

**Minutes of the CCG
held on
18 July 2018 at 10:00 am
at
AWL, Tamblin Way, Hatfield, AL10 9EZ**

CCG Member Attendees

Teresa Perchard	(TP)	Chair
Gill Taylor	(GT)	<i>Groundwork East</i>
Jon Sellars	(JS)	<i>Environment Agency</i>
Tina Barnard	(TB)	<i>Watford Community Housing Trust</i>
Karen Gibbs	(KG)	<i>Consumer Council for Water</i>
Jonathan Sellars	(JS)	<i>Environment Agency</i>

Affinity Water Attendees

Siân Woods	(SW)	<i>Assistant Company Secretary</i>
Chris Offer	(CO)	<i>Director of Regulation</i>
Anne Scutt-Webber	(ASW)	<i>CCG Manager</i>
Lauren Schogger	(LS)	<i>Programme Director (Change)</i>
Ed Mallam	(EM)*	<i>Contractor</i>
Tim Charlesworth	(TCh)**	<i>Head of Economic Regulation</i>
Amanda Reynolds	(AR)*	<i>Customer Relations Director (Household)</i>
Mike Pocock	(MP)***	<i>Interim Head of Asset Strategy</i>
Marie Whaley	(MW)***	<i>Interim Head of Asset Strategy</i>
Mumin Islam	(MI)***	<i>Water Resources Planning Manager</i>
Tony Cocker	(TC)	<i>Affinity Water Limited Chair</i>
Ben Marshall	(BM)**	<i>Ipsos Mori</i>

Apologies

Keith Cane
Richard Haynes
Caroline Warner

Key

Item 3.2	*
Item 3.3, 3.4	**
Item 3.5	***

Agenda Item	Minutes	Action points	Owner
1.	HOUSEKEEPING AND GOVERNANCE		
1.1	Apologies had been received from Richard Haynes, Caroline Warner and Keith Cane		
1.2	.No members declared any conflicts of interest with any items on the agenda for this meeting.		
	Minutes of 13 June 2018: the minutes were approved as a correct record of the meeting and signed by the Chair. .	AWL to publish minutes of 13 June on website	ASW
	Matters Arising: there were no matters arising		

2. **AFFINITY WATER LIMITED REPORT**

Tony Cocker was welcomed to the meeting. TC. apologised on behalf of the Board for the late changes in the process of finalizing the PR19 business plan, resulting in more work for everyone at the latter stage of the process. .The Board recognises the contribution made by the CCG to help develop the plan, that it was a demanding process and thanked all CCG members for their input and support.

TC highlighted that providing excellent customer service every day, delivering excellent and cost-effective operations are the key focus of the Board as well as the environment and legitimacy of this sector delivered within a framework of transparency and very high standards of corporate governance.

In relation to the WRMP TC noted that the regulators have requested a higher level of abstraction reductions which might necessitate investment of a nature and timing not envisaged in the company's draft WRMP and BP consultations in Spring 2018. TC confirmed that the Company intended to conduct additional customer engagement as a result. The CCG had expressed some concerns about the approach to this proposed engagement and further details would be shared with the CCG before the customer engagement was undertaken.

A number of questions from CCG members had been circulated and in the time available TC sought to address a few of those as follows:

Question 1: Could you tell us what specifically Affinity is doing to address the issues raised by Ofwat in its 'Putting the Sector back into balance' initiative? What engagement with customers and stakeholders has taken or is taking place on the issues relating to corporate governance, financing, risk and reward? Are you satisfied that the company has done/is doing the right thing by customers in this area? Does the company have specific plans to enhance its reporting in this area?

TC explained the Board was looking to respond to Ofwat's initiative by simplifying the company structure, defining a long-term incentive plan and revising and clarifying our dividend policy, so that customers and performance are at the heart of the business plan. There are lot of stress tests that already happen within financial resilience, and the company intended to ensure it did the full suite in line with Ofwat's expectations.

TC confirmed the Board is made up of a mix of non-execs and independent non-executive directors with the latter being the single largest group.

TP observed that customers views had not been sought on issues, including the 'sharing mechanism' the company was proposing.

The CCG had also suggested the company included more information about financial issues in the annual report for customers, but so far had not seen any specific proposals to improve transparency. KG suggested AWL needed a more proactive response to media challenges. A discussion took place as to how to be clear and engaging on these issues.

Question 2: Are you content that you have a sufficient level of customer acceptability for your plans this time around? How would you explain that the plan you have selected to go forward with is, basically, the plan which had the least acceptability to customers – before the 'additional resilience' proposals? If customers are genuinely driving the plan how have you arrived at some of the decisions you have to go for the most expensive plan? Will this be clear? Why do you think acceptability levels have declined since PR14?

TC considered that there was sufficient customer acceptance of all the draft plans the company had consulted about in Spring 2018, although there were differences between plans J, K, L in terms of service levels and price. He considered the level of customer acceptability was down compared to PR14, and that this was a general trend across the country due to external factors.

KG observed that the Company needs to raise more awareness of what it delivers and provides. TC agreed that the understanding of what AWL does and how we do it is currently very limited and that the company needed to improve engagement and understanding, which we will have to do with the introduction of CMEX, achieving significant reductions in per capita consumption (PCC).

Last year the number of customers who experienced unplanned interruptions of supply more than 12 hours was 24 times greater than it would have been if the company had met its business plan target, and the company did not meet its target to notify customers of planned interruptions to supply. How confident are you that the problems with the company's performance on unplanned interruptions to supply lasting more than 12 hours has a) been rectified and b) customers will see better performance and more consistent performance in the next plan?.

TC reassured the CCG that the Board had spent a lot of time looking at this issue, and the business has made a number of changes which had improved performance over the last 8 months. Increased flexibility in working practices had been successful and more changes would be taking place across the next AMP.

The Chair thanked TC for attending the meeting. It was hoped that he would be able to attend a future meeting of the Group in 2018/19 after the Business Plan had been submitted to Ofwat.

3. PR19

3.1 Road Map to 3 September 2018

The structure of the Business Plan and the appendices were presented. LS clarified that the main narrative cannot be longer than 200 pages so it will be more of an executive overview with supporting details provided in the appendices.

The first draft of the main narrative would be sent to the Board on Monday 23rd July. TP reminded the company that the core task for the CCG is **assurance** and noted that it might not be possible to provide complete assurance of a plan where evidence and material is provided in appendices which are not available until late in August. There was a quantity of information that had already be seen by the members in various presentations and briefings, but the company might decide to change important details as the plan is finalized so the assurance activity would need to track changes.

It was noted that by Tuesday 31 July the business plan chapters would be issued to the CCG The BP drafts would be version controlled. This version would have been reviewed internally and by the Board. PwC would be working on the draft before the end of July too. The 31 July version was expected to be the main draft that most CCG members would be able to review before also reviewing and commenting on the CCG report.

Comments back ALL prior to the Board sign off on 20 August 2018.

The PR19 protocol agreed last year committed the CCG to provide AWL with a copy of the CCG report before it is submitted to Ofwat (at least 5 days' notice). The CCG would endeavor to meet this commitment.

TP asked if the Board would like to review the CCG report. CO will confirm after the 25 July Board meeting.

Confirm CO

3.2 Triangulation Report to end of Phase 2

The Triangulation report to the end of Phase 2 was presented to provide assurance to CCG members of the process the company had undertaken, which CCW had commented on.

EM provided assurance that the full range of customer evidence had been used in the triangulation, from pre SDS work, phase 0 - 2 engagement and operational data. A further triangulation session would be held in August 2018 to review the results of the phase 3 engagement.

A number of points were raised for the company to consider:

TP observed that there are elements of the proposed plan that were not or not strongly supported by customers or where there were conflicting views between, say, stakeholders and customers. Would it it be clear in the Business Plan and the associated

triangulation report where this was the case and what the reasons for the company's decision was?

TP noted that the operational data presented back in March has been used as a clear input. Evidence has been seen that triangulation has taken place, however, we have yet to see how you will present the narrative to answer the question "has the customer driven the plan".

DC asked how many customers found none of the plans acceptable. BM confirmed that this was 13%. DC also noted the similarity of the plans. CO responded that this was due to the plan being driven by the WRMP and the high level of requirements mandated by Ofwat. There was a lot more discretion at PR14.

3.3 PC and Bill Level Briefing

The company presented a briefing on its proposals for bill levels in the PR19 business plan showing how its proposals related to the Spring 2018 consultation with customers and additional elements the company was proposing to add to the plan and bills for so-called 'additional resilience'. The CCG members raised a number of queries about the company's judgement on the materiality of proposed additions to customer bills and what level of materiality justified customer engagement about **specific** elements – for example significant customer engagement had taken place on the proposed bill additions for social tariffs but not for other items which were comprised in the 'additional resilience' proposals.

TCh

The CCG asked the company to provide further information on the average bills for measured and unmeasured customers and information to show what proportion of customers paid above or below the average bill. It was agreed to provide this using 2017/18 figures.

Challenge: the CCG challenged the company to provide a breakdown of the bill to be used in the phase 3 acceptability testing and show how this has changed to the figure used in the presentation of £172.40.

CO

3.4 Performance Commitment targets and level of stretch

An additional paper was circulated to the CCG prior to the meeting entitled "Performance Targets and Level of Stretch". It was agreed that as members had not been able to review the content, they would forward any comments following the meeting. Members found the format used of setting out each PC against the assessment framework criteria helpful.

CO stated that at PR14 the company's suite of Performance Commitments was considered [by Ofwat] to have a good balance in terms of stretch.

The report used three methods of assessing stretch for each Performance Commitment (PC):

- Historical performance
- Comparative performance
- Expert opinion

TP noted that the outage and burst commitments were asset health measures. It was noted that some of the targets were maintaining steady state and therefore did not prima facie seem to be challenging or stretching. CO responded that the company considered that due to the increasingly difficult operational environment, assets would have to work harder in the future and therefore this represented a tougher – stretching - target.

TP observed that there was no baseline for new PCs and therefore it was not possible for the CCG to give a view on whether the proposed target was stretching.

CO clarified that the research with customers on the acceptability of AWLs ODI proposals would present an overall package. TP challenged the company that Ofwat's expectation was that this was done at individual PC level and CCG's had been requested to provide a view on this.

Challenge: the CCG challenged the stretch in the targets for the leakage and PCC target and requested the company to provide more detail on these. The information that the meter installation programme was expected to result in an 18% reduction in PCC raised doubts that the level of stretch for this PC and the company was invited to provide further proof to the CCG that the proposals were indeed stretching, as distinct from being a windfall from the metering programme.

CO

3.5 Update on dWRMP and impact on Business Plan

MP presented the revised plan and the timetable, with proposal to consult further in Spring 2019, and submit a final WRMP in Autumn 2019. Discussions were being held with Defra to agree this schedule, however, the Business Plan submission will reflect the revised figures where possible. It was confirmed that the sustainability reduction figure of 39Mld is a license figure and that 33Mld is the deployable output.

The company considered that its WRMP alternative plan was the plan preferred by both customers and stakeholders. The issue of the differing timetable between the WRMP and the BP was discussed. The AWL board had agreed that the processes will follow two separate strands.

MP explained that discussions are ongoing with the EA regarding the sustainability reductions in the East area and further studies are required. The reduction is likely to be 2.5Mld, anything larger

was not technically feasible. This had to be achieved through the current BP proposal (no additional funding available). The desalination plant had been removed from the PR19 business plan. Ofwat was aware of the ongoing dialogue.

MP confirmed that the River restoration programme projects had been agreed with the EA.

A proposal had been raised to [TP1] develop the WRSE into an independent regional co-ordinator by April 2020. TP remarked that the WRSE was currently a data sharing platform but there was currently no shared plan, although many people assumed WRSE had produced a shared plan for the region. This suggestion seemed sensible.

AWL explained that they were working closely with Thames Water on the development and planning of the reservoir project and other water transfer schemes. This would be brought together in the revised WRMP. There was an expectation from Ofwat that CCGs will continue to challenge the engagement plans around the WRMP. The latest position on the WRMP will be provided in the Business Plan chapter.

The date for the regional reservoir in collaboration with Thames Water had been brought forward to 2037. It was confirmed that the expenditure in AMP7 which would increase customer bills would be for investigations prior to the development.

4. GOVERNANCE AND DEVELOPMENT

4.1 Challenge Log

It was agreed to that the Company had provided sufficient response to Items 22,25,26,27 of the Challenge Log and that these items could be closed.

ASW to update the log on the website as at end of July

ASW

Following review of the documents received and discussion held at the meeting, TP proposed additional challenges to be added to the log. ASW confirmed that the challenge log is reviewed and followed up internally.

5. MEMBERS' SESSION

Members reviewed the issues discussed and presented at the meeting and considered the timetable for producing and agreeing their own report to Ofwat by 3 September. The Chair had circulated a draft of section 3 of the CCG report (containing draft assessments).

Members considered the discussion with the Chairman of the company (Tony Cocker) had been useful. The Chair agreed to brief

all members on the key messages from the discussion with the Chair and the other items covering the company's remaining timetable to complete their business plan, including the proposed further customer engagement and triangulation of evidence to take place in August and the briefing on proposed bill levels.

There had not been time to consider in any detail the company's long report on the proposed performance commitments to come to a view on the company's evidence that they are stretching and have been developed in the way Ofwat expects. This would need to be done by way of correspondence through August.

The Chair agreed to follow up the meeting by writing to the company summarising where things had reached from the CCG perspective and where the difficult areas seemed to be. She would also explain formally the approach to finalizing the CCG report agreed by members.

The CCG report

Members discussed the draft of section 3 that had been circulated.

Members agreed to:

- Submit a report to Ofwat by 3 September even though the CCG would not realistically have been able to review the final plan – or challenge it – **before** finalizing its report and opinions. This was because the final plan will only be available very late in August.
- Use as our primary evidence base for assurance and decisions the version of the Business Plan (200 pages max) and annexes (unlimited length) the company will make available to us **at the end of July 2018** – it having been through the board meeting on 25 July. We will not commit to assure new material that is presented and included in the Business Plan after this point – the introduction to our report will acknowledge we are aware of further research/changes that we have not/will not have seen.

The Chair reported she had discussed this approach with Ofwat who had undertaken to advise if they will require an updated CCG report post BP submission, and if so when and in what

format. The Chair had also briefed Price Waterhouse Coopers on this intention and would brief the company. A section of the CCG report would deal with processes followed and that would include an account of the slippage since September, and December 2017 which has frustrated the CCG in completing its assurance role sooner.

Next steps agreed were:

- the CCG report will be circulated in full in draft twice between 31 July and 31 August for review and comment by members as follows:
- Version 1.0 will be provided on **31 July for comment by 10 August**.
- Version 2.0 will be provided on **14 August for comment by 29 August**, unless the nature and volume of comments on Version 1.0 is so substantial that 14 August is not possible – the Chair will update members on this as August progresses.
- Version 2.0 will be given to the company to undertake any fact check as per the protocol (which asks for 5 days notice).

To enable production of a 31 July draft the Chair will receive the BP in its 'pre-board' state.

In addition to publishing the 31 July version of their Business Plan to the CCG Sharepoint site AWL would be asked to provide all members who wish to have a hard copy with a hard copy of the main plan document (200 pages) and any annexes on request.

The CCG report sections and appendices will also be published to a DropBox set of shared folders for any members who wish to access, view and comment on documents online.

A check would be undertaken on members' availability to look at documents in August to clarify the availability chart we have.

Members were asked to email any queries for the company on the material presented at this meeting or in drafts of the Business Plan

when circulated via Anne Scutt-Webber so that a log could be kept of business plan queries raised by CCG members.

6. CLOSING

6.1 Date of next meeting: TBC

6.2 AOB: None

I confirm that the Minutes of 18 July 2018 are a true and accurate record of the business discussed and agreed.



Signature.....

Date 22nd October 2018

Chair