

Customer Challenge Group

Purpose of Meeting:	Customer Challenge Group planned meeting Number 8	
Location:	Hub	
Date of Meeting:	4 November 2013	
	Chair Robin Dahlberg	
Present:	Jim Barker, EA Keith Cane, East Kent Housing (by video link) Karen Gibbs, CCWater Tim Hutchings Allan Johnson, Harlow Council Hazel Smith, GlaxoSmithKline Jill Thomas, CCWater	
Observers	Richard Moriarty, Affinity Water (morning only)	Presenters Christopher Offer
Apologies:	Jacky Atkinson DWI Allyson Broadhurst, Charis Grants John Fox, Tendring Council Mark Kibble, Dacorum Council Lucy Lee, Blueprint for Water Mark Tomkins, Heathrow Airport Ltd Damian Williams, Tendring Council	
Distribution:	As above and web site	
Originator:	Liz Allen	

No	Notes of Meeting	Action
1	<p>Introductions and apologies The Chair welcomed Richard Moriarty, newly appoint Regulations Director, Affinity Water to the meeting. The Chair advised of developments with membership including: Lucy Lee would be leaving WWF shortly and is seeking a replacement so that Blueprint for Water can maintain their representation on the CCG, post report submission. John Fox and Damian Williams have joined the CCG and will represent Tendring Council. Allan Johnson will step down after CCG report submission.</p> <p>Amendments to minutes The Chair took amendments to the minutes from 18 September 2013. These were revised, approved and signed by the end of the meeting.</p> <p>Chairs report In addition to points raised in his report the Chair updated the group on his meeting with the Board 23 October. There were 4 concerns raised, these were: the cost of capital, proposed price increase above inflation, the qualification criteria for the social tariff and issues raised by the Environment Agency.</p> <p>The Chair had a long conversation with the Board covering each point.</p> <p>Subsequent discussions with Affinity Water on social tariff have addressed concerns. CCWater advised that they had been consulted and the Chair advised that Allyson, from Charis Grants was supportive. It was noted that Affinity Water was very keen to launch the service as soon as possible.</p>	

Customer Challenge Group

	<p>The CCG recommended that Affinity Water should consider undertaking a pilot launch of the social tariff as an opportunity test the administration and management systems.</p> <p>Regulator comments Jacky Atkinson, DWI, has sent a letter to Affinity Water and the CCG commenting on compliance for inclusion in the CCG report. All concerns had been addressed and there were no outstanding matters.</p> <p>Regulator comment Jim Barker, EA, has sent a draft letter of compliance to Affinity Water and CCG raising some concerns. Further meetings have been planned to discuss matters prior to a final letter being issued. The EA will draft a paragraph for inclusion in the CCG report and the compliance letter being added to the appendix.</p> <p>Regulator comment CCWater confirmed that they will not be sending a separate letter.</p>	
2	<p>Final Business Plan, presentation by Chris Offer, Head of Regulation</p> <p>The presentation covered a summary of the Outcome Delivery Incentive (ODI) framework including the proposed rewards and penalties, a summary of customer feedback and how the final plan had been developed to take into account this feedback, a summary of investment proposals, Bill Acceptability testing phase 2 and projected bill impacts for the final plan.</p> <p>The outcome measures framework includes 4 customer outcomes and 13 performance measures, 2 of which are mandatory Ofwat measures (SIM and AIM, although the AIM assessment mechanism is to be confirmed and SIM is currently under consultation). The performance commitments in the final business plan reflect customer preferences with a majority of the improvement targets linked to the outcome of having enough water.</p> <p>Discussions covered the evolution of the changes, from consultation to current position, and comments were raised about the leakage reduction and the revised PCC measure.</p> <p>Q What does a 14% reduction in leakage relate to as a % of total leakage? Q How does the reduction of PCC from a proposed 7% to 2% reflect customer priorities? Q A strong message coming from the research (especially the on-line panels and the Lets Talk Water campaign) that customers feel that the standard time of five days to fix a visible leak is too long. Is Affinity water going to change this standard?</p> <p>These issues will be clarified for the CCG.</p> <p>Responses were given to comments about housing growth, confirming that future housing growth and development had been taken into account as part of the water resource planning and was therefore built into the final business plan and investment proposals.</p> <p>Design and use of ODI's Ofwat defined a set of criteria to be taken into account when designing ODI's. Affinity Water has developed their framework, in conjunction with Frontier Economics, to meet these criteria.</p> <p>The incentive types are financial or non-financial. Affinity Water is proposing a number of financial penalty only measures, where customers do not value improvements in performance and one reward / penalty measure for leakage.</p> <p>The maximum positive incentive achievable is 1.56% of total revenue for out performance in leakage reduction and SIM. The potential penalty for poor performance against the 4 applicable measures is 3.96% of total revenue.</p>	

Members made reference to the 'Daily Mail' test – would customers accept that their bills could be increased if Affinity Water outperformed their leakage reduction target?

Summary of customer Feedback

The CCG were reminded of the findings from the research that Affinity Water had undertaken and how these were summarised into a series of 14 customer themes that were used to influence the business plan.

Based on the priorities identified by customers, the investment plan was revised and a set of investment proposals presented.

Those investment proposals generated a programme of planned capital investment of £506m over 5 years. This investment was compared to the current investment plan for AMP5 (2010-2015). Significant changes are required to meet future obligations for supply and demand management and a range of water quality schemes.

Compared to the current AMP, investment to meet new obligations for supply and demand will increase by around 330% and an increase of around 90% to meet quality obligations. These obligations account for an additional £123m (compared to investment in AMP5)

Bill Acceptability Testing stage 2

The current research is testing acceptability of a bill increase of £1.80. This reflects customer priorities but does not take account of shareholder and financeability requirements.

The projected impact on the customer bill, to be presented to the Board for approval, is likely to be no more than zero over the five years, (before inflation, after the financial considerations have been taken into account).

The group held a wide ranging discussion about some of the presentational challenges of the ODI rewards and penalties.

The CCG challenged that Affinity Water had not asked the direct question to customers on their views on rewards for increased performance in leakage. In response they were advised that the detailed *Willingness to Pay* research, undertaken in controlled conditions where multiple integrated impacts were considered, showed that customers did value an increase in leakage activity more than maintaining the current performance. This provides evidence that customer's support and value further leakage reduction..

In addition, the stage 1 Bill Acceptability Research showed a very high acceptance for an increase of up to £3.70. It was therefore the case that, providing service levels were achieved, customers were prepared to accept some increase in bills for outperformance on leakage reduction.

The CCG explicitly commented that they did not think customers would like a potential reward to outperformance in leakage reduction. In particular the issue of bill stability was raised as a concern. It was argued that customers preferred bill stability and predictability and therefore the approach to outcomes and incentives was objected to as a matter of principle.

Further discussion around the issue of balancing rewards and penalties considered the extent to which it was possible to ensure rewards from outperformance could be accommodated within a flat real bill profile (that is flat bills excluding inflation). Affinity Water responded that they were grateful for the feedback and reflected that whatever approach was taken it needed to be simple to explain to customers and that the final outcome delivery incentive design would need to be reviewed and approved by the Board alongside the final expected level and profile of bills for AMP6 .

Customer Challenge Group

3	<p>The CCG Chair provided the minute of the time when the CCG members reviewed the draft report.</p> <p>No Affinity Water employees were present.</p> <p>CCG members first considered the report as a whole and confirmed that they did not wish to make any substantive changes in approach.</p> <p>The Chair circulated a nine page document he prepared in advance showing all the changes he thought the CCG should consider making to the draft report.</p> <p>CCG members then reviewed each page of the entire report, proposing changes.</p> <p>CCG members confirmed every opinion contained in the report was correct (subject to amendments being incorporated).</p> <p>Several CCG members offered to email proposed text to the Chair for incorporation into the next version.</p> <p>The Chair said he would circulate a revised draft by Friday 8 November 2013.</p> <p>CCG members noted that they were still awaiting several important documents, including the following:</p> <ul style="list-style-type: none">• 2 x challenge records• Report on Bill Acceptability, phase 2• Final draft of the Business Plan• Assurance from Doug Hunt of WS Atkins Ltd. <p>The Chair thanked the members for their continuing efforts.</p>	
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Minutes of 8th CCG meeting held on 4 November 2013

Approved by Robin [Signature]

Date 18 November 2013