ul style="list-style-type: none"> <li>- AW will earn maximum penalties for interruptions (£8.6m)</li> <li>- Customers are paid £30 for every 12 hours without water (AW will be paying out £750,000)</li> <li>- Bathing waters face penalty (£11m)</li> <li>- Property consumption – penalty of £8m</li> </ul> <p>Overall, for year five there would be a net reward of £9m. Over the five-year AMP, there would be a net reward of £51m (1% on revenue). Bill impact will be about £2 per bill.</p> <p>Andrew suggested that there would likely be a bill change in April.</p> <p><b><u>Draft Assurance Plan</u></b></p> <p>AW has published its Draft Assurance Plan to assure quality of data. This was out for consultation over the next two weeks and Andrew welcomed any views on the way information was presented to stakeholders – particularly the performance portal to learn about ODIs.</p> <p><b>Bernard Crump</b> suggested putting this question to the online community.</p> <p><b>Jeff Halliwell</b> felt that it was useful to have this information (on the online portal) available for the public.</p> <p><b>Craig Bennett</b> suggested putting more information out via social media and links in bills to drive people to the portal. He also referred to a 2016 pollution incident that was coming to prosecution and suggested the CEF might want to delve into this.</p> <p><b>Bernard Crump</b> suggested that most CCG boards include updates from the Chief Exec as a standing item.</p> <p><b>Jeff Halliwell</b> suggested tabling this and asked for a short, written CEO report from Peter Simpson for each CEF meeting.</p>	<p><b>AP/PS</b></p>



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<p><b>Graham Hindley</b> said that his company was working on a programme of in-year audits at the end of the AMP, which will form part of AW's assurance at this important time.</p> <p><b>4. Public Interest Commitment</b></p> <p>This item was not covered during the meeting. Carolyn Cooksey said she would send papers in due course.</p> <p><b>5. Update on C-Mex and D-Mex</b></p> <p><b>Ian Rule</b> gave an overview of C-Mex and D-Mex. Final methodologies were released as part of FD.</p> <p>D-Mex is 2 parts:</p> <ul style="list-style-type: none"> <li>- Satisfaction survey (rating out of 10; how company handled enquiry)</li> <li>- Adherence to promises/levels of service. Set of metrics through Water UK. Measures company performance across a series of measures.</li> </ul> <p>CMex = SIM +6% of reward to 12% of penalty.</p> <p><b>6. Roundtable</b></p> <p><b>David Howard</b> (EA) gave an overview of <a href="#">Reporting and Environmental Performance Assessment Review</a>, which had been sent to CCG chairs.</p> <p>David reported that not much has changed – seven metrics exist already and one has been added (abstraction and impoundment licence compliance).</p> <p>EA was also tightening up on thresholds so a better performance is needed for green and amber.</p> <p>EA was working closely with Ofwat on consultation – deadline of February.</p> <p><b>Craig Bennett</b> suggested the Sustainability &amp; Resilience Panel might want to respond and he would talk to David about how this might work on practice.</p> <p><b>Nathan Richardson</b> said that BluePrint for Water have read the document and may want to respond.</p>	<p>CC</p>

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<p><b>Richard Tunnicliffe (CBI)</b> reported that he had been busy working towards an inevitable general election last year and was relieved that parliament paralysis was over. East of England hadn't fared well in terms of public expenditure.</p> <p><b>Martin Lord</b> reported that the Affordability &amp; Vulnerability Panel had not met as a group since the last CEF and he wanted to look at how the panel might engage with the CMA process. He had already recently joined the Northumbrian Water CCG and had become chair of a housing association.</p> <p><b>Craig Bennett</b> reported that he was leaving Friends of the Earth to become Chief Exec of the Wildlife Trust in April. He reported that the Sustainability &amp; Resilience Panel hadn't met since 2019 but he wanted the panel to input into the next stage of the process and understand the ramifications of the DD on the AW enhancement programme and also feed into blue sky thinking for the next price review.</p> <p><b>Bernard Crump</b> reported that CCWater had appointed a new Chair. He thanked everyone for responding to the CCWater survey. They held a public meeting in Peterborough in March, with help from AW's Jane Taylor and Carolyn Cooksey. Future meetings were also planned.</p> <p><b>Nathan Richardson</b> reported that Defra had carried out a consultation in the autumn about reducing personal water use and had invited policy responses. Water resources planning was also being updated. He would like to see an update from Water Resources East and would like to see that link in with the regional plan.</p> <p><b>Darren Rice</b> said he would set the ball in motion for that.</p> <p><b>Peter Olsen</b> reported that there had been no meetings of the Hartlepool Panel since the last CEF and there would need to be discussions about the future chair of the Hartlepool Panel.</p> <p><b>Jeff Halliwell</b> reported that Heathrow have just published their initial Business Plan and the equivalent customer challenge group were penning their report, due by the end of February.</p> <p>He also reported on the latest CCG Chair meeting, which was informal and didn't involve Ofwat. There was some desire for Ofwat to give more clarity on the future role of CCGs and the regulatory regime.</p>	

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<p>Minutes of previous meetings were approved.</p>	
<p><b>i CEF-only session</b></p> <p>There was a general discussion about Ofwat’s DD and the implications for AW. The consensus was that it would have been useful for CEF members to have more details about the company’s response and operational consequences of any decision made.</p> <p>There was concern about the impact for customers and for the environment if the DD was accepted in its current form. However, there was agreement that it would be good to see how AW would make up any shortfall in spending to understand whether savings would have to fall under the environmental/enhancement programme?</p> <p>The maintenance aspect was also flagged as a concern. It was mentioned that CCWater was looking more clearly across the sector at the maintenance model.</p> <p>There was also a discussion as to whether the CEF should take a position on CMA referral or acceptance of DD. However, it was agreed that nothing could be done until the Board had made their decision and the CEF would then respond accordingly.</p> <p>Members saw the CEF’s role as reminding CMA/Ofwat of the role of Customer Engagement in forming AW’s Business Plan. One member suggested the CEF should look back over the original Customer Engagement and look at the ranking of customer priorities.</p> <p>It was agreed that the CEF should hold a call as soon after the decision as possible. If AW did decide to appeal, the CEF would not need to take any immediate action as evidence had already been submitted through the CEF reports. If AW accepted the DD, would the CEF be obliged to point out the difference between the CE and the final Business Plan.</p> <p>It was suggested that AW would need to write to customers immediately, if the DD was accepted, explaining the consequences of this decision for customers.</p>	

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<p><b>Action:</b> Jeff Halliwell said that the CEF should prepare a statement for either eventuality.</p> <p><b>Action:</b> Vicky Anning to follow up with Alex re. slide set <b>Future of CEF</b></p> <p>Jeff invited more general reflections on the future role of the CEF, which he felt had been very successful in what it had done and how it had been done..</p> <p>CEF as two functions:</p> <ol style="list-style-type: none"> <li>1) AW CE forum: Probably likely to continue to exist in some shape or form. Company is likely to want this to continue.</li> <li>2) As a consumer challenge group: There's a deafening silence from Ofwat on whether there'll be a role for CCGs in the next price review.</li> </ol> <p>He asked members to think about what form the CEF should take and strategic structure/membership to deliver on the CEF's role.</p> <p>Bernard suggested the subgroups were very valuable in terms of feeding into the process. He suggested that customer engagement in business as usual has been better due to CCG process.</p> <p>It was suggested from some quarters that there was a need to look at the bigger picture, including the role of CCGs and how they're included in overall Ofwat process. There was a question mark as to whether the regulatory framework is working in UK at the moment?</p>	<p><b>JH</b></p> <p><b>VA</b></p>