

Customer Challenge Group

Purpose of Meeting:	Customer Challenge Group planned meeting Number 7	
Location:	Hub	
Date of Meeting:	18 September 2013	
Present:	Chair Robin Dahlberg Jacky Atkinson DWI Allyson Broadhurst, Charis Grants Keith Cane, East Kent Housing (by video link from 13:30) Karen Gibbs, CCWater David Howarth, EA Allan Johnson, Harlow Council Lucy Lee, BluePrint for Water Hazel Smith, GlaxoSmithKline Jill Thomas, CCWater Dr Phil Nolan, Executive Chairman, AWL (morning) Kenton Bradbury, Shareholder Director, AWL (morning) Fiona Woolf, Independent Director, AWL (morning)	
Observers		Presenters Christopher Offer
Apologies:	Jim Barker, EA Tim Hutchings Mark Kibble, Dacorum Council Mark Tomkins, Heathrow Airport Ltd	
Distribution:	As above and web site	
Originator:	Liz Allen	

No	Notes of Meeting	Action
	<p>Introductions and apologies The Chair welcomed the Affinity Water Limited Directors (AWL) to the meeting. The AWL Chair thanked the CCG for the opportunity to meet with them and looked forward to having an open discussion.</p> <p>Chairs report In addition to items summarised, the Chair commented on discussions at the last CCG Chairs meeting when concerns were raised about the potential implications of the Thames Water Interim Determination of K (IDoK) on total bill acceptability research. The timing of the response from Ofwat to the IDoK, will not allow for further testing to be completed before submission of Business Plans. No other water companies have applied for an IDoK and the impression the Chair gained was that Ofwat are likely to push back on the application.</p> <p>The chair proposed changes to the running order in the agenda to maximise the time allocated to discussions with the Directors.</p> <p>Regulator comments David Howarth, Environment Agency. The EA have started a round of meetings with all water companies to review business plans. A standard set of questions have been sent to companies in advance. The EA are seeking to gain replies to assure the Minister that all companies are meeting their obligations. The meeting with Affinity Water is taking place on 19 September.</p> <p>This nationally consistent process will be completed in October after which Paul Leinster will</p>	

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write to the Minister, and the EA will write back to companies to share their views.

The EA will write to each of the CCG Chairs at the end of November with a statement which can be included in CCG reports.

DH reported that Affinity had responded to requests for information on time and as a result the Agency had identified the issues they wish to explore. These included:

- The company's approach to emergency drought orders of 1:50 years, whereas most of the industry is working to 1:200 years or never
- Levels of investigation for some water resource options to provide assurance of compliance with Water Framework Directive requirements of no deterioration
- Definitions of emergencies when the company can retain licence to abstract from sources subject to sustainability reductions

PN (Chair AWL) responded that the company were committed to meeting all statutory obligations and that the board were aware of the issues raised. The investment needed to meet a 1:200 year or 1:50 emergency drought order has significant financial implications for the company operating in a water stressed area.

DH confirmed that there was no Government or political acceptance for standpipes.

All issues raised by the EA will be addressed in the formal statement of response to the Secretary of State.

Regulator comment

Jackie Atkinson, Drinking Water Inspectorate

The DWI had received all the proposals which were now under review. They had raised a number of issues, which were being dealt with by the business.

Some issues, such as Metaldehyde, were common across companies in the South East and DWI is working with Water UK (Meeting 11 October) to review benefits of catchment management.

Issues DWI are progressing with Affinity Water include:

- Clarification of benefits to Affinity Water customer to the proposal for additional activity at Ardleigh reservoir to manage/mitigate by-products from disinfection when a majority of the water treated is supplied to Anglian Water.
- Greater visibility of the activity to maintain assets to assure continual improvement to Water Quality

JA also confirmed that the DWI regard the maintenance of base assets as a key component in ensuring compliance with drinking water standards.

Assessment of proposals, by DWI, is undertaken by 3 staff to ensure consistency. DWI will provide formal responses by 31 October.

Regulator comment

Karen Gibbs and Jill Thomas, CCWater

CCWater have developed some high level principles for undertaking acceptability testing. In addition they commissioned some focus group research to gain an understanding of what customers would spontaneously feel was a minimum level of acceptance of proposed business plans, as a % of people asked.

The research indicated that customers felt comfortable with a 70 – 75% acceptability.

CCWater have a role in responding to dWRMP and have fed back comments to Affinity Water and have not raised any new issues.

CCWater do not intend to issue a specific response to the Business Plan, they will feed their comments through the CCG.

Issues of concern include:

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	<ul style="list-style-type: none"> • Size of increase in sewerage service bills for Thames Water customers • Made reference to recent Ofwat speech by Sonia Brown on the potential downward pressures that exist currently going into this price review. • Made reference to speech from Sonia Brown signalled that 4.1% might be an appropriate cost of capital. <p>The AWL Board members were asked if they were aware of this comments, and the AWL Chair said they were.</p>	
1	<p>Impact of Customer Feedback on the Business Plan, Christopher Offer, Head of Regulation</p> <p>The presentation started by summarising the stated preference, <i>willingness to pay</i>, research to remind members of the process which had been presented at earlier meetings. The purpose of the research is to generate monetary values for the benefit (dis-benefit) customers place on changes in services. The statistically robust data is then used within cost benefit assessments to support optimisation assessment used to determine investment options. Questions were taken throughout the presentation to clarify and expand on issues, These are summarised at the end of this section.</p> <p>The key findings showed that customers:</p> <ul style="list-style-type: none"> • Do not want to see service deterioration, even if that means lower bills • Value no deterioration in service, more than an improvement in service • Value improvement in tackling leakage, property flooding from bursts and issuing of boil notices the most • Identify hardness as an issue; however, customers do not value it in the same way as other water quality attributes. This means we cannot be confident that there is positive value to reducing hardness.' <p>The package of services that customers' value is formally reviewed and validated, as it is accepted that customers value individual components differently to the sum of the parts. The 'package valuations' can be used to constrain the scale of the service changes and cross referenced to the results from the acceptability testing.</p> <p>The <i>Bill Acceptability</i> research was designed to test acceptability of 3 different versions of the plan. 1200 surveys were conducted with defined quotas of domestic and non-domestic customers. The output was weighted to reflect the customer base.</p> <p>The results recorded 91% acceptability for the proposed plan and for the slower plan - showing a high level of acceptance for a plan that would increase bills (in real terms) by around £3.70 or less by the end of the five years.</p> <p>Key findings included:</p> <ul style="list-style-type: none"> • Support to improve leakage rates • Maintain water quality standards • There is no statistical difference between the slower pace plan and proposed plan for household customers. • Acceptability is not driven by SEG, gender or age • A modest annual increase is enough to have a notable impact on acceptability <p>Additional quantitative research from the on-line panel provided findings that were consistent and included:</p> <ul style="list-style-type: none"> • Leakage – over 80% concerned about water wasted through leakage • Metering – 50:50 split on getting a meter fitted. • Metering seen as 'fairest way to pay' by 70% of non-metred customers • Environment – 88% agreed with reducing water taken to leave more in the 	

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environment

- Water Quality – hardness an issue but majority agreed they rarely think about it or only notice when they see limescale

Headline findings from qualitative research, such as large scale deliberative forums reinforced the messages. The large scale Lets Talk water campaign received 3600 responses; the results were consistent with all other work.

By taking into account the customer feedback AWL presented the likely options for change to the Proposed Plan that was consulted upon. AWL confirmed that it would be recommending to its Board, subject to the finalisation of the Water Resources Management Plan (WRMP) that it should:

- Adopt a slower pace of investment for “Minimise disruption” outcome to keep service levels as they are;
- Have a slower pace of investment in terms of the metering programme so that the number of water resource zones metered in AMP6 is reduced pushing more into AMP7. This would increase the risk of not achieving water efficiency gains to balance supply and demand in the short term; and so
- Consider placing greater incentives on achieving or exceeding proposed leakage reductions, where this is supported by customers, opposed to increasing the level of performance commitment;
- Looking at how to advise our customers on addressing hard water; and
- Ensuring Ofwat is aware of our customer feedback on sewerage charges for its review of Thames Water business plan

Summary of comments and clarifications from questions raised:

- Colleagues who had attended the engagement events agreed that the findings were consistent with what they had heard and seen
- Customer experience of disruption was low which is reflected in the low value placed on service improvements
- Customers will raise water hardness as an issue, however, compared to other quality attributes it is not valued as highly
- Bill acceptability research and the business plan consultation activity have used figures excluding inflation. Comments were made to ensure customers were aware that the unknown future RPI would be added to any increase
- Customers value water supply and sewerage services equally
- Sewerage charges are determined through a separate mechanism, over which Affinity Water has no influence and there is no balancing across service providers. The CCG wanted further assurance that Affinity Water were mindful of the potential increases and that the impact was considered in future plans. AWL confirmed it would need to demonstrate in the Business Plan that it had given consideration to the implications of the sewerage bill on water customers.
- A suggestion was raised to test whether customers would prefer to have separate bills for the separate services
- Note that non-domestic customers had a higher preference for the slow plan
- Request for the segmentation and quotas of non-domestic customers surveyed
- Key challenge to ensure that there is enough water in the central region, for customers and the environment and the need to take an integrated approach – joining up services for metering with social tariffs and education to reducing demand

	<p>The CCG accepted the conclusions drawn from the research and noted the proposals that would be taken to the Board. The company made a commitment to present a full report, summarising all the engagement reports that the CCG have received, to show how findings have been developed into themes to influence the business plan.</p>	
<p>2</p>	<p>Discussion with Directors</p> <p>Questions from the CCG had been circulated to the Board in advance a wide ranging discussion took place. A summary of points is given below.</p> <p>Q. How will the Board balance the competing issues of customers, regulators and shareholders?</p> <p>A. Given the need to ensure compliance with all regulatory requirements the Board seeks to collect views, produce plans, consider the findings from research and outputs from cost benefit model to make decisions that achieve a balance given the limited discretion available. This includes consideration of risk, particularly longer term risk with availability of water. The 25 year Water Resource Management Plan shows that the lower cost demand side measures may not be sufficient to continue to meet demand, based on predicted population growth and increasingly unpredictable weather patterns. By working with the other water companies, in the South East of England, longer term regional options can be being considered when balancing potential short term savings, against potential future financial burdens.</p> <p>A specific area for consideration by the Board is the speed of the metering programme. Metering helps to manage demand, manage leakage and enable customers to have more control on their bills. We know, from our research, that a significant majority of customers accept that metering is the fairest way to pay for the water used, however, a proportion is still reluctant to switch to a metered charge. The experiences gained through the metering programme in the southeast region, and elsewhere in the industry, will be used to shape the delivery programme to increase successes and allay concerns. In addition, there is an option to slow the pace of metering and spread the learning and costs over a longer period.</p> <p>Q. Why should customers support the proposed plan instead of the low cost, slow investment plan?</p> <p>A. The proposed plan and the slower plan are equally acceptable to household customers: business customers had a slight preference for the slower plan. The Board will need to take account of the views of the other stakeholders be they regulators, shareholders and or the environment, when making the final decision about what is best for the business in the long run. Reference was made to and exchange of views between AWL and CCG Chair on the same question. The correspondence was made available to all CCG members prior to the meeting.</p> <p>The board is mindful of the wider economic situation and aware that average incomes may not have kept pace with inflation. Similarly direct costs to the business including materials, chemicals and energy have increased and all businesses are facing real upward cost pressure.</p> <p>Q. Affordability for low income households under universal metering. Transitional arrangements.</p> <p>A. Affordability is an issue for all low income households, including those already on a metered charge. We are developing a social tariff which, along with a comprehensive education and awareness programme, will be made available to all customers moving to a metered charges. We seek to 'pull' customers toward metering by showing the benefits and provide advice on water efficiency to minimise the number of customers that are compulsorily switched to a metered charge.</p> <p>Further research is planned to test acceptability of the transitional arrangements. CCWater have offered support.</p>	

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Q. Debt – efforts to control the impact on households who pay their bills.

A. We are developing our debt management systems to minimise overall debt levels that end up impacting on the bills of all customers.

We are taking the long term view, seeking to implement the least cost, demand side management options first. Through carefully monitoring and measuring we will be able to see whether we are achieving the savings before committing to expensive investment in supply side measures.

Q. How does the maintenance programme ensure continual improvement in water quality?

A. The capital maintenance programme will always include measures to continually improve water quality. This type of investment delivers multiple benefits, not just improved reliability. The use of outcome measures and indicators of performance will allow us make this more visible.

The EA raised some points – which had been covered in earlier discussions.

The Chair of the CCG ask the Board members whether they felt there were any points the CCG should be addressing?

A. The AWL Board members felt that there was a common understanding with the CCG of the key issues and that the CCG had not raised any matters they were not aware of. One area of agreement was about the opportunity to increase customer's awareness and understanding of the challenges faced.

The AWL Board Chair responded by asking the CCG whether they felt they had enough access to and debate with the company.

Observations made by members included:

CCWater

- Very good access to the company
- The CCG for Affinity Water started later than other companies, which meant research and engagement work had to start very quickly, and it would have better to have been more involved in developing the strategy
- Important to be involved in the closing stages to assure that the interpretation of findings is accurate

Chair CCG

- Can see a process of cultural change over the last 18 months and that there is an on-going challenge for the AWL Board to continue to distil the issues down
- Company should consider how to continue the dialogue with customers and should consider checking with focus groups or panels before implementing changes affecting the service
- From attendance at various events it was seen that customers value AWL as a local company employing local people who were knowledgeable about the area
- In all forums customers have been universally positive about the company and that the challenge is to continue to maintain that trust and legitimacy

Allan Johnson

- Suggested not putting too much weight on customer feedback on some issues and this was based on perception, not an actual reality

The AWL Directors left the meeting.

<p>3</p>	<p>Executive Summary of CCG Challenge Response on Investment Options, Willingness to pay and Acceptability of Proposed Bill Levels, Christopher Offer, Head of Regulation.</p> <p>The presentation summarised the response to the Challenge. CCG members had been provided with the full response and supporting appendices. The presentation and discussion ensured that members understood:</p> <ul style="list-style-type: none"> • How Affinity Water have consulted with customers • How Affinity Water have determined their preferences and acceptability • How Affinity Water have assessed acceptability in light of the overall sewerage bill. <p>Earlier discussions at the meeting provided the opportunity to review the findings and members accepted that the process was complete and robust and the use of findings was appropriate.</p> <p>The challenge response was accepted.</p> <p>Further Bill Acceptability research is being planned and the members requested that the scope should include reference to:</p> <ul style="list-style-type: none"> • Phasing of any increases over the 5 year period • The additional increase from RPI • Total bill impact, where sewerage charges are considered <p>It was agreed that the findings from that research would form an additional appendix to the Challenge and would be reported in the summary report on all engagement activity.</p>	
<p>4</p>	<p>Minutes from previous meeting Minutes of the meeting 24 July were accepted. All actions identified had been completed.</p>	
<p>5</p>	<p>CCG report review Minute provided by Chair.</p> <p>The AWL employees left the meeting.</p> <p>The Chair advised that Tim Hutchings had provided comments by email as he was unable to attend the meeting due to illness.</p> <p>The statutory bodies said that would provide brief text summarizing their views to be incorporated into the Executive Summary. Where they provided a separate letter to the CCG, this could be included as an appendix to the report.</p> <p>The CCG noted that a copywriter had been engaged to improve the quality of the report. They noted that the copywriter would not modify any of the opinions expressed by the CCG. The CCG considered whether the report should be shortened, and there was a strong view that the Report should not be shortened. One colleague said that the report seemed very similar to a majority of other CCG draft reports that she had sight of. The CCG resolved to continue with the current approach to writing the report.</p> <p>The CCG agreed the proposed changes to the draft CCG Report, except where noted below.</p> <p>The CCG decided that <i>Chapter 2 - Affinity Water's engagement with its customers</i> needed to be rewritten. The CCG decided it was not appropriate to include tables extracted from the various engagement reports, in part because the tables would then be out of context, in part because it for AWL (and not the CCG) to make the case for the Business Plan. The CCG should refer to the engagement reports where they provided evidence of concerns the CCG wished to highlight. The CCG agreed a number of conclusions that they would like to be incorporated into the chapter. On a point of detail, the CCG noted that paragraph 2.27 was internally inconsistent. It was agreed that the Chair would rewrite the chapter and circulate a</p>	

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	<p>new draft by 25 September. CCG members could provide additional comments by email.</p> <p>In <i>Chapter 4 – Themes</i> the CCG agreed the approach used to write the section on “Debt.” The CCG asked the Chair to incorporate agreed conclusions at the end of the section.</p> <p>The CCG agreed that they would not like to see any interim drafts before the papers are distributed for next CCG meeting (except for chapter 2, as noted above).</p> <p>The Chair thanked the CCG members for their contributions and their continuing efforts.</p>	

Minutes of 7th CCG meeting held on 18 September 2013

Approved by Robin Dooling

Date 4 November 2013