



ANGLIAN WATER INDEPENDENT CHALLENGE GROUP

MINUTES

Date: 19 July 2024

Time: 12:30-14:30

Location: Virtual

Present:

- Craig Bennett – Chair (M)
- Gill Holmes – Independent (M)
- Peter Holt – Chief Executive, Uttlesford District Council (M)
- Nathan Richardson – Waterwise/Blueprint for Water (M)
- Victoria Williams – EA (M)

- Peter Simpson – Chief Executive, Anglian Water
- Darren Rice – Regulation Director, Anglian Water
- Abi Morgan – Regulation Programme Advisor, Anglian Water
- Lottie Williams – PR24 Customer Insight Lead

- Vicky Anning – Secretariat (O)

Apologies:

- Justin Tilley – Natural England (M)
- Joanne Lancaster – MD, Independent (M)
- Paul Metcalfe – MD, PJM Economics (M)
- John Vinson – CCW (M)

Summary of actions

Actions from July meeting	Status
1. Darren/Nathan to check on minimum smart meter standards	Closed
2. AW/Darren to provide updates on impact of DD on LTDS	Closed
3. Nathan to share report from environmental destination stakeholder group	Open
4. AW/Darren to provide updates on performance commitments (penalties/rewards etc) in a consistent way to help ICG members identify trends	Open
5. AW to provide update on Service Commitment Plan at next meeting	Pending
6. AW to provide update Pollution Incident Reduction Plan	Closed
7. Victoria to provide Environmental Performance Assessment (EPA)	Closed
Actions from June meeting	
8. ICG members to revise TORs	Ongoing
9. ICG members to meet with Mark Thurston	Pending (Craig Bennett scheduled to meet 19/08/24)
10. DR/AW to keep ICG updated on pending legal cases	Ongoing
11. CB/JV and VA to draft/agree a standard answer for customer queries that come to the ICG	Open
12. Jo to reach out to Claire Higgins regarding future participation	Open
Open actions from April meeting	
13. Add winter preparedness to the autumn ICG agenda	Open
14. Add water demand in response to Cambridge development to future agenda	Open
15. Peter Holt to keep ICG updated on Water Summit outcomes	Ongoing
16. Set up Task and Finish Group on Zero Escapes Strategy	Pending
17. Regular updates on PIRP to be included at future ICG meetings	Ongoing
18. Andrew Brown to circulate slide deck	Open
19. AW colleagues to explore options of site visit, potentially to WRC	Open

Meeting minutes

Item	Action
<p>1. <u>Welcome from ICG Chair</u></p> <p>Craig Bennett, Chair of the Independent Challenge Group (ICG), welcomed participants to this meeting, which was a chance to reflect on Ofwat’s Draft Determination (DD) that had been published earlier in the month.</p> <p>Craig hoped ICG members had had a chance to read the Flash Note prepared for the Anglian Water Board that had been circulated with the meeting papers and was very useful.</p>	

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	He was pleased that Peter Simpson could join the ICG for what would be his last ICG meeting as Chief Executive of Anglian Water (AW).	
2.	<p><u>Update and Q&A on Ofwat’s Draft Determination</u></p> <p>Peter Simpson offered an initial reflection on Ofwat’s DD of Anglian Water’s Business Plan. He said that the DD was relatively positive relative to those of other companies and seemed to be in the right space. For example, AW had achieved a standard rating and there was not a huge gap in Totex. (The overall cost gap was £424m, representing a 4% cost challenge.)</p> <p>Peter mentioned that WACC had increased, as well as energy costs and inflation (in particular, wage inflation) had seen more sensible treatment in terms of recognising the risk of volatility. The latter was important in light of construction costs related to large infrastructure projects.</p> <p>However, he said a lot of the devil was in the detail and there were some areas that were quite challenging, including Outcome Delivery Incentives (ODIs) targets and penalties. Peter said that the current suite of performance commitments was not achievable in the current form, which was quite problematic.</p> <p>He highlighted in particular that there was no additional money for leakage and climate vulnerable mains (this was funded out of Base costs being stretched further) and there had been no reflection in the DD about the importance of more money going capital maintenance and above ground assets.</p> <p>Regulation Director Darren Rice built on Peter’s reflections to give a more detailed analysis of the DD.</p> <p>He highlighted two issues that were particularly disappointing:</p> <ul style="list-style-type: none"> - He felt there was more of a focus on short term rather than long term context (for example, he felt there was very little evidence of connecting this DD into the longer term picture framed by AW’s Long-Term Delivery Strategy – LTDS). - There was a lack of emphasis on long-term resilience and asset health. Any investment in those areas had largely been seen as discretionary, which was evident in other companies’ DDs too. <p>Darren mentioned that, in general, Ofwat had sought to fund statutory programmes across the industry. On this point, he was pleased to report that AW had received marginally more allowance than it had asked for in terms of statutory programmes based on the strength of the high-quality evidence presented. In fact, Ofwat had not intervened in that space at all, in comparison to other companies, which had faced material interventions on statutory programmes (e.g. relating to overflows etc).</p> <p>However, non-statutory programme investment had taken more of a hit in AW’s case, which affected Base costs, asset health and longer term resilience.</p>	

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<p>Ofwat has focused on managing overall bill profiles, with an average bill increase across the sector of 21% pre-inflation. This is compared to a 13% increase from AW pre-inflation, which was lower than the 16% put forward in the Business Plan. This was due in part to some of the investments not being allowed and also Ofwat playing with financial tools (RCV run rates). The DD had put forward some costs to be paid by customers at a later stage, in effect kicking the can down the into a future period.</p> <p>ODIs</p> <p>Building on Peter’s point, Darren said that one of the emerging challenges was how Ofwat would deal with the fact that water companies were not going to be able to collectively meet the PCs by the end of AMP7. There was emerging evidence that the water sector would find itself in significant penalty towards the end of the AMP, in spite of improvement, which was quite a painful issue for the industry as a whole. There was some dialogue to be had around the entry point.</p> <p>In terms of commitment levels, Darren reflected on incentive rates. He reminded ICG members that AW had made some targeted interventions to Ofwat’s central measures on four specific measures (PCC, pollutions etc), drawing on AW customer evidence instead. He pointed out that Ofwat had not taken into account that evidence and had reverted back to the standard approach, whilst extending the penalty exposure on some of those rates.</p> <p>This area was shaping up to be quite difficult across the sector, in particular looking at the basket of ODIs relating to leakage, customer contacts, pollution incidents and flooding.</p> <p>Leakage</p> <p>Darren said Ofwat had made some interesting and challenging interventions on leakage. AW was a frontier performer on leakage, and the extra marginal cost to unlock next frontier level of leakage performance was recognised by the Competitions and Market Authority (CMA). In the DD, Ofwat had stepped back from approving leakage funding to unlock the next frontier level of leakage performance, which Darren felt was quite problematic.</p> <p>Demand management</p> <p>In terms of demand management measures, AW had asked for £140m to support smart meters and other demand management measures. Currently Ofwat had granted £100m towards these measures. AW would like to try and close that £40m gap.</p> <p>Darren felt like had been a dialling down in customer engagement generally via the DD. He felt it hadn’t been prominently used. AW was confident they had passed the tests on high-quality customer engagement but had received push back from Ofwat on incentive rates. AW was aware that both outstanding companies had question marks over quality of customer engagement but this didn’t have an</p>	

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<p>impact in Ofwat’s overall view. So there was a question mark around how seriously Ofwat had taken customer engagement.</p> <p>Questions/reflections</p> <p>Nathan Richardson (Waterwise) pointed out that the companies with the most experience and ambition in demand management seemed to have faced the biggest cuts in this area. He was also concerned that there didn’t seem to be any minimum standards for smart meter/data quality, presenting a risk of not delivering the level of service required due to budget cuts etc. He asked whether AW and other companies would challenge these cuts.</p> <p>Darren agreed that companies with the most experience had more understanding of costs. He pointed out that AW had a higher than industry average new smart meter cost because cheaper models were no longer available. He was not sure that the demand management programme could be delivered with the current haircut from Ofwat but he was expecting to see some movement from DD to Final Determinations than in previous price reviews.</p> <p>In terms of minimum standards, Darren was not sure what expectation was proscribed in terms of operability for the price control deliverable.</p> <p>Action: Darren was confident that there would be something in place and would take it as an action to check.</p> <p>Nathan also asked about funds for nature-based solutions and whether the plans had gone through or not.</p> <p>Darren responded that the scale and shape of nature-based solutions put forward by AW in the statutory programme had survived the DD. There had been a marginal hair cut on the Advanced Water Industry National Environment Programme (WINEP) in terms of efficiencies, but AW was one of only two companies that was on the A-WINEP journey.</p> <p>Nathan also mentioned the increase in customers on social tariffs from 4-8% and mentioned that it was positive that many companies were now putting their own money into social tariffs, following AW’s lead.</p> <p>Peter Simpson said there had been a recognition from the new Secretary of State that bill increases were problematic for some people. There was likely to be a bigger increase at FD stage. Therefore, there’s going to be a need for the Government to more clearly state what companies are doing to help. Currently it’s not completely consistent across the sector, but Peter thought it may come back on the table.</p> <p>Gill Holmes thought the DD seemed positive although she was interested in reflections on customer engagement, particularly around inconsistency with the standard variable tariff (SVT). It seemed to her that there was a lot of emphasis on government targets and media areas of interest rather than day-to-day operations such as asset health and maintaining assets. She was surprised to see Ofwat had</p>	<p>Action DR/NR</p>

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<p>disallowed climate vulnerable mains, for example, which seemed to her to be a fairly critical part of the Water Resources Management Plan and also important in terms of tackling leakage and supply interruptions.</p> <p>Gill was particularly concerned about PCs and worried that AW was likely to be in penalty by the end of this AMP, with very difficult targets to meet as move into next AMP. She asked why, in terms of bill profile, a lot of the costs were frontloaded.</p> <p>Darren responded that part of this was driven by revenue true ups from AMP7 and other capital investments. This was systematic through the industry.</p> <p>Victoria Williams (Environment Agency) asked which particular ODIs the company was most concerned about.</p> <p>Peter Simpson responded that total pollutions, internal and external flooding were the main areas, which were all related to hydraulic impact (representing 70% of total ODI challenge). The company was working with multiple agencies to mitigate flooding but penalties fell on water sector. AW needed to consult with other companies to see if they were thinking about these issues in a similar way.</p> <p>Victoria thought it was positive that there had been some focus on statutory obligations and the majority of WINEP has been considered, which was an important factor (£26 billion across sector for WINEP; £6.9 billion less than water companies asked for but major uplift on last AMP).</p> <p>In terms of nature-based solutions, Victoria noted there had been more allowance for storm overflows, particularly around network road solutions, which had gone up by 35%. She was interested to hear the company's views on that.</p> <p>Growth of sewage treatment works also caught her eye – there was some adjustment for under delivery in previous AMPs but overall there was some additional allowance for growth at sewage treatment works. Again, she invited AW's reflections on this, as well as on the 50% reduction on IED (Industrial Emissions Directive), which was going to be difficult for companies.</p> <p>Darren responded that AW was a net beneficiary of Ofwat's modelling approach: AW had been allowed £60m more than the £512m requested. His understanding that Ofwat's modelling approach was subject to consultation and therefore subject to more change. He saw this as a risk rather than an opportunity. If there was a re-allocation across the sector, that would be problematic for AW.</p> <p>On the growth of treatment works, AW was pleased where Ofwat had landed in terms of allowances for growth. They have been prescriptive about where they want growth to happen. Darren said AW would need to look at this level of prescription.</p> <p>Ofwat have removed growth investment on biomass resources linked to quality obligations, suggesting that should come from Base. Darren didn't understand the logic behind this in context of population growth. On IED, he had not gone into the specifics yet, but talking to sector peers that treatment of expenditure for IED is proving potentially problematic.</p>	

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<p>Next steps</p> <p>Darren added that, after initial reflections, AW now needed to start thinking about next steps. The company was looking to synthesise their evidence base, look at where Ofwat had landed and prioritise where to focus their efforts in terms of representations to Ofwat.</p> <p>He said that AW did not want their representation to Ofwat to be perceived as a series of moans. He wanted to be clear on strategic challenges around material issues why they matter in the short and long term. AW was aiming to be targeted to show their willingness to work with the regulator – however, he wanted to make clear that, if this DD was the final settlement, it would be unworkable.</p> <p>Darren said 2 August was a major milestone for AW. The company would hold a half day meeting with the Board talking through the representation strategy and priorities and potential changes to Totex. Two meetings were upcoming with Ofwat in the autumn in the DD window. He was hoping for constructive engagement.</p> <p>Craig said it was worth mentioning that there had been a green light for the two reservoirs. He was struck that the new Government seemed more constructive and less aggressive than anticipated in engaging with the water industry.</p> <p>Peter Simpson was pleased that AW had had constructive, challenging professional engagement with the new Government. He said the new Secretary of State was clearly going to hold Chief Executives to account and wanted to see improvements but was keen to see what could be done together.</p> <p>He had had a positive conversation about what could be done to accelerate reservoirs (e.g. one of ideas was moving planning powers allocated to combined authority mayor). The Government was keen to devolve more power locally and had a lot of interest in nature-based solutions and social tariffs. He felt like this was an opportunity for water companies and Government to shift the narrative moving forwards.</p> <p>What Peter took away from his conversation with the Secretary of State was that the Government needed to stimulate economic growth and water companies were central to that and could work together in a way that would benefit society and the environment.</p> <p>Going forward, focus areas for discussion in Peter’s view included:</p> <ul style="list-style-type: none"> - Cost of capital was going to have to shift, particularly in light of where Ofgem has landed - Calibration of some of ODIs – unsustainable that so many companies would be in penalty in year one - Additional pressure on Base business that was reducing amount of money available for capital maintenance on assets. AW needed more investment in Base assets to achieve new quality standards (e.g. lower spill frequency, lower levels of phosphates etc), which was also good for the environment. 	

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	<p>What AW hoped to see was a step in right direction during this price review but this hadn't happened in the DD (at an industry level).</p> <ul style="list-style-type: none"> - In terms of climate vulnerable mains, this was included in enhancements but it was struck out. The requirement to enhance mains had been put into Base, which reduces amount of money/flexibility to fund on above-ground assets like treatment works. At an industry level, this was one of the bigger risks, according to Peter. <p>Craig asked whether aspects of the LTDS would need to be changed if the current DD became the final determination?</p> <p>Darren said the current DD would change the long-term trajectory around climate vulnerable mains. This would mean that timings of making AW's asset base more climate resilient would be affected. There would also be challenges on bioresources. He would need to ask Alan Simpson around specifics.</p> <p>Action: Darren to request update from Alan Simpson.</p> <p>Nathan asked about the new Government's focus on housing development and how AW would respond as these developments were not reflected in the current Business Plan.</p> <p>Peter Simpson responded that AW would need to modify plans accordingly. Detailed discussions had been held so far about Cambridge in terms of water supply and new water treatment works, which was in AW's current plans. The Water Resources Management Plan (WRMP) was designed to be an adaptive plan, including putting the desalination plans more front and centre.</p> <p>Craig said the ICG was concerned about long term delivery strategy and strategic direction. What would feel right, if the ICG as a group was to make any response to the DD, would be to set in that context. The ICG has consistently talked about the need to be clear about long-term outcomes and to recognise what needs to be done in PR24 as relative building blocks towards this. If investments were not made now, the cost would be greater for customers in future. Craig would be interested to see any assessments from the company on that front in terms of water resources and environmental destinations.</p> <p>Action: AW colleagues to share assessments on water resources and environmental destinations.</p> <p>Nathan explained he was on a stakeholder group about environmental destination work for the Environment Agency. Initial analysis due to be released in next few months (January).</p> <p>Action: Nathan to share report, when available.</p>	<p>Action DR</p> <p>Action AW</p> <p>Action NR</p>
<p>3.</p>	<p><u>Role of customer challenge and ICG</u></p> <p>Craig mentioned a press release from the Department for the Environment and Rural Affairs (DEFRA) that had been released on the same day as the DDs that</p>	

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<p>mentioned customer panels to hold water companies to account. There was some confusion about what that related to.</p> <p>Peter said he had not talked specifically to the Secretary of State about this issue but agreed that a consistent mandate regarding customer challenge would be good for rebuilding trust in the sector.</p> <p>Craig said that the Central Oversight Group (COG) was keen to get a more standard mandate for ICGs and ICG Chairs were drafting a letter to the Secretary of State to raise awareness of ICGs and requesting a standard mandate. He was pleased to see that customer challenge groups were back in favour.</p> <p>Craig reported that work was ongoing with revising Terms of Reference (TORs) for the AW ICG (Vicky has created a draft version) but that work would be put on pause until there was more clarity from DEFRA/Government.</p> <p>Nathan pointed out that it would be a helpful starting point for CCW to meet with the Government following on from the CCW-commissioned report on the future of ICGs.</p> <p>Nathan also reiterated the ICG role in overseeing company performance. He asked whether information on company performance (in terms of penalties and rewards and impact of missing targets) was available in an easily understandable format in the Ofwat documentation.</p> <p>Action: Darren offered to provide information on calibration of PCs and risk into AMP8 in a digestible format.</p> <p>Gill said it would be helpful to have some consistent measures to help ICG members compare trends going forward.</p> <p>Darren would make sure to provide that information in future, as well as bringing the Service Commitment Plan back to the next meeting.</p> <p>Action: Darren to provide information about PCs, including Service Commitment Plan (targets and actions).</p> <p>Two important reports were due to come out shortly: Environmental Performance Assessment (EPA) from the Environment Agency and the company's updated Pollution Incident Reduction Plan to give more clarity to customers.</p> <p>Action: EPA and PIRP to be shared with ICG members when available.</p> <p>Victoria some of the targets would be challenging for AW and other companies but having clarity on direction of travel would be helpful for customers.</p> <p>Craig asked a question around requirement from Information Commissioner around greater openness around sewage spills.</p>	<p>Action DR</p> <p>Action DR</p> <p>Action VW and AW</p>

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<p>Peter Simpson responded that AW was on a journey to develop a storm overflow/spills map and it seemed to be going quite well, with good feedback from customers. Ultimate mission was to present as much data as possible to customers in a way that was useful for them rather than overloading people with data.</p> <p>Peter also gave an update on the court case at Peterborough Magistrates Court that was discussed at the previous meeting. Two more material cases were dismissed. But on the third case, AW was found guilty of not providing information in a timely way and was fined £25,000; EA got costs of £25,000.</p>	
<p>4. <u>Any other business</u></p> <p>Customer engagement</p> <p>Lottie Williams (PR24 Customer Insight Lead) reported – subsequent to the meeting – that it was unlikely AW would carry out any further Affordability & Acceptability (A&A) research at this stage. The company had been weighing up the value of further customer engagement, but it felt like many of the areas of push back were linked to more technical aspects of the plan and delivery. If this changed, AW would let ICG members know and explore ways the group could help shape that engagement.</p> <p>Regarding the A&A research being conducted by CCW and the Impact Agency, all necessary data samples had been submitted, and the survey materials had been reviewed to ensure accuracy. At this point, there did not appear to be any further role to play in this process.</p> <p>AOB</p> <p>Concluding the meeting, Craig congratulated AW on delivering a Business Plan that was well received by Ofwat. ICG members would reflect on whether they wanted to respond or react towards the end of August. He said any responses from members would be useful to hear, particularly in relation to LTDS.</p> <p>Craig also wished Peter Simpson a fond farewell, thanking him for being a champion of independent challenge and for attending so many ICG meetings and wishing him all the best for the future. Craig said Peter had always been a pioneer in believing that customer engagement was the right thing to do. It looked like he had been vindicated and the industry would have more clarity on this in future.</p> <p>Peter thanked the ICG for their constructive challenge and diversity of thought and for helping AW to do the best they can for the people they serve and the environment.</p> <p>Future meetings</p> <ul style="list-style-type: none"> • Tuesday, 23 July 2-4pm – Your Water, Your Say session • Wednesday, 21 August 2-4pm – virtual ICG meeting • Friday, 6 September 9-12.30pm– virtual ICG meeting TBC • Thursday, 26 September for longer face to face meeting TBC • Friday, 22 November – in person (9.30am-4pm) 	