



CUSTOMER ENGAGEMENT FORUM

Date: 25 March 2019
Time: 9:00 – 11:00
Location: Phone conference

- On call:**
- . Jeff Halliwell – Independent Chair (M)
 - . Craig Bennett – Chair, Sustainability & Resilience Panel (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)
 - . Daniel Storey – Director, High Point Economics (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)
 - . 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)
 - . Peter Olsen (M) – Hartlepool Independent Advisory Panel (M)
 - . Nathan Richardson – Waterwise/Blueprint for Water (M)
 - . John Torlesse – Natural England (M)
 - . Richard Tunnicliffe – CBI (M)
 - . Peter Simpson – Anglian Water (O)

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

Item		Action
1.	<p><u>Chair's introduction: Daniel Storey</u></p> <p>Daniel Storey (CEF member) delegated for Jeff Halliwell for this meeting, as Jeff was on leave. Jeff was able to dial in for the call from overseas.</p>	

Item	Action
<p>Daniel outlined the purpose of the interim CEF call and agenda:</p> <ol style="list-style-type: none"> 1) to hear from Anglian Water regarding revisions to the Business Plan following Ofwat's IAP; 2) to hear about the latest round of customer engagement; 3) to hear updates from the CEF members who attended <ol style="list-style-type: none"> a. the Customer Engagement Steering Group and b. the Affordability and Vulnerability Sub-group; 4) to give CEF members an opportunity to summarise their views in order to produce a CEF report within the next 48 hours. This would then be discussed and approved at a CEF only call on Thursday, 28 March at noon. <p>2. <u>Update on Anglian Water's Business Plan process and response to Ofwat</u> Alex Plant and Darren Rice</p> <p>Alex Plant outlined AW's high-level position, as articulated in last month's CEF meeting. AW are very much in the position of seeking to defend the Business Plan submitted in September. AW's Board also shares this view: they are arguing for the plan that was informed by customer engagement.</p> <p>The response to Ofwat has addressed some of the challenges on efficiencies of costs. AW is hoping this will lead to a more tailored discussion after 1 April. Alex reiterated that AW's BP can't be delivered if there isn't movement on the £1.3bn gap between Ofwat's initial assessment of efficient costs (£5.5bn) and AW's proposed plan (for £6.8bn spending).</p> <p>Costs related to metaldehyde ban have been removed so bills are now lower.</p> <p>Darren Rice highlighted some of the other areas where AW had been looking to close the funding gap over the past seven weeks:</p> <ul style="list-style-type: none"> - £200m of the investments are related to the Water Resources Management Plan, which Ofwat has acknowledged is complex. - The rest is related to fundamental flaws related to indexation, productivity etc. accounting for £500m. - Enhancements: AW have been through every Ofwat model. Some of the modelling positions they have taken are crude and don't accord with engineering or economic logic. The positions put forward in IAP aren't sustainable. In total, Ofwat's assessment of enhancement expenditure is £590m (24%) below AW's proposed plan for £2.4bn. 	

Item	Action
<p>Bernard Crump said he was surprised CEF members didn't have the chance to see the figures on cost efficiencies circulated in advance, which made it difficult to comment on AW's analysis. An issue raised during initial discussions with CEF was the shift from opex expenditure related to enhancements, risking a shift back to 'bricks and mortar' solutions rather than natural capital solutions. Bernard referenced a third-party report (by Reckon) on this issue that he had had sight of. If there was any shift away from natural capital investments that would be something CEF would want to comment on, as it was supported by customers. Other companies would be making similar points.</p> <p>Craig Bennett pointed out that the CEF had already taken a strong view on this issue. AW had support from the S&R panel in both PR19 and in PR14, so they should be confident to set this argument out more clearly.</p> <p>Jeff Halliwell said the CEF would point out in their report that AW's A-star consumer engagement supports natural capital approaches, and this is a powerful argument in the face of any shift away from that approach.</p> <p>Darren said AW had held a meeting with Ofwat and have committed to working with them to carry through the work in this third-party report, which will be referenced in AW's revised BP.</p> <p>Darren would share the section on cost efficiencies after the meeting, as well as Reckon report.</p> <p>ACTION: DR to circulate chapter and report</p> <p>Daniel asked Paul Metcalfe and Bernard Crump to look at these sections and send thoughts by email.</p> <p>ACTION: PM/BC to comment</p> <p>Darren Rice talked through AW's Executive Summary and ODI chapter, which had been circulated in advance to CEF members.</p> <p>Darren thanked Jeff and Paul for their input into the ODI chapter, which would be taken on board (including wording around the role of the CEF).</p> <p>ACTION: Daniel said he would send over comments also.</p> <p>Daniel queried WINEP challenge reward, where AW are proposing to retain 10% of initial full project budget where a scheme is cancelled. This had been flagged as arbitrary by Nathan Richardson in an email prior to the meeting. Nathan wrote:</p>	<p>Report</p> <p>DR</p> <p>PM/BC</p> <p>DS</p>

Item	Action
<p>To set up challenging the environmental regulator as a route to making profit for the company makes me uncomfortable. Unfortunately the cost only recovery option does not appear to have been tested with customers, other than those who had already rejected the incentive scheme who overwhelmingly supported it.</p> <p>Darren explained that this challenge reward was for unconfirmed WINEP obligations. It's protecting customers from investment on schemes that are no longer required. AW has made a judgement about a risk-reward balance. They have continued the dialogue and tested this with customers. The majority of customers think the incentive mechanism is appropriate rather than just recovering costs incurred to date. AW remain confident they have found the right balance that's supported by customers in the online community</p>	<p>Report</p>
<p>Jeff pointed out it's reasonable for us to note that opinions differ around the CEF. We should acknowledge that AW has engaged on quite technical issue and that customers have understood this and supported it.</p> <p>David Howarth said he also had concerns about wording around WINEP ODI. He was concerned about individual schemes not being deemed cost effective affecting overall bundles of investments.</p> <p>Darren accepted that the language may need to be reconsidered on this. He assured CEF that AW would still be working to do the best thing for the environment.</p> <p>Bernard said he was quite keen on companies being able to provide robust customer engagement rather than being trapped in a black box process. In their IAP, Ofwat produced a technical appendix that looked at standardising/harmonising PCs, ODI rates; in essence, AW has rejected these proposals. Bernard had a lot of sympathy with AW's arguments. Nonetheless, he was of the view that customers do support more standardised/consistent approaches. CEF should note that the company is rejecting those arguments.</p>	<p>Report</p>
<p>Alex confirmed that AW had tried to produce suite of evidence based on customer engagement rather than being restricted by Ofwat models.</p> <p>Jeff pointed out that customer engagement carried out by Ofwat was very tiny compared to engagement carried out by most of the water companies.</p>	<p>Report</p>

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<p>Daniel stated that the CEF has been closely involved in customer engagement over past 2 years. They remain confident that customer engagement is a strong bedrock for the business plan.</p> <p>Bernard flagged two further points for discussion: 1) enhanced incentive for leakage 2) upper quartile/level of incentivisation</p> <p>Daniel reminded members that the economic sub-panel were not wholly convinced by the methodology adopted by company and its advisers to derive an enhanced reward rate for leakage. That's on record in our previous report. He would be happy to summarise the panel/CEF's previous position for the new report. He reiterated that this was one of the areas where AW had gone a bit further than customer engagement would thoroughly support. [AW clarified that the bill impact of the enhanced reward was tested with customers and 78% supported it.]</p> <p>Jeff said that, in general terms, CEF should reiterate key points from previous report.</p> <p>Daniel agreed that this does stand out as one of key areas where CEF don't support AW approach, so we need to say that in the report.</p>	<p>Report</p> <p>Report</p> <p>Report</p>
<p>3. <u>Update on Customer Engagement and Research</u> Carolyn Cooksey</p> <p>Carolyn Cooksey gave an update on customer engagement carried out since February CEF meeting.</p> <p>AW has done a relatively small amount of customer engagement in response to the IAP. There were no actions specifically related to customer engagement. However, they have been doing engagement in areas where there were changes to plan or where Ofwat were looking for more evidence.</p> <p>Carolyn had shared a report by Incling of research carried out in the online community</p> <ul style="list-style-type: none"> • She would issue an updated version of report by middle of the week. • Acceptability research (on bill profiles) was due to come out later that day and would also be circulated. • Minutes for the customer board meeting were being finalised and would be circulated Mon/Tues. <p>ACTION: CC to circulate all the above.</p>	<p>CC</p>

Item	Action
<p>Carolyn went through the Incling slide deck dated 22 March. She pointed out that some of the issues were quite technical but have received some interesting response and comments from customers.</p> <p><i>Vulnerability and affordability: new ODIs</i> AW wanted to engage in identical way to rest of ODI suite. Feedback on both of these new ODIs was broadly supportive.</p> <p><i>Vulnerability:</i> Customers support the idea of accreditation – but there were questions about why a performance commitment was needed when Aw had already said it would gain accreditation in its business plan.</p> <p><i>Affordability:</i> There were reactions to wording used, which is really useful. A small minority of customers think it’s not in AW remit to help with affordability.</p> <p><i>Bathing water ODI</i> Reward and penalty after 5 years was questioned and Ofwat asked for views from customers. 71% of people who responded approved of 5-year true up rather than annual true up. There was a question in last CEF around reward/penalty mechanism. 29% of customers didn’t agree with five years or didn’t know. Approx one-third of the people who had said no or don’t know had made comments about principle of incentives.</p> <p><i>Deadbands</i> This was quite a technical issue and AW was looking for more customer feedback. They asked four separate questions in different activities. Got more than 50% support.</p> <p><i>Bill profiles</i> AW shared old bill profile and new bill profile, which attracted positive comments. People asked why you’re asking us, since the bill is going down. There were comments about five years up to 2030 – how can you predict so far ahead? There were positive comments about being transparent about metaldehyde removal from the budget and sharing that reduction in costs with customers.</p> <p><i>Executive pay</i> This activity was still live. 96 people had participated. 82% were supporting AW proposals. This activity finishes tomorrow – will circulate updated report after that.</p> <p>ACTION: CC to circulate There was some discussion about whether the proportion of</p>	<p>CC</p>

Item	Action
<p>remuneration could have been included in the online community engagement. This was discussed at the CESG.</p> <p>AW colleagues said this was part 1 of engagement on this issue and would be followed up with more detailed information in future. It was currently a live discussion with the board and figures were changing.</p> <p>Darren said, at this stage, AW was asking about a strategic change in executive remuneration policy – basing incentives entirely on outcomes for customers – and so it was not seeking customer views on the specifics of the new policy.</p> <p>Jeff said, from the CEF point of view, they should say that engagement has been high level and we would welcome further engagement in future. Customer views should be taken into account.</p> <p>Daniel: agreed that it was good as far as it went but not as detailed as it could have been.</p> <p>Craig reminded CEF members that he had been asked about Exec Pay at the Ofwat meeting in September and CEF should make sure to consider it specifically. Craig also asked for comment on short term vs long term incentives for exec pay.</p> <p>Alex noted that there’s an element of annual/short term financial incentives but also some long term – AW was trying to strike a balance. In discussion, the question was raised about how executives would be held to account for the delivery of a longer term target (such as bathing water quality, which is only measured as a Performance Commitment at the end of the 2020-25 period). It was noted that the company would be reporting transparently on an annual basis progress towards such longer term targets, so it would be apparent to customers, other stakeholders and the AW remuneration committee whether the company was on track to deliver in the medium term.</p>	<p>Report</p>
<p>4. Update from Customer Engagement Steering Group</p>	

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<p>Gill Holmes</p> <p>Gill reported that the CESH has met twice since the last CEF. Materials have been circulated in advance, questions have been open. Online community has been very good for this – there’s quite a lot of prior knowledge among members, who were involved in the previous BP draft.</p> <p>Only activity not carried out was on caps and collars, which was too technical. AW decided to go with a re-articulation of work that needed to be done.</p> <p>Darren confirmed that AW formed the view that it wasn’t a definitive requirement from Ofwat. So we decided to reassess what we’d already done and emphasise strength of what we’d already done.</p> <p>Gill said that acceptability research deals with bill profile with and without inflation right through to 2030.</p> <p>Jeff said it should be noted in CEF report there was no specific research with customers in Hartlepool, as there were no changes that affected customers in Hartlepool.</p> <p>Daniel said that arguments in terms of bill volatility didn’t seem to be addressed (in terms of bills going down as well as up).</p> <p>Carolyn said that research showed that customers want bills to be stable – it doesn’t really matter if they’re going up rather than down.</p> <p>Daniel suggested AW need to put in more material on underlying research and broader conclusions drawn from that. As written, it left some questions hanging. Suggested adding in customer comments around volatility and other more interesting materials.</p>	<p>Report</p>
<p>5. <u>Update on Affordability and Vulnerability Sub-Group</u> Martin Lord</p> <p>Martin Lord said the sub-group had been impressed with customer engagement around vulnerability and affordability. Ofwat had some specific questions that were outlined and discussed at the subgroup meeting in March.</p> <p><i>Affordability</i></p>	

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<p>Company have developed a new ODI that is measured by putting through a certain percentage of calls to customer care team or extra care team:</p> <ul style="list-style-type: none"> • We welcome the idea that there was an ODI attached to AW's previous proposals to offer holistic support to customers. • We welcome that CCWater would be involved in an annual review. • There was detail missing due to short timeline between 31 Jan and 1 April. <p><i>Vulnerability</i> AW was committed to achieving BSI standards and agreed to add this to its ODI. On Priority Services Register: subgroup is likely to reflect that AW should continue to go for higher levels of PSR registration than proposed by general Ofwat ODI. But there no clear support for reward only mechanism from customer engagement.</p> <p>Panel said that concrete plans for improvement/reinvestment should be driven by customer engagement. Panel was satisfied by customer engagement around those issues.</p> <p>Jeff noted that the customer engagement was not necessarily representative of vulnerable customers through the online community. More customer engagement should be carried out in future. Building on the excellent work that's been done so far – to repeat the detailed engagement in relation to how money from any reward should be invested in future to address vulnerability.</p> <p>Carolyn responded that vulnerable customers are represented on online community (around 20-22%). AW have already done very detailed work with hard to reach customers about what their priorities are in this area. We'd always be committed to concept of co-creation and would do it with the right people at the right time.</p> <p>Bernard said that CCWater were concerned by the way people were assessed for long-term needs to be kept on PSR.</p> <p>6. <u>AOB</u></p> <p>Daniel asked CEF members to email any additional thoughts to Vicky Anning or himself. A draft report would be circulated by COB Wednesday to CEF members for discussion on Thursday's call at noon.</p>	

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<p>Jeff and Craig would be unable to join Thursday's call but would comment on any drafts of report by email.</p> <p>ACTION: AW colleagues to chase Andrew Brown re natural capital metrics.</p>	