

Meeting: Anglian Water Sustainability and Resilience Panel
Date: Thursday, 5 July 2018
Time: 9.30am – 12.30pm
Location: Huntingdon Marriott Hotel, Kingfisher Way, Hinchingsbrooke Business Park, Huntingdon, PE29 6FL. Westminster Room

Present:	Present: Craig Bennett (Chair), Daniel Bean (Environment Agency), Julia Beeden, Barry Bendall (Rivers Trust), Joff Edevane (AW), John Giles (Environment Agency), Alex Plant (AW), Anne Ramsay (Natural England), Nathan Richardson (RSPB), Philip Rothwell (RFCC) and Vicky Anning (CEF report author).
Apologies:	Apologies: Philip Clark, Lou Gilfoyle (AW), Jeffrey Halliwell (Chair of CEF), Katherine Hardcastle (River Nene Regional Park), Benedict Orchard, Richard Powell, Rob Wise (NFU).

<u>Agenda Items</u>	<u>Action</u>
<p>Introduction and Update</p> <p>Craig Bennett (Panel Chair) introduced the meeting: the main purpose was to pull together panel members’ thoughts and commentary to feed into the main CEF report.</p> <p>Vicky Anning has circulated notes from preliminary discussions with Craig on 23 May.</p> <p>The goal of today’s meeting was to discuss as much of the substance of the panel’s report as possible today, with the aim of circulating an early draft by 17 July. Next CEF meeting is 31 July.</p> <p>CEF Chair Jeff Halliwell has been present at most panel meetings. John Giles and Nathan Richardson also sit on CEF alongside Craig Bennett. Craig will attend 24th September presentation of CEF report to Ofwat in Jeff’s absence.</p> <p>Craig reported that a lot had happened since last panel meeting on 1 May. There had been updates on ODIs and critically ongoing discussion of plans for WINEP delivery in this AMP between AW and regulators, which is hugely important for the panel’s agenda.</p> <p>There were some things the panel heard about for first time on 1 May that surprised us. There’s a need for us to fully understand company plans so there are no new surprises.</p>	

With this in mind, during the first half of the meeting, panel members will make sure they have as much info as possible from AW colleagues and then we'll have a panel only discussion.

Alex Plant said it's really helpful to the company to hear a summation of the panel's views in report form, as well as part of the CEF report.

Update on ODIs and CEF

Alex Plant gave an update on AW Business Plan and performance commitments. He explained that AW is moving towards final BP preparation, which will go to AW board on 18 July. This will be signed off in August.

AW took **Strategic Direction Statement (SDS)** as a starting point and wanted to get across in the plan that AW takes a long view.

Four SDS goals, all are relevant to this panel:

- Resilient to risks of drought and flooding
- Enable sustainable economic and housing growth
- To be carbon neutral by 2050
- Work with others to achieve significant improvement in ecological quality

Proposals coming through from WINEP/WRMP are many times greater in terms of investments than PR14. Customers are saying they're happy to see small bill increase to deliver these improvements. Notwithstanding direction from Ofwat to keep bills flat, AW is prepared see a bill profile that's up by 2.5% over this period.

Alex stated that if AW were not experiencing a large increase in investment requirements for WINEP and WRMP, they would be delivering a reduction in bills.

Natural capital ODI is still in development. During AMP6, AW is implementing two natural capital solutions. AW has proposed 38 natural capital plans for phosphate removal in the next seven years (plus around six for other drivers) [*Please note this figure was corrected to 36 after the meeting and has since been revised to 34 as a result of EA response on phasing of projects*]. Alex acknowledged this is a step change and requires a big change in mindset away from engineering based solutions.

20% of AW customer base consistently flag that they want no bill increase or have trouble paying bills. So AW will increase support for customers who are struggling to pay their bills, building on work with Citizen's Advice Bureau (CAB) and benefits realisation work.

Anne Ramsay asked whether upward trajectory in bill profile would continue?

Alex said this small incremental increase would likely continue.

Nathan Richardson questioned AW about choice of 2.5% bill profile – drawing evidence from synthesis report.

Alex cited findings from Be the Boss: 41% said 2.5% increase in bills was acceptable and 42% said 5% increase was acceptable - therefore 83% were happy with bill increase.

Craig said that a headline overall was that this panel could be confident that customers do support investment in the environment, even if it means a slight increase in bills.

Craig said WINEP was a real challenge for this panel. AW wouldn't expect panel members to be happy about the company asking for a delay on delivery of WINEP. He asked for reassurance from the panel that this approach would be better for the environment and that AW was maxing out on catchment management solutions.

Alex said AW was not going to ease back on WINEP obligations. However, fulfilling some commitments would force AW to reach for engineering solutions to deliver on time within AMP7. The company has picked out 38 [now 34] potential catchment management schemes – they are currently doing feasibility studies with partner agencies and sounding out land owners.

John Giles urged caution in making WINEP a reward-based ODI because delivering against these commitments is mandatory.

Panel members acknowledged that what AW is proposing in terms of catchment management is pioneering work and is a brilliant commitment for the future. However, they felt they needed more reassurance in the quantifying how AW was going to roll out catchment management solutions.

Alex reiterated that AW was committed to natural capital approaches and had set aside funds accordingly. Regulators will be monitoring AW's performance on WINEP but pointed out that the company may need to reach for engineering solutions with bigger capital commitments if they were obliged to deliver all WINEP obligations within AMP7. (The decision on timings from EA was still pending).

AW's aim would be to deliver as many solutions as possible via catchment management projects, but this hasn't been done before so is uncharted territory. He pointed to pioneering work being carried out with the

University of East Anglia on natural capital and partnership work with NGOs and other key stakeholders through Water Resources East.

Joff Edevane acknowledged that natural capital solutions may not be able to achieve everything that harder engineering approaches could do, for example, in terms of phosphate removal. But projects like Northrepps are also proving successful in unexpected areas (e.g. nitrate removal). AW is potentially looking at hybrid solutions; some of this is two or three AMP process.

Nathan Richardson welcomed the direction of travel but questioned whether end-of-pipe wetland projects could truly be counted as “natural capital” solutions. He questioned whether the programme should also be looking more broadly at behaviour change to reduce levels for phosphates, for example.

Craig wanted to encourage AW to be more confident in setting the agenda on sustainability. For example, making sure new housing developments are as water efficient as possible and hiring lobbyists to make arguments over issues such as potential ban on metaldehyde.

Alex said AW had lobbied hard on metaldehyde and used all available routes to try and win arguments. He also discussed AW’s plans to move the Milton sewage works and said that new housing there would need to be an exemplar in water efficiency. He also acknowledged that rolling out smart meters would only be effective if it was accompanied by customer behaviour change to help reduce water usage.

Alex gave a presentation on ODIs relating to the flourishing environment. He went through the customer engagement carried out on this:

- Significant engagement through the development of the **Strategic Direction Statement** and forming the 10 outcomes.
- Significant qualitative engagement on our **PR19 business plan**, reaching over **500,000** individual engagements.
- A large programme of **societal valuation** work, seeking customer valuations of different levels of service.
- Acceptability testing of the **short list of performance commitments** with 800 customers.
- Acceptability testing with over 1,000 customers on the affordability and **stretch in performance commitment levels (PCLs)** as part of the outline business plan. Customer views on our proposed performance commitment levels varied by measure. However, for each performance commitment at least 51% of customer thought the performance commitment level was stretching, increasing up to 81% for some measures.

- Whether customers support AW continuing to **push the frontier for leakage** and are prepared to accept the bill impact associated with **enhanced rewards** for this. Over 5,000 customers responded to this engagement and 78% of those supported the proposal.
- Targeted research with 600 customers on the appropriate **scale of incentives**, with customers opting for, on average, incentives at roughly 2% of RoRE. This allows AW to place caps and collars on individual performance commitments, based on customer evidence and protect customers from bill volatility.

Alex said there have been some surprises in engagement with customers: for example, pollution came up as a bigger concern than previously.

He explained some of the flourishing environment ODIs in more detail:

Pollution incidents – Now includes category 1 and 2 (as well as category 3) incidents. No exceptions for extreme weather events. Higher customer valuation at PR19 driving higher incentive rates. 69% of customers agreed the performance commitment level was stretching.

AW had push back from CEF on this ODI, but went back to customers and findings were still consistent in terms of importance assigned to this issue. Company believes this measure should be reward and penalty, for this reason.

John Giles said that EA doesn't believe there should be a reward for pollution incidents. This measure should be penalty only.

Bathing waters – Based on number of improvements included in the WINEP, with 36 out of 49 bathing waters excellent by end AMP7. Deadband proposed to reflect influence of third parties on performance set at expected end AMP6 performance.

Carbon – Performance commitments are reputational. The approach to setting these performance commitment levels is in line with AW's long-term goal of being a carbon neutral business by 2050. In acceptability research for outline plan, AW tested whether customers understood these performance commitments and whether they were stretching. 60% of customers agreed AW's operational carbon PCL was stretching and 57% agreed that the capital carbon PCL was stretching

WINEP – Approximately 2,200 obligations due in AMP7, based on WINEP3 obligation delivery dates. Proposed reward only incentive to account for scale of delivery challenge and existing incentives to ensure delivery on time. 74% of customers agreed the performance commitment

level was stretching.

There was discussion by panel members on this ODI and whether the current proposal would drive the company to take up faster (non catchment management based) solutions? Panel members wanted to see AW being rewarded for the quality not quantity of natural capital solutions.

Natural capital:

- AW proposals for natural capital ODI were still under development and subject to Board approval.
- As per the definition of our performance commitment, AW will be including details of capital strategies within the business plan
- AW intends to report their own performance but also their contribution to natural capital in the region
- They are considering 6 metrics to record performance and inform decisions. Working to establish the baseline and how it fits with these metrics. The proposed metrics are:
 - Water quantity (something around supply/demand and sustainable abstraction)
 - Water quality (river water quality according to WFD, catchment management and AW contribution to improving it)
 - Water quality – bathing waters
 - Biodiversity – proposed new biodiversity metric for biodiversity on AW assets
 - Soil – this will be about how biosolids contribute to soil health
 - Air – AW’s carbon goals
- The strategy will include how AW might use these metrics to inform decision making
- AW is interested in the potential for a regional, inter-organisational natural capital group.

Barry Bendall expressed concern that the thinking on the natural capital ODI was still too vague. He would like to see something more specific about catchment management solutions included in this ODI.

Dan suggested that some of profits from any reward/penalty system could be reinvested into catchment management.

Nathan said that most water companies are doing something on natural capital in AMP7. Some are looking at dipping toes into catchment management solutions but AW is further ahead.

Members felt that there was a contradiction between the ODI on natural capital and WINEP, with its focus on delivering ahead of schedule.

<p>Alex said there was still some room to make these ODIs more ambitious, subject to board approval of the direction of travel. AW could look at a counter weight in the NC ODI to encourage the use of NC approaches.</p> <p>Board meeting: 18 July. Final submission: 3 September.</p> <p>Craig suggested setting up a separate call to talk about these two ODIs in more detail.</p>	
<p>AOB</p> <p>A meeting of S&R Panel members was held after this session to discuss the panel’s contribution to the CEF report.</p> <p>All papers and slide decks from the S&R Panel are saved under the ShareFile here: https://anglian-water.sharefile.com/</p> <p>Please note: these minutes will be considered in draft form until they are signed off at the next S&R Panel meeting.</p>	