

## Customer Challenge Group

<b>Purpose of Meeting:</b>	Customer Challenge Group planned meeting Number 6	
<b>Location:</b>	Hub	
<b>Date of Meeting:</b>	24 July 2013	
<b>Present:</b>	Chair Robin Dahlberg	
	Jacky Atkinson DWI Keith Cane, East Kent Housing (until 12:45) Karen Gibbs, CCWater David Howarth, EA Tim Hutchings Mark Kibble, Dacorum Council Jill Thomas, CCWater	
<b>Observers</b>		<b>Presenters</b> Chris Offer Patrick Campbell
<b>Apologies:</b>	Jim Barker, EA Allyson Broadhurst, Charis Grants Allan Johnson, Tendring Council Lucy Lee, BluePrint for Water Hazel Smith, GlaxoSmithKline Mark Tomkins, Heathrow Airport Ltd	
<b>Distribution:</b>	As above and web site	
<b>Originator:</b>	Liz Allen	

No	Notes of Meeting	Action
	<p><b>Introductions and apologies</b></p> <p>Actions arising from the previous meeting were discussed and the minutes from the meeting 22 May 2013 were approved and signed by the Chair. These will be published on the public web site.</p> <p>Actions arising from the minutes were all completed or were to be addressed in the meeting.</p> <p>In his report the Chair highlighted a meeting with the recently appointed Chair of Affinity Water Limited (AWL), Dr Phil Nolan. They discussed the role of the CCG and the relationship with the Board. The AWL Chair was open to suggestions from the CCG about improving customer satisfaction. The CCG Chair said the Board needed to ensure that the future plans provided a balance between customers and shareholders. Dr Nolan and two other non-executive directors are planning to attend a future CCG meeting.</p> <p>A detailed timetable of Business Plan iterations is to be agreed with the company to ensure the CCG have sufficient time and information to allow them to complete their report.</p> <p>The Chair repeated the advice and direction from Ofwat that the CCG are not expected to review the detailed financing models in the business plan. However, should the CCG have concerns in these areas, they should direct Ofwat toward areas of concern.</p>	
1	<p><b>Minute of CCG review of draft report</b></p> <p>Affinity Water employees excused themselves from the meeting during the CCG's review of the latest drafts of their report to Ofwat. The Chair drafted this part of the minute.</p> <p>The following amendments were agreed.</p>	

	<p>Throughout – correct misspelling of “Foreword”</p> <p><b>Foreword</b>          Add material on ToR          Under “Governance arrangements,” second paragraph, add sentence that the administrative arrangements did not compromise our independence.          Under “Preparation of our report,” add sentence that Affinity Water employees were absent when the CCG reviewed drafts; add sentence on version control.</p> <p><b>Executive Summary</b>          Add sections of achievement of regulatory objectives for DWI and EA          Add section on Affinity Water’s overriding aim          Add section on the impact of the acquisition and the merger          Under “Financial assumption” add gearing changed from 45% to 77%</p> <p><b>Affinity Water’s engagement with its customers</b>          Add section on CCG’s assessments</p> <p><b>Stages</b>          Change title to “Narrative”          CCG agreed the amendments as drafted          In para 3.95, Chair to ask Affinity Water to email statement advising which comments were incorporated into the final version; Chair to add to this information.</p> <p><b>Themes</b>          Change title to “Challenge Records and Affinity Water’s Responses”          Chair to create a new Challenge on metering, which will be sent for review by Karen Gibbs and Jill Thomas (both of CCWater); Affinity Water will be asked to reply in time for the September CCG meeting.</p>	
<p>2</p>	<p><b>Agenda Item 2 The Components of the Business Plan, Chris Offer, Head of Regulation</b></p> <p>A presentation covering the core components of the business plan, their contribution to the business plan and a summary of the investment proposals was given.</p> <p>This was followed by a review of the current consultation including the testing of outcome measures, language and style of the report in preparation for the production of the final business plan in December.</p> <p><b>The CCG</b></p> <ul style="list-style-type: none"> <li>• Gained an understanding of the key components of the proposed plan and the relative contributions to the overall plan</li> <li>• Were provided with a summary of the assurance process which was in place for each of the components and for the balancing of the whole business plan</li> <li>• Were updated on the business plan consultation activity</li> <li>• Reviewed the approach to and definitions of the outcome measures and the structure of the final submission</li> </ul> <p>Discussion points were raised throughout the presentations and the key points are noted below.</p> <p>The Business plan is made up from 10 core components. The finance element has a number of significant sub components. These were described and an assessment of the relative contribution, the degree of discretion that AW can apply to reflect customer feedback and the relative impact on the final bill was discussed. It was pointed out that the findings from the engagement activity will be particularly relevant to a number of components of the business</p>	

plan including capital maintenance and water resource management planning. On this basis engagement was not assessed as being a key contribution to the investment plan. It was noted that this distinction was important for presentational reasons.

Points were raised about Opex efficiency and how this was assessed. The current approach, as used by Ofwat, establishes a year on year operational efficiency target. These assumptions were used going forward and CO explained that the business plan consultation includes an on-going efficiency target of around 1.5% per year. The change in Ofwat accounting to using Totex may change this for PR14, and it is expected that the final price setting methodology will help clarify this

Capital maintenance accounts for around c60% of the total investment plan. The prioritisation of programmes will be influenced through the use of optimisation, which makes use of the cost benefit assessments which in turn have been developed from the findings of the willingness research. Points were raised about the basis of the assessment for capital maintenance and the impact on customer bills. CO explained that, in general terms, capital investment expenditure is paid for over the life of the constructed asset (through depreciation charges). This means that the impact on bills, for a single year or even a five-year period, is less than might be expected given the level of investment proposed. CO explained that in comparison to capital expenditure, operating expenditure has a high impact on customer bills. This expenditure is met by customer bills in the year in which it spent. This was shown in the business plan component assessment.

A request was made to have a clearer view of the capital maintenance programme. It was explained that AW would need to consider how best to provide this as this was dependent on the level of detail sought.

A summary assurance map was shared identifying that work packages were being peer reviewed and externally validated as necessary. Third party assurance was being supplied by a number of agencies covering specific technical aspects.

At the CCG Chairman's request the external process auditors, Atkins will provide a report for the CCG. The scope will be confirmed and is likely to include:

- Assurance that the process used to compile the business plan was sound and that the contributing information has been used appropriately – this will be consistent with any report produced for the AWL Board
- Appropriate use of customer and stakeholder responses from engagement activities and how this has affected choices
- Changes to the final business plan after the CCG have completed their report

#### **Investment proposals**

Capital maintenance and water-resource planning are the major contributors to the capital programme – 60% and 25% respectively. Levels of service associated with these activities are being tested as part of the outcomes/expectations 'having enough water' and 'minimising disruption to you and your community'.

It was noted that in overall terms capital maintenance expenditure, (combining both maintenance infrastructure and maintenance non-infrastructure), is proposed at a level consistent with that funded by Ofwat for the AMP period 2005-2010. The proposed business plan does however include large increases in water quality (Q) expenditure and water resources (SD) expenditure to meet expected future obligations.

The overall proposed capital investment programme was shown both in terms of regulatory categorisation and by outcome.

A CCG member raised the issue of pressure in response to an explanation of Enhanced Service Level (ESL) capital expenditure. [post meeting response – the number of properties

<p>affected by low pressure are recorded. This performance is not shown separately in the annual report to Ofwat. It is a component of serviceability. The current register for properties affected by low pressure is 96 properties for Affinity Water]</p> <p><b>Consultation</b> The proposed plan is out for consultation on the web site and forms the basis for the large scale deliberative forum events. All CCG members had been invited to observe events. A suggestion was made to video the final session. AW agreed to investigate as to whether videoing would be possible. [post meeting note – it was not possible to arrange at short notice]</p> <p>A range of qualitative and quantitative pieces of research are being undertaken during July and August. The findings from these will inform the final business plan.</p> <p><b>Outcome measures</b> Testing is taking place on nine outcome measures which relate to the four customer expectations/outcomes. CCG members were invited to consider the full suite of measures which sit beneath the top nine.</p> <p>Comments made by members included:</p> <ul style="list-style-type: none"> <li>• The number of water quality complaints should be reported alongside the compliance performance</li> <li>• Where are the environmental measures given that the 'environment' was not identified as a separate outcome?</li> </ul> <p>It was explained, in response to these specific comments, that the outcome measures were designed to be a high level package of measures that align closely to the outcomes. Additionally, the outcome measures should be considered alongside a range of company KPI's that may form the basis of future regulatory performance reporting.</p> <p>The overall performance measurement framework specifically includes water quality customer contacts as a supporting KPI. On the issue of the environment it was explained that within the performance framework there are a range of key environmental measures that compliment the overall outcome of 'having enough water'. CO stressed that the 'enough water' outcome was in itself a water environment outcome as it was focussed on meeting the key challenge of leaving more water in the environment. Furthermore, it was explained that the approach to the outcome measures for 'enough water' was intended to support customer communication by enabling the business to give the following message:</p> <ul style="list-style-type: none"> <li>• We (AWL) will play our part – by reducing leakage;</li> <li>• You (customers) will play your part – by reducing consumption; so that</li> <li>• Together we can improve the efficiency and use of water resources and leave more water in the environment</li> </ul> <p>Specific KPI's, addressing the other significant environmental impacts of the operations, are included to demonstrated an integrated approach.</p> <p>A request was made to see the 'long unconstrained list' of measures before the final list was agreed.</p> <p>CCG members were invited to inform AW about gaps or missing measures in the outcome measures and the supporting metrics by 5<sup>th</sup> August. Members requested seeing earlier iterations of measures [post meeting note – copies of iterations showing the development of outcome measure Affinity water and Ofwat KPI's circulated]</p> <p><b>ACTION</b> CCG members to advise Affinity Water of any gaps or omissions in the outcomes measures framework (see slide 36) by 5 August.</p>	<p>CCG 5/8/13</p>
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	<p><b>Incentive mechanisms</b>          Ofwat's approach to outcome incentives is designed to encourage companies to define levels of future performance associated with outcomes and make commitments around their delivery that could have financial and non-financial rewards and penalties.</p> <p>The concepts have been challenging for customers to understand. The 'penalty' approach is understood – i.e. if a company fails to achieve the performance it commits to then the shareholder takes the hit and customers' bills potentially go down. Customer's are much less supportive of the opposite position, i.e. that they could pay more for the company doing well.</p> <p>It was recognised that this approach was already used – as SIM, but that it was not very transparent.</p> <p>AW is committed to developing a suitable set of incentives which can be understood by customers. The intention is to 'test' these with the on-line panel. There was some discussion as to whether performance targets would be set at different levels in different communities to reflect local circumstances. Whilst it is an aspiration for AW to localise investment to meet needs, there was no expectation that different incentive /penalty arrangements would operate at community level for the AMP6 period even if performance data is available.</p> <p><b>Levels of detail</b>          Several discussions took place regarding levels of detail of information. The consultation, taking place with customers, is focusing on outcomes and services they value. In order to achieve those, AW needs to consider which combination of inputs and outputs will deliver the best balance. The detailed make up of the inputs and outputs can only be finalised once all the findings from the willingness to pay have been considered, included in the CBA and optimisation work.</p> <p>Keith Cane left the meeting at 12:45.</p>	
3	<p><b>Information paper on Water Quality</b>          No issues were arising from the information paper. A member of the Water Quality team was available for informal discussions at lunchtime and to clarify any points raised by members.</p>	
4	<p><b>Review of Challenges</b></p> <p>Updates on three challenges were discussed.</p> <p><b>1 Leakage</b>          A copy of the updated challenge had been circulated to the CCG. Points for clarification we raised. This included:          Q What was the company approach to supply pipe leakage?          A - In addition to the existing policy, where in some circumstances the repair is free of charge, further action will be considered as part of a metering programme. In addition, customers are being asked, as part of an on-line panel, whether the subsidised scheme should be extended.</p> <p>Q Clarification of use of SELL (sustainable economic level of leakage) and ELL? (Economic level of leakage).          A - ELL was the optimum level for financial efficiency in the business however, SELL was the 'societal' value. The level at which AW operate varies with location and water resource availability. This can mean that leakage activity is above the unit cost of water saved and does not pay for the cost of detecting and repairing.</p> <p>Q Are customers prepared to pay to operate below SELL?          A – Currently operating at 5-7% below ELL. Further work is being carried out to determine customer preferences in the stage two work on Willingness to Pay which is focused on water</p>	

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	<p>resource management.</p> <p><b>ACTION</b> Circulate the leakage questionnaire and update response to leakage challenge.</p> <p><b>Social Tariff</b></p> <p><b>ACTION</b> Email Alyson Broadhurst to collect additional comments.</p> <p>The CCG supported the approach that Affinity Water is taking to a Social Tariff, in particular the need to keep it simple. Some constructive and helpful observations were made.</p> <ul style="list-style-type: none"> <li>• When selecting the criteria it was suggested that this could be any means tested benefit.</li> <li>• AW need to consider how to continue to check eligibility for the tariff.</li> <li>• Suggest that it would be reasonable to expect recipient to pay fortnightly or monthly by direct debit, in part to reduce bad debts.</li> <li>• Introduce a capped volume, above which the customer should pay the normal metered rate.</li> </ul> <p><b>Willingness to Pay, Investment and Bill Acceptability</b></p> <p>The CCG confirmed that the revised scope of the challenge met their requirements and that the level of detail presented in the response was appropriate.</p> <p>The CCG highlighted that the methodology defined in this response to the challenge, along with the framework for weighting findings from research, were the two pieces of reference that they needed.</p> <p>The full response to the challenge would be drafted and circulated before the September CCG meeting.</p>	<p>PC 8/13</p> <p>LA 8/13</p>
5	<p><b>AOB</b> The timetable for the different editions of the Business Plan to be confirmed Additional performance information is being requested from AW in order to place some context around the CCG report. Scope of audit report from Atkins to be confirmed.</p>	

Minutes of 6<sup>th</sup> CCG meeting held on 24 July 2013

Approved by



Date

18 September 2013